

# **SUPERIOR MINING INTERNATIONAL CORPORATION**

**Form 51 – 102F1**

## **Management's Discussion and Analysis For the Year Ended July 31, 2012**

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*The following Management's Discussion and Analysis ("MD&A"), prepared as of November 28, 2012, should be read in conjunction with the audited consolidated financial statements of Superior Mining International Corporation (the "Company" or "Superior") for the years ended July 31, 2012 and related notes thereto, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These are the Company's first annual IFRS financial statements. In the prior year, the Company reported in accordance with Canadian Generally Accepted Accounting Principles. All comparative figures in those audited consolidated financial statements have been presented to be in accordance with IFRS. This MD&A contains "forward-looking statements" that are subject to risk factors set out in a cautionary note contained herein. All figures are stated in Canadian dollars unless otherwise indicated.*

*Additional information related to the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [superiormining.com](http://superiormining.com).*

### **Company Overview**

The Company is a Canadian company incorporated in the Yukon Territory and is listed on the TSX Venture Exchange under the symbol SUI. The Company is engaged in the acquisition and exploration of mineral properties in New Zealand and South Africa. To date, the Company has not earned significant revenues and is considered to be in the exploration stage.

The Company is in the process of exploring its mineral properties and has not yet determined whether the properties contain reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties and related deferred exploration costs are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production.

### **Outlook**

The Company is continuing to explore its existing properties, with a focus on its 87% owned Mangalisa gold reef property in the Free State goldfield of South Africa that is adjacent to Harmony Gold's Masimong #5 Mine. At Mangalisa, two phases of drilling have intersected a series of quartz conglomerate reefs with highly anomalous gold and uranium grades. The Company has been in discussion with several parties on a potential joint venture agreement to fund the phase 3 and follow-up phase 4 drill program.

In New Zealand, the Company has completed exploration programs during the quarter on the 100% owned Victory North and Ross South gold alluvial projects. Auger sampling and stream sediment sampling has been completed and results have been received.

The Company continues to search for opportunities to acquire additional properties. During the quarter, the Company has executed a Farm-In Agreement with a private Australian Company to earn in a 51% interest in the Redcastle Project located some 200 km northeast of Kalgoorlie, Western Australia. The property has potential for gold and nickel. Terms of the agreement require the Company to spend AUD\$200,00 over a 24 month period.

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**Exploration and Evaluation Assets**

*South Africa*

*Mangalisa*

The mines of the Free State goldfield (the first of which was established in 1949) have collectively produced more than 300 million ounces of gold as well as a substantial amount of byproduct uranium. The gold and uranium ore has been recovered principally from the Basal Reef (a reef generally less than 1 metre thick) which is widespread in its distribution across the goldfield. A number of other reefs located above the Basal Reef, with more local or confined distribution, have also been mined in places. The other reefs include the Leader, "B", "A", and Beatrix reefs. The Basal, "B" and "A" reefs are all reported to be mined on the Masimong 5 mine immediately south of Superior's property.

Superior's 198 square-kilometre Mangalisa license area is situated approximately 20 km to the east of the township of Welkom, and less than 10 km north of Harmony Gold's operating Masimong #5 (formerly Erfdeel) gold mine. The contiguous, highly prospective ground was chosen for its potential to host eastward extensions of the western limb of the Witwatersrand Goldfield in the Welkom District. The lease dimensions contain approximately 18 kilometres of strike potential and approximately 10 kilometres of down-dip potential.

The Company's objective is to evaluate its property area using diamond drilling to determine whether one or more gold enriched reefs occur, and thereafter to determine whether an economic deposit can be established. The Company's exploration plans in conjunction with Minco Mineral Holdings (Pty) Limited ("Minco") called for approximately eight-phase 2 diamond drill holes of up to 1000m deep targeting the Erfenis Reef in the immediate area of the PG-1 discovery hole at Mangalisa.

On April 8, 2010, the Company executed an agreement with Minco pursuant to which Minco had the option to acquire 90% of the Company's directly controlled shares in Turquoise Moon Trading 403 Pty. Ltd ("TMT") by spending USD\$10,000,000 on the development of TMT's Mangalisaproject, of which USD\$5,000,000 had to be spent by April, 2011. The Company holds a 74% direct interest in TMT and a further 13% indirect interest. If Minco had expended the full USD\$10,000,000 the Company' direct and indirect interest in TMT would have been reduced to 20.4% (7.4% directly and 13% indirectly).

By the April 2011 milestone date, Minco had failed to meet the minimum exploration expenditure requirement and they forfeited their right to acquire an interest in the Mangalisa property.

During the year ending July 31, 2011, six phase 2 holes had been completed to the level of the Erfenis Reef horizon. The holes were drilled to a depth of approximately 1,000 m each, with four holes intersecting the Erfenis Reef Zone, including the discovery hole PG.1.

Significant intersections are as follows:

ERF.7	874.10 - 84.39 (0.29 m) @ 36.6 g/t Au & 0.24 kg/t U
PG.1/12	776.32 - 776.77 (0.45 m) @ 45.8 g/t Au & 3.79 kg/t U
(including)	776.56 - 776.77 (0.21 m) @ 91.8 g/t Au & 7.24 kg/t U
PG.1/13	776.13 - 776.45 (0.32 m) @ 51.1 g/t Au & 4.27 kg/t U
N.B.PG.1	is the Glencore discovery drill hