

## **NEWPORT EXPLORATION LTD.**

### **MANAGEMENT'S DISCUSSION & ANALYSIS**

**For the three months ended October 31, 2011**

This management discussion and analysis of financial position and results of operations ("MD&A") is prepared as at January 25, 2012 and should be read in conjunction with the unaudited condensed interim financial statements for the three months ended October 31, 2011 of Newport Exploration Ltd. ("Newport" or the "Company") with the related notes thereto. Those unaudited condensed interim financial statements have been prepared in accordance with first time preparation under International Financial Reporting Standards ("IFRS") for interim financial statements and, as a result, do not contain all disclosure required under IFRS for annual financial statements. Accordingly, readers may want to refer to the July 31, 2011 annual audited financial statements and the accompanying notes.

All dollar amounts included therein and in the following MD&A are expressed in Canadian dollars except where 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. Additional information on the Company is available for viewing on SEDAR at [www.sedar.com](http://www.sedar.com).

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

Newport Exploration Ltd. is a natural resource company engaged in the acquisition and exploration of mineral properties. The Company's head office is in Vancouver, British Columbia. The Company is a reporting issuer in British Columbia, Alberta, Saskatchewan and trades on the TSX Venture Exchange under the symbol NWX.

#### ***Overview***

On November 30, 2010, the Company reported that it had reached an agreement with Reva Resources Corp ("Reva") to earn a 50% interest in Reva's Chu Chua massive sulphide deposit located approximately 70km north of Kamloops, British Columbia. To earn the interest, the Company needs to carry out and fund the costs of the recommended work program on the Chu Chua property or before December 31, 2012. The work, detailed in the technical report dated October 15, 2009 prepared for Reva by APEX Geoscience Ltd. and filed on SEDAR, estimated the work to be \$1,070,000. Two directors of Newport are insiders of Reva and as such abstained from voting directors' resolution approving the agreement.

Chu Chua was discovered in 1978 by Craigmont Mines Ltd. and subsequently optioned to Minnova Inc. One hundred and thirty (130) drillholes have been drilled on the Chu Chua property for a total of 23,500m, with a total of 98 drillholes for a total of 19,000m in the resource area. The deposit is comprised of two vertical and steeply dipping lenses of massive pyrite-chalcopyrite and magnetite up to 40m thick, with a known strike length of 400m and a known depth of 250m.

A resource calculation conducted by Mintec Inc. in 1989 quoted a resource of 2.9m tonnes at 1.6% Cu, 0.26% Zn, and 6.9 g/t Ag. Using a 2% copper cut-off grade, a resource was estimated at 798,611 tonnes at 3.87% Cu, 0.45% Zn and 12.8 g/t Ag. This resource calculation is classified as being an historical resource and is not therefore acceptable for NI43-101 reporting purposes and should not be relied upon. The most commonly reported grade and tonnage for the Chu Chua deposit is in the 1992-93 Canadian Mines Handbook which reports an "open pit reserve" of 1,043,154 tonnes grading 2.98% Cu, 10.2 g/t Ag, 0.54 g/t Au and 0.3% Zn. This is an historical

“reserve” and is not therefore acceptable for NI 43-101 reporting purposes and should not be relied upon.

A qualified person has not classified either the historical “resource” or the historical “reserve” as a current mineral resource or reserve and the Company is not treating any of the above estimates as such. As part of the work to be conducted by the Company a new NI 43-101 resource model and estimation will be derived utilising the extensive drillhole data base to construct a 3-D geological resource model to be used for block modelling in order to calculate a NI 43-101 compliant resource estimation and to direct metallurgical testing and sampling. The Company has retained the services of APEX Geosciences Ltd who commenced preliminary work on the Chu Chua project in July of 2011 and are continuing work on producing an updated resource estimate.

The Company, which has over \$6 million in the treasury and is able to meet its obligations to fund the work program on Chu Chua. The Company’s financial instruments consist of cash, receivables and accounts payable and accrued liabilities and it is management’s opinion that the Company is not exposed to any significant credit risks arising from these financial instruments.

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

During the three months ended October 31, 2011, the Company incurred a loss of \$112,913 compared to a loss of \$112,093 for the three months ended October 31, 2010. The significant changes during the three months ended October 31, 2011 compared to the three months ended October 31, 2010 are as follows:

- Office and miscellaneous costs increased to \$11,802 during the three months ended October 31, 2011 compared to \$2,655 for the three months ended October 31, 2010. The change was primarily due to an annual \$10,400 premium for directors’ and officers’ insurance incurred during the current quarter.
- Professional fees of \$11,989 were incurred during the current quarter compared to \$4,070 incurred during the three months ended October 31, 2010. The increase was a result of additional legal fees incurred in the current quarter as a result of reviewing potential property transactions.
- Property investigation costs decreased to \$Nil during the three months ended ended October 31, 2011 from \$14,890 incurred during the three months ended October 31, 2010, as a result of the continued efforts in seeking a property of merit for the Company during the comparative period.
- Rent increased to \$18,150 during the three months ended October 31, 2011 from \$16,500 incurred during the three months ended October 31, 2010, as a result of a 10% rent increase at the Company’s head office that commenced on April 1, 2011.
- Interest income of \$21,258 was earned during the three months ended July 31, 2011 on government investment certificates held by the Company. This compares to interest income of \$18,253 earned during the three months ended October 31, 2010. The increase was a result of a change in interest rates.

### ***Exploration and Evaluation Asset***

During the three months ended October 31, 2011, the Company incurred \$7,206 in geological consulting expenditures and \$5,000 for a security deposit with the Minister of Finance in connection with the Chu Chua project.

### ***Liquidity and Capital Resources***

The Company's working capital position at October 31, 2011 was \$6,383,416 as compared to a working capital position of \$6,508,293 at July 31, 2011. The decrease in working capital is a result of the approximate \$105,000 used in operating activities and \$12,000 used in investing activities. At October 31, 2011, the Company held cash of \$5,368,522 (July 31, 2011-\$5,490,870).

As at October 31, 2011, the Company had current assets of \$6,413,966 (July 31, 2011-\$6,554,051), total assets of \$6,466,800 (July 31, 2011-\$6,594,921) and total liabilities of \$30,550 (July 31, 2011-\$45,758). There is no long-term debt.

The principal assets of the Company are cash, receivables and short-term investment.

The Company has sufficient funds on hand to meet its operating expenses for fiscal 2012.

The Company has financed its operations to date primarily through the issuance of common shares and exercise of stock options and share purchase warrants. The Company continues to seek capital through various means including the issuance of equity and/or debt.

The Company has not paid any dividends on its common shares. The Company has no present intention of paying dividends on its common shares, as it anticipates that all available funds will be invested to finance the growth of its business.

The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future.

### ***Commitments***

- a) The Company leases office premises under an operating lease with a company controlled by a director. During the year ended July 31, 2009, the Company extended the term of its operating lease for an additional three year term, to expire in March 2012. The lease provides for basic lease payments of \$6,050 per month to March 2012. As at October 31, 2011, the remaining commitment was \$30,250.
- b) The Company entered into management and consulting contracts with companies having directors in common. The Company has agreed to pay the companies a combined total of \$25,000 per month. These contracts remain in force on a continuous basis. The contracts can be terminated by the Company by providing 90 days written notice. If termination of services is without cause, the Company will be obligated to pay 36 months of services to one director's company and 24 months to the other director's company.

