

# **BLUE SKY URANIUM CORP.**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2010**

### **Background**

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited condensed interim consolidated financial statements of Blue Sky Uranium Corp. ("Blue Sky" or "the Company") for the three months ended September 30, 2011 and related notes thereto which have been prepared in accordance with International Financial Reporting Standards ("GAAP" or "IFRS"). Previously, the Company prepared its interim and annual consolidated financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The Company's 2010 comparatives in this MD&A have been presented in accordance with IFRS. As the Company's IFRS transition date was January 1, 2010, 2009 comparative information included in this MD&A has not been restated. This MD&A has been prepared as of November 17, 2011.

### **Company Overview**

The Company was incorporated under the Business Corporations Act (British Columbia) on November 30, 2005 as Mulligan Capital Corp. On May 18, 2006, the Company received final receipts for a prospectus and became a reporting issuer in British Columbia and Alberta. On June 27, 2006 the Company completed its initial public offering (the "Offering") and on June 28, 2006 the Company listed its common shares on the TSX Venture Exchange (the "TSX-V") as a capital pool company. On February 7, 2007, the Company completed its qualifying transaction (the "QT") and was upgraded to Tier II status on the TSX-V. The Company also changed its name to Blue Sky Uranium Corp. to reflect its business as a junior uranium exploration company.

The Company is a junior mineral exploration company engaged in the business of acquiring, exploring and evaluating natural resource properties and either joint venturing or developing these properties further or disposing of them when the evaluation is completed. The Company's material mineral properties of interest are all located in Argentina. Blue Sky is one of the Argentina's leading uranium exploration companies with more than 6,000 km<sup>2</sup> of tenements. Argentina has an advanced nuclear industry, centred in the Rio Negro Province. As of November 8, 2011, the Company has not earned any production revenue, nor found any mineral resources or reserves on any of its properties.

Normand Champigny, President and Chief Operating Officer and Bruce A. Smith, Country Manager for Minera Cielo Azul S.A., a 100% owned subsidiary of Blue Sky, are Qualified Persons as defined by NI 43-101 and have reviewed and approved the exploration information and technical disclosure contained in this MD&A. The Company has Quality Assurance/Quality Control protocols in place for all sampling programs as part of all augering, geochemical sampling, sample preparation, sample shipping and sample analysis and compilation procedures.

### **Argentina**

With the acquisition of Argentina Uranium in 2008, the Company gained control of a land package of more than 5,000 km<sup>2</sup> in Argentina. This acquisition followed a review of Argentina Uranium's properties and a 14,689 line-km geophysical airborne survey in 2007 in the Rio Negro province over mineral properties covering a surface area of 3,000 km<sup>2</sup>. Argentina Uranium also held properties in the province of Chubut.

### **Rio Negro Province**

The Argentina Uranium survey identified anomalous zones of uranium mineralization on the Anit and Santa Barbara properties. In 2010, the Company completed a second, 22,214 line-km regional airborne radiometric and magnetic survey in the prospective Rio Negro basin over areas with similar geology to the Anit and Santa Barbara properties. Three large new uranium anomalies were identified by the airborne survey and the Company applied for twelve licenses to cover them.

Exploration programs at the Anit, Santa Barbara and Ivana properties (see attached map, described in detail below) revealed two types of uranium mineralization in a near-surface horizon in poorly consolidated Upper Cretaceous to Tertiary sediments and underlying mineralization of the surficial calcrete type. The latter, in which the uranium occurs in gypsum and calcite-rich strata, resembles the Langer Heinrich deposit in Namibia (Measured and Indicated Resource of 150 million lbs.  $U_3O_8$  at a grade of 0.054%  $U_3O_8$  using a 0.025%  $U_3O_8$  cut-off, Paladin Energy Ltd. 2011 annual report). Carnotite, a potassium uranium vanadate, is the uranium ore mineral. Vanadium pentoxide ( $V_2O_5$ ) is a by-product at Langer Heinrich and is mainly used as an alloy of steel. At Langer Heinrich, mineralization occurs within a 15-km long paleo-drainage system and is near-surface, between one meter and 30 m thick, and between 50 m and 1,100 m wide.

In 2010, Grosso Group Management Ltd (the “Grosso Group”) of which the Company is a member, signed a letter of intent ratified by the Governor of the Province of Rio Negro (“Rio Negro”). Under this letter of intent for a strategic alliance signed by the Minister Responsible for State Companies (the “Minister”) and Grosso Group, Rio Negro commits to work with Grosso Group and its member companies and use its best efforts to facilitate the advancement and the development of mining projects to the production stage. In order to promote sound development of mining activities in Rio Negro, the Minister will jointly develop with Grosso Group a mutually beneficial strategic alliance whose objective is the development of mining projects. This agreement with Rio Negro demonstrates their commitment to work together with the Grosso Group and its member companies. Likewise, Grosso Group and its member companies are committed to developing projects in Rio Negro in close collaboration with local communities and the government of Rio Negro.

### **Anit Property**

*Property and Ownership:* The Anit property consists of four granted exploration licenses or (“cateos”) that cover 120 km<sup>2</sup>. The total property area is 260 km<sup>2</sup> including six “manifestaciones de descubrimiento” (translated as discovery showings). It is located in the north-central part of Rio Negro near the city of Villa Regina. The property is 100% owned by the Company.

*Property Geology and Mineralization:* At Anit outcrops of Cretaceous sediments of the Bajo de la Carpa Formation are covered by younger sediments and soils. Mineralization is hosted in these younger sediments that consist of cross-bedded gravels and sands with abundant petrified logs, some of which reach several meters in length. Locally the conglomeratic and/or sandy host rocks are stained with brown iron oxides. The environment appears to be that of a high-energy fluvial paleochannel. Uranium mineralization is hosted in fine sandstones interbedded with white clays with small fragments of plant leaves and stems tentatively believed to correspond to the Gran Bajo del Gualicho Formation. Carnotite (a uranyl vanadate) is the only visually recognized uranium mineral. No clear correlation has been established between the uranium mineralization and any specific lithology. Gypsum is abundant and closely associated with carnotite. Bassanite has also been reported.

