CAP-EX VENTURES LTD

Management's Discussion and Analysis
For the year ended August 31, 2012

Date: November 22, 2012

This Management Discussion and Analysis ("MD&A") relates to the financial position and results of operations of Cap-Ex Ventures Ltd. together with its wholly owned subsidiary Schefferville Iron Ore Exploration Corp. (collectively "Cap-Ex" or the "Company") for the years ended August 31, 2012 and August 31, 2011. This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the year ended August 31, 2012. The consolidated financial statements and related notes of have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Unless otherwise noted, all references to currency in this MD&A are in Canadian dollars.

This is the first year that IFRS has been adopted and as such, some of the Company's accounting policies have changed and the presentation, financial statement captions and terminology used in this MD&A and the accompanying unaudited interim condensed consolidated financial statements differ from those used in prior year's issued quarterly and annual reports. The new policies have been consistently applied to all of the years presented in this MD&A and all prior period information has been restated or reclassified for comparative purposes unless otherwise noted.

This discussion contains forward-looking statements that involve risks and uncertainties. Such information, although considered to be reasonable by the Company's management at the time of preparation, may prove to be inaccurate and actual results may differ materially from those anticipated in the statements made.

Edward Lyons, P. Geo., the Company's Chief Geologist, is a qualified person as defined under National Instrument 43-101, has reviewed and approved the scientific and technical information in this MD&A.

Overview of the Company

The Company was incorporated under the laws of the Canada Business Corporations Act (CBCA) on February 27, 2007 as "6727034 Canada Ltd." and subsequently changed its name to "Cap-Ex Ventures Ltd." On January 14, 2008, the Company's shares began trading on the TSX Venture Exchange, and its trading symbol is "CEV." Cap-Ex Ventures Ltd. is a mineral resource company engaged in the exploration of iron ore properties (the "Properties") covering an area of approximately 121,000 hectares in the Labrador Trough region, near the town Schefferville, Quebec. The Labrador Trough is one of the major iron ore producing regions in the world, situated in Canada in the Province of Newfoundland and Labrador and the Province of Quebec.

The Properties are divided into two regional groups: The Schefferville Properties (60,475 hectares) and the Lac Connelly Property (60,700 hectares). The Schefferville Properties are primarily located in Newfoundland and Labrador and are comprised of the Block 103, Redmond, Porky Lake and Snelgrove properties. The Lac Connelly Property is located in Quebec. The Company's management is focused on the development of its wholly owned Block 103 iron ore project. Block 103 is strategically located close to existing railway to a shipping port and is adjacent to a multi-billion tonne deposit owned by New Millennium Iron Corp. On September 1, 2012, Cap-Ex Ventures Ltd. amalgamated with Schefferville Iron Ore Exploration Corp with the amalgamated company continuing as Cap-Ex Ventures Ltd.

Summary of Properties

The Schefferville Properties:

Block 103

The Block 103 iron ore property covers 20,775 hectares within the Labrador Trough, 30 kilometres northwest of the mining town of Schefferville near the border of Quebec, Canada. Block 103 lies immediately north and parallel to Tata Steel/New Millennium Iron Corp.'s LabMag magnetite deposit and southeast of their KeMag magnetite deposit, which have a combined mineral resource of approximately 7 billion tonnes of measured and indicated resources and 2 billion tonnes of inferred resources. Block 103 is strategically located close to an existing railway that runs south linking to the shipping port of Sept Iles, Quebec.

In June 2011, an airborne Gravity/Magnetometer survey was completed which identified Block 103 to contain a positive magnetic response in the iron belt. From July to November 2011, approximately 6,000 metres of diamond drilling was completed on Block 103 and two new magnetite mineralization zones were discovered, the "Greenbush Zone" and the "Northwest Zone". From May to October 2012 an additional 22,350 metres of diamond drilling was completed within the Greenbush Zone in a central area identified as the focus area for the Company's maiden 43-101 compliant resource estimate.

Block 103 lies predominantly within the Schefferville Lithotectonic Zone, which includes the Greenbush Zone, however, the western edge of the claim block lies west of the Stakit Lake Fault in the Tamarack Lithotectonic Zone. The Tamarack Zone, which also hosts the LabMag and Kemag deposits, typically has only the one instance of the Sokoman Iron Formation with no thrust-fault repetition. The Schefferville Lithotectonic Zone is known in the extensive geological literature to host multiple shallow-east-dipping thrust fault that repeats the stratigraphy, including the iron oxide members of the Sokoman Formation. This fault-repetition creates the potential for significantly more tonnage per unit surface area, and these occurrences have been observed in the 2011 and 2012 drilling results throughout the Greenbush Zone.

Greenbush Zone:

The drilling program on Block 103's Greenbush Zone to date has enabled the Company to outline an area that hosts significant magnetite mineralization. The outlined area, called the Greenbush Zone, is underlain by a continuous magnetite bearing horizon (Sokoman Formation). (Refer to Greenbush Zone Map, which can be found at www.cap-ex.ca). The following interpretation of the Greenbush Zone is based on the 2011 and 2012 drill program results and primarily the 2011 laboratory results (2012 laboratory work is ongoing):

- The Greenbush Zone hosts strong magnetite mineralization that has been identified to cover an area of at least 20 square kilometres. This Zone features very strong, coincident magnetic and gravimetric airborne anomalies, which show remarkable reliability as drilling targets. All 108 drill holes within the zone have encountered significant mineralization from 45 to 350 metres in true thickness.
- The average length of the core intercepts of magnetite mineralization encountered in the 108 holes drilled in the Greenbush Zone is 190 metres.
- The average grade of the mineralization is 30.5% total iron and the Davis Tube concentrate grades average 68.2% iron and DTWR of 30.6% with a very low contaminant level.
- All the holes drilled in the mineralized zone show evidence of two stratigraphic repetitions and possibly a third to the west that is open at depth.
- In most holes, the mineralization starts near surface and is open in all directions, including depth.

Northwest Zone

- The Northwest Zone is also located on the Company's wholly owned Block 103 iron ore property. This new zone is located approximately 2 kilometres west of the Greenbush Zone, in the northwest portion of Block 103 on the west side of the Stakit Lake Fault. The geology of the Northwest zone is very simple, forming a single horizon that strikes NW-SE and dips very gently (0-10 degrees) to the northeast.
- The Northwest Zone was tested by 6 diamond drill holes in 2011 over 5.3 kilometres of strike, with drill spacing ranging from 300 to 2,100 metres. All holes intersected mineralization between 90 and 148 metres with average grade of 31% total iron. The most southern hole DDH103-17 intersected 148 metres and is open in mineralization at depth. The presumed width is between 0.5 to 1.5 kilometres and is open to the south with potential to increase strike to 9 kilometres.
- New Millennium Iron Corp (NR12-07) drill results indicate the Northwest Zone along with the LabMag and KeMag deposits have the potential to constitute one large continuous body of iron ore mineralization. (Refer to Northwest Zone map on the Company website: www.cap-ex.ca)

Redmond

The Redmond Properties are located 10 to 30 kilometres southwest of Schefferville, covering an area of 14,300 hectares. The claims include strategic ironstone stratigraphy of the Sokoman Formation and the potential southeast extension of the key stratigraphic horizon that contains the hematite mineralization that is hosted in the Sokoman Formation. In 2011, the Company completed an airborne gravity survey, which delineated multiple hematite anomalies within the Redmond property. The Company's 2011 drilling program intersected 11 hematite zones ranging from 10 to 73 metres. Metallurgical testing of the oxidized "DSO" material is ongoing.

Porky Lake

The Porky Lake properties cover approximately 9,925 hectares of the Sokoman iron formation and lie 50 kilometres northeast of Schefferville. Historic reports by Iron Ore of Canada noted the Porky Lake properties contain abundant dark-blue heavy compact beds of hematite. In 2011, the Company completed a field reconnaissance program, which returned encouraging results from surface. This included 1.2 metres of blue dense hematite grading 62.65% iron with samples taken over 750 metres strike length.

Snelgrove

The Snelgrove mineral claims cover an area of approximately 15,475 hectares and are located 50 kilometres south of Schefferville. The claims are adjacent to properties reported to have occurrences of hematite.

Lac Connelly Properties:

The Lac Connelly iron ore properties are in the Province of Quebec, cover an area of approximately 60,700 hectares and are located approximately 250 kilometres north of Schefferville. In 2011, the Company completed an airborne magnetometer and gravity survey that identified multiple hematite targets. An on-site field mapping visit identified two hematite horizons, the first being 2.5 kilometres long and 30 meters wide and the second being 1.2 kilometres long and 50 metres wide.

