

SUPPLEMENTARY INFORMATION  
FOR THE SIX MONTHS ENDED MARCH 31, 2013

**MANAGEMENT DISCUSSION & ANALYSIS**

Supplementary Information and MD&A  
For the six months ended March 31, 2013

Filed: May 27, 2013

*A copy of this report will be provided to any shareholder who requests it.*

## FORWARD LOOKING STATEMENTS

Certain of the statements made herein may constitute “forward-looking statements” or contain “forward-looking information” within the meaning of applicable Canadian securities laws. In this context, forward-looking statements often address expected future business and financial performance, and often contain words such as “anticipate”, “believe”, “plan”, “estimate”, “expect”, and “intend”, statements that an action or event “may”, “might”, “could”, “should”, or “will” be taken or occur, or other similar expressions. All statements, other than statements of historical fact, included herein including, without limitation; statements about the potential for additional mineralization at the Company’s properties, the timelines to complete the Company’s exploration programs, timing for permit applications, timing for new resource estimates, timing to complete technical reports, forecasts for exploration expenditures, estimates of future administrative costs and statements about the Company’s future development of its properties. Forward-looking statements are subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking statements, including, without limitation, risks and uncertainties relating to foreign currency fluctuations; risks inherent in mine exploration and development including environmental hazards, industrial accidents, unusual or unexpected geological formations, ground control problems and flooding; risks associated with the estimation of mineral resources and reserves and the geology, grade and continuity of mineral deposits; the possibility that future exploration, development or mining results will not be consistent with the Company’s expectations; the potential for and effects of labour disputes or other unanticipated difficulties with or shortages of labour or interruptions in production; the potential for unexpected costs and expenses and commodity price; uncertain political and economic environments; changes in laws or policies, delays or the inability to obtain necessary governmental permits; and other risks and uncertainties, including those described under Risk Factors Relating to the Company’s Business in the MD&A.

Forward-looking information is in addition based on various assumptions including, without limitation, the expectations and beliefs of management, the assumed long term price of commodities; that the Company can access financing, appropriate equipment and sufficient labour and that the political environment will continue to support the development and operation of mining projects. Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in forward-looking statements. Accordingly, readers are advised not to place undue reliance on forward-looking statements. The Company does not intend to update forward-looking statements or information, except as may be required by applicable law.

## 1. DESCRIPTION OF BUSINESS AND REPORT DATE

Callinex Mines Inc. (the “Company” or “Callinex”) is principally engaged in the acquisition, exploration and development of exploration & evaluation assets in the provinces of Manitoba, Saskatchewan and British Columbia and has not yet determined whether its exploration & evaluation assets contain ore reserves that are economically recoverable. The Company defers all acquisition, exploration and development costs related to mineral properties. The recoverability of these amounts is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development of the property, and any future profitable production, or alternatively, upon the Company’s ability to dispose of its interests on an advantageous basis.

The Company has no operations that generate cash flow and its long-term financial success is dependent on management’s ability to discover and develop economically viable mineral deposits. Exploration is a lengthy process that can take many years and is subject to factors that are beyond the Company’s control.

In order to finance the Company’s exploration programs and to cover administrative and overhead expenses, the Company raises money through equity sales, and from the exercise of securities. Although the Company has had past success in obtaining financing, there can be no such assurance that it will be able to obtain adequate financing in the future or that the terms of any financing will be favorable. Many factors influence the Company’s ability to raise funds, including the state of the resource market and commodities prices, the climate for mineral exploration, the Company’s track record and the experience and caliber of its management.

Actual funding requirements may vary from those planned due to a number of factors, including the progress of exploration activity. The Company intends to continue to use various strategies to minimize its dependence on equity capital, including the securing of joint venture partners where appropriate.

All dollar figures presented are expressed in Canadian dollars unless otherwise noted. Financial statements and summary information derived there from are prepared in accordance with International Financial Reporting Standards (“IFRS”).

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

The following management discussion is for the period ended March 31, 2013 and includes relevant information up to May 25, 2013 (the “Report Date”). It should be read in conjunction with the financial statements and related notes which have been prepared in accordance with international financial reporting standards (“IFRS”).

## 2. CORPORATE STRATEGY

On October 25, 2010 Callinan Royalties Corp. (formerly Callinan Mines Limited) (“Callinan”) announced its intention to become a royalty company by reorganizing its exploration assets into a separate corporation (the “Spin-Out Proposal”), with a view to enhancing shareholders’ value.

In anticipation of this Spin-Out Proposal, Callinex was incorporated on April 21, 2011. On June 7, 2011 at a Special Meeting of shareholders the Spin-Out Proposal was approved and on July 13, 2011 the arrangement was finalized.

On implementation of the arrangement, Callinan transferred \$8 million in cash and all of its mineral exploration assets, except for the interest in the 777 Mine in Flin Flon, Manitoba and the War Baby property to Callinex. Callinan also issued 500,000 shares of its capital stock to satisfy any outstanding share obligations on the exploration properties transferred. Callinan retained the rights to re-purchase any net smelter return royalties due to optionees of certain exploration properties that were transferred to Callinex.

Under the terms of the Spin-Out Proposal, existing Callinan shareholders received the same percentage interest in Callinex Mines Inc., as they held in Callinan, which resulted in shareholders at date of record receiving 10,879,950 shares of Callinex. On July 13, 2011 Callinex (CNX.V) began trading on the TSX Venture Exchange.

On August 25, 2011 the Company closed a brokered private placement for 6,000,000 flow-through common shares at \$1.10 per share which raised \$6,600,000. The Company paid cash commission of \$528,000 and issued agent compensation options exercisable for an aggregate of 480,000 non-flow-through common shares exercisable at a price of \$1.10 per share until February 26, 2013.

Proceeds of the private placement were used for the Company's programs in British Columbia and Manitoba.

On December 30, 2011 the Company closed a non-brokered private placement for 1,489,100 flow-through common shares at \$0.95 per share which raised \$1,414,645. The Company paid cash commissions of \$7,720 and issued agent compensation non-flow through warrants for an aggregate of 8,128 common shares exercisable at a price of \$1.00 per share until December 30, 2013. Proceeds of this private placement were used for exploration activities in the province of British Columbia.

On December 30, 2012 the Company closed a non-brokered private placement of 1,725,000 common shares at a price of \$0.40 per share, for gross proceeds of \$690,000. Proceeds of this private placement were used for exploration activities in the province of Manitoba.

### 3. EXPLORATION HIGHLIGHTS

During the period, the Company completed exploration programs on three of its properties; Sneath Lake, Moak Lake, and Gossan Hill which are located in Manitoba. The programs consisted of diamond drilling and geophysics (borehole and deep surface pulse em surveys).

#### *Sneath Lake*

Callinex's Sneath Lake property is a copper-zinc-gold prospect in Manitoba's Snow Lake mining camp. A recent ground-based geophysical survey (Deep Pulse E-M), conducted by Callinex in 2012(Q2), had defined four deep targets that were drill tested during the period. The Deep Pulse E-M survey is the same technique used to discover the 14 million tonne Hudbay Minerals Lalor Lake VMS deposit, located five kilometres Northwest of Callinex's Sneath Lake Property. During the period four holes completed with a total of 2,067 metres. Geology intersected by the drilling included mafic to felsic volcanic's crosscut by minor intrusive dykes and or sills. Felsic volcanics intersected by drilling exhibited alterations which are similar to alterations commonly described with the Snow Lake VMS type deposits, and sulphides intersected contained minor amounts of base metals (Sphalerite and Chalcopyrite). All holes were surveyed using the Borehole Pulse EM system. Most encouraging assay results include 0.8 metres intersected in hole SNE12-01 which assayed 0.54% Copper, and SNE13-01 which returned 0.17% copper and 0.47% zinc over 1.9 metres. Management is encouraged with results, and will continue analyzing the data with the Sneath Lake property to better target a potential VMS deposit.

#### *Moak Lake*

The Company completed a five hole drill program for the Moak Lake Nickel property (1,334m), located in Northern Manitoba's Thompson Nickel Belt. The Moak Lake property is approximately 30 kilometers north of the main Thompson deposit, and just three kilometers from the Moak Lake nickel deposit, which contains a historical resource of 45 million tonnes of nickel-sulphide style ore grading 0.7% nickel, according to the Geological Survey of Canada.

Moak Lake claims were previous explored in the 1960s by Inco. This exploration intersected Ultramafic Peridotites that commonly host the nickel deposits in the region. Callinex plans were to drill test four VTEM/Magnetometer anomalies on the claims which were defined during a 2007 survey and are considered untested. The geology intersected by the drilling defined the area dominated by mafic to felsic (medium to coarse grained) Gneiss's intruded by gabbroic to pyroxenite dykes and sills. Mineralization associated with the newly defined VTEM targets was dominated by pyrite and pyrrhotite with only minor chalcopyrite observed. Assays returned only trace amounts of copper and nickel. Management does not intend to do any further work on these claims at this time.

#### *Gossan Hill*

The Gossan Hill property consists of 3,679 hectares of mining claims near the town of Cranberry Portage, Manitoba. The claims are the host to a historically producing mine, as well as several surface gold zones over a strike distance of 6.0 kms. The gold mineralization is observed within a shear zone at the contact between mafic volcanics and intrusive rocks with intense quartz veining. Alterations consist of carbonate, sericite and epidote. The gold mineralization is associated with pyrite and pyrrhotite and varies from fine-grained disseminated to blebby coarse-grained.

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A diamond drill program was conducted during March, 2013 to follow-up the previous year's (2011 and 2012) successful drilling results. The 1,499 metre drill program was carried-out during the month of March and consisted of five new drill holes and one deepened hole. The program objectives were to test the extent of mineralization along strike on the western (two holes) and eastern (two holes) flanks, and at depth (one hole). Visually the results display good alteration/ mineralization over widths amenable to modern mining methods. The deepest drill hole GOS068 shows a very wide alteration system. Assay results were not available at the time of writing. Callinex is now updating their exploration models and planning for the next phase of exploration.

#### 4. DISCUSSION OF OPERATIONS AND FINANCIAL CONDITIONS

During the period ended March 31, 2013, the Company received \$26,885 in revenue made up of \$25,485 in interest revenue and \$1,400 in dividend income. Actual general and administrative expenses were \$789,269 for the six months ending March 31, 2013, while cash and cash equivalents on hand at the end of the period was \$2,813,464, compared to \$5,063,905 a decrease of \$2,250,441 from the same period last year. All excess cash is invested in short-term securities to generate interest revenue.

Net loss per the financial statement for the six month period is \$696,291 after recording deferred tax recovery of \$66,093, while both basic and diluted loss per common share for the period was \$0.03.

For the three month period ending March 31, 2013 revenue of \$9,566 was received. General and administrative expenses were \$344,340 compared to \$528,327 during the same period last year. Net loss for the period is \$381,597 after deferred tax expense of \$46,823, while both basic and diluted loss per common share for the period was \$0.02.

There are no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

The following financing transaction took place during the period ended March 31, 2013.

1,725,000 flow-through common shares priced at \$0.40 were issued for net proceeds of \$690,000.

The following financing transaction took place during the period ended March 31, 2012.

1,489,100 flow-through common shares priced at \$0.95 were issued for net proceeds of \$1,414,645.

157,191 incentive share options were exercised for net proceeds of \$70,530.

The following table sets forth selected financial data from the Company's annual audited financial statements and unaudited interim statements. These financial statements were prepared in accordance with international financial reporting standards and are in Canadian dollars. The table should be read in conjunction with such statements.

Income Statement Data	March 31, 2013 (\$)	September 30, 2012 (\$)	September 30, 2011 (\$)
Revenue (interest and dividend)	26,885	114,442	15,564
Income/(loss) before discontinued Operations taxes and extraordinary Items	(762,384)	(4,874,895)	(2,997,722)
Deferred income taxes (expense)/recovery	66,093	1,196,000	(1,289,421)
Net loss for the period	(696,291)	(3,678,895)	(4,287,143)
Income (loss) per common share Outstanding			
Basic	(0.03)	(0.20)	(0.32)
Fully diluted	(0.03)	(0.20)	(0.32)
Balance Sheet Data			
Total assets	36,329,860	37,367,633	40,713,429
Total long-term financial liabilities	6,235,000	6,301,093	7,274,421
Dividend	-	-	-

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The following table sets forth selected quarterly financial information at the end of the periods shown below. The financial information is derived from the Company's initial history and carve-out from the financial statements of Callinan Mines prior to the Spin Out.

	For the Three Months Ending							
	Fiscal 2013		Fiscal 2012				Fiscal 2011	
	Mar 31(\$)	Dec 31(\$)	Sep 30(\$)	Jun 30(\$)	Mar 31(\$)	Dec 31(\$)	Sept 30(\$)	Jun 30 (\$)
<b>Income Statement Data</b>								
Total revenues	9,566	17,319	25,531	29,733	32,350	36,543	12,564	6,000
Income (loss) before income taxes	(334,774)	(427,610)	(3,414,909)	(578,982)	(495,977)	(385,027)	(1,142,833)	(391,135)
Deferred Income tax (expense)/recovery	(46,823)	112,916	639,999	415,193	157,222	(16,414)	(491,571)	(315,000)
Net loss	(381,597)	(314,694)	(2,774,910)	(163,789)	(338,755)	(401,441)	(1,634,404)	(706,135)
<b>Income (loss) per common share outstanding - basic and diluted</b>								
Income (loss) before income taxes	(0.02)	(0.02)	(0.12)	(0.031)	(0.027)	(0.02)	(0.32)	N/A
Net income (loss) per share	(0.02)	(0.02)	(0.15)	(0.008)	(0.018)	(0.024)	(0.32)	N/A

Revenues for the period ending December 31, 2011, to December 31, 2012 includes dividend revenue of \$8,500, \$7,300, \$4,800 \$3,900 and \$1,400 respectively, while revenues for the remaining periods resulted from interests only.

**a) Trend Information**

Other than the financial obligations as set out in item 8 below, there are no identifiable trends, demands, commitments, events or uncertainties that will result in, or that are reasonably likely to result in, the Company's liquidity either increasing or decreasing at present or in the foreseeable future. The Company will require sufficient capital in the future to meet its acquisition payments and other obligations under exploration & evaluation assets option agreements for those properties it considers worthy to incur continued holding and exploration costs upon. The need to make such payments is a trend as it is unlikely that all such obligations will be eliminated from the Company's future business activities. The Company intends to utilize its cash on hand in order to meet its obligations under mineral property option agreements and exploration activities. At this time the Company has no plan or intention to issue any debt in order to raise capital for future requirements.

It is the opinion of the Company that its liquidity will be most affected by the results of its own acquisition, exploration, and development activities. The acquisition or discovery of an economic mineral deposit on one of its exploration & evaluation assets may have a favourable effect on the Company's liquidity, and conversely, the failure to acquire or find one may have a negative effect.

**b) Risk Factors**

The Company, and thus the securities of the Company, should be considered a highly speculative investment and investors should carefully consider all of the information disclosed in this Report prior to making an investment in the Company. In addition to the other information presented in this Report, the following risk factors should be given special consideration when evaluating an investment in the Company's securities.

**General**

Resource exploration and development is a speculative business, 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, which, though present, are insufficient in quantity and quality to return a profit from production.

The Company evaluates its property interests on an ongoing basis and intends to abandon properties that fail to remain prospective. The Company is confident that it will be able to meet its earn-in obligations on those properties which management considers to be of merit. At the time of writing the Company expects to incur further property exploration and acquisition expenses.

