

## **MANAGEMENT DISCUSSION & ANALYSIS**

**For the quarter ended January 31, 2011**

Date of Report: August 24, 2011

**Directors and Officers as at August 24, 2011:**

**Directors:**

Martin Auyeung  
David Baker  
Edward T. Gardner  
Brian Grant  
Walter Peredery  
Earl Terris

**Officers:**

David Baker, Chairman  
Edward T. Gardner, CEO  
Brian Grant, President & COO  
Alan Gorman, Executive Vice-President of Operations  
Vivian Gu, CFO

**Contact Name:**

David Baker

**Website:**

[www.goldbrookventures.com](http://www.goldbrookventures.com)

**TSX Venture Exchange Symbol:**

GBK

Form 51-102F1

# **GOLDBROOK VENTURES INC.**

## **MANAGEMENT DISCUSSION & ANALYSIS**

For the Quarter Ended January 31, 2011

### **1.1 Date of This Report**

August 24, 2011

### **1.2 Overall Performance**

#### ***Description of Business***

The Company was incorporated as Goldbrook Explorations Inc. under the Ontario *Business Corporations Act* on May 20, 1983. On July 22, 2002, the Company changed its name to Goldbrook Ventures Inc. In addition, the Company consolidated its capital on a 3 old for 1 new basis. On April 14, 2003, the Company was granted a Certificate of Continuation under the Company Act of British Columbia.

The Company's registered and records office in British Columbia is Suite 1550, 200 Burrard Street, Vancouver, British Columbia, V6C 3L6. The Company's telephone number is (604) 683-8083. The Company's Shares are currently listed for trading on the TSX Venture Exchange under the symbol "GBK".

On February 6, 2004, the Company announced that shares of Goldbrook Ventures Inc. would commence trading on the Frankfurt Stock Exchange under the trading symbol "GVE".

The Company is a publicly traded junior resource company. In the past fiscal years until 2001, the Company was involved, to a limited extent, in the exploration of various mineral properties. As of 2001, the Company had written down all of its investments in its mineral properties; and was deemed inactive by the Exchange on September 7, 2001. On August 1, 2002, the Company completed its reactivation plan and the Exchange removed the inactive status.

On September 6, 2005, the Company announced that in accordance with TSX Venture Exchange policy 2.5, the Company had met the requirements for a Tier 1 company. Effective September 2, 2005, the Company's tier classification changed from Tier 2 to Tier 1 – mineral exploration and development company.

As a development stage enterprise, the Company is in the process of exploring properties and will continue to conduct exploration activities on its properties to determine the ore reserves and ore recoverability on its properties.

The Company's mineral properties consist of the following:

- Onaman River, Onaman Lake Township, Ontario;

Raglan Area, District of Northern Quebec:

- Belanger;
- Nuvulik;
- Ungava;
- Wakeham;
- Masuparia; and
- Bravo

### **1.3 Selected Annual Information**

The highlights of financial data for the Company for the three most recently completed financial years are as follows:

	<u>April 30, 2010</u>	<u>April 30, 2009</u>	<u>April 30, 2008</u>
(a) Net sales	-	-	-
(b) Loss before extraordinary items			
(i) Total loss before comprehensive loss	\$4,425,287	\$3,982,476	\$3,744,943
(ii) Loss per share – basic	\$0.02	\$0.02	\$0.03
(iii) Loss per share – diluted	\$0.02	\$0.02	\$0.03
(c) Net loss			
(i) Total loss before comprehensive loss	\$4,425,287	\$3,982,476	\$3,744,943
(ii) Loss per share – basic	\$0.02	\$0.02	\$0.03
(iii) Loss per share – diluted	\$0.02	\$0.02	\$0.03
(d) Total assets	\$62,298,147	\$53,470,399	\$45,715,131
(e) Total long-term liabilities	-	-	-
(f) Cash dividends declared per-share	N/A	N/A	N/A

### **1.4 Results of Operations**

#### ***Discussion of Acquisitions, Operations and Financial Condition***

The following should be read in conjunction with the financial statements of the Company and notes attached hereto.

### ***Mineral Properties***

#### **Onaman River Property**

For the year ended April 30, 2002, these mining leases and patents claims were carried at a nominal value of \$1.00 and represented a 80% interest in the Onaman River Property, Onaman Lake Township, Ontario, subject to 30% net profits royalties on one group and a 10% net profits royalties on the balance of leased claims. The Company wrote-off the nominal value of \$1.00 in the year ended April 30, 2003. Fifteen leases had expired in 2006 and ten more leases in 2007. The Company is working in conjunction with a third party and the Ontario government to return these leases and patents to be in good standing. There are seven patents and eight lease claims which are in good standing.

#### **Raglan Area Properties – District of Northern Quebec**

The Company is holding six property blocks in Raglan area as follows:

	Claims	Acres
Belanger	1,056	107,400
Nuvulik	1,422	144,461
Masuparia	990	100,386
Wakeham	1,827	183,016
Ungava	1,801	181,310
Bravo	1,804	177,872

The Company holds 100% interest in all these claims except for the claims located within the Bravo block.

Belanger block is located in the west region of Raglan exploration area. These claims are within 60km southwest of Raglan Mine.

Nuvulik block is north to Belanger block, about 40km due west of the Raglan Mine.

Masuparia block is less than 10 km due south of Raglan Mine.