Fourth Quarter Highlights and Subsequent Events

- On August 8, 2012, the Company signed a Collaboration Framework Agreement (the "Agreement") with Canadian National Railway Company ("CN") to participate in the feasibility study of CN's proposed rail line to serve the Quebec and Labrador Iron Ore Trough. This proposed rail line is expected to include a fully operational, continuous, multi-user railroad network, as well as a multi-user material handling facility located in the Pointe-Noire region in Sept-Iles, QC.
- On August 13, 2012, the Company announced the first set of assay results from its on-going drill program within the Greenbush Zone, located on its wholly-owned Block 103 property in western Labrador. The Company intersected 29% iron over 216 Metres.
- On September 1, 2012, Cap-Ex Ventures Ltd. and its wholly owned subsidiary Schefferville Iron Ore Exploration Corporation amalgamated with the amalgamated corporation continuing as Cap-Ex Ventures Ltd.
- On November 20, 2012, the Company announced that it had closed a third tranche of a non-brokered private placement financing first announced on September 17, 2012. The three tranches of the private placement financing resulted in the sale of 13,294,498 common shares on a flow-through basis at a price of $0.35 per flow through common share and 2,996,942 units at a price of $0.32 per unit. Each unit is comprised of one common share and one-half common share purchase warrant. Each warrant will entitle the holder to purchase one common share of Cap-Ex at an exercise price of $0.40 for a period of 24 months from the date of issue. In aggregate, the three tranches of the non-brokered private placement resulted in gross proceeds to Cap-Ex of approximately $5.6 million.

Outlook

2012 Exploration Program and Resource Estimate

The Company's management continues to be focused on development of its wholly owned Block 103 Property. Block 103 is strategically located close to an existing railway to an operating shipping port, and is adjacent to New Millennium Iron Corp's LabMag and KeMag deposits.

The 2012 exploration program on the Block 103 Property commenced in late April utilizing four, helicopter supported diamond drill rigs and is now complete with total drilling reaching 22,350 metres over 72 drill holes. Samples from the last drill holes are in transit to the laboratory and the focus in the coming weeks will be completion of laboratory assays, development and update of current geological databases and models, and development of the block models to support an initial 43-101 compliant resource estimate currently scheduled for January 2013.

Exploration work was conducted at the Company's other properties throughout the season and consisted primarily of field reconnaissance. Additional metallurgical test work is being conducted on Redmond Property samples from the 2011 drilling program to provide guidance for a potential 2013 drill program. Property assessment reports will be issued, as required, containing updated field information collected in the 2012 field season.

Preliminary Economic Assessment

The Company retained BBA Inc. in June 2012 to complete a Preliminary Economic Assessment (PEA) for the Block 103 Property. Engineering work in support of the PEA has commenced and it is anticipated to be completed by the end of March 2013.

Selected Annual Financial Information

	Year ended		
	Aug 31, 2012*	Aug 31, 2011*	Aug 31, 2010**
	$	$	$
Operating Expenses	4,500,922	4,413,878	132,152
Loss for the period	(4,091,596)	(4,615,784)	(107,086)
Loss per Share -Basic and Diluted	(0.08)	(0.19)	(0.01)
Total assets	31,018,313	20,596,818	677,733
Long Term Liabilities	200,141	-	-
Cash Flows From(Used In):			
Operating activities	(4,948,622)	(1,947,413)	(197,014)
Investing activities	(12,634,992)	(4,236,783)	(59,600)
Financing activities	11,606,737	14,510,193	848,922
Net Increase (decrease) in cash	(5,976,877)	8,325,997	592,308

* Stated accordance with IFRS
**Stated accordance with Canadian GAAP

Quarterly Information

The following table sets forth selected unaudited financial information prepared by management of the Company:

	Three Months Ended			
	Aug 31, 2012	May 31, 2012	Feb 29, 2012	Nov 30, 2011
	$	$	$	$
Total Assets	31,018,313	31,307,698	30,188,798	20,395,265
Working Capital	2,029,227	10,645,383	14,619,523	5,407,220
Loss and comprehensive loss for the period	(1,143,752)	(1,242,428)	(796,989)	(908,427)
Loss per share (basic and diluted)	(0.02)	(0.02)	(0.02)	(0.02)

