

## **NEWPORT EXPLORATION LTD.**

### **MANAGEMENT DISCUSSION AND ANALYSIS**

#### **For the three months Ended October 31, 2009**

This management discussion and analysis of financial position and results of operations (“MD&A”) is prepared as at December 7, 2009 and should be read in conjunction with the unaudited interim financial statements for the three months ended October 31, 2009 of Newport Exploration Ltd. (“Newport” or the “Company”) with the related notes thereto. Those unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements and, as a result, do not contain all disclosure required under generally accepted accounting principles for annual financial statements. Accordingly, readers may want to refer to the July 31, 2009 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***

The Company continues to evaluate potential mineral property acquisitions, considering projects with the emphasis on acquiring operating projects or development projects, as opposed to exploration targets. The Company, which has over \$7 million in cash, is well positioned to aggressively pursue target opportunities. 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, 2009, the Company incurred a loss of \$113,692 compared to a loss of \$65,121 for the three months ended October 31, 2008. The significant changes during the three months ended October 31, 2009 compared to the three months ended October 31, 2008 are as follows:

- Director’s fees decreased to \$5,000 during the three months ended October 31, 2009 compared to \$10,000 for the three months ended October 31, 2008. Douglas Hyndman ceased receiving \$5,000 per quarter for director fees as of November 2008.
- Office and miscellaneous costs increased to \$6,273 during the three months ended October 31, 2009 from \$2,312 incurred during the three months ended October 31, 2008, as a result of the increased expenditures on the Company’s insurance.
- Property investigation costs of \$2,173 were incurred by management during the three months ended October 31, 2009, a decrease from \$6,946 incurred during the three months ended October 31, 2008, for reviewing prospective projects for the Company. The Company

had engaged a geological consultant to assist in evaluating projects of merit during the comparative period. The consultant was remunerated US\$2,000 per month. This arrangement was terminated in December 2008.

- The Company earned \$Nil from its retained 2.5% petroleum royalty on certain exploration permits in Australia during the three months ended October 31, 2009, a decrease from \$5,224 earned during the three months ended October 31, 2008. The royalty income decreased in the current period as a result of continued lower production. Additionally, operating costs were higher than the revenue earned during the three months ended October 31, 2009, thus resulting in \$Nil petroleum royalty in the current period.
- Interest income of \$10,243 was earned during the three months ended October 31, 2009 on cash held by the Company. This compares to interest income of \$58,467 earned during the three months ended October 31, 2008. The decrease during the current period was a result of the drop in interest rates on the Company's cash held in interest bearing accounts.

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

The Company's working capital position at October 31, 2009 was \$7,308,647 as compared to a working capital position of \$7,421,886 at July 31, 2009. The decrease in working capital is primarily a result of \$116,093 used for operating activities. At October 31, 2009, the Company held cash of \$7,321,904 (July 31, 2009-\$7,437,997).

As at October 31, 2009, the Company had current assets of \$7,334,095 (July 31, 2009-\$7,449,314), total assets of \$7,339,668 (July 31, 2009-\$7,455,340) and total liabilities of \$25,448 (July 31, 2009-\$27,428). There is no long-term debt.

The principal assets of the Company are cash and equipment. The Company's mineral properties were written off during the year ended July 31, 2008. The Company is actively seeking other development or operating projects.

The Company has sufficient funds on hand to meet its operating expenses for fiscal 2010.

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 landlord has the right to increase the annual base rent by 10% on April 1, 2010 and 2011. The lease provides for basic lease payments as follows:

2010	\$ 49,500
2011	66,000
2012	<u>44,000</u>
	<u>\$ 159,500</u>

- b) The Company entered into management 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 of services to the other director's company.

***Quarterly Financial Information***

	Three Months Ended October 31, 2009	Three Months Ended July 31, 2009	Three Months Ended Apr 30, 2009	Three Months Ended Jan 31, 2009
Total assets	\$ 7,339,668	\$ 7,455,340	\$ 7,531,572	\$ 7,633,895
Mineral properties and deferred costs	-	-	-	-
Working capital	7,309,647	7,421,886	7,518,736	7,585,236
Write-off of mineral properties	-	-	-	-
Loss for the period	(113,692)	(97,219)	(67,019)	(288,357)
Loss per share – basic and diluted	(0.00)	(0.00)	(0.00)	(0.01)

	Three Months Ended Oct 31, 2008	Three Months Ended July 31, 2008	Three Months Ended Apr 30, 2008	Three Months Ended Jan 31, 2008
Total assets	\$ 7,725,678	\$ 7,785,222	\$ 7,836,143	\$ 9,382,758
Mineral properties and deferred costs	-	-	-	1,429,938
Working capital	7,673,340	7,737,885	7,817,126	7,905,974
Write-off of mineral properties	-	-	(1,459,125)	-
Loss for the period	(65,121)	(81,513)	(1,548,553)	(12,591)
Loss per share – basic and diluted	(0.00)	(0.00)	(0.03)	(0.00)

***Fiscal 2010***

During the first quarter of fiscal 2010, the Company's administrative expenses were consistent with the prior quarter. The main reason for the increase in the loss for the current period is attributed to the decrease in interest income from \$42,536 during the prior period to \$10,243 in the current period.

***Fiscal 2009***

During the fourth quarter of fiscal 2009, the Company's operating expenses again remained consistent with the prior quarter with the exception of an approximate \$17,000 increase in

professional fees as a result of the year end audit fee accrual and an approximate \$10,000 decrease in interest income.

During the third quarter of fiscal 2009, the Company's operating expenses remained consistent with the prior quarter with the exception of the \$199,692 stock-based compensation expenses recorded in the prior quarter in connection with a granting and re-pricing of stock options.

During the second quarter of fiscal 2009, the Company granted 2,200,000 incentive stock options at an exercise price of \$0.10 per share resulting in a stock-based compensation expense of \$199,692. Also, during the second quarter, the Company re-priced 3,250,000 and cancelled 45,000 incentive stock options exercisable at \$0.30 per share with an expiry date of March 5, 2010. The re-priced options have a new expiry date of December 18, 2013 and an exercise price of \$0.10 per share. Otherwise, overall operating expenses remained consistent with the prior quarter.

During the first quarter of fiscal 2009, operating expenses remained consistent with the prior quarter. Interest income dropped by approximately \$20,000 compared to the prior quarter as a result of a drop in interest rates.

### ***Fiscal 2008***

During the fourth quarter of fiscal 2008, the Company withdrew from the Mulga Tank Joint Venture resulting in the write-off of related expenditures during the third quarter of \$1,459,125 and a further \$10,460 of related expenditures written-off in the fourth quarter. Additionally, during the fourth quarter the Company earned \$79,538 in interest income and professional fees increased in the fourth quarter as a result of the audit fee accrual for the current year end.

During the third quarter of fiscal 2008, the Company wrote-off all related expenditures totalling \$1,459,125 in connection with the Mulga Tank Joint Venture.

During the second quarter of fiscal 2008, the Company's administrative expenditures increased slightly over the first quarter as a result of cost associated with the Company's annual general meeting. Increased travel costs during the second quarter were partially offset by the \$118,684 earned in interest income in the second quarter compared to \$93,265 earned in the first quarter.

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

During the three months ended October 31, 2009, the Company paid or accrued \$45,000 (2008 - \$45,000) to a company controlled by Ian Rozier, the President and C.E.O. of Newport, for consulting fees and paid or accrued \$30,000 (2008 - \$30,000) for management fees to a company controlled by Barbara Dunfield, director and the C.F.O. of Newport. Additionally, the Company paid or accrued \$16,500 (2008 - \$16,500) for rent charged by a company controlled by Mr. Rozier. During the three months ended October 31, 2009, the Company also paid or accrued \$1,495 (2008 - \$1,098) for professional fees to Lang Michener, a legal firm of which David Cowan, the Company's corporate secretary, is a partner. Also, the Company paid or accrued directors fees of \$5,000 to Merfyn Roberts (2008- \$5,000 to each of Douglas B. Hyndman and Mr. Roberts). Lastly, the Company paid or accrued consulting fees of \$6,000 (2008-\$6,000) to a company controlled by David Cohen's spouse. Mr. Cohen is a director of the Company.

Included in receivables is \$507 (July 31, 2009-\$2,575) owed by a company with common directors.

Included in accounts payable and accrued liabilities is \$3,333 (July 31, 2009-\$3,333) owed to Mr. Roberts.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

### ***Financial Instruments***

The Company's financial instruments consist of cash, receivables, and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

The Company's financial instruments are exposed to certain financial risks, which include currency risk, credit risk, liquidity risk and interest rate risk.

#### (a) Credit Risk

The Company's cash is mainly held at large Canadian financial institutions and as at October 31, 2009 is mainly held in interest bearing accounts. The Company's receivables are mainly GST 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 12 of the October 31, 2009 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, 2009, the Company did not have any investments in short-term deposits.

##### (ii) Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to cash, receivables and accounts payable and accrued liabilities that are denominated in a foreign currency. As at October 31, 2009, the Company did not have any accounts in foreign currencies.

##### (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.

### **Adoption of new accounting standards**

#### *CICA Handbook Section 3064 – “Goodwill and other intangibles assets”*

This new section replaced Section 3062, “Goodwill and other intangible assets” and Section 3450, “Research and development costs”. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company has evaluated this new standard and determined that adoption of these new requirements had no impact on the Company’s interim financial statements.

### **Recent accounting pronouncements**

#### *International Financial Reporting Standards (“IFRS”)*

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date for the Company will be August 1, 2011 and will require the restatement for comparative purposes of amounts reported for the year ended July 31, 2011. The impact of the transition to IFRS on the Company’s interim financial statements has not yet been determined.

#### *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.

### ***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 led 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 administering 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.

### ***Contingencies***

The Company is not aware of any contingencies or pending legal proceedings as of December 7, 2009.

### ***Share Capital***

As at December 7, 2009, 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.