**Quarterly Financial Information**

	Three Months Ended October 31, 2011	Three Months Ended July 31, 2011	Three Months Ended April 30, 2011	Three Months Ended January 31, 2011
	(IFRS)	(IFRS)	(IFRS)	(IFRS)
Total assets	\$ 6,466,800	\$ 6,594,921	\$ 6,656,754	\$ 6,721,523
Working capital	6,383,416	6,508,293	6,649,130	6,710,351
Loss for the period	(112,913)	(103,457)	(61,504)	(109,465)
Loss per share – basic and diluted	(0.00)	(0.00)	(0.00)	(0.01)

	Three Months Ended October 31, 2010	Three Months Ended July 31, 2010	Three Months Ended April 30, 2010	Three Months Ended Jan 31, 2010
	(IFRS)	(CDN GAAP)	(CDN GAAP)	(CDN GAAP)
Total assets	\$ 6,845,136	\$ 6,981,829	\$ 7,086,028	\$ 7,196,772
Working capital	6,819,510	6,931,272	7,073,148	7,184,878
Loss for the period	(112,093)	(142,234)	(112,117)	(124,187)
Loss per share – basic and diluted	(0.00)	(0.01)	(0.00)	(0.00)

**Fiscal 2012**

During the first quarter of fiscal 2012, the Company recorded a net loss of \$112,913, while earning \$21,258 in interest income. Additionally, the Company spent \$12,206 on the Chu Chua property during this quarter.

**Fiscal 2011**

During the fourth quarter of fiscal 2011, the Company incurred \$37,642 in geological consulting expenses on the Chu Chua property. Additionally, the Company earned \$16,194 from its petroleum royalty compared to \$38,716 earned in the previous quarter.

During the third quarter of fiscal 2011, the Company's operating expenses decreased slightly as a result of lower legal fees incurred during the quarter, as well as a gain on foreign exchange that was recorded in connection with the petroleum royalty earned in this quarter. The Company earned \$38,716 from its 2.5% petroleum royalty on certain exploration permits in Australia during this quarter.

During the second quarter of fiscal 2011, the Company's operating expenses remained consistent with the prior quarter. During this quarter the Company entered into a option agreement to acquire a 50% interest in the Chu Chua project in British Columbia.

During the first quarter of fiscal 2011, the Company's operating expenses decreased over the prior quarter primarily as a result of the decrease in property investigation costs. Otherwise, overall operating expenses remained consistent with the prior quarter.

### ***Fiscal 2010***

During the fourth quarter of fiscal 2010, the Company's operating expenses increased over the prior quarter as a result of the increase in property investigation costs.

During the third quarter of fiscal 2010, the Company's operating expenses remained consistent with the prior quarter, other than a slight drop in both travel and related costs and office and miscellaneous expense in the current period.

During the second quarter of fiscal 2010, the Company's operating expenses remained consistent with the prior quarter as management continued to identify a project of merit.

### ***Related Party Transactions***

During the three months ended October 31, 2011, the Company paid or accrued \$45,000 (2010 - \$45,000) to a company controlled by Ian Rozier, the President and C.E.O. for consulting fees and paid or accrued \$30,000 (2010 - \$30,000) for management fees to a company controlled by Barbara Dunfield, director and the C.F.O. Additionally, the Company paid or accrued \$18,150 (2010 - \$16,500) for rent charged by a company controlled by Mr. Rozier. During the three months ended October 31, 2011, the Company also paid or accrued \$7,239 (2010 - \$320) for professional fees to McMillan LLP, a legal firm where David Cowan, the Company's corporate secretary, is a partner. Also, the Company paid or accrued \$5,000 (2010 - \$5,000) for director's fees to Merfyn Roberts. Lastly, the Company paid or accrued consulting fees of \$6,000 (2010 - \$6,000) to a company controlled by the spouse of David Cohen, director.

As at October 31, 2011, receivables included \$Nil (July 31, 2011-\$2,686, August 1, 2010 - \$Nil) owed by a company with common directors.

As at October 31, 2011, accounts payable and accrued liabilities included \$3,333 (July 31, 2011-\$3,333, August 1, 2010 - \$3,333) owed to Mr. Roberts.

### ***Financial Instruments***

#### **Fair Values**

The fair value of cash is measured based on level 1 of the fair value hierarchy.

The fair values of receivables and accounts payable and accrued liabilities approximate their book values because of the short-term nature of these instruments.