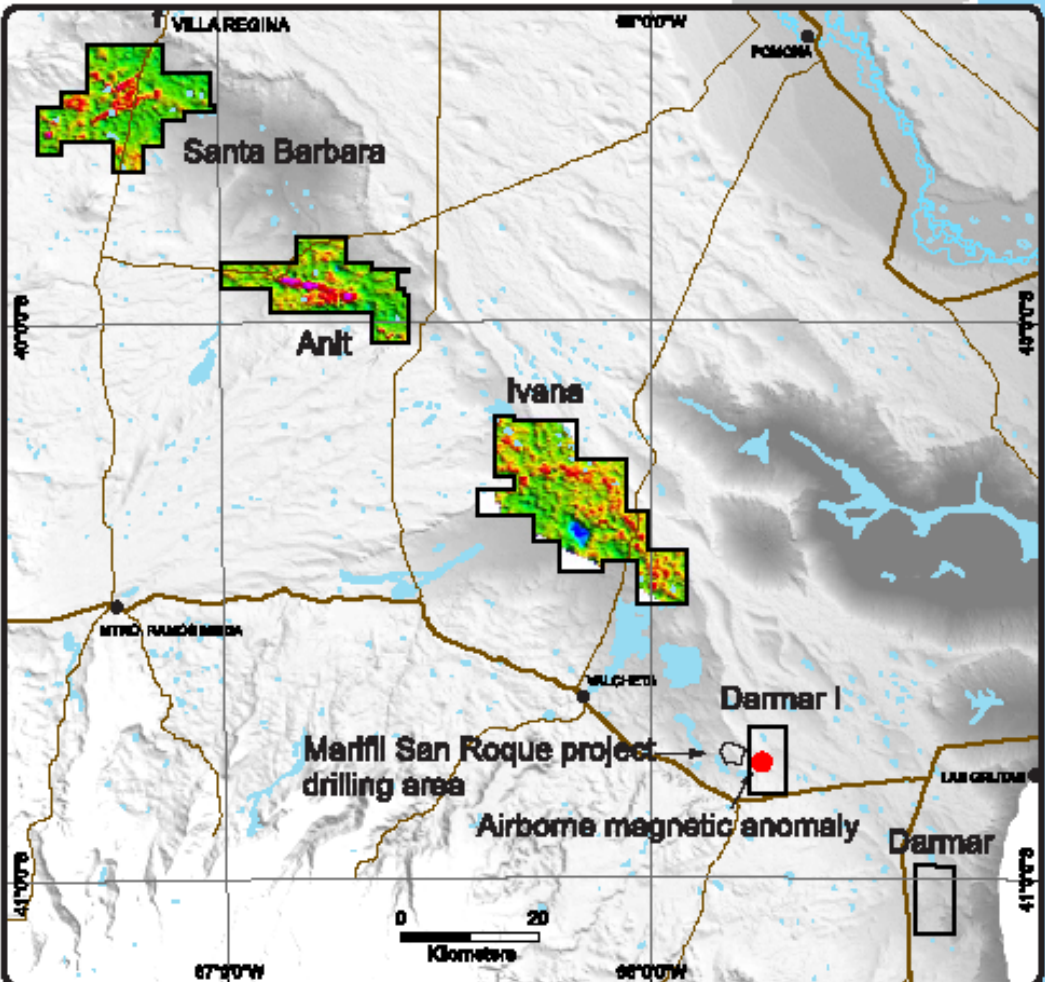
The 2007 airborne radiometric survey identified a 15-km long by up to 1.5-km wide radiometric anomaly which was later subdivided into the West, Central and East zones. Follow-up ground prospecting discovered yellow uranium-vanadium bearing minerals mostly concentrated in 10 to 20 cm thick sedimentary layers. This discovery has been tested with aircore drilling.

The friable carnotite mineralization was pulverized during drilling and significant quantities of uranium mineralization appear to have been inadvertently lost in the exhaust from the cyclone recovery system. A subsequent review suggested that the assay results from the drill program released to date may have underestimated uranium grades.

This review has helped establish a new sampling protocol using excavator pits. Vertical channel samples are now collected over 0.5 m intervals down three walls of each pit and combined into one sample of approximately 5 kilograms. One wall of each pit is mapped to facilitate correlation of individual units between pits. Mineralization below 6 m is checked using gamma probe logging of all drill holes.

Using the new sampling protocol, Blue Sky completed and sampled a total of 310 excavator pits of up to 6 m depth. This work has produced more reliable samples and has documented a channel-shaped mineralized zone more than 6 km long with a higher-grade and thicker central core. The mineralization averages 2.0 m in thickness with a maximum thickness of 6 meters. The mineralized paleochannel ranges in width from 40 to 480 m and covers a linear-lenticular area of approximately 1 km<sup>2</sup>.

**LOCATION MAP OF BLUE SKY'S PROPERTIES,  
RIO NEGRO PROVINCE AND U<sub>3</sub>O<sub>8</sub> EQUIVALENT  
AIRBORNE RADIOMETRICS**



In 2010 an aircore drilling program was completed. Highlights included: West Zone - 4 m at 0.078% U<sub>3</sub>O<sub>8</sub> and 0.107% V<sub>2</sub>O<sub>5</sub> in hole AN174; and Central Zone - 7 m at 0.037% U<sub>3</sub>O<sub>8</sub> and 0.028% V<sub>2</sub>O<sub>5</sub> in hole AN168.

This additional drilling provided further definition of the strongly mineralized and thicker portions of the mineralized paleochannel. Away from the main paleochannel large areas of lower grade mineralization, have been discovered on the East Zone as well as 200 m north and 400 m south of the Central Zone. The eight regional radon targets drilled had no significant results.

*Property History:* The Anit property has had no exploration history prior to 2007 and therefore represents a grassroots uranium discovery of a new uranium district. The significant highlights of the property's history are:

- 2007: Completion of an airborne radiometric survey and rock sampling;
- 2008: Hand excavation of five pits within strong radiometric anomalies identified by the airborne survey;
- 2009: Excavation of 123 hand pits and collection of 588 samples, augering from the base of pits on 41 selected pits, completion of a radon gas survey on the Anit 1 and 2 properties (seven lines totaling 65 km with detector cups spaced every 100 m), scintillometer readings every 50 m as well as excavation of five pits (each 0.5 m by 0.25 m by 2 m in size);
- 2010: Geological mapping and prospecting and collection of 45 grab samples, completion of a 1,223-sample mechanized trenching program (each trench approximately 2 m deep, one or two-meter composite channel samples), and an aircore drilling program (5,044 m in 204 holes in two phases); and
- 2011: Completion of 310 excavator pits of up to 6 m depth, along north-south lines spaced 400 m apart, generally at a spacing of 40 m on the Central Zone, and 200 m by 40 m on the West Zone, preliminary metallurgical work and palynological (fossil) study.

*Recent Results:* Excavator pit sampling, including only pits with mineralization greater than 0.006% U<sub>3</sub>O<sub>8</sub> over 1 m, showed an average thickness of the mineralized layer of 2.0 m with a weighted average grade of 0.04% U<sub>3</sub>O<sub>8</sub> and 0.11% V<sub>2</sub>O<sub>5</sub>. Metallurgical test work performed by Independent Metallurgical Operations Ltd. demonstrates that most of the mineralized material can be significantly upgraded. The technique involves simple and inexpensive wet screening to remove coarse pebbles that contain little or no uranium mineralization producing low-mass high-grade concentrates. The results to date are preliminary and are based on seven select samples of the main uranium-mineralized lithologies.

*Planned Exploration:* The Company's exploration teams continue prospecting in the areas of the identified airborne anomalies within the vicinity of the known mineralized zones. This work aims to outline areas where mineral resources may be estimated with additional sampling.

## **Santa Barbara Property**

*Property and Ownership:* The Santa Barbara property consists of three granted exploration permits and 18 "manifestaciones de descubrimiento" that cover 461 km<sup>2</sup>. It is located in the north-central part of Rio Negro near the city of Villa Regina. The property is 100% owned by the Company.

*Property Geology and Mineralization:* The Santa Barbara property is hosted by a Mesozoic to Quaternary sedimentary sequence overlying the Triassic Treneta volcanic-intrusive complex. The Cretaceous sedimentary sequence begins with Santonian-age Bajo de la Carpa Formation continental sediments composed of fine to conglomeratic sandstones intercalated with green clay and lenses of gypsum and petrified wood. These sediments are in turn covered by continental tuffs with clay interlayers of the Oligocene-Miocene Chichinales Formation. Upper Tertiary and Quaternary plateau basalts commonly cap mesas. Quaternary and Recent sediments cover all the "Bajos Basin": an enclosed internal drainage system in an area of ephemeral streams and playa lakes. The uranium mineralization identified to date on the property is within the Bajo de la Carpa Formation and consists of calcite-cemented conglomerate and sandstone interlayered between limonitic mudstones with high gypsum contents. It is being interpreted as a Langer Heinrich-style calcrete paleochannel type uranium occurrence. The geological environment at Santa Barbara is similar to Anit.

Key results obtained include:

- three northeast trending zones of uranium mineralization, approximately 11 km, 6.5 km and 5 km in length and varying up to 1.5 km in width; and
- 35 hand-augured holes have been drilled to a depth of two to three meters and have outlined mineralization between 0.5-1.0 m in thickness at a depth of 0.5-1.5 m below the surface. Highlights include 0.035%  $U_3O_8$  over 1 m and 0.086%  $U_3O_8$  over 0.5 meter.

*Property History:* Highlights of the property's history are:

- 2007, reconnaissance sampling and scintillometer surveying program;
- 2008, augering and conventional soil and rock sampling, scintillometer surveys, radon gas surveys and geological mapping on the three radiometric anomalies identified; and
- 2009, surface exploration focused on the three radiometric anomalies, as well as an overall geological evaluation, 90 shallow hand auger holes and pits completed over a combined strike length of approximately 14 kilometers.

*Planned Exploration:* Results obtained to date are being reviewed. The Company believes that the property has very good exploration potential.

## **Ivana Property**

*Property and Ownership:* The Ivana property consists of five granted exploration licenses and three exploration licenses registered on behalf of the Company totaling 713 km<sup>2</sup> in Rio Negro. Five licenses have been granted and three are under application. It is located in the north-central part of Rio Negro near the municipality of Valcheta. The property is 100% owned by the Company.

*Property Geology and Mineralization:* Uranium mineralization is hosted mainly in the Gran Bajo del Gualicho Formation, consisting of Oligocene-Miocene shallow marine mollusk shells, fine grained sandstones and white tuff and to a lesser extent in the Arroyo Barbudo Formation consisting of sandstone, claystones and gypsum of Upper Cretaceous-Paleocene age. The mineralized district is located where the basement volcanics outcrop at the basin margin. Near shore marine and continental sediments are interbedded, providing a favourable geological environment to host large surficial type uranium deposits.

In addition, high grade uranium mineralization was recently found in the form of carnotite hosted in unconsolidated and well sorted reddish and yellowish sands covered by calcrete accompanied by lower grade mineralization hosted in green clays with carnotite occurring along parting planes. This mineralized material was encountered less than 500 m from Upper Proterozoic shales and schists of the Nahuel Niyeu Formation and Carboniferous to Permian granites of the Navarrete Plutonic Complex. The mineralized sands appear to be part of fluvial paleochannels eroded in the basement metamorphic and granitic rocks.

Significant results obtained to date are:

- a uranium discovery area within a 40 km by 10 km enclosed basin identified from the airborne radiometric survey. This area includes a major 20-km long northwest-southeast mineralized trend. The highlight is a hand excavated pit that returned 0.068%  $U_3O_8$  over a width of 3 m in unconsolidated sediments beginning at surface and open to depth; and
- a new uranium discovery area along a 3.3 km long northwest-southeast mineralized trend situated 20 km south from the above trend. The highlight from the new discovery is an interval of 1.81%  $U_3O_8$  over 0.75 m including 6.67%  $U_3O_8$  over 0.15 m and open at depth.

*Property History:* The property's history is summarized as follows:

- 2010 - 22,000 km<sup>2</sup> airborne radiometric survey; and
- 2011 - sampling of 58 auger holes and hand pits performed as well as follow-up ground radiometric surveys, prospecting and geological mapping.

*Planned Exploration:* Blue Sky considers the results to be very encouraging and exploration work will continue to evaluate anomalies using ground radiometrics, pit sampling and augering.

## **Darmar Property**

*Property and Ownership:* The Darmar property consists of two granted exploration licenses that cover 198 km<sup>2</sup>. They are located in the south-eastern part of Rio Negro southeast of the municipality of Valcheta. The property is 100% owned by the Company. Exploration licenses have been granted.

*Property Geology and Mineralization:* Interpretation of the magnetic data from the 22,214 line-km airborne radiometric and magnetic survey completed by Blue Sky survey also identified two major magnetic anomalies on the 100% owned Darmar I and Darmar properties. Adjacent to the Darmar properties the San Roque project of Marifil Mines Limited ("Marifil") is under option to NovaGold Resources, Inc. ("NovaGold"). Recently Marifil announced results from NovaGold's Phase 1 drill program including an intercept of 120 m at average grade of 1.2 g/t Au and 10 g/t Ag in drill hole MSR-009 as well as significant values for indium, lead and zinc. Marifil stated that they believe they have discovered a major gold-silver-lead-zinc-indium deposit (July 20, 2011 press release). The Darmar I target is located 3.5 km southeast of the San Roque project. It consists of a 1.5 km in diameter magnetic anomaly that may correspond to an intrusive system covered by shallow gravels. An exploration license has been granted and an environmental impact study has been submitted for prospecting. The results of reconnaissance sampling (15 soil samples and 1 grab rock sample) did not reveal significant values. A ground geophysical survey is planned to define drilling targets. The Darmar target is located 43 km southeast from the Darmar I target and has a diameter of 4.5 km. The property area is covered by shallow gravels with very few outcrops and underlain by tuffs and sediments of Neogene age. Both of Blue Sky's Darmar magnetic targets have the potential to host mineralized systems similar to that being explored by NovaGold at San Roque.

*Property History:* The Darmar properties have had very little modern exploration.

*Planned Exploration:* A ground geophysical survey of 11 line-km is underway to define gold-silver drilling targets.

## **Chubut Province**

### **Sierra Colonia Property**

*Property and Ownership:* The Sierra Colonia property is located in the central part of the Chubut province. It is situated 96 km east-northeast of the Cerro Solo project where the National Commission of Atomic Energy ("CNEA") identified a historical resource of 15 million pounds of contained U<sub>3</sub>O<sub>8</sub> in the same geological environment (CNEA web site with information dated June 5, 2009. The resource statement is not compliant with National Instrument 43-101). The property is 100% owned by the Company. Blue Sky has applied for three exploration licenses totaling 300 km<sup>2</sup>. One exploration license has been fully granted with an environmental impact study approved for prospecting. The approval of the two remaining exploration licenses is pending.

*Property Geology and Mineralization:* Uranium mineralization is hosted in sandstones, conglomerates and tuffs of Lower to Upper Cretaceous age of the Chubut Group located in an erosional window at the Mirasol Chico Creek. Petrified wood is commonly associated with uranium mineralization.

Highlights from the prospecting work performed to date are summarized below.

#### Hand pits and chip samples

<b>Zone</b>	<b>Width (m)</b>	<b>Grade % U<sub>3</sub>O<sub>8</sub></b>	<b>Grade % V<sub>2</sub>O<sub>5</sub></b>
Fluo	2.0	0.14	0.07
	1.0	0.09	1.12
	1.5	0.07	0.01
Zone 1	1.0	0.13	0.50
Zone Cañadon Lillo	0.5	0.53	1.32
Zone 5	1.0	0.03	0.27

#### Grab samples from outcrops and hand pits

- 16 samples were higher than 0.10%, highlights include, 0.65 % U<sub>3</sub>O<sub>8</sub> and 1.55 % V<sub>2</sub>O<sub>5</sub>, 0.61 % U<sub>3</sub>O<sub>8</sub> and 0.80 % V<sub>2</sub>O<sub>5</sub>, 0.53 % U<sub>3</sub>O<sub>8</sub> and 1.32 % V<sub>2</sub>O<sub>5</sub>, 0.25 % U<sub>3</sub>O<sub>8</sub> and 0.65 % V<sub>2</sub>O<sub>5</sub>, and 0.20 % U<sub>3</sub>O<sub>8</sub>, 0.09 % V<sub>2</sub>O<sub>5</sub>;
- 90 samples were higher than 0.01% U<sub>3</sub>O<sub>8</sub>; and
- 177 samples were lower than 0.01% U<sub>3</sub>O<sub>8</sub>.