***The Company's business is subject to exploration and development risks***

All of the Company's properties are in the exploration stage and no known reserves have been discovered on such properties. There is no certainty that the expenditures to be made by the Company or its joint venture partners in the exploration of its properties described herein will result in discoveries of metals in commercial quantities or that any of the Company's properties will be developed. Most exploration projects do not result in the discovery of economic deposits of metals and no assurance can be given that any particular level of recovery of metals will in fact be realized or that any identified resource will ever qualify as a commercially mineable (or

viable) resource which can be legally and economically exploited. Estimates of reserves, mineral deposits and production costs can also be affected by such factors as environmental permit regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations and work interruptions. In addition, the grade of metals ultimately discovered may differ from that indicated by drilling results. There can be no assurance that metals recovered in small-scale tests will be duplicated in large-scale tests under on-site conditions or in production scale.

***Political and economic instability may affect the Company's business***

The Company's activities in Canada are subject to risks common to operations in the mining industry in general.

***The Company's properties are subject to title risks***

The Company has investigated title to all of its exploration & evaluation assets and, to the best of its knowledge, title to all of its properties, and properties that it has the right to acquire or earn an interest in are in good standing. However, the Company's properties may be subject to prior unregistered agreements or transfers and title may be affected by undetected defects. These defects could adversely affect the Company's title to such properties or delay or increase the cost of the development of such properties.

The Company's properties may also be subject to Aboriginal or other historical rights that may be claimed on Crown properties or other types of tenure with respect to which mineral rights have been conferred. The Company is not aware of any Aboriginal land claims having been asserted or any legal actions relating to Aboriginal issues having been instituted with respect to any of the exploration & evaluation assets in which the Company has an interest, with the possible exceptions of Coles Creek and Island Lake. The Company is in continuous communication with the interested parties in regards to these two properties. The Company is aware of the mutual benefits afforded by co-operative relationships with indigenous people in conducting exploration activity and is supportive of measures established to achieve such co-operation.

***Environmental risk***

Environmental legislation on a global basis is evolving in a manner that will ensure stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessment of proposed development and a higher level of responsibility for companies and their officers, directors and employees. There is no assurance that future changes to environmental legislation in Canada will not adversely affect the Company's operations. Environmental hazards may exist on properties in which the Company holds interests which are unknown at present and which have been caused by previous or existing owners or operators. Furthermore, future compliance with environmental reclamation, closure and other requirements may involve significant costs and other liabilities. In particular, the Company's operations and exploration activities are subject to Canadian federal and provincial laws and regulations governing protection of the environment. Such laws are continually changing and, in general, are becoming more restrictive.

***The mineral exploration industry is extremely competitive***

The resource industry is intensely competitive in all of its phases, and the Company competes with many companies possessing greater financial resources and technical facilities than itself. Competition could adversely affect the Company's ability to acquire suitable new producing properties or prospects for exploration in the future. Competition could also affect the Company's ability to raise financing to fund the exploration and development of its properties or to hire qualified personnel.

***Metal prices affect the success of the Company's business***

The mining industry in general is intensely competitive and there is no assurance that, even if commercial quantities of mineral resources are developed, a profitable market will exist for the sale of such product. Factors beyond the control of the Company may affect the marketability of any minerals discovered. No assurance may be given that metal prices will remain stable. Significant price fluctuations over short periods of time may be generated by numerous factors beyond the control of the Company, including domestic and international economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates, global or regional consumption patterns, speculative activities and increased production due to improved mining and production methods. The effect of these factors on the price of minerals and therefore the economic viability of any of the Company's exploration projects cannot accurately be predicted. As the Company is in the exploration stage, the above factors have had no material impact on present operations or income.

**c) Exploration Programs and Expenditures**

During the period ended March 31, 2013 the Company incurred exploration & evaluation assets expenditures of \$1,592,593 and received a tax credit of \$305,109. Acquisition costs were \$5,000 by way of cash while exploration expenditures for the period were \$1,587,593, spent mainly on the Company's Sneath Lake, Gossan/Rug and Moak and Norris Lake properties in Manitoba.

**(i) Sneath Lake**

The Company holds claims in the Flin Flon area of Manitoba. During the period the Company expended \$713,116 on this property.

**(ii) Coles Creek**

On August 1, 2005 Callinan entered into an agreement with Mike Muzylowski, who was president of Callinan at the time, under which Callinan was granted the option to acquire a 100% interest in two claims in the Omenica Mining Division of British Columbia. The claims are located approximately 80 km South West of Houston, British Columbia. Under the terms of the agreement, Mr. Muzylowski, who had owned the claims since September of 1994, prior to his appointment as President of Callinan, was paid \$50,000 which has been accepted by the TSX Venture Exchange as reimbursement for expenses incurred. If the option was exercised on or before September 1, 2008, \$200,000 would be due to Mr. Muzylowski. The option was exercised and Mr. Muzylowski agreed to defer this payment date to September 1, 2009 in consideration for a payment of \$5,000. In September 2009 Mr. Muzylowski again agreed to defer this payment in lieu of a payment of \$5,000. During August 2010 payment of the full amount was made to Mr. Muzylowski. To maintain the option in good standing, Callinan had to expend \$500,000 on exploration of the claims prior to September 1, 2008. Callinan met its obligation by expending \$18,214,630 on the claims of which \$1,551,162 was recovered from the British Columbia Mining Exploration Tax Credit program. If the claims are placed into production, Mr. Muzylowski will be entitled to a 5% royalty on net smelter returns, of which one half or 2.5% can be purchased for \$1,500,000. During the period Callinex expended \$13,334 on this project and the Troitsa Claim below and a received a tax credit of \$305,109 for work done on these properties.

All terms of the agreement except the entitlement to purchase the royalty on net smelter return were transferred to Callinex.

**(iii) Troitsa Claim**

On September 24, 2010 Callinan increased its holding in British Columbia by entering into an agreement to acquire the Troitsa claim. The agreement called for payment of \$40,000 and issuance of 40,000 common shares within 5 days of acceptance by the TSX Venture Exchange, (received, paid/issued); a further \$50,000 and 60,000 shares within 12 months (issued and paid); a further \$60,000 and 80,000 shares within 24 months; a further \$80,000 and 100,000 shares within 36 months and a further \$90,000 and 120,000 shares within 48 months from the effective date of the agreement.

In order to maintain the option in good standing and to earn the 100% interest in the property, Callinan had to incur cumulative expenditures of \$80,000 within 12 months, \$160,000 within 24 months, and \$240,000 within 36 months and \$320,000 within 48 months from the effective date of the agreement. The property is subject to a 3% Net Smelter Return Royalty, one half of which may be purchased for \$2,000,000 subject to further TSX Venture Exchange review and acceptance. All terms of the agreement except for the right to purchase the NSR have been assumed by Callinex.

**(iv) Fox River**

On March 15, 2003 Callinan acquired an option to purchase the Fox River Property. The option stated that the Callinan can earn a 50% interest by expending \$500,000 by March 15, 2005; a further 10% by expending \$1,000,000 to March 15, 2007; and a further 10% by producing a feasibility study by March 15, 2008. The seller retains a 2 1/2% net smelter return royalty (NSR). 1% of the NSR may be purchased for \$1,000,000.

On March 15, 2006, an amendment was made to the agreement whereby, the deadline for Callinan expending \$1,000,000 to acquire the 60% interest was extended to March 15, 2008, and the deadline for the feasibility study and Callinan acquiring a further 10% extended to March 15, 2010.

On March 19, 2004 Callinan assigned half of its interest in the Fox River property to Bell Resources ("Bell") in exchange for Bell making cash payments to the Company of \$25,000 and by expending \$250,000 on the property by March 15, 2005. Bell had the option to acquire a further 5% by expending \$500,000 on the property by March 15, 2007. Bell could earn a further 5% property interest from the Company by paying 50% of the cost of a feasibility study prior to March 15, 2008. Bell met the expenditure requirements to date on the project, thus earning an additional 5%. The above amendment on March 15, 2006 also extended to this

joint venture with Bell.

On February 21, 2005 the agreement with Bell was amended to allow Bell to pay Callinan 1,250,000 common shares of Bell at a deemed price of \$0.20 per share in lieu of expending \$250,000 before March 15, 2005. By doing so Bell earned 25% of the Company's interest in the property. The TSX Venture Exchange approved the transaction on April 22, 2005.

On April 14, 2008 the agreement with Bell was again amended to allow Bell to withdraw from the joint venture with Callinan. As Bell will no longer be participating in the project, its 30% interest in the property will be diluted based on the dilution provisions in the original agreement of March 19, 2004 as Callinex continues to explore this property. Callinex has agreed to keep Bell apprised of results of exploration and the funds expended on the property.

Bell can re-affirm its participation at the start of each exploration season and can do so at the percentage it then has, taking into account the dilution which has taken place. If Bell's interest in the property drops below 5% it will be deemed to have no interest in the property. If a discovery is made, provided that Bell still has an interest in the property it may sell its interest after giving Callinan a right of first refusal or start funding its percentage share of the joint venture with the provision that if it falls below 5% the provision above will apply.

On October 9, 2009 Callinan again amended its agreement for the Fox River property. The new agreement now states that Callinan can earn a further 10% interest, for a total of 70% interest in the Mineral Claims by paying an additional \$200,000 by October 30, 2009, which Callinan did. All other terms remains the same, except the deadline for the feasibility study has been removed. After all requirements have been satisfied, the Company will have an 80% interest in the property subject to the interest of Bell, if any.

Callinan expended \$6,217,637 on this project, thereby, meeting all obligations for the property to date. Of the amount expended \$2,042,741 was recovered through the MEAP program and the joint venture with Bell.

Expenditures of \$4,158,575 were transferred to Callinex which has assumed all terms of the agreements, except for the entitlement to purchase the royalty on net smelter returns.

(v) **Moak and Norris Lake**

On May 14, 2007 Callinan entered into an option agreement for the Moak Claims and Norris Lake property in Manitoba. This agreement called for \$10,000 and 50,000 common shares upon regulatory approval, (received and paid/issued) a further \$20,000 and 50,000 common shares within 12 months (paid/issued), a further \$30,000 and 50,000 common shares within 24 months (paid/issued) and \$40,000 and 50,000 common shares (paid/issued) within 36 months of approval.

To maintain the option in good standing and earn 100% interest in the property Callinan had to incur cumulative expenditures of \$100,000 within 12 months, \$250,000 within 24 months and \$450,000 within 36 months. During March 2012 the date to accumulate the required expenditures of \$250,000 and \$450,000 was extended to 72 and 84 months respectively, from the effective date. The optionor is entitled to royalty of 2% NSR. 1% of the NSR may be purchased for \$1,000,000 at any time. During the period Callinex expended \$500,410 on this project.

All terms of the agreement except the entitlement to purchase 50% of the NSR were transferred to Callinex.

(vi) **Rug Claims**

On May 12, 2010 Callinan entered into an agreement to acquire a 100% interest in the Rug Claims for payments of \$25,000 and 25,000 shares within 5 days of acceptance by the TSX Venture Exchange, (received, paid/issued); a further \$30,000 and 30,000 shares within 12 months; a further \$45,000 and 45,000 shares (paid/issued) within 24 months and \$100,000 and 100,000 shares within 36 months of the effective date of the agreement. The Company must incur cumulative expenditures of \$100,000 within 12 months, \$250,000 within 24 months and \$450,000 within 36 months from the effective date of the agreement. Expenditures for these claims are grouped with the Gossan claims. All obligations have been completed.

All terms of the agreement were transferred to and assumed by Callinex.

(vii) **Gossan**

On April 10, 2010 Callinan entered into an agreement to acquire a 100% interest in the Gossan Gold Property. To acquire the property Callinan had to make payments of \$20,000 and issue 150,000 shares within 5 days of acceptance by the TSX Venture Exchange (paid/issued). During the period Callinex incurred expenditures of \$345,531 on this and the Rug properties.

All terms of the agreement were transferred to Callinex.

**(viii) Herblet Lake**

On March 15, 2007 Callinan entered into an option agreement for the Herblet Lake property in Manitoba. The agreement called for an initial payment of \$10,000 and 25,000 common shares on receipt of regulatory approval (received and paid/issued), a further \$10,000 and 25,000 common shares within 12 months (paid and issued), another \$10,000 and 25,000 common shares within 24 months, (paid and issued) and a further \$20,000 and 25,000 common shares within 36 months from the effective date of the agreement (paid and issued). In order to maintain the working option in good standing Callinan had to incur cumulative expenditure of \$50,000 within 12 months, \$100,000 within 24 months and \$250,000 within 36 months from the effective date of the agreement. Callinan had the right to earn 100% interest in the property, which it has, subject to a 2.5% NSR, 50% of the NSR can be purchased for \$1,250,000.

All terms of the agreement except the entitlement to purchase 50% of the NSR were transferred to Callinex.

**(ix) Pine Bay**

On July 8, 2009 Callinan entered into an agreement to acquire a 100% interest in the Pine Bay Claims and a 90% interest in the Sour Claims. To acquire the claims Callinan had to make payments of \$20,000 (paid) on execution of the agreement, \$180,000 and 50,000 shares within 5 days of acceptance by the TSX Venture Exchange (paid/issued) a further \$100,000 and 50,000 shares within 12 months, (paid/issued), a further \$50,000 and 75,000 shares within 24 months (paid/issued), a further \$25,000 and 125,000 (paid/issued) within 30 months and 125,000 shares within 36 months of the effective date of the agreement.

All terms of the agreement were transferred to Callinex.

**(x) Tramping Lake**

Between March 28 and April 10, 2008 Callinan staked the Tramping Lake Property in the Snow Lake area of Manitoba. A total of 1,036 hectares were staked.

**(xi) Island Lake**

On July 31, 2009 Callinan optioned the Island Lake claims. In order to acquire an 80% interest in the claims, Callinan had to pay \$20,000 and issue 50,000 shares within 5 days of acceptance by the TSX Venture Exchange (paid and issued), a further \$50,000 and 75,000 shares within 12 months, (paid/issued), a further \$150,000 and 100,000 shares within 24 months and a further \$180,000 and 175,000 shares within 36 months, of the effective date of the agreement. Callinan also had to incur cumulative expenditure of \$100,000 within 12 months, \$1,000,000 within 24 months and \$1,900,000 within 36 months. The dates to make the payment and to incur the expenditures on the claim have been deferred, as Callinan has not yet received permit to drill the property. The property is subject to a 2% Net Smelter Return Royalty, one half of which may be purchased for \$1,000,000 subject to further TSX Venture Exchange review and acceptance.

All terms of the agreement except for the right to purchase the NSR have been assumed by Callinex.

**(xii) Pulver Lake**

During the fiscal 2011 Callinan staked additional claims in the Snow Lake area of Manitoba. To date \$17,650 has been expended on this property.

**(xiii) Cameco**

During fiscal 2012 the Company acquired additional claims in the Saskatchewan area.

**(xiv) Flin Flon Claims**

During fiscal 2012 the Company entered into an option agreement to acquire 100% interest in the Flin Flon Area Claims. The agreement calls for payments of \$250,000 and issuance of 250,000 shares within 36 months from the effective date, of which \$25,000 has been paid and 25,000 shares with a value of \$7,500 issued. The property is subject to a 2% Net Smelter Return Royalty of which Callinex may purchase half for \$1,000,000.

**(xv) Elliot Lake**

The Company holds claims in Elliot Lake area of Ontario. To date the Company has expended \$27,629 on this property.

During the Company's fiscal year ended September 30, 2012, management decided that it would no longer pursue the following properties and they were written off to operations and those that were options were returned to the optionor. The properties written off were Berry Creek, Hamell Lake, Stag Lake and Dion Lake.

**d) Administration Expenses**

For the six month period ended March 31, 2013 general and administration expenses is \$789,269 compared to \$949,897 for the same period last year. Salaries and audit and accounting expenses decreased by \$61,611 and \$35,290 respectively, from the prior year while consulting fees and rental expenses increased by \$39,355 and \$22,245 respectively. During the period accounting duties and the CEO duties were outsourced. All other expenses were in line with, or less than the same period last year.