	Three Months Ended			
	Aug 31, 2011*	May 31, 2011*	Feb 28, 2011*	Nov 30, 2010*
Total Assets	20,596,818	20,620,926	1,022,105	658,248
Working Capital	8,444,482	10,802,692	530,792	394,806
Loss and comprehensive loss for the period	(564,139)	(3,771,052)	(195,679)	(84,914)
Loss per share (basic and diluted)	(0.01)	(0.10)	(0.01)	(0.01)

* Stated accordance with IFRS
**Stated accordance with Canadian GAAP

Results of Operations

	For the three months ended		For the years ended	
	August 31, 2012	August 31, 2011	August 31, 2012	August 31, 2011
	$	$	$	$
Expenses				
Consulting fees (Note 10)	519,584	108,280	1,633,424	487,718
Depreciation	7,012	7,395	23,982	16,843
Investor relations	169,575	101,796	604,600	359,056
Office and administration	152,094	33,961	323,036	85,922
Professional fees (Note 10)	15,869	76,786	230,407	266,662
Share-based compensation (Notes 9 and 10)	194,433	146,649	1,297,894	2,916,806
Travel and related costs	125,380	114,029	387,579	280,871
Loss before other items	(1,183,947)	(588,896)	(4,500,922)	(4,413,878)

The Company's projects are at the exploration stage and have not generated any revenues.

During the three months and year ending August 31, 2012, the Company recorded a net loss before other items of $1,183,947 and $4,500,922, compared to $588,896 and $4,413,878 for the comparable periods of the prior year, respectively. The increase in net loss in 2012 compared to 2011 was due higher expenses being incurred in all expense categories due to the Company becoming significantly more active in its exploration activities. The Company completed 22,350 metres of drilling on its Block 103 property in 2012 compared to 5,660 metres in 2011.

During the three months and year ending August 31, 2012, consulting fees increased to $519,584 and $1,633,424, compared to $108,280 and $487,718 for the comparable periods of the prior year, respectively. Consulting costs are higher in the current periods as the Company engaged more consultants to assist with the preliminary economic assessment and an initial resource report.

During the three months and year ending August 31, 2012, the Company incurred office and administration costs of $152,094 and $323,036, compared to $33,961 and $85,922 for the comparable periods of the prior year, respectively. The increase is due to the company opening additional offices.

During the three months and year ending August 31, 2012, the Company incurred professional fees of $15,869 and $230,407, compared to $76,786 and $266,662 for the comparable periods of the prior year, respectively. Professional fees decreased marginally in 2012 as the previous year included additional expenses associated with IFRS adoption.

During the three months and year ending August 31, 2012, investor relations and filing fees increased to $169,575 and $604,600, compared to $101,796 and $359,056 for the comparable periods of the prior year, respectively to reflect increased efforts to raise investor awareness.

During the three months and year ending August 31, 2012, the Company incurred share based compensation of $194,433 and $1,297,894, compared to $146,649 and $2,916,806 for the comparable periods of the prior year, respectively. The increase is due to fewer stock options being granted during the fiscal 2012 periods compared to fiscal 2011.

During the three months and year ending August 31, 2012, the Company incurred travel costs of $125,380 and $387,579, compared to $114,029 and $280,871 for the comparable periods of the prior year, respectively. The increase for the twelve month period is the result of increased travel associated with investor relations / analyst site visits.

Cash Flows

	For the three months ended		For the years ended	
	August 31, 2012	August 31, 2011	August 31, 2012	August 31, 2011
	$	$	$	$
Cash used in operating activities	(1,254,200)	(520,792)	(3,517,961)	(1,947,413)
Cash used in investing activities	(8,286,716)	(2,029,190)	(14,065,654)	(4,236,783)
Cash provided by financing activities	447,599	(6,079,330)	11,606,737	14,510,193
Net change in cash and cash eqivalents	(9,093,317)	(8,629,312)	(5,976,877)	8,325,997

Cash used in operating activities during the three months and year ending August 31, 2012 was $1,254,200 and $3,517,961 compared to $520,792 and $1,947,413 in the comparative period. The higher cash used in operating activities reflects the higher operating expenses described in the results from operations section.

Cash used in investing activities during the three months and year ending August 31, 2012 was $8,286,716 and $14,065,654 compared to $2,029,190 and $4,236,783 in the comparative period. The higher cash used in investing activities for the year is due to two reasons: 1) the acquisition of fixed assets of $731,715 (mainly an RC drill rig and rolling stock) compared to only $73,827 spent on fixed asset additions in the comparative period and 2) significantly higher exploration and evaluation expenditure of $12,415,071 in 2012 compared to $4,142,497 in 2011 due to a significantly larger drilling program undertaken in fiscal 2012 compared to fiscal 2011. Exploration and evaluation expenditures includes but is not limited to: drilling, sampling, mapping / survey, geolical, consulting and equipment rental. The drill season in the Schefferville area is typically May through November.

Cash provided by financing activities during the three and year ending August 31, 2012 was $447,599 and $11,606,737 compared to $6,079,330 and $14,510,193 in the comparative period. The majority of the cash provided by financing activities in all periods is from the issuance of common and flow through shares and warrants, stock option and warrant exercises. During Q4 2012, the Company drew down $281,808 of a $350,000 credit facility which it obtained from the Royal Bank of Canada to finance the purchase of fixed assets.

Liquidity and Capital Resources

The Company has financed its operations to date through the issuance of common shares. The Company continues to seek capital through various means including the issuance of equity and/or debt.

As at August 31, 2012, the Company had a working capital position of $2,029,227 and a cash position of $2,944,810 while at August 31, 2011, the Company had a working capital position of $8,444,482 and a cash position of $8,921,687. The Company's working capital position is determined by the timing of its equity raises and exploration and evaluation expenditure. Capital raises are undertaken as the directors deem appropriate while exploration and evaluation expenditure are incurred primarily in the summer months.

Although the Company has cash of $2,944,810, it does not currently have any revenue generating assets or operations. The Company will require additional financial resources to explore, quantify and develop its mineral properties. The continued operations of the Company and the recoverability of the amounts reported for resource property interests is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete exploration and development programs, and upon future profitable production.

Related Party Transactions

During the year ended August 31, 2012, the Company entered into the following transactions with related parties, not disclosed elsewhere in these financial statements:

i. Incurred drilling expenditures of $6,545,225 (August 31, 2011 - $1,332,760) to a company controlled by the spouse of a director of the Company. Included in accounts payable and accrued liabilities at August 31, 2012 is $708,927 (August 31, 2011 - $Nil) owing to this corporation and included in drilling deposits is $400,000 (August 31, 2011 - $Nil) owing from this related corporation.
ii. Incurred rent expenses of $93,000 (August 31, 2011 - $32,000) with respect to the Company's Vancouver office to a company related by way of common directors.
iii. Officers and directors of the Company subscribed for a total of 860,000 flow-through units and 75,000 non flow-through units of the December 21, 2011 private placement. In addition, officers and directors of the Company subscribed for a total of 227,646 non flow-through units of the January 13, 2012 private placement.
iv. Incurred professional fees of $69,600 (August 31, 2011 - $140,400) and exploration and evaluation property expenditures of $34,400 (August 31, 2011 - $Nil) to a company related by way of common director.
v. Incurred rent expenses of $7,900 (August 31, 2011 - $Nil) with respect to the Company's Montreal office to a company related by way of common directors. Included in accounts payable and accrued liabilities at August 31, 2012 is $7,900 (August 31, 2011 - $Nil) owing to this corporation.

Summary of key management personnel compensation:

	For the year ended,	
	August 31, 2012	**August 31, 2011**
	$	$
Consulting fees	1,250,327	439,870
Exploration and evaluation property expenditures	45,260	3,000
Share-based compensation	531,188	1,681,846
	1,826,775	**2,124,716**

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including directors (executive and non-executive) of the Company.

Off Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Financial Commitments, Contingencies and Litigation

Management Contracts

The Company is party to certain management contracts. These contracts require that additional payments of up to approximately $2,538,000 be made upon the occurrence of certain events such as a change of control. As a triggering event has not taken place, the contingent payments have not been reflected in these financial statements. Minimum commitments remaining under these contracts were approximately $1,500,667 all due within one year.

First Nations

The Company has undertaken a program of community consultation with the Aboriginal First Nations communities living in or adjacent to, or having an interest in or claims to, historic land or treaty rights in the area of the Company's properties or who may be impacted by activities related to the Company's properties.