Wakeham block is in the east region of Raglan exploration area. These claims are 20km of the Raglan Mine.

Ungava block is located south of the Wakeham block. These claims are within 30 km of the Raglan Mine.

Bravo block is located between Masuparia, Nuvulik, and Belanger block.

On August 29, 2008, the Company announced that it had entered into a definitive option and joint venture agreement (the "Agreement") with Jilin Jien Nickel Industry Co. Ltd. of Panshi, Jilin China ("Jien") for the exploration and development of the Company's Raglan District Properties (the "Property") comprising some 891,000 acres in northern Quebec. Pursuant to the Agreement:

- Jien may earn a 50% interest in the Property by providing funding of \$45 million over three years for exploration on the property (plus any funds rebated by the government for expenditures during the first two years), with a minimum expenditure in the first year of \$12.5 million, a minimum of \$15 million in the second year plus any rebates for expenditures in the first year and a minimum expenditure in the third year of \$17.5 million plus any rebates for expenditures in the second year.
- Upon Jien acquiring a 50% interest, any government rebate from exploration expenditures in the third year will be applied to a fourth year work program and other costs will be funded 50% by Jien and 50% by the Company.
- Jien may earn an additional 10% interest by funding and completing a pre-feasibility study.
- Jien may earn an additional 10% interest by funding and completing a bankable feasibility study.
- Jien may earn an additional 5% interest by providing the Company its share of financing for development on commercial terms in which case the Company will repay its share of the debt from a portion of the net cash flow from production.

As at January 31, 2011, Jien has provided funding of \$45 million to the Company, \$12.5 million of which was for the expenditures of the first year, \$15 million of which was for the second year, and \$17.5 million is part of the funding for the third year. The Company also received \$3,631,975 Quebec corporate tax credits that have been claimed by Jien as part of the funding.

The Company has retained PI Financial Corp. ("PI") as its financial advisor in connection with the Jien transaction and, as consideration for such services, has paid \$100,000 to PI.

9,692,171 common shares of the Company have been issued and a \$1,132,500 cash finder's fee has been paid to a third party in connection with the Agreement and in accordance with the policies of the TSX Venture Exchange.

### **Exploration Results and Future Developments (Raglan Properties)**

In late September, the Company completed its 2010 nickel-copper-cobalt-PGE sulphide exploration program in the Raglan Belt, northern Quebec. Goldbrook's geoscience team, led by Revelation Geoscience Ltd during 2010, carried out an aggressive exploration program across the properties, including diamond drilling, ground geophysics, regional till geochemistry, prospecting and mapping. Revelation Geoscience brought a new insight and experience to the Goldbrook program in an effort to add to previous successes with new discoveries.

Belanger Camp supported a large exploration program on the western portion of the Goldbrook properties, and an eastern Camp in Kangiqsujuaq (Wakeham Bay) supported activities in the eastern tenures. Geological field crews mobilized to these camps during week of June 21<sup>st</sup> and demobilization took place about September 22<sup>nd</sup>.

### **Goldbrook's 2010 Exploration Program Summary**

- **Core Drilling:** A total of 23,075 metres was drilled in 113 diamond drill holes. New sulphide mineralization was discovered.
- **Base-of-Till Sampling:** 246 Base-of-till holes were drilled by a percussion drill rig over targets on the Eastern properties where glacial till cover had hindered previous exploration. Basal till samples were collected from all of these holes and bedrock chip samples were collected from 194 drillholes. Field XRF analyses of base-of-till samples allowed for "live" interpretation of results and immediate follow-up where Ni-Cu values warranted. New ultramafic bodies were identified.
- **Surface Till Sampling:** 6777 Till samples were collected over glacial till covered geophysical targets. Field XRF analyses of till samples allowed for "live" interpretation of results and immediate follow-up.
- **Moss Matt and Stream Sediment Sampling:** 116 Moss Matt and Stream Sediment samples were collected covering regional areas that have seen limited previous work.
- **Ground Geophysics:** Approximately 2,050 line kilometres of ground magnetic surveys were completed over approximately 32 airborne magnetic anomalies to provide higher resolution data for drill targeting.
- **Geological Mapping and Prospecting:** 12 Prospectors, 15 geologists, and several student and local Inuit field assistants were employed through the work program and evaluated over 50 high priority target areas by prospecting and geological mapping, resulting in the discovery of new nickel sulphide mineralization in several areas. More than 3500 geological field stations and 1250 rock samples were collected. Results are currently being compiled and assays are pending.
- **Personnel:** From mid-June to late September, 80 to 115 employees and contractors were on site at the Kangiqsujuaq and Belanger Camps including many local hires from the Inuit community.
- **National Instrument 43-101 resource estimates** were completed by P&E Mining Consultants Inc for the Mystery, Getty, Sylvie, Bravo B4, PAD and Timtu deposits and the resulting report has been posted on SEDAR.

This program had been planned as an expansion from the previous, and successful, exploration focus on the Belanger Trend into new, and high potential geological target areas. The program tested positive results of geological, geophysical, prospecting and remote sensing surveys completed in previous years. This exploration discovered significant nickel-copper-PGE sulphides at the Echo One and Delta NE zones and better defined mineral potential at Sylvie. With the still pending results from data analyses, compilation and report preparation for the 2010 program, the Company expects to see additional potential identified which can be incorporated into the targeting for future exploration programs.

### ***Results of Operations***

The loss for the nine months ended January 31, 2011 was \$1,722,382 as compared with a loss of \$344,472 for the nine months ended January 31, 2010. The loss for the three months ended January 31, 2011 was \$925,658 as compared with an income of \$540,433 for the three months ended January 31, 2010. The changes in the loss for the current period were in the following categories that also reflected in the general administration expenses and cash flows:

- A gain from sale of the investments of \$2,481,463 was recognized during the comparative period of three months and nine months ended January 31, 2010 (refer to 1.5) while \$Nil for the current period;
- A \$1,126,086 (2010: \$Nil) share of income of the company subject to significant influence has been included in the Company's net loss (refer to 1.5) of three months and nine months ended January 31, 2011;
- Recorded financing costs in the amount of \$220,108 (2010: \$Nil) in the nine months ended January 31, 2011 which includes the cash payments made and value of the common shares issued relating to the Raglan joint venture project;
- Professional fees increased by \$497,519 during the nine months ended January 31, 2011 and by \$317,247 during the three months ended January 31, 2011 due to the increased legal fees and accounting and audit fees. \$449,362 of which are increased legal fees during the nine months ended January 31, 2011 (\$213,973 are increased legal fees during the three months ended January 31, 2011) as the Company is involving in multiple arbitration processes (refer 1.4 and 1.15)
- During the nine months ended January 31, 2011, management fees decreased by \$297,450, consulting fees decreased by \$260,514, and wages and salaries decreased by \$284,613 comparing to the nine months ended January 31, 2010. During the three months ended January 31, 2011, management fees decreased by \$346,801, consulting fees decreased by \$340,750, and wages and salaries decreased by \$268,449 comparing to the three months ended January 31, 2010. The decreases were mainly due to a special bonus totaled \$1,100,000 paid to certain directors, officers, and consultants pursuant to a board resolution in December 2009 while \$Nil for the current quarter.
- During the nine months ended January 31, 2011, a \$450 unrealized gain (2010: \$227,787) from marketable securities has been recorded as other comprehensive income which is not included in the net loss.

Below is a comparison of the general and administration expenses during the nine months and three months ended January 31, 2011 and 2010:

	<b>3 Months</b> <b>31-Jan-11</b>	3 Months 31-Jan-10	<b>9 Months</b> <b>31-Jan-11</b>	9 Months 31-Jan-10	Increase (Decrease) during 9 months
<b>General and Administration Expenses</b>					
Depreciation on property and equipment	\$ 4,337	\$ 5,320	\$ 13,011	\$ 13,010	\$ 1
Consulting fees	137,650	478,400	434,186	694,700	(260,514)
Financing costs	-	-	220,108	-	220,108
Management fees	228,199	575,000	525,649	717,500	(191,851)
Office and general expenses	201,495	244,688	465,847	482,727	(16,880)
Professional fees	371,821	54,574	564,337	66,818	497,519
Regulatory fees & services	7,043	9,754	17,206	17,750	(544)
Shareholders' communication, travel & promotion	133,085	197,467	370,644	323,301	47,343
Wages and benefits	119,392	387,841	237,530	522,143	(284,613)
	<u>(1,203,022)</u>	<u>(1,953,044)</u>	<u>(2,848,518)</u>	<u>(2,837,949)</u>	<u>10,569</u>

### ***Investor Relations Activities***

Currently, the Company has no formal arrangements in place with respect to investor relations. Three spokespersons are assigned to respond to any shareholder or investor calls. They are also responsible for handling shareholder mail-outs and represent the Company in trade shows and conferences.

During the nine months ended January 31, 2011 the Company issued press releases, responded to investor inquiries and conducted shareholder and investor mail outs.

### ***Financings, Principal Purposes & Milestones***

The Company issued 2,228,042 common shares during the year ended April 30, 2010 and 489,130 common shares during the nine months ended January 31, 2011 to a third party as part of the finder's fee in connection with the option and joint venture agreement on Raglan area properties.

#### ***Take-over Bid***

On August 7, 2009, the Company announced that it had entered into a shareholder, joint bid, and operating agreement with Jilin Jien Nickel Industry Co. Ltd. (Jilin Jien), and its wholly-owned subsidiary Jien International Investment Ltd. (JJ Holdco), to make an all-cash take-over bid for Canadian Royalties Inc. ("Canadian Royalties") to acquire all of its outstanding common shares (the "Shares") at a price of Cdn\$0.60 in cash per share and all of the outstanding 7% convertible senior unsecured debentures due March 31, 2015 (the "Debentures") at a price of Cdn\$600 per Cdn\$1,000 principal amount of debentures, plus accrued and unpaid interest up to, but excluding, the date the debentures are taken up under the take-over bid. Total cash consideration of approximately Cdn\$148.5 million will be offered (including accrued interest on the Debentures). The offer is subject to customary conditions including that a minimum of 66.66% of the outstanding shares on a fully diluted basis and 66.66% of the outstanding aggregate principal amount of debentures are tendered to the offer, receipt of all required regulatory approvals.

The offer for the shares and the debentures are being made by Jien Canada Mining Ltd. ("Jien Canada"), a company jointly owned by the Company (25%) and JJ Holdco (75%). Jien Canada will be responsible subsequently for managing its operations. A representative of Jilin Jien and a representative of the Company have been appointed as managers of the offers and they are responsible for all matters relating to the offers, subject to unanimous approvals of the board of directors. The Directors shall be responsible for the management, direction and control of the operations. Their number shall initially be five and shall be comprised of three nominees of JJ Holdco and two nominees of the Company.

Jilin Jien has deposited an initial contribution which JJ Holdco will use to finance the offers and the related expenses. Thereafter, JJ Holdco is responsible for providing 100% of the funding for the operations.

The Company has agreed to pay success fees to a financial agent upon the successful completion of the offers and any subsequent acquisition transaction to acquire 100% of the shares and debentures.

JJ Holdco is responsible for providing 100% of the funding required for the offeror's operations; however, JJ Holdco may arrange for the offeror to obtain such funding amounts directly from third party lenders.

With several amendments and extensions to the Offers, on January 13, 2010, Industry Canada issued a Certificate of Arrangement (the "Arrangement") to Canadian Royalties in connection with the plan of arrangement between Canadian Royalties and Jien Canada. Accordingly, the Arrangement between the parties was complete. Under the Agreement, Jien Canada acquired all of the outstanding common shares of Canadian royalties in exchange for \$0.80 per shares and all of the debentures at \$800 (plus accrued interest) per \$1000 principal amount. As a result of the Arrangement, Jien Canada now owns 100% of the outstanding shares of Canadian Royalties. The Company owns 25% of the voting shares of Jien Canada.

Also as a result of the acquisition, the outstanding 7% convertible senior unsecured debentures due March 31, 2015 of Canadian Royalties were delisted from the Toronto Stock Exchange on December 29, 2009. The common shares of Canadian Royalties were delisted from the Toronto Stock Exchange on January 15, 2010.

On September 21, 2010, the Company announced that at a meeting of the Directors of Jien Canada, the nominees of Jilin Jien had purported to approve an issuance of voting common shares of Jien Canada that would reduce the Company's percentage of voting shares from 25% to 4.21% and increase Jilin Jien's percentage of voting shares from 75% to 95.79%. The Company had informed JJ that this shares issuance is not permitted under the Shareholder, Joint Bid and Operating Agreement ("Shareholder Agreement") between the parties that governs the operation of Jien Canada. The Company has discussed this matter with its legal counsel and has informed Jilin Jien that any issuance of voting shares requires its approval under the Shareholder Agreement and that such issuance is also in contravention of other provisions of the Shareholder Agreement. The Company intends to vigorously defend its rights under the Shareholder Agreement.

On October 20, 2010, the Company announced that it had commenced arbitration proceedings in British Columbia against Jilin Jien in respect of Jilin Jien's purported issuance of voting common shares of Jien Canada that would reduce the Company's percentage of voting shares, and consequently Company's interest in the Nunavik Nickel Project, from 25% to 4.21%. The Company is seeking remedies, including declarations that the share issuance violated the terms of the Shareholder Agreement between the parties and that the Company continues to hold 25% of the voting shares of Jien Canada.

### **1.5 Summary of Quarterly Results**

The following is a summary of the Company's financial results for the eight most recently completed quarters:

	<u>Q3</u> <u>31-Jan-11</u>	<u>Q2</u> <u>31-Oct-10</u>	<u>Q1</u> <u>31-Jul-10</u>	<u>Q4</u> <u>30-Apr-10</u>	<u>Q3</u> <u>31-Jan-10</u>	<u>Q2</u> <u>31-Oct-09</u>	<u>Q1</u> <u>31-Jul-09</u>	<u>Q4</u> <u>30-Apr-09</u>
<i>Net sales</i>	-	-	-	-	-	-	-	-
<i>Net Income(Loss):</i>								
Total	\$(925,658)	\$910,176	\$(1,706,900)	\$(4,080,815)	\$540,433	\$(604,762)	\$(280,143)	\$(1,532,625)
Per share	\$(0.005)	\$0.005	\$(0.009)	\$(0.023)	\$0.003	\$(0.003)	\$(0.002)	\$(0.009)
Per share diluted	\$(0.005)	\$0.005	\$(0.009)	\$(0.023)	\$0.003	\$(0.003)	\$(0.002)	\$(0.009)

### ***Discussion***

For the nine months ended January 31, 2011, please refer to Section 1.4 - *Results of Operations*.

Non-cash stock-based compensation expenses of \$1,020,000 were recorded in the quarter ended April 30, 2010. Also included in the quarter ended April 30, 2010 are \$1,207,866 non-cash loss which reflects the 25% of the net loss of Jien Canada Mining Ltd. and \$967,500 financing costs incurred (\$515,000 represents cash payments and \$452,500 represents the value of common shares issued)

During the quarter ended January 31, 2010, the Company tendered the 4,750,000 shares of Canadian Royalties Inc. to Jien Canada Mining Ltd. as the investment in Jien Canada Mining Ltd (refer to "Take-over Bid" in 1.4). The Company recorded the contribution as a deemed sale of 4,750,000 Canadian Royalties Inc. shares at a sale price of \$0.79 per share (the November 25, 2009 closing price of Canadian Royalties Inc. on Toronto Stock Exchange). As such, gain from sale of those stocks in the amount of \$2,480,463 was deemed realized and recognized during that quarter.

During the quarter ended October 31, 2010, an income in the amount of \$1,642,222, which reflects the 25% of the net income of Jien Canada Mining Ltd, was included against the Company's net loss by using the equity method.

## **1.6 Liquidity**

As the Company has no revenue generating projects at this time, the ability of the Company to carry out its business plan rests with its ability to secure equity and other financings.

At January 31, 2011, the Company has total assets of \$44,040,850. The primary assets of the Company are cash of \$1,948,497, accounts receivable of \$3,132,410, prepaid expenses of \$229,084, marketable securities of \$3,900, fuel inventory of \$1,347,000, and mineral properties with a historic cost of \$33,651,854. The Company has working capital deficit of \$1,274,156.

The Company will require additional financing to fund any new acquisitions, exploration programs as well as its holding costs on all of its properties. The ability of the Company to successfully fund the Ungava properties and to acquire additional projects is conditional on its ability to secure financing when required. The Company proposes to meet any additional financing requirements through the exercise of outstanding warrants, or arranging other forms of equity financing. In light of the continually changing financial markets, there is no assurance that funding by equity subscriptions will be possible at the times required or desired by the Company.

## **1.7 Capital Resources**

The only capital resource of the Company is the mineral properties with a historic cost of \$33,651,854. The Company is committed to further expenditures on these properties, as detailed in Section 1.4 - *Results of Operations*.

## **1.8 Off Balance Sheet Arrangements**

There are no off-balance sheet arrangements to which the Company is committed.

## **1.9 Transactions with Related Parties**

The Company retains the services of certain directors and officers of the Company, or by companies controlled by directors, officers, and related parties. Fees are paid for these services on a month-by-month basis without formal agreements.

There is no amount due to related parties included in accounts payable and accrued liabilities at January 31, 2011 (April 30, 2010 - \$Nil).

During the nine months ended January 31, 2011 and 2010, the Company was charged the following amounts by directors and officers of the Company and their immediate family, or by companies controlled by directors, officers, and related parties:

	<b><u>Nine months ended October 31</u></b>	
	<b><u>2011</u></b>	<b><u>2010</u></b>
Consulting fees		
- Financial – paid to a director <sup>(1)</sup>	\$ 27,000	\$ 100,500
- Marketing – paid to two directors <sup>(1) &amp; (6)</sup>	54,600	53,100
- Shareholders’ communication – paid to a company controlled by the spouse of the Chairman <sup>(2)</sup>	77,000	74,500
Equipment rental – paid to a company controlled by the Chairman <sup>(2)</sup>	65,392	67,226
Management fees – paid to the Chairman <sup>(2)</sup>	225,000	717,500
Management fees – paid to an officer <sup>(3)</sup>	300,649	-
Professional fees – paid to an officer <sup>(4)</sup>	82,000	82,500
Rent – paid to the Chairman <sup>(2)</sup>	54,000	54,000
Salaries – paid to the President <sup>(5)</sup>	90,000	347,250
Website fees – paid to a director <sup>(6)</sup>	39,525	39,525
Deferred exploration costs – paid to the President <sup>(5)</sup>	90,000	84,750
<b>Total</b>	<b>\$ 1,105,166</b>	<b>\$ 1,620,851</b>

- (1): Earl Terris, Director
- (2): David Baker, Chairman
- (3): Edward T. Gardner, CEO
- (4): Vivian Gu, CFO
- (5): Brian Grant, President
- (6): Martin Auyeung, Director

All transactions with related parties were concluded in the normal course of operation at the exchange amount which is the amount established and accepted by the parties.

**1.10 Third Quarter**

Third quarter results do not differ significantly from other quarters, except for the recording of \$377,364 share of income of company subject to significant influence.

**1.11 Proposed Transactions**

None.

**1.12 Critical Accounting Estimates**

N/A

### **1.13 Changes in Accounting Policies**

#### **Financial Instruments**

Effective May 1, 2007, the Company has adopted new accounting standards related to financial instruments that were issued by the Canadian Institute of Chartered Accountants (“CICA”) in 2005. These accounting policy changes were adopted on a prospective basis with no restatement of prior period financial statements. The new standards and accounting policy changes are as follows:

#### *Recognition and Measurement – Impact of adopting Sections 3855 and 3861*

In accordance with this new standard the Company now classifies all financial instruments as either held-to-maturity, available-for-sale, held for trading or loans and receivables. Financial assets held to maturity, loans and receivables and financial liabilities other than those held for trading, are measured at amortized cost. Available for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments classified as held for trading are measured at fair value with unrealized gains and losses recognized on the statement of loss.

#### *Comprehensive Income – Impact of adopting Section 1530*

The standard introduces the concept of comprehensive loss, which consists of net loss and other comprehensive income. The Company’s financial statements now include a Statement of Comprehensive Loss integrated with the statement of operations, which includes the components of comprehensive income. For the Company, other comprehensive income (“OCI”) is comprised of the unrealized gains on available-for-sale financial assets arising during the year.

Cumulated changes in OCI are included in Accumulated Other Comprehensive Income (“AOCI”), which is presented as a new category within shareholders’ equity on the balance sheet.

#### *Hedges (CICA Handbook Section 3865)*

The new standard specifies the criteria under which hedge accounting can be applied and how hedge accounting can be executed. The Company has not designated any hedging relationships.

#### *Capital Disclosures*

On December 1, 2006, the CICA issued Section 1535, Capital Disclosures. Section 1535 requires the disclosure of (i) an entity’s objectives, policies and process for managing capital; (ii) quantitative data about an entity’s managed capital; (iii) whether an entity has complied with capital requirements; and, (iv) if an entity has not complied with such capital requirements, the consequences of such non-compliance. This standard became effective on January 1, 2008.

### *Capital Management*

When managing capital, the Company's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management adjusts the capital structure as necessary in order to support the acquisition, exploration and development of its exploration properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company's currently has an interest are in the exploration stage. As such, the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and attempt to raise additional funds as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the nine months ended January 31, 2011. The Company is not subject to externally imposed capital requirements.

### *Disclosures and presentation*

On December 1, 2006, the CICA issued two new accounting standards, Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments – Presentation. These standards replace Section 3861, Financial Instruments – Disclosure and Presentation and enhance the disclosure of the nature and extent of risks arising from financial instruments and how the entity manages those risks. These new standards became effective on January 1, 2008.

In January 2009, the Emerging Issues Committee issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" ("EIC-173"). The Committee concluded that an entity's credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities.

As a result of adopting EIC-173 as at January 1, 2009, the Company quantified the impact of credit risk when calculating the fair value of financial assets and liabilities. The Application of the EIC did not have an effect on the Company's financial statements.

During 2009, CICA Handbook Section 3862, Financial Instruments – Disclosures ("Section 3862"), was amended to require disclosures about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurements. The three levels of the fair value hierarchy are:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly;
- Level 3: Inputs that are not based on observable market data.

As at January 31, 2011, the Company's financial instruments consisted of cash, accounts receivable, marketable securities, accounts payable, accrued liabilities, and deferred exploration contribution. With respect to all of these financial instruments, the Company estimates that the fair value of these financial instruments approximates the carrying values as at January 31, 2011.

#### *Sensitivity Analysis*

As of January 31, 2011, both the carrying and fair value amounts of the Company's financial instruments are the same. Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a twelve month period:

Cash and cash equivalents are subject to floating interest rates. As at January 31, 2011, if interest rates had decreased/increased by 1% with all other variable held constant, there will be no significant impact on the financial statements.

Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability of development depends upon the world market price of mineral commodities. As of January 31, 2011, the Company was not in the production phase. As a result, commodity price risk may affect the completion of future equity transactions such as equity offerings and the exercise of stock options. This may also affect the Company's liquidity and its ability to meet its ongoing obligations.

#### Valuation of Inventory – Impact of adopting Section 3031

The Company has adopted the Section 3031 for the valuation of inventories at the lower of cost and replacement cost. The new standards had no impact to the Company's financial statements.

#### Newly Adopted Accounting Policies

##### *Mining Exploration Costs*

In March 2009, the Emerging Issues Committee issued EIC-174, "Mining Exploration Costs", which provides guidance on the capitalization of exploration costs related to mining properties and the impairment review of such capitalized exploration costs. This EIC became effective of the Company during fiscal year 2009. The application of this EIC did not have an effect on the Company's financial statements.

##### *Section 1400, "General Standards of Financial Statement Presentation"*

Section 1400, "General Standards of Financial Statement Presentation" provides revised guidance on management's responsibility to assess and disclose the Company's ability to continue as a going concern. The adoption of this standard did not have any impact on the Company's financial statements.

### *Business Combinations*

In January 2009, the CICA issued Handbook Section 1582, "Business Combinations", which replaces the existing standards. This section establishes the standards for the accounting of business combinations, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligation for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. This standard is applied prospectively to business combinations with acquisition dates on or after January 1, 2011. Earlier adoption is permitted. Adoption of this standard had no impact on the Company's financial statements.

### *Non-controlling Interests*

In January 2009, the CICA issued Handbook Section 1602, "Non-controlling Interests" which establishes standards for the accounting of non-controlling interests of a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. This standard is effective for 2011. Earlier adoption is permitted. Adoption of this standard had no impact on the Company's financial statements.

### *Consolidated Financial Statements*

In January, 2009, the CICA issued Handbook Section 1601, "Consolidated Financial Statements", which replaces the existing standards. This section establishes the standards for preparing consolidated financial statements and is effective for 2011. Earlier adoption is permitted. Adoption of this standard had no impact on the Company's financial statements.

### *Equity*

In August 2009, the CICA issued certain amendments to Section 3251, "Equity". The amendments apply to entities that have adopted Section 1602, "Non-controlling Interests". The amendments require separate presentation on the statements of operations and comprehensive income of income attributable to owners of the Company and those attributable to non-controlling interest. The amendments also require that non-controlling interests be presented separately as a component of equity. The amendments had no impact to the Company's financial statements of the nine months ended January 31, 2011.

Future Accounting Pronouncements:

*International Financial Reporting Standards (IFRS)*

Canada's Accounting Standards board ratified a plan that will result in Canadian GAAP being converged with International Financial Reporting Standards ("IFRS") by 2011. The specific implementation is set for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The changeover date of May 1, 2011 for the Company will require restatement for comparative purposes of amounts reported by the Company for the year ended April 30, 2011.