#### **(a) Credit Risk**

The Company's cash is mainly held at large Canadian financial institutions and as at October 31, 2011 is mainly held in interest bearing accounts. The Company's receivables are mainly HST recoverable from the Canadian government. The maximum exposure to credit risk is the equivalent of the cash and receivables on the balance sheet of the Company.

#### **(b) Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital resources as outlined in Note 13 of the October 31, 2011 condensed interim financial statements.

(c) Market risk

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

(i) Interest rate risk

The Company has cash balances, which are deposited at Canadian financial institutions. As of October 31, 2011, the Company did have an investment in short-term deposits.

(ii) Foreign currency risk

The Company is not exposed to foreign currency risk on fluctuations in exchange rates.

(iii) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

**Recent accounting pronouncements**

*International Financial Reporting Standards ("IFRS")*

In February 2008, the Canadian Accounting Standards Board announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own generally accepted accounting principles. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of the Company will be August 1, 2011 and will require the restatement for comparative purposes of amounts reported by the Company for the three months ended October 31, 2011. The Company continues to monitor and assess the impact of Canadian GAAP and IFRS.

*Business Combinations*

In January 2009, the CICA issued Handbook Sections 1582 "Business Combinations", 1601 "Consolidated Financial Statements" and 1602 "Non-controlling Interests" which replace CICA Handbook Sections 1581 "Business Combinations" and 1600 "Consolidated Financial Statements". Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. These Sections are applicable for interim and annual financial statements for fiscal years beginning January 1, 2011. Early adoption of these Sections is permitted and all these Sections must be adopted concurrently.

### ***IFRS Changeover Plan Disclosure***

The Canadian Accounting Standards Board (AcSB) has announced its decision to replace Canadian generally accepted accounting principles (“GAAP”) with International Financial Reporting Standards (IFRS) for all Canadian Publicly Accountable Enterprises (“PAEs”). The effective changeover date is August 1, 2010, at which time Canadian GAAP will cease to apply and will be replaced by IFRS. Following this timeline, the Company will issue its first set of interim financial statements prepared under IFRS in the first quarter of 2011 including comparative IFRS financial results and an opening balance sheet as at August 1, 2010. The first annual IFRS consolidated financial statements will be prepared for the year ended July 31, 2011 with restated comparatives for the year ended July 31, 2010.

Management has developed a project plan for the conversion to IFRS based on the current nature of operations. The conversion plan is comprised of three phases: 1) Scoping phase which will assess the overall impact and effort required by the Company in order to transition to IFRS; 2) Planning phase which will include a detailed analysis of the conversion process and implementation plan required for disclosure for the Company’s first quarter; and, 3) Transition phase which will include the preparation of an IFRS compliant opening balance sheet as at August 1, 2010, any necessary conversion adjustments and reconciliations, preparation of a fully compliant pro forma financial statements including all note disclosures and disclosures required for the MD&A.

Management has completed phase one, IFRS Scoping phase, and is now advancing through phase two, the Planning stage. Management prepared a component evaluation of its existing financial statement line items, comparing Canadian GAAP to the corresponding IFRS guidelines, and has identified a number of differences. Many of the differences identified are not expected to have a material impact on the reported results and financial position.

Most adjustments required on transition to IFRS will be made, retrospectively, against opening retained earnings as of the date of the first comparative balance sheet presented based on standards applicable at that time.

IFRS 1, “First-Time Adoption of International Financial Reporting Standards”, provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRS. The Company is still evaluating which option exemptions it should elect under IFRS 1.

Set out below are the most significant areas, management has identified to date, where changes in accounting policies may have the highest potential impact on the Company’s consolidated financial statements based on the accounting policy choices approved by the Audit Committee and Board of Directors.

In the period leading up to the changeover in 2011, the AcSB has ongoing projects and intends to issue new accounting standards during the conversion period. As a result, the final impact of IFRS on the Company’s consolidated financial statements can only be measured once all the IFRS accounting standards at the conversion date are known. Management will continue to review new standards, as well as the impact of the new accounting standards, between now and the conversion date to ensure all relevant changes are addressed.