The Company has, or expects to, enter into agreements that will establish the processes and sharing of benefits which will ensure an ongoing positive relationship between the Company and the respective Aboriginal First Nation community. The Aboriginal First Nations communities and their members are expected to benefit through training, employment, and business opportunities.

Rail Feasibility Study

The Company entered into a collaboration framework agreement with Canadian National Railway Company ("CN") to participate in the feasibility study of CN's proposed rail line to serve the Quebec and Labrador Iron Ore Trough. Under the terms of the agreement, the Company will commit to fund $1.75 million over the next twelve months for the completion of the feasibility study and to secure capacity on the new rail line. The funds would be refunded to the Company under certain circumstances. To the date of this MD&A, $100,000 had been paid of the total commitment.

Litigation

The Company is not currently involved in any legal disputes.

Changes in Accounting Policies

The Company will monitor the development of the relevant IFRS standards and change its accounting policies accordingly.

Future Accounting Standards Not Yet Adopted

IFRS 9, Financial Instruments -- Classification and Measurement ("IFRS 9") was issued November 2009 and contained requirements for financial assets. This standard 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 or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. This standard is required to be applied for accounting periods beginning on or after January 1, 2015, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments. Management anticipates that this standard will be adopted in the Company's consolidated financial statements for the period beginning September 1, 2015, with early adoption permitted. The Company has not yet determined the potential impact of the amendments to IFRS 9 on its financial statements.

IFRS 10, Consolidated Financial Statements ("IFRS 10") provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities in the scope of SIC 12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 Consolidated and Separate Financial Statements. The Company intends to adopt IFRS 10 in its consolidated financial statements for the annual period beginning September 1, 2013. The Company has not yet determined the impact of the amendments to IFRS 10 on its consolidated financial statements.

IFRS 13, Fair Value Measurement converges IFRS and US GAAP on how to measure fair value and the related fair value disclosures. The new standard creates a single source of guidance for fair value measurements, where fair value is required or permitted under IFRS, by not changing how fair value is used but how it is measured. The focus will be on an exit price. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company has not yet determined the impact of the amendments to IFRS 13 on its consolidated financial statements.

IAS 1 Presentation of Financial Statements ("IAS 1") was amended by the IASB in June 2011 in order to align the presentation of items in other comprehensive income with US GAAP standards. Items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit and loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income remains unchanged. The amendments to IAS 1 are effective for annual periods beginning on or after June 1, 2012.

Outstanding Share Data

As at the date of this MD&A, the Company has:

a) 75,837,986 common shares outstanding;

b) 20,965,133 warrants outstanding with expiry dates ranging between September 3, 2012 and November 19, 2014, with exercise prices ranging from $0.32 to $1.35. If all the warrants were exercised, 20,965,133 shares would be issued for proceeds of $20,727,464. 811,333 of the 20,965,133 represent "agent compensation options" which are exercisable into one common share of the company and 405,666 broker warrants at a price of $1.30 expiring on March 31, 2013. The 405,666 warrants have not yet been issued. If these warrants were issued and exercised, the Company would receive additional proceeds of $527,366.

c) 5,415,000 stock options outstanding with expiry dates ranging between October 19, 2015 and October 11, 2017, with exercise prices ranging from $0.25 to $1.24. If the 4,233,725 vested options as of August 31, 2012 were exercised, 4,233,725 shares would be issued for proceeds of $3,797,321;

Financial Instruments and Financial Risk Management

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

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

The Company's financial instruments consist of cash and cash equivalents, restricted cash, amounts receivable, accounts payable and accrued liabilities and the current and long term portion of its loan payable. The fair value of these financial instruments, approximates their carrying values due to the short-term nature of these instruments. The Company does not hold any financial instruments carried at fair value to classify in the fair value hierarchy.

The Company is exposed to a variety of financial risks by virtue of its activities including but not limited to the following:

a) *Currency risk* - The Company is exposed to currency risk by incurring certain expenditures in currencies other than the Canadian dollar. The Company has determined that there is very limited currency risk at this time.

b) *Credit risk* - Credit risk is risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's cash is held in large Canadian financial institutions. The Company's financial instruments are not exposed to significant credit risk.

c) *Interest rate risk* - Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to limited interest rate risk as it only holds cash and does not have any significant interest bearing debt.

d) *Liquidity risk* - Liquidity risk is the risk that the Company will not be able to meet its obligations as they come due. The Company's ability to continue as a going concern is dependent on management's ability to raise the required capital through future equity or debt issuances. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning, and approval of significant expenditures and commitments.

e) *Commodity price risk* - The ability of the Company to explore and evaluate its exploration and evaluation properties and the future profitability of the Company are directly related to the price of iron. The Company monitors iron prices to determine the appropriate course of action to be taken.