The key elements, timing and status of the Company's changeover plan are outlined below:

- Developed internal knowledge to manage changeover, design systems and produce IFRS reports. Accounting staff have upgraded their knowledge and will continue throughout the process.
- Reviewed accounting policy changes that are required or are optional under IFRS on conversion and make choices where necessary. An internal review has been conducted for major differences between IFRS and Canadian GAAP, where it is likely to affect the Company. No significant impact is expected to the Company's financial reporting.
- Prepare 2010 opening balance sheets and reconciliations of 2010 interim and year end statements to Canadian GAAP statements of the same periods. These statements will be ready for the interim financial statements for the quarter ended July 31, 2011.
- Reviewed internal control implication of new policies and changeover.
- Reviewed disclosure controls and procedures in light of change to IFRS.
- Reviewed business implications of conversion such as compensation formulas and contract requirements. No significant implications have been determined.

Investment in Company Subject To Significant Influence

On November 13, 2009, the Company tendered the 4,750,000 Canadian Royalties shares held as "available-for-sale" securities to Jien Canada as its investment in Jien Canada. The fair market value of those shares was \$3,752,500 (based on the closing price of November 13, 2009 on TSX at \$0.79 per share) which has been recorded as "Investment in Company Subject To Significant Influence" as non-current assets on Balance Sheet. The Company also acquired 25 class A shares and 1 class B share of Jien Canada for cash consideration of \$26, and those are also included in "Investment in Company Subject To Significant Influence". By using the equity method, the Company includes 25% of the net income or net loss of Jien Canada Mining Ltd. (consolidated with Canadian Royalties Inc.) in the Company's financial statements by adjusting the carrying value of "Investment in Company Subject To Significant Influence" at the balance sheet and by adjusting its net income or net loss.

#### **1.14 Financial Instruments and Other Instruments**

For cash and equivalents, accounts receivable, marketable securities, accounts payable and accrued liabilities, and deferred exploration contributions, the carrying amounts of these financial instruments approximate their fair value.

Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial statements.

The recoverability of the amounts capitalized for the mineral properties under exploration is dependent upon the determination of economically recoverable ore reserves, the ability to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

#### **1.15 Other MD&A Requirements**

##### ***Disclosure of Outstanding Share Capital (as at August 24, 2011)***

	<u>Number of shares</u>	<u>Value</u>
Common Shares issued	209,853,171	\$ 49,532,690

	<u>Number of shares</u>	<u>Potential cash generated at exercise</u>
Incentive Stock Options	17,833,000	\$ 4,369,655
Warrants	30,000,000	\$ 7,900,000

##### ***Additional Disclosure***

The Company is a venture issuer that has not had significant revenue from operations in either of its last two financial years. The Company has capitalized all expenditures relating to the exploration of its mineral properties. Details of deferred expenditures for each property are as follows:

##### **Summary of Mineral Properties – January 31, 2011**

Refer to the financial statements and notes of the Company.

##### ***Subsequent Events***

- In February 2011, 200,000 stock options with an exercise price at \$0.125 per share were exercised.

- On March 8, 2011, the Company announces that it received a Notice of Arbitration from Jilin Jien Nickel Industry Co. Ltd., and Jilin International Investment Limited (together “Jilin Jien”) in respect of a matter in dispute between Jilin Jien and the Company arising out of the Option and Joint Venture Agreement dated August 28, 2008 between the Company and Jilin Jien Nickel Industry Co. Ltd. (the “Joint Venture Agreement”).

This dispute is in addition to the current arbitration that is ongoing between the Company and Jilin Jien in respect of Jilin Jien's purported dilution of the Company's 25% interest in Canadian Royalties Inc. Jilin Jien is seeking to consolidate the arbitrations.

This most recent dispute arises out of whether Jilin Jien has vested its interest in the joint venture and become operator of the project. Jilin Jien purported to give notice that it had vested its interest under the Joint Venture Agreement on November 15, 2010. However, the Joint Venture Agreement provides that Jilin Jien must incur or fund \$45,000,000 in expenditures and permit any funds rebated by the Government of Quebec to be used for expenditures on the project. The Government of Quebec has so far failed to assess and pay rebates in respect of the 2009 tax year.

It is the Company's position that the time for Jilin Jien's interest to vest should be extended beyond January 31, 2011 (being the date by which the option must have been exercised) until such time as the Quebec Government assesses and pays rebates in respect of the 2009 calendar year. At such time as the 2009 rebates are paid and Jilin Jien permits those funds to be used for expenditures under the Joint Venture Agreement, Jilin Jien will have acquired its interest in the Joint Venture in accordance with the Joint Venture Agreement.

The Notice of Arbitration filed today by Jilin Jien takes the position, among other things, that the Company has repudiated the Joint Venture Agreement by failing to acknowledge that Jilin Jien's interest has vested. Jilin Jien is seeking damages of \$52,000,000 for all monies paid under the Joint Venture Agreement, including all rebates provided or that will in the future be provided by the Quebec Government as a result of tax filings based upon the Joint Venture Agreement. In the alternative, Jilin Jien is seeking a declaration that its interest has vested and it is the operator of the joint venture.

The Company maintains its position in respect to this matter and will defend the claims.

- On March 23, 2011, the Company announced the appointment of Mr. Alan Gorman as Executive Vice-President of Operations with the objective of strengthening the Company's operating capabilities.

- On March 30, 2011, the Company announced that it commenced arbitration proceedings in British Columbia against Jilin Jien in respect of Jilin Jien's purported approval of a loan of up to \$357,497,576 from Jilin Jien's affiliate JHG International Capital Inc. ("JHG") to finance the 2011 Program and Budget of Jien Canada. The terms of the loan facility include that from six months following project completion, JHG will be entitled to a "cash sweep" of 100% of the cash flow available from Canadian Royalties, the wholly owned operating subsidiary of Jien Canada. The Company's position is that the purported approval of the terms of the related party loan facility is contrary to the Shareholder Agreement.