Anomalous molybdenum values have been detected at Cerro Solo and are also present at Sierra Colonia, including 21 samples ranging from 113 to 671 ppm Mo.

*Property History:* The Sierra Colonia project was selected following recommendations by Dr. Jorge Berizzo, Blue Sky's geological consultant, and was based on the proximity of the CNEA's Mirasol uranium occurrence and similar geological setting. The property's history is summarized as follows:

- surface radiometric survey covering 124 km<sup>2</sup>;
- sampling of 54 hand pits and chip samples ranging in depth from surface to 2 meters; and
- collection of 283 grab samples from outcrops and hand pits.

*Planned Exploration:* Blue Sky is confident that the exploration potential of the Sierra Colonia justifies drilling. Prior to drilling, Blue Sky will complete detailed geological mapping to better define the mineralized horizons and a geophysical survey to establish the depth of the Cretaceous sedimentary rocks.

#### Outlook

The Company is moving forward with the exploration of its uranium properties in the provinces of Rio Negro and Chubut in Argentina with a focus on reviewing the results obtained to date in order to determine the best target areas to bring to the excavation and/or drill-ready stage. It is also actively evaluating opportunities to acquire new prospective ground in Rio Negro, Chubut and other provinces of Argentina.

#### Selected Annual Financial Information<sup>(1)</sup>

The following selected consolidated financial information is derived from the audited consolidated financial statements and notes thereto.

	Years Ended December 31,		
	2010	2009	2008
	\$	\$	\$
Total revenue	Nil	Nil	Nil
Net loss and comprehensive loss for the year	(5,589,262) <sup>(4)</sup>	(1,151,047) <sup>(2)</sup>	(3,608,892)
Loss per share – basic and diluted	(0.09)	(0.03)	(0.14)
Total assets	5,191,928	4,308,734 <sup>(3)</sup>	3,344,278

(1) As the Company's IFRS transition date was January 1, 2010, 2009 and 2008 comparative information has not been restated and is presented in accordance with Canadian GAAP.

(2) Variance from 2008 is primarily driven by decreases in exploration, professional fees, and salaries and employee benefits of \$661,490, \$70,946, and \$185,074. Income tax recovery for the period was \$771,421.

(3) Increase compared to 2008 is primarily due to higher cash balances from issuance of common shares for gross proceeds of \$2,402,179.

(4) Variance from 2009 is primarily driven by increases in corporate development of \$189,693, exploration of \$2,556,372, management services of \$388,855 and professional fees of \$186,614. Income tax recovery for the period was \$Nil.

(5) Increase compared to 2009 is primarily due to higher cash balances from issuance of common shares and warrants for gross proceeds of \$2,582,250.

**Results Of Operations – For The Nine Months Ended September 30, 2011 Compared To The Nine Months Ended September 30, 2010**

**Expenses**

During the nine months ended September 30, 2011, expenses decreased by \$1,205,212 to \$2,669,419 compared to \$3,874,631 for the nine months ended September 30, 2010. The decrease in expenses is largely due to:

- A decrease of \$1,031,850 in exploration expenditures. Exploration expenditures were \$1,419,893 for the nine months ended September 30, 2011 compared to \$2,451,743 for the nine months ended September 30, 2010. During the nine months ended September 30, 2011, the Company performed ground radiometric surveys, hand pits sampling, prospecting geological mapping and augering on prospective new properties compared to an airborne radiometric and magnetic survey and extensive Phase 1 and 2 drilling programs on the Anit Project during the nine months ended September 30, 2010.
- A decrease of \$22,166 in corporate development and investor relations. Corporate development and investor relations were \$198,051 for the nine months ended September 30, 2011 compared to \$220,217 for the nine months ended September 30, 2010. The decrease is due to a smaller number of activities relating to promotion of the Company's projects in the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010.
- A decrease of \$21,132 in foreign exchange loss. Foreign exchange loss was \$16,325 for the nine months ended September 30, 2011 compared to \$37,457 for the nine months ended September 30, 2010. The decrease is due to the fluctuation in foreign exchange rates and differing amounts of foreign currencies held in the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010.
- A decrease of \$55,152 in office expenses. Office expenses were \$93,402 for the nine months ended September 30, 2011 compared to \$148,554 for the nine months ended September 30, 2010. The Company was charged a lower amount for administration of its projects and lower cost allocation due to decreased activity during the nine months ended September 30, 2011 compared to a greater portion of Grosso Group's costs allocated to the Company in the nine months ended September 30, 2010.
- A decrease of \$33,540 in rent, parking and storage. Rent, parking and storage was \$60,431 for the nine months ended September 30, 2011 compared to \$93,971 for the nine months ended September 30, 2010. The Company was charged a lower cost allocation due to decreased activity during the nine months ended September 30, 2011 compared to a greater portion of Grosso Group's costs allocated to the Company in the nine months ended September 30, 2010.
- A decrease of \$23,723 in travel. Travel was \$58,360 for the nine months ended September 30, 2011 compared to \$82,083 for the nine months ended September 30, 2010. The decrease is due to travel in the nine months ended September 30, 2010 associated with the initiation of the Phase 1 and 2 drilling programs on the Anit project and a higher number of investor relation activities compared to the nine months ended September 30, 2011.
- A decrease of \$50,662 in stock-based compensation. Stock-based compensation was \$56,654 for the nine months ended September 30, 2011 compared to \$107,316 for the nine months ended September 30, 2010. The decrease is due to lower number of stock options vesting during the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010.

These decreases were partially offset by the following:

- An increase of \$56,935 in salaries and management fees. Salaries and management fees were \$528,523 for the nine months ended September 30, 2011 compared to \$471,588 for the nine months ended September 30, 2010. This increase is due to related increases in the number of staff levels in the organization during the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010.



## **Other Items**

- Interest income was \$2,267 for the nine months ended September 30, 2011 compared to \$226 for the nine months ended September 30, 2010. The Company earned interest on its short term investments in the nine months ended September 30, 2011 compared to no short term investments held during the nine months ended September 30, 2010.

The net loss for the nine months ended September 30, 2011 was \$2,667,152 or \$0.03 per basic and diluted share compared to a net loss of \$3,874,405 or \$0.06 per basic and diluted share for the nine months ended September 30, 2010.

## **Cash Flow**

### **Operating Activities**

Cash outflow from operating activities was \$2,555,163 for the nine months ended September 30, 2011 compared to \$3,522,884 for the nine months ended September 30, 2010. The decrease in cash outflow is due to lower exploration expenditures of \$1,031,850.

### **Investing Activities**

Cash outflow from investing activities was \$507,826 during the nine months ended September 30, 2011 compared to \$70,771 for the nine months ended September 30, 2010. The increase in cash outflow is due to the purchase and redemption of short term investments of \$1,150,851 and \$750,000, respectively. Also, fixed asset acquisitions of \$20,893 and higher mineral property acquisition costs of \$86,082 contributed to the increase in cash outflow during the nine months ended September 30, 2011 compared to no similar purchases or redemptions of short term investments, capital expenditures and lower mineral property acquisition costs during the nine months ended September 30, 2010.

### **Financing Activities**

Proceeds from the issuance of common shares and warrants was \$1,044,090, less share issuance costs of \$35,633 during the nine months ended September 30, 2011 compared to \$2,582,250, less share issuance costs of \$133,727 for the nine months ended September 30, 2010. Proceeds from the exercise of warrants and options were \$70,000 for the nine months ended September 30, 2011 compared to \$2,327,035 for the nine months ended September 30, 2010. The decrease is due to the exercise of options and warrants that were significantly in the money during the nine months ended September 30, 2010 compared to the majority of options and warrants not in the money during the nine months ended September 30, 2011.

## **Results Of Operations – For The Three Months Ended September 30, 2011 Compared To The Three Months Ended September 30, 2010**

### **Expenses**

During the three months ended September 30, 2011, expenses decreased by \$528,722 to \$791,972 compared to \$1,320,694 for the three months ended September 30, 2010. The decrease in expenses is largely due to:

- A decrease of \$501,151 in exploration expenditures. Exploration expenditures were \$371,680 for the three months ended September 30, 2011 compared to \$872,831 for the three months ended September 30, 2010. During the three months ended September 30, 2011, the Company performed ground radiometric surveys, hand pits sampling, prospecting geological mapping and augering on prospective new properties compared to completion of the Phase 2 drilling program and airborne radiometric and magnetic surveys on the Anit project during the three months ended September 30, 2010.
- A decrease of \$78,819 in corporate development and investor relations. Corporate development and investor relations were \$27,061 for the three months ended September 30, 2011 compared to \$105,880 for the three months ended September 30, 2010. The decrease is due to a lesser number of activities relating to promotion of the Company's projects in the three months ended September 30, 2011 compared to the three months ended September 30, 2010.

- A decrease of \$26,153 in office expenses. Office expenses were \$24,876 for the three months ended September 30, 2011 compared to \$51,029 for the three months ended September 30, 2010. The Company was charged a lower amount for its project administration and lower cost allocation due to decreased activity during the three months ended September 30, 2011 compared to a greater portion of Grosso Group's costs allocated to the Company in the three months ended September 30, 2010.

These decreases were partially offset by the following:

- An increase of \$41,732 in salaries and management fees. Salaries and management fees were \$180,827 for the three months ended September 30, 2011 compared to \$139,095 for the three months ended September 30, 2010. This increase is due to related increases in the number of staff levels for the three months ended September 30, 2011 compared to the three months ended September 30, 2010.
- An increase of \$22,175 in stock-based compensation. Stock-based compensation was \$47,081 for the three months ended September 30, 2011 compared to \$24,906 for the three months ended September 30, 2010. The increase is due to the incremental vesting of 600,000 stock options granted during the previous quarter of fiscal 2011 and 200,000 stock options granted during the three months ended September 30, 2011 compared to vesting of 75,000 consultant options and no stock options granted during the three months ended September 30, 2010.

The net loss for the three months ended September 30, 2011 were \$790,562 or \$0.01 per basic and diluted share compared to a net loss of \$1,320,694 or \$0.02 per basic and diluted share for the three months ended September 30, 2010.

## **Cash Flow**

### **Operating Activities**

Cash outflow from operating activities was \$814,193 for the three months ended September 30, 2011 compared to \$1,361,996 for the three months ended September 30, 2010. The decrease in cash outflow is due to lower exploration expenditures of \$371,680.

### **Investing Activities**

Cash inflow from investing activities was \$289,434 for the three months ended September 30, 2011 compared to a cash outflow of \$29,845 for the three months ended September 30, 2010. This increase was mainly attributable to redemptions of short term investments of \$750,000 offset by purchases of short term investments of \$400,000 and fixed asset acquisitions of \$20,893 compared to no redemptions of short term investments or fixed asset acquisitions during the three months ended September 30, 2010.

### **Financing Activities**

Cash flow from financing activities were \$Nil for the three months ended September 30, 2011 compared to a cash inflow of \$2,458,523 during the three months ended September 30, 2010. This decrease is due to proceeds from the issuance of common shares and warrants of \$2,582,250, less share issuance costs of \$133,727, and warrant exercises of \$10,000 during the three months ended September 30, 2010.

## **Balance Sheet**

At September 30, 2011, the Company had total assets of \$3,634,761 compared with \$5,191,928 in total assets at December 31, 2010. This decrease is primarily a result of a decrease in cash related to the Company's ongoing exploration activities and administrative costs. Working capital at September 30, 2011 was \$607,773 compared to working capital of \$2,217,994 at December 31, 2010, as a result of ongoing exploration activities.

## Selected Quarterly Financial Data <sup>(1)</sup>

	2011			2010			2009	
	Sep. 30 \$	Jun. 30 \$	Mar. 31 \$	Dec. 31 \$	Sep. 30 \$	Jun. 30 \$	Mar. 31 \$	Dec. 31 \$
Revenues	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Net Loss	(790,562)	(976,340)	(900,250) <sup>(4)</sup>	(1,714,857) <sup>(3)</sup>	(1,320,694)	(1,547,905) <sup>(2)</sup>	(1,005,806)	(613,564)
Net Loss per Common Share Basic and Diluted	(0.01)	(0.01)	(0.01)	(0.02)	(0.02)	(0.02)	(0.02)	(0.01)

(1) As the Company's IFRS transition date was January 1, 2010, 2009 comparative information has not been restated and is presented in accordance with Canadian GAAP.

(2) Increase is primarily driven by an increase in exploration of \$650,337 partially offset by foreign exchange gain of \$48,890.

(3) Increase is primarily driven by increase in share-based compensation of \$536,110.

(4) Decrease is primarily driven by decreases in exploration and share-based compensation of \$275,234 and \$561,016, respectively.

## Liquidity and Capital Resources

The Company has experienced recurring operating losses and has accumulated an operating deficit of \$16,855,347 at September 30, 2011 (December 31, 2010 - \$14,188,195) and shareholders' equity of \$3,449,606 at September 30, 2011 (December 31, 2010 - \$4,981,647). In addition, the Company had working capital of \$582,773 at September 30, 2011 (December 31, 2010 - \$2,217,994). Working capital is defined as current assets less current liabilities and provides a measure of the Company's ability to settle liabilities that are due within one year with assets that are also expected to be converted into cash within one year.

The Company presently does not have adequate resources to maintain its core activities for the next fiscal year or sufficient working capital to fund all its planned activities. The Company will continue to rely on successfully completing additional equity financing to maintain its core activities and further exploration of its existing and new properties in Argentina. There can be no assurance that the Company will be successful in obtaining the required financing. The failure to obtain such financing could result in the loss of the Company's interest in one or more of its mineral claims.

During the nine months ended September 30, 2011:

- In May 2011, the Company completed a non-brokered private placement consisting of 5,800,500 units at a price of \$0.18 per unit for gross proceeds of \$1,044,090. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder thereof to purchase one additional common share in the capital of the company at a price of \$0.25 per share for 18 months from the date of issue of the warrant. Finders' fees were \$35,633 of cash and 197,960 warrants exercisable into common shares at \$0.25 per share for 18 months having a fair value of \$17,865. Fair value was calculated using the following Black-Scholes pricing model variables: risk-free interest rate - 1.64%; expected stock price volatility - 99.32%; dividend yield of 0%, and expected warrant life of 1.48 years.
- 700,000 options were exercised for proceeds of \$70,000.

The Company does not know of any trends, demand, commitments, events or uncertainties that will result in, or that are reasonably likely to result in, its liquidity either materially increasing or decreasing at present or in the foreseeable future. Material increases or decreases in liquidity are substantially determined by the success or failure of the exploration programs. The Company does not have any loans or bank debt and there are no restrictions on the use of its cash resources.

## Commitment

	1 Year	2 Years	3 Years	4-5 Years	More than 5
	\$	\$	\$	\$	Years
	\$	\$	\$	\$	\$
Management Services Agreement	480,000	120,000	-	-	-

On April 1, 2010, the Company entered into an Agreement with Grosso Group to provide services and facilities to the Company. Grosso Group provides its member companies with administrative and management services. The member companies pay monthly fees to Grosso Group on a cost recovery basis. The fee is based upon a pro-rating of Grosso Group's costs including its staff and overhead costs among the member companies. The current fee is \$40,000 per month. This fee is reviewed and adjusted quarterly based on the level of services required.

## Capital Stock

At September 30, 2011, the Company had unlimited authorized common shares without par value. At September 30, 2011, an aggregate of 85,469,896 common shares were issued and outstanding. At November 17, 2011, 85,469,896 common shares were issued and outstanding.

	<u>Share capital</u>		<u>Reserves</u>				<u>Total</u>
	<u>Number of shares</u>	<u>Amount \$</u>	<u>Contributed Surplus \$</u>	<u>Equity settled share-based payments</u>	<u>Warrants \$</u>	<u>Deficit \$</u>	
Balance at January 1, 2010	52,435,426	10,231,995	817,462	851,303	808,526	(8,598,933)	4,110,353
Private placement	10,329,000	2,143,777	-	-	438,473	-	2,582,250
Share issue costs	-	(189,462)	-	-	-	-	(189,462)
Agent's warrants granted	-	-	-	-	55,735	-	55,735
Share-based compensation	-	-	-	107,316	-	-	107,316
Stock options exercised	1,085,000	263,344	(9,087)	(104,257)	-	-	150,000
Stock options expired	-	-	137,720	(137,720)	-	-	-
Warrants exercised	10,036,637	2,510,241	-	-	(333,207)	-	2,177,034
Total comprehensive (loss) for the period	-	-	-	-	-	(3,874,405)	(3,874,405)
Balance at September 30, 2010	73,886,063	14,959,895	946,095	716,642	969,527	(12,473,338)	5,118,821
Share-based compensation	-	-	-	561,016	-	-	561,016
Warrants exercised	5,083,333	1,121,615	-	-	(104,948)	-	1,016,667
Warrants expired	-	-	9,464	-	(9,464)	-	-
Total comprehensive (loss) for the period	-	-	-	-	-	(1,714,857)	(1,714,857)
Balance at December 31, 2010	78,969,396	16,081,510	955,559	1,277,658	855,115	(14,188,195)	4,981,647
Private placement	5,800,500	735,408	-	-	308,682	-	1,044,090
Share issue costs	-	(53,498)	-	-	-	-	(53,498)
Share-based compensation	-	-	-	56,654	-	-	56,654
Agent warrants issued	-	-	-	-	17,865	-	17,865
Stock options exercised	700,000	122,887	-	(52,887)	-	-	70,000
Stock options expired	-	-	3,720	(3,720)	-	-	-
Total comprehensive (loss) for the period	-	-	-	-	-	(2,667,152)	(2,667,152)
<b>Balance at September 30, 2011</b>	<b>85,469,896</b>	<b>16,886,307</b>	<b>959,279</b>	<b>1,277,705</b>	<b>1,181,662</b>	<b>(16,855,347)</b>	<b>3,449,606</b>

The Company had the following warrants outstanding as at November 17, 2011:

<b>Number of Warrants Outstanding</b>	<b>Exercise Price</b> \$	<b>Expiry Date</b>
5,698,810	0.35	August 27, 2012
5,998,460	0.25	November 8, 2012
11,697,270		

The following summarizes information about the stock options outstanding and exercisable as at November 17, 2011:

<b>Number of Shares</b> Outstanding and Exercisable	<b>Exercise Price (CAD\$)</b>	<b>Expiry Date</b>
75,000	\$0.66	February 10, 2012
215,000	\$1.00	June 1, 2012
15,000	\$0.40	January 25, 2013
1,465,000	\$0.15	May 6, 2014
300,000	\$0.15	July 6, 2014
75,000	\$0.18	July 22, 2014
715,000	\$0.65	December 9, 2014
100,000	\$0.73	March 15, 2015
3,220,000	\$0.26	October 5, 2015
75,000	\$0.25	October 29, 2015
600,000	\$0.22	May 31, 2016
200,000	\$0.10	September 25, 2016
7,055,000		

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

The Company does not utilize off-balance sheet arrangements.

### **Related Party Transactions.**

A number of key management personnel, or their related parties, hold positions in other entities that result in them have control or significant influence over the financial or operating policies of the entities outlined below.

The following entities transacted with the Company in the reporting period. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

The aggregate value of transactions relating to key management personnel and entities over which they have control or significant influence were as follows:

<b>Transactions</b>	<b>Three months ended</b> September 30		<b>Nine months ended</b> September 30	
	<b>2011</b> \$	<b>2010</b> \$	<b>2011</b> \$	<b>2010</b> \$
Services rendered:				
Grosso Group Management (a)	151,500	180,000	477,000	497,091
R.H. McMillan Ltd. (b)	8,845	6,815	35,454	33,263
<b>Total for services rendered</b>	<b>160,345</b>	<b>186,815</b>	<b>512,454</b>	<b>530,354</b>

- (a) On March 31, 2010, the Company and Golden Arrow Resources Corp. (“Golden Arrow”) collectively entered into a sale agreement with an officer and director of Golden Arrow to sell their shares held in Grosso Group Management Ltd., (“Grosso Group”) for proceeds of \$1. On April 1, 2010, the Company entered into a Management Services Agreement (“Agreement”) with Grosso Group to provide services and facilities to the Company. Grosso Group provides its member companies with administrative and management services. The member companies pay monthly fees to Grosso Group on a cost recovery basis. The fee is based upon a pro-rating of Grosso Group’s costs including its staff and overhead costs among the member companies. The initial fee based on expected usage is \$60,000 per month. This fee is reviewed and adjusted quarterly based on the level of services required. The Agreement expires on December 31, 2012. The Agreement contains termination and early termination fees in the event the services are terminated by the Company. The termination fee includes three months of compensation and any contractual obligations that Grosso Group undertook for the Company, up to a maximum of \$750,000. The early termination fees are the aggregate of the termination fee in addition to the lesser of the monthly fees calculated to the end of the term and the monthly fees calculated for eighteen months, up to a maximum of \$1,000,000.
- (b) R.H. McMillan Ltd. is a private company controlled by Ron McMillan, a director that provided geological services to the Company at market rates.

### Key management personnel compensation

Compensation	Three months ended			Three months ended				
	Salaries	Bonus payments	Share-based benefits	September 30, 2011	Salaries	Bonus payments	Share-based benefits	September 30, 2010
Chief Executive	30,000	-	-	30,000	30,000	-	-	30,000
President	31,250	-	30,370	61,620	-	-	-	-
Chief Financial Officer	13,357	-	-	13,357	13,995	-	-	13,995
Total	74,607	-	30,370	104,977	43,995	-	-	43,995

Compensation	Nine months ended			Nine months ended				
	Salaries	Bonus payments	Share-based benefits	September 30, 2011	Salaries	Bonus payments	Share-based benefits	September 30, 2010
Chief Executive	90,000	-	-	90,000	90,000	-	-	90,000
President	41,667	50,000	39,943	131,610	-	-	-	-
Chief Financial Officer	40,072	-	-	40,072	18,660	-	51,814	70,474
Total	171,739	50,000	39,943	261,682	108,660	-	51,814	160,474

### Subsequent Events

On October 31, 2011, the Company announced a non-brokered private placement financing of 5,000,000 units at a price of \$0.10 per unit for gross proceeds of \$500,000. Each unit will consist of one common share and one-half transferable common share purchase warrant. Each full warrant will entitle the holder thereof to purchase one additional common share in the capital of the Company at a price of \$0.15 per share for eighteen (18) months from the date of issue.

### Critical Accounting Estimates and Recent Accounting Pronouncements

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated interim financial statements and the reported amount of revenues and expenses during the period. Actual results may differ from these estimates.

Reference should be made to the Company’s significant accounting policies contained in Note 2 of the Company’s condensed consolidated interim financial statements for the period ended September 30, 2011. These accounting policies can have a significant impact on the financial performance and financial position of the Company.

### Conversion to International Financial Reporting Standards

The Canadian Accounting Standards Board (“AcSB”) confirmed in February 2008 that International Financial Reporting Standards (“IFRS”) will replace Canadian Generally Accepted Accounting Principles (“GAAP”) for publicly accountable enterprises for financial periods beginning on or after January 1, 2011, with the option available to early adopt IFRS from periods beginning on or after January 1, 2009 upon receipt of approval from the Canadian securities regulatory authorities.

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”) using accounting policies consistent with IFRS as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

These are the Company’s first year of IFRS condensed consolidated interim financial statements presented in accordance with IFRS. Previously the Company prepared its consolidated annual and consolidated interim financial statements in accordance with GAAP.

### ***Transition to International Financial Reporting Standards***

As stated in Note 2 of the condensed consolidated financial statements, these are the Company’s first condensed consolidated interim financial statements for the period covered by the first annual consolidated financial statements prepared in accordance with IFRS.

The accounting policies in Note 2 have been applied as follows:

- in preparing the condensed consolidated interim financial statements for the nine months ended September 30, 2011;
- the comparative information for the nine months ended September 30, 2010;
- the statement of financial position as at December 31, 2010; and
- the preparation of an opening IFRS statement of financial position on the Transition Date, January 1, 2010.

In preparing the opening IFRS statement of financial position, comparative information for the nine months ended September 30, 2010 and the financial statements for the year ended December 31, 2010, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP (“CAGAAP”).

An explanation of how the transition from CAGAAP to IFRS has affected the Company’s financial position, financial performance and cash flows is set out in Note 13 of the condensed consolidated interim financial statements.

The guidance for the first time adoption of IFRS is set out in IFRS 1. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first-time adopters of IFRS. The Company did not make any elections with respect to IFRS optional exemptions.

### ***Share-based Payment Transactions***

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The amount recognized as an expense is adjusted to reflect the number of awards expected to vest. The offset to the recorded cost is to share-based payments reserve.

Consideration received on the exercise of stock options is recorded as share capital and the related share-based payments reserve is transferred to share capital. Charges for options that are forfeited before vesting are reversed from share-based payment reserve.

Share-based compensation expense relating to deferred share units is accrued over the vesting period of the units based on the quoted market price. As these awards can be settled in cash, the expense and liability are adjusted each reporting period for changes in the underlying share price.

### ***Exploration, Evaluation and Development Expenditures***

Exploration and evaluation expenditures are expensed as incurred, until the property reaches development stage. The development stage begins once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable. All direct costs related to the acquisition of resource property interests are capitalized. Development expenditures incurred subsequent to a development decision, and to increase or to extend the life of existing production, are capitalized and will be amortized on the unit-of-production method based upon estimated proven and probable reserves.

Mineral property acquisition costs include cash costs and the fair market value of common shares, based on the trading price of the shares issued for mineral property interests, pursuant to the terms of the related property agreements. Payments related to a property acquired under an option or joint venture agreement are made at the sole discretion of the Company, and are recorded as mineral property acquisition costs upon payment.

### ***Restoration, Rehabilitation, and Environmental Obligations***

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration or development of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, along with a corresponding liability as soon as the obligation to incur such costs arises. The timing of the actual rehabilitation expenditure is dependent on a number of factors such as the life and nature of the asset, the operating license conditions and, when applicable, the environment in which the mine operates.

Discount rates using a pre-tax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either the unit-of-production or the straight line method. The corresponding liability is progressively increased as the effect of discounting unwinds creating an expense recognized in profit or loss.

Decommissioning costs are also adjusted for changes in estimates. Those adjustments are accounted for as a change in the corresponding capitalized cost, except where a reduction in costs is greater than the unamortized capitalized cost of the related assets, in which case the capitalized cost is reduced to nil and the remaining adjustment is recognized in profit or loss.

The operations of the Company have been, and may in the future be, affected from time to time in varying degree by changes in environmental regulations, including those for site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company are not predictable.

The Company has no material restoration, rehabilitation and environmental obligations as the disturbance to date is immaterial.

### ***Impairment***

At the end of each reporting period the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.



### ***New Accounting Standards and Interpretations***

In May 2011, the IASB issued the following standards which have not yet been adopted by the Company: IFRS 9, *Financial Instruments*, IFRS 10, *Consolidated Financial Statements* (IFRS 10), IFRS 11, *Joint Arrangements* (IFRS 11), IFRS 12, *Disclosure of Interests in Other Entities* (IFRS 12), IAS 27, *Separate Financial Statements* (IAS 27), IFRS 13, *Fair Value Measurement* (IFRS 13) and amended IAS 28, *Investments in Associates and Joint Ventures* (IAS 28). Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

The following is a brief summary of the new standards:

#### **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.

#### **IFRS 10 – Consolidation**

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.

#### **IFRS 11 - Joint Arrangements**

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions by Venturers*.

#### **IFRS 12 – Disclosure of Interests in Other Entities**

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

#### **IFRS 13 - Fair Value Measurement**

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

## **Financial Instruments**

The Company thoroughly examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include credit risk, liquidity risk, currency risk, and interest rate risk. Where material, these risks are reviewed and monitored by the Board of Directors.

### **(a) Fair Values**

The Company's financial instruments consist of cash, amounts receivables, deposits, and accounts payable and accrued liabilities. The fair value of these financial instruments approximates their carrying values due to the immediate or short-term maturity of these financial instruments.

The following table outlines the Company's financial assets and liabilities measured at fair value by level within the fair value hierarchy described below. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

At September 30, 2011 the Company's financial instruments measured at fair value are as follows:

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Assets				
Cash	227,102	-	-	227,102
Short term investments	400,851	-	-	400,851
Amounts receivable	106,610	-	-	106,610
Deposit	60,000	-	-	60,000
Liabilities				
Accounts payable and accrued liabilities	185,155	-	-	185,155

At December 31, 2010 the Company's financial instruments measured at fair value are as follows:

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Assets				
Cash	2,211,634	-	-	2,211,634
Amounts receivable	39,541	-	-	39,541
Deposits	60,000	-	-	60,000
Liabilities				
Accounts payable and accrued liabilities	210,281	-	-	210,281

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 – Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

### **(b) Financial Instrument Risk Exposure**

#### ***Credit risk***

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk consist of cash and amounts receivable. The Company has reduced its credit risk by depositing its cash with financial institutions that operate globally. A portion of the Company's receivables are with the government of Canada in the form of sales tax, the credit risk is minimal.

The majority of the remaining receivables are with a company with no history of default. Therefore, the Company is not exposed to significant credit risk and overall the Company's credit risk has not changed significantly from the prior year.

### ***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 has in place a planning and budgeting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. The Company has historically relied on issuance of shares and warrants to fund exploration programs and may require doing so again in the future.

### ***Market risk***

#### **(i) *Currency risk***

Financial instruments that impact the Company's net earnings or other comprehensive income due to currency fluctuations include: US dollars and Argentine Pesos, all denominated in cash, amounts receivable and accounts payable. The sensitivity of the Company's net loss and comprehensive loss to changes in the exchange rate between the Canadian dollar and the United States dollar and Argentine Peso is summarized as follows:

- A 10% change in the US dollar exchange rate relative to the Canadian dollar would change the Company's net loss by \$618.
- A 10% change in the Argentinean peso exchange rate relative to the Canadian dollar would change the Company's net loss by \$280.

#### **(ii) *Interest rate risk***

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Cash does not bear interest. The fair value of cash and short term investments approximates its carrying values due to the immediate or short-term maturity of these financial instruments.

Other current financial assets and liabilities are not exposed to interest rate risk because they are non-interest bearing.

#### **(c) *Capital Management***

The Company's objectives of capital management are intended to safeguard the entity's ability to support the Company's normal operating requirements on an ongoing basis, continue the development and exploration of its mineral properties and support any expansionary plans.

The capital structure of the Company consists of equity attributable to common shareholders, comprised of issued capital, contributed surplus and deficit. The Company manages the capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the Company's assets.

To effectively manage the entity's capital requirements, the Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. The Company has historically relied on issuance of shares to develop the project and may require doing so again in the future.

The Company is monitoring market conditions to secure funding at the lowest cost of capital. The Company is exposed to various funding and market risks which could curtail its access to funds.

## **Risk Factors and Uncertainties**

The Company's operations and results are subject to a number of different risks at any given time. These factors, include but are not limited to disclosure regarding exploration, additional financing, project delay, titles to properties, price fluctuations and share price volatility, operating hazards, insurable risks and limitations of insurance, management, foreign country and regulatory requirements, currency fluctuations and environmental regulations risks. Exploration for mineral resources involves a high degree of risk. The cost of conducting programs may be substantial and the likelihood of success is difficult to assess. A number of the risks and uncertainties are discussed below:

*History of losses:* The Company has historically incurred losses as evidenced by its audited consolidated financial statements for the years ended December 31, 2010 and 2009. The Company has financed its operations principally through the sale of its equity securities. The Company does not anticipate that it will earn any revenue from its operations until its properties are placed into production, if ever. If the Company is unable to place its properties into production, the Company may never realize revenues from operations, will continue to incur losses and you may lose the value of your investment.

*Joint ventures and other partnerships:* The Company may seek joint venture partners to provide funding for further work on any or all of its other properties. Joint ventures may involve significant risks and the Company may lose any investment it makes in a joint venture. Any investments, strategic alliances or related efforts are accompanied by risks such as:

1. the difficulty of identifying appropriate joint venture partners or opportunities;
2. the time the Company's senior management must spend negotiating agreements, and monitoring joint venture activities;
3. the possibility that the Company may not be able to reach agreement on definitive agreements, with potential joint venture partners;
4. potential regulatory issues applicable to the mineral exploration business;
5. the investment of the Company's capital or properties and the loss of control over the return of the Company's capital or assets;
6. the inability of management to capitalize on the growth opportunities presented by joint ventures; and
7. the insolvency of any joint venture partner.

There are no assurances that the Company would be successful in overcoming these risks or any other problems encountered with joint ventures, strategic alliances or related efforts.

*Unexpected delays:* The Company's minerals business will be subject to the risk of unanticipated delays including permitting its contemplated projects. Such delays may be caused by fluctuations in commodity prices, mining risks, difficulty in arranging needed financing, unanticipated permitting requirements or legal obstruction in the permitting process by project opponents. In addition to adding to project capital costs (and possibly operating costs), such delays, if protracted, could result in a write-off of all or a portion of the carrying value of the delayed project.

*Potential conflicts of interest:* Several of the Company's directors are also directors, officers or shareholders of other companies. Such associations may give rise to conflicts of interest from time to time. Such a conflict poses the risk that the Company may enter into a transaction on terms which could place the Company in a worse position than if no conflict existed. The directors of the Company are required by law to act honestly and in good faith with a view to the best interest of the Company and to disclose any interest which they may have in any project or opportunity of the Company. However, each director has a similar obligation to other companies for which such director serves as an officer or director. The Company has no specific internal policy governing conflicts of interest.

*Competition with larger, better capitalized competitors:* The mining industry is competitive in all of its phases. The Company faces strong competition from other mining companies in connection with the acquisition of properties producing, or capable of producing, base and precious metals. Many of these companies have greater financial resources, operational experience and technical capabilities than the Company. As a result of this competition, the Company may be unable to maintain or acquire attractive mining properties on terms it considers acceptable or at all. Consequently, the Company's revenues, operations and financial condition could be materially adversely affected.

*The Company does not intend to pay dividends:* The Company has not paid out any cash dividends to date and has no plans to do so in the immediate future. As a result, an investor's return on investment will be solely determined by his or her ability to sell common shares in the secondary market.

*Title Risk:* Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

*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's property has exposure to predominantly uranium. The prices of these metals, especially uranium, greatly affect the value of the Company and the potential value of its property and investments.

*Financial Markets:* The Company is dependent on the equity markets as its sole source of operating working capital and the Company's capital resources are largely determined by the strength of the junior resource markets and by the status of the Company's projects in relation to these markets, and its ability to compete for the investor support of its projects.

*Political Risk:* Exploration is presently carried out in the Argentina and is currently being reviewed worldwide. This exposes the Company to risks that may not otherwise be experienced if all operations were domestic. Political risks may adversely affect the Company's potential projects and operations. Real and perceived political risk in some countries may also affect the Company's ability to finance exploration programs and attract joint venture partners, and future mine development opportunities.

*Credit Risk:* Credit risk is the risk of an unexpected loss of a third party to a financial instrument fails to meet its contractual obligations. The Company is subject to credit risk on cash. The Company limits its exposure to credit loss by placing its cash with major financial institutions.

*Liquidity Risk:* Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash. The Company raises capital through equity issues and its ability to do so is dependent on a number of factors including market acceptance, stock price and exploration results. The Company's cash is invested in bank accounts.

*Interest Risk:* The Company's bank accounts earn interest income at variable rates. The fair value of cash approximates their carrying values due to the immediate or short-term maturity of these financial instruments.

*Currency Risk:* Business is transacted by the Company in a number of currencies. Fluctuations in exchange rates may have a significant effect on the cash flows of the Company. Future changes in exchange rates could materially affect the Company's results in either a positive or negative direction.

*Community Risk:* The Company has negotiated with the local communities on its mineral property concessions for access to facilitate the completion of geological studies and exploration work programs. The Company's operations could be significantly disrupted or suspended by activities such as protests or blockades that may be undertaken by such certain groups or individuals within the community.

*Environmental Risk:* The Company seeks to operate within environmental protection standards that meet or exceed existing requirements in the countries in which the Company operates. Present or future laws and regulations, however, may affect the Company's operations. Future environmental costs may increase due to changing requirements or costs associated with exploration and the developing, operating and closing of mines. Programs may also be delayed or prohibited in some areas. Although minimal at this time, site restoration costs are a component of exploration expenses.

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

On November 23, 2007, the British Columbia Securities Commission exempted Venture Issuers from the requirement to certify disclosure controls and procedures, as well as, Internal Controls over Financial Reporting as of December 31, 2007, and thereafter. The Company is a Venture Issuer; therefore it files the venture issuer basic certificates. The Company makes no assessment relating to establishment and maintenance of disclosure controls and procedures as defined under National Instrument 52-109 as at December 31, 2010.

### **Additional Information**

Additional information relating to the Company, including news releases, financial statements and prior MD&A filings, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

The investor relations program is focusing on shareholder communications, corporate development and building the Company an active following of investment professionals in Canada, US and Europe. The Company also maintains a website at [www.blueskyuranium.com](http://www.blueskyuranium.com).