Risks and Uncertainties

The operations of the Company are speculative due to the high-risk nature of its business, which is the acquisition, financing, exploration and development of mining properties. These risk factors could materially affect the Company's future operating results and could cause actual events to differ materially from those described in forward–looking information relating to the Company.

Liquidity Concerns and Future Financings

The Company will require significant capital and operating expenditures in connection with the development of its properties. There can be no assurance that the Company will be successful in obtaining required financing as needed. Volatile markets may make it difficult or impossible for the Company to obtain debt financing or equity financing on favourable terms, if at all. Failure to obtain additional financing on a timely basis may cause the Company to postpone or slow down its development plans, forfeit rights in some or all of its properties or reduce or terminate some or all of its activities.

While the Company's financial statements have been prepared on the basis of a going concern which contemplates the realization of assets and satisfaction of liabilities in the normal course of operations, there are conditions and events that may cast doubt about the validity of that assumption.

Nature of Mining, Mineral Exploration and Development Projects

Mining operations generally involve a high degree of risk. The Company's operations are subject to the hazards and risks normally encountered in mineral exploration, development and production, including environmental hazards, explosions, unusual or unexpected geological formations or pressures and periodic interruptions in both production and transportation due to inclement or hazardous weather conditions. Such risks could result in damage to, or destruction of, mineral properties or producing facilities, personal injury, environmental damage, delays in mining, monetary losses and possible legal liability.

Mineral exploration is highly speculative in nature. There is no assurance that exploration efforts will be successful. Even when mineralization is discovered, it may take several years until production is possible, during which time the economic feasibility of production may change. Substantial expenditures are required to establish proven and probable mineral reserves through drilling. Because of these uncertainties, no assurance can be given that exploration programs will result in the establishment or expansion of mineral resources or mineral reserves. There is no certainty that the expenditures made by the Company towards the search and evaluation of mineral deposits will result in discoveries or development of commercial quantities of ore.

Exploration and development projects have no operating history upon which to base estimates of future cash operating costs. For development projects, reserve and resource estimates and estimates of cash operating costs are, to a large extent, based upon the interpretation of geologic data obtained from drill holes and other sampling techniques, and feasibility studies, which derive estimates of cash operating costs based upon anticipated tonnage and grades of ore to be mined and processed, ground conditions, the configuration of the ore body, expected recovery rates of minerals from the ore, estimated operating costs, anticipated climatic conditions and other factors. As a result, actual production, cash operating costs and economic returns could differ significantly from those estimated. Indeed, there have been a number of mining operations that have ceased or been suspended or delayed because operations costs are greater than projected. Current market conditions are forcing many mining operations to increase capital and operating cost estimates. It is not unusual for new mining operations to experience problems during the start-up phase, and delays in the commencement of production often can occur.

No Revenues

To date the Company has recorded no revenues from operations and the Company has not commenced commercial production or development on any property. There can be no assurance that significant losses will not occur in the near future or that the Company will be profitable in the future. The Company's operating expenses and capital expenditures may increase in subsequent years in relation to the engagement of consultants, personnel and equipment associated with advancing exploration, development and commercial production of the Company's properties. The Company expects to continue to incur losses for the foreseeable future. The development of the Company's properties will require the commitment of substantial resources to conduct time-consuming exploration. There can be no assurance that the Company will generate any revenues or achieve profitability.

Mineral Resource and Mineral Reserve Estimates May be Inaccurate

There are numerous uncertainties inherent in estimating mineral resources and mineral reserves, including many factors beyond the control of the Company. Such estimates are a subjective process, and the accuracy of any mineral resource or mineral reserve estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. These amounts are estimates only and the actual level of mineral recovery from such deposits may be different. Differences between management's assumptions, including economic assumptions such as metal prices and market conditions, could have a material adverse effect on the Company's financial position and results of operations.