The Company is seeking remedies, including damages and a declaration that the unanimous consent of the Jien Canada Board was required to approve the financing under the Shareholder Agreement.

- On April 19, 2011, the Company announced that it filed a petition in the Supreme Court of British Columbia against Jien Canada, Jilin Jien, Jilin International Investment Ltd. ("JIIL") and Canadian Royalties seeking a declaration that the affairs of Jien Canada have been and are being conducted in a manner that is oppressive or unfairly prejudicial to the Company or which unfairly disregards the interests of the Company.

The Company alleges in the petition that the following acts of Jien Canada, or the exercise of powers by Jien Canada's directors, are oppressive or unfairly prejudicial to the Company or unfairly disregard the interests of the Company:

- (a) the exclusion of the Company from effective or any participation in the governance and supervision of management of Jien Canada and Canadian Royalties by, amongst other acts or omissions, failing to provide adequate or timely financial information relating to the affairs of Jien Canada, failing to provide complete or timely technical information pertaining to the development and valuation of the assets of Jien Canada and its wholly owned subsidiary, Canadian Royalties, and failing to adhere to the terms of the Shareholder Agreement;
- (b) the purported dilution of the Company's interest in Jien Canada through the issue to the majority shareholders of Jien Canada, being the Respondents Jilin Jien and JIIL (collectively "JJ"), of additional Class "A" Voting Common Shares in Jien Canada; and
- (c) the purported approval over the objection of the Company nominee directors, of a \$357 million loan facility with an affiliate of JJ.

The Company is seeking orders including that:

- a qualified valuator prepare a mineral property valuation with respect to the property of Canadian Royalties; Jien Canada and Canadian Royalties be directed to provide all books, records and information as are necessary for the purpose of preparation of the mineral property valuation;
  - The Class “A” Voting Common Shares issued JIIL in furtherance of the resolution passed at the Jien Canada board of directors meeting on September 21, 2010 be cancelled and no further Class “A” Voting Common Shares be issued without the unanimous consent of the Jien Canada board of directors; and
  - JJ, or alternatively Jien Canada, purchase the shares of the Company in Jien Canada at fair value in an amount to be determined by the Court.
- On May 17, 2011, the Company announced that it had closed its previously announced non-brokered private placement and issued 26,000,000 units at a price of \$0.15 per unit for gross proceeds of \$3,900,000. Each unit consists of: one common share and one common share purchase warrant. Each warrant is exercisable into one common share of the Company for a period of one year from the closing at an exercise price of \$0.25.

The Company plans to use the proceeds from the private placement for general working capital purposes including corporate overhead and other expenses. Certain insiders participated in the private placement and no finders’ fees or commissions were paid with respect to the private placement.

All of the securities issued pursuant to the private placement are subject to a hold period expiring four months and one day from the closing date.

- As the Company announced on March 8, 2011, Jilin Jien commenced an arbitration in respect of a matter in dispute between Jilin Jien and the Company arising out of the Option and Joint Venture Agreement dated August 28, 2008 between the Company and Jilin Jien (the “Option Agreement”).

On May 31, 2011, the Arbitration Tribunal declared that Jilin Jien's option was deemed to have been exercised on January 31, 2011 and that a joint venture was formed between Jilin Jien and the Company on that date. As a result of the exercise of Jilin Jien’s option, Jilin Jien become the operator under the Option Agreement. The Tribunal also ordered that the Company pay to Jilin Jien \$937,426 representing the Company’s pro rata share of the \$1,874,852 excess rebates that were paid into the project pursuant to the Option Agreement and subsequently reassessed to Jilin Jien. The Arbitration Tribunal confirmed in a subsequent ruling dated July 14, 2011 that the award is payable immediately.

On July 20, 2011, the Company paid its pro rata shares of excess rebates plus interest in the aggregate amount of \$941,201.45 according to the arbitration award and order and the subsequent ruling.

The Arbitration Tribunal also ordered that the Company pay the costs of the Arbitration and the Company paid \$175,000 to Jilin Jien in satisfaction of that order as well as \$15,498 to cover the costs of the July 14, 2011 subsequent ruling.

- On July 21, 2011, the Arbitration Tribunal issued a partial final award in respect of the arbitration announced by the Company on October 20, 2010 in respect of Jilin Jien's purported issuance of 494 voting common shares of Jien Canada that would reduce the Company's percentage of voting shares, and consequently the Company's interest in the Nunavik Nickel Project, from 25% to 4.21%.

The Arbitration Tribunal found that the Company is entitled under the Shareholder Agreement to be the holder of 25% of the voting shares of Jien Canada and that the issuance of 494 voting shares that would have effected the Dilution was not authorized by, and was contrary to, the Shareholder Agreement.

The Tribunal further directed that if the Company intends to seek an award directing the steps to be taken to restore its 25% shareholding beyond the declarations made in the Award that the Tribunal requires submissions from the parties on that issue. The Tribunal has reserved its jurisdiction to decide all matters relating to costs until any further submissions have been made.

The Company intends to pursue any further steps necessary in order to restore its 25% interest in the Nunavik Nickel Project.

***Other Information***

Additional information relating to the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com).