**5. CRITICAL ACCOUNTING POLICIES**

The Company's accounting policies are set out in Note 3 of its Annual Financial Statements.

There are two policies that, due to the nature of the mining business, are significant to the financial results of the Company. These policies relate to the capitalization of mineral exploration expenditures and the use of estimates:

Under IFRS, the Company defers all costs relating to the acquisition and exploration of its exploration & evaluation assets. Any revenues received from such properties are credited against the costs of the property. When commercial production commences on any of the Company's properties, any previously capitalized costs would be charged to operations over the life of the property using a unit-of-production method. The Company regularly reviews deferred exploration costs to assess their recoverability and when the carrying value of a property exceeds the estimated net recoverable amount, provision is made for impairment in value.

The existence of uncertainties during the exploration stage and the lack of definitive empirical evidence with respect to the feasibility of successful commercial development of any exploration property do create measurement uncertainty concerning the calculation of the amount of impairment to the value of any mineral property. The Company relies on its own or independent estimates of further geological prospects of a particular property and also considers the likely proceeds from a sale or assignment of the rights before determining whether or not impairment in value has occurred.

**New accounting pronouncements**

During the period the Company adopted the following new accounting policy:

***IAS 1 – Presentation of Financial Statements***

This standard requires companies preparing financial statements under IFRS to group items within Other Comprehensive Income ("OCI") that may be reclassified to profit or loss. The amendments to IAS 1 are effective for fiscal years beginning on or after July 1, 2012. The Company adopted this for its fiscal year beginning on October 1, 2013.

The following new accounting standards have been issued, but not yet effective and have not yet been adopted by the Company. The Company is currently evaluating the effects of adopting these standards:

***IFRS 7 – Financial Instruments: Disclosures***

IFRS 7 was amended to introduce new disclosure requirements for transfers of financial assets including disclosures for financial assets that are not derecognized in their entirety, and for financial assets that are derecognized in their entirety but for which continuing involvement is retained. The amendments to IFRS 7 are effective for annual periods beginning on or after January 1, 2013.

***IFRS 9 – Financial Instruments***

IFRS 9 addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit and loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair

value through profit and loss or at fair value through other comprehensive income. This IFRS shall apply for annual periods beginning after January 1, 2015.

### **IFRS 13 – Fair Value Measurement**

IFRS 13 clarifies that fair value is the price that would be received to sell an asset, or paid for, or transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. This standard is effective for annual periods beginning on or after January 1, 2013.

### **Amendments to Other Standards**

IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, and consequential revisions to IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (all effective January 1, 2013) provide revised guidance on the accounting treatment and associated disclosure requirements for joint arrangements and associates, and a revised definition of ‘control’ for identifying entities which are to be consolidated.

Amendments to IAS 32, *Financial Instruments: Presentation*, are effective for annual periods beginning on or after January 1, 2014. This provides for amendments relating to offsetting financial assets and financial liabilities

## **6. LIQUIDITY AND CAPITAL RESOURCES**

During the period ended March 31, 2013 the following shares were issued for cash proceeds:

- (a) On October 30, 2012 the Company issued 1,725,000 common shares at \$0.40 per share pursuant to a non-brokered private placement for cash proceeds of \$690,000.

During the period ended March 31, 2012 the following shares were issued for property and cash proceeds:

- (a) On December 30, 2011 the Company issued 1,489,100 common shares at \$0.95 per share pursuant to a non-brokered private placement for cash proceeds of \$1,414,645.
- (b) 157,191 common share options were exercised for net proceeds of \$70,530. These options had a fair value of \$91,180.

## **7. SECURITIES AS AT THE END OF THE REPORTING PERIOD**

At March 31, 2013, and the report date there were 20,287,352 common shares of the Company issued and outstanding. Other outstanding securities outstanding are:

### **(a) Incentive Stock Options**

During the year ended September 30, 2012, the Company granted 250,000 stock options to directors and employees. The weighted average fair value of the options granted is \$0.50 per option. There were no options granted during the periods ended March 31, 2013 and March 31, 2012.

The following tables summarize the Company’s outstanding stock options:

	Number of Shares	Weighted Average Exercise Price
<b>Options outstanding at September 30, 2011</b>	1,694,206	\$ 0.76
Granted	250,000	0.50
Exercised	(168,302)	0.44
Expired/Cancelled	(229,245)	0.64
<b>Options outstanding at September 30, 2012</b>	1,546,659	0.77
Expired	(116,663)	0.47
Forfeited	(482,776)	0.73
<b>Options outstanding at March 31, 2013</b>	947,220	\$ 0.79

**(b) Warrants**

During the year ended September 30, 2012 the Company issued 752,678 warrants relating to the non-brokered private placement in December 2011. No warrants were exercised during the current period.

The following is a summary of warrants outstanding:

	Number of warrants	Weighted Average Exercise Price
Warrants outstanding, September 30, 2011	480,000	\$ 1.10
Issued	<u>752,678</u>	<u>1.00</u>
Warrants outstanding, September 30, 2012	1,232,678	1.04
Expired	<u>(480,000)</u>	<u>1.10</u>
Warrants outstanding, March 31, 2013	<u><u>752,678</u></u>	<u><u>\$ 1.00</u></u>

The following is a summary of the outstanding warrants, with their respective expiry dates and exercise prices:

March 31, 2013			
Exercise Price	Number Outstanding	Remaining Life (Years)	Expiry Date
\$ 1.00	744,550	0.75	December 30, 2013
1.00	8,128 <sup>(1)</sup>	0.75	December 30, 2013
<u>\$ 1.00</u>	<u>752,678</u>		

<sup>(1)</sup> Agent warrants

**8. DISCLOSURE OF CONTRACTUAL OBLIGATIONS**

The Company occupies leased office space at Suite 1110 – 555 West Hastings Street in Vancouver, B.C. The office lease will expire January 31, 2015. For the period ended March 31, 2013 rental expenses, including taxes and operating expenses were \$37,762.

**9. CORPORATE GOVERNANCE**

The Company has evaluated its internal controls over financial reporting and believes that as of the report date, its systems of internal controls over financial reporting are sufficiently designed and maintained to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Certain weaknesses in its systems are apparent. These weaknesses arise primarily from the limited number of personnel employed in the accounting and financial reporting area, a situation that is common in smaller companies. As a consequence of this situation:

- a) It is not feasible to achieve the complete segregation of duties; and
- b) The Company does not have full competency “in House” in complex areas of financial accounting, such as taxation.

The Company believes these weaknesses are mitigated by:

- a) the nature and present levels of activities and transactions within the Company being readily transparent;
- b) the thorough review of the Company’s financial statements by senior management and the audit committee of the board of directors;
- c) by the assistance and advice rendered by the Company’s auditors; and,
- d) by the active participation of senior management in monitoring financial reporting.

Nevertheless, these mitigating factors cannot eliminate the possibility that a material misstatement will occur as a result of the aforesaid weaknesses in the Company's internal controls over financial reporting. A cost effective system of internal controls over financial reporting, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the internal controls over financial reporting are achieved.

## 10. RELATED PARTY TRANSACTIONS

Related parties and related party transactions impacting the accompanying financial statements are summarized below and include transactions with the following individuals or entities:

Remuneration attributed to key management personnel can be summarized as follows:

	Six months ended March 31,	
	2013	2012
Salaries	\$ 157,184	\$ 208,117
Consulting fees	55,000	-
	<u>\$ 212,184</u>	<u>\$ 208,117</u>

On July 13, 2011, the Company entered into a service agreement with Callinan, whereby Callinan would provide the Company with accounting and financial services. During the period a total of \$85,323 was incurred for this service (2012 – \$219,511). At March 31, 2013, \$85,323 (September 30, 2012 - \$32,380) was owed to Callinan. This amount is included in accounts payable.

## 11. FINANCIAL INSTRUMENTS

Financial instruments are those assets and liabilities that will be settled in cash either by payment by the Company or on the receipt of cash from another party. Financial instruments held by the Company include receivables and accounts payable and accrued liabilities. The Company has reviewed the estimated fair market value of these instruments and concluded that the fair value of these financial instruments approximate their carrying value due to their short term nature.

The Company's other financial instruments, cash and cash equivalents and restricted investment, under the fair value hierarchy are based on level one quoted prices in active markets for identical assets and liabilities and are measured at fair value.

### *Credit risk*

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

The Company's cash and cash equivalents are held at large Canadian financial institutions in interest bearing accounts. The Company has no investments in asset-backed commercial paper. The Company's receivables consist mainly of HST receivable due from the Government of Canada. The Company does not believe it is exposed to significant credit risk.

### *Liquidity risk*

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

The Company manages liquidity risk through its capital management as outlined in Note 14 to the accompanying financial statements. Accounts payable relating to exploration and evaluation assets and other accounts payable and accrued liabilities are due within 90 days. As at March 31, 2013, the Company had cash and cash equivalents balance of \$2,813,464 to settle current liabilities of \$415,141. Management believes the Company has sufficient funds to meet its current liabilities as they become due.

### *Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

## a) Interest rate risk

The Company has cash balances and no interest-bearing debt liabilities. The Company's current policy is to invest excess cash in short-term deposit certificates issued by its banking institutions. The period to maturity of these short-term deposit certificates rarely exceeds ninety days; deposits within these parameters are considered equivalent to cash equivalents.

The Company monitors the investments in short term deposits and is satisfied with the credit ratings of its banks. As of March 31, 2013, the Company did not have any investments with maturities in excess of ninety days. The Company has no investments in asset backed commercial paper or similar investments.

## b) Foreign currency risk

The Company conducts the majority of its business in Canada, and is therefore not exposed to significant foreign currency risk.

## c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of gold, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company. The Company currently maintains investments in certain publicly listed companies. There can be no assurance that the Company can exit these positions as required, resulting in proceeds approximating carrying value of the securities.

**12. SUBSEQUENT EVENT**

There were no subsequent events to report.

**13. OFF BALANCE SHEET ARRANGEMENTS**

The Company has no significant off balance sheet arrangements.

**14. LIST OF DIRECTORS AND OFFICERS**

John J O'Donnell	Director	President & COO
Anna Stylianides	Director	CEO (Until January 3, 2013)
Mike Muzylowski	Director	Chairman
Mervyn Shnider	Director	--
Gordon Slade	Director	--
Nico Civelli	Director	-- (as at January 14, 2013)
Carlo G. Civelli	--	Vice President Finance/Europe
Tamara Edwards	--	Chief Financial Officer
Cheri Pedersen	--	Corporate Secretary