Licenses and Permits, Laws and Regulations

The Company's exploration and development activities, including mine, mill, road, rail and other transportation facilities, require permits and approvals from various government authorities, and are subject to extensive federal, provincial, state and local laws and regulations governing prospecting, development, production, exports, taxes, labour standards, occupational health and safety, mine safety and other matters. Such laws and regulations are subject to change, can become more stringent and compliance can therefore become more costly. In addition, the Company may be required to compensate those suffering loss or damage by reason of its activities. There can be no guarantee that the Company will be able to maintain or obtain all necessary licenses, permits and approvals that may be required to explore and develop its properties, commence construction or operation of mining facilities.

Iron Ore Prices

The profitability of the Company's operations will be dependent upon the market price of mineral iron ore. Iron ore prices fluctuate widely and are affected by numerous factors beyond the control of the Company. The level of interest rates, the rate of inflation, the world supply of iron ore and the stability of exchange rates can all cause significant fluctuations in prices. Such external economic factors are in turn influenced by changes in international investment patterns, monetary systems and political developments. The price of iron ore has fluctuated widely in recent years, and future price declines could cause commercial production to be impracticable, thereby having a material adverse effect on the Company's business, financial condition and result of operations.

Environmental

The Company's activities are subject to extensive federal, provincial state and local laws and regulations governing environmental protection and employee health and safety. Environmental legislation is evolving in a manner that is creating stricter standards, while enforcement, fines and penalties for non-compliance are also increasingly stringent. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations. Further, any failure by the Company to comply fully with all applicable laws and regulations could have significant adverse effects on the Company, including the suspension or cessation of operations.

Title to Properties

The acquisition of title to resource properties is a very detailed and time-consuming process. The Company holds its interest in certain of its properties through mining claims. Title to, and the area of, the mining claims may be disputed. There is no guarantee that such title will not be challenged or impaired. There may be challenges to the title of the properties in which the Company may have an interest, which, if successful, could result in the loss or reduction of the Company's interest in the properties.

Uninsured Risks

The Company maintains insurance to cover normal business risks. In the course of exploration and development of mineral properties, certain risks, and in particular, unexpected or unusual geological operating conditions including explosions, rock bursts, cave-ins, fire and earthquakes may occur. It is not always possible to fully insure against such risks as a result of high premiums or other reasons. Should such liabilities arise, they could result in significant liabilities to the Company and increase costs of projected.

Competition

The Company competes with many other mining companies that have substantially greater resources than the Company. Such competition may result in the Company being unable to acquire desired properties, recruit or retain qualified employees or acquire the capital necessary to fund its operations and develop its properties. The Company's inability to compete with other mining companies for these resources would have a material adverse effect on the Company's results of operation and business.

Dependence on Outside Parties

The Company has relied upon consultants, engineers and others, and intends to rely on these parties for development, construction and operating expertise. Substantial expenditures are required to establish mineral reserves through drilling, to carry out environmental and social impact assessments, to develop metallurgical processes to extract the metal from the ore. If such parties' work is deficient or negligent or is not completed in a timely manner, it could have a material adverse effect on the Company.

Share Price Fluctuations

The market price of securities of many companies, particularly exploration stage companies, experience wide fluctuations in price that are not necessarily related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that fluctuations in the Company's share price will not occur.

Conflicts of Interest

Certain of the Company's directors and officers serve or may agree to serve as directors or officers of other companies and, to the extent that such other companies may participate in ventures in which the Company may participate, the directors of the Company may have a conflict of interest in negotiating and concluding terms respecting such participation.

Additional Information and Continuous Disclosure

Additional information, including the Company's press releases, has been filed electronically through the System for Electronic Document Analysis and Retrieval ("SEDAR") and is available online under our profile at www.sedar.com.

Cautionary Statement on Forward Looking Information

Cautionary Note Regarding Forward-looking Information

Certain statements in this document contain "forward-looking information" within the meaning of applicable Canadian securities legislation. Forward-looking information includes, but is not limited to, statements with respect to the development potential of the Company's properties; the future price of iron ore and other minerals; the estimation of mineral reserves and mineral resources; conclusions of economic evaluation; the realization of mineral reserve estimates; capital expenditures; success of exploration activities; mining or processing issues; currency exchange rates; government regulation of mining operations; and environmental risks. Generally, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved". Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking information. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking information. The Company does not undertake to update any forward-looking information, except in accordance with applicable securities laws.