IFRS 2 – Share Based Payments;

IFRS and Canadian GAAP largely converge on the accounting treatment for share based transaction with only a few differences. Starting Q1 2010, the Company is moving from ‘straight line’ to ‘graded’ vesting for the recognition of stock-based compensation expense. A greater

portion of expense is recorded in the initial vesting periods compared to distributing the expense equally over all vesting period.

#### IAS 36 – Impairment of Assets;

Canadian GAAP generally uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying values with discounted cash flows. International Accounting Standard (IAS) 36, “Impairment of Assets” uses a one-step approach for both testing and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted future cash flows). This may potentially result in write downs where the carrying value of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis.

#### ***Risk, Uncertainties and Outlook***

As a company active in the mineral resource acquisition and exploration industry, the Company is exposed to a number of risks, including the financial risks associated with the fact that it has no operating cash flow and must access the capital markets to finance its activities.

There can be no assurances the Company will continue to be able to access the capital markets for the funding necessary to acquire and maintain exploration properties and to carry out its desired exploration programs. In addition to this having an impact on any future wholly owned projects, the Company could find itself in a position at a future time where it is unable to fund its share of costs incurred under joint venture agreements to which it is a party, and its interest in such joint ventures could be reduced or eliminated as a result.

The Company is very reliant upon its existing management, and if the services of such personnel were withdrawn for any reason, this could have a material adverse impact on the Company's operating activities.

There is intense competition within the minerals industry to acquire properties of merit, and the Company competes with other companies possessing greater technical and financial resources than itself. Even if desirable properties are secured, there can be no assurances that the company will be able to execute its exploration programs on its proposed schedules and within its cost estimates, whether due to weather conditions in the areas where it operates, increasingly stringent environmental regulations and other permitting restrictions, or other factors related to exploring in areas that lack infrastructure, such as the availability of essential supplies and services.

Over the past several years, the prices of commodities have increased substantially, stimulating a rapid growth in exploration expenditures and intensifying the competition for talent and services. These conditions have lead to increased costs and difficulties in scheduling contractors at times that are optimal from the Company's perspective.

The Company's future exploration activities may require permits from various governmental agencies charged with administrating laws and regulations governing exploration, labor standards, occupational health and safety, control of toxic substances, waste disposal, land use, environmental protection and other matters. Failure to comply with laws, regulations and permit conditions could result in fines and/or stop work orders, costs for conducting remedial actions and other expenses. In addition, legislation changes to existing laws and regulations could result in significant additional costs to comply with the revised terms and could also result in delays in executing planned programs pending compliance with those terms.

***Off Balance Sheet Arrangements***

The Company is not aware of any off balance sheet arrangements or commitments as of January 25, 2012.

***Contingencies***

The Company is not aware of any contingencies or pending legal proceedings as of January 25, 2012.

***Share Capital***

As at January 25, 2012, the Company had 54,922,874 common shares outstanding and the following outstanding options:

***Outstanding Options:***

<u>Number of Options</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
5,450,000	\$0.10	December 18, 2013

There are no outstanding share purchase warrants.

***Disclaimer***

The information provided in this document is not intended to be a comprehensive review of all matters concerning the Company. It should be read in conjunction with all other disclosure document provided by the Company, which can be accessed [www.sedar.com](http://www.sedar.com). No securities commission or regulatory authority has reviewed the accuracy or adequacy of the information presented herein.

***Cautionary Statement on Forward-Looking Information***

Certain statements contained in this document constitute "forward-looking statements". Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual, performance, or achievements of the Company to be materially different from any future results, performance, or achievements expressly stated or implied by such forward-looking statements. Such factors include, among others, the following: mineral exploration and development costs and results, fluctuation in the prices of commodities for which the Company is exploring, foreign operations and foreign government regulations, competition, uninsured risks, recoverability of resources discovered, capitalization requirements, commercial viability, environmental risks and obligations, and the requirements for obtaining permits and licenses for the Company's operations in the jurisdictions in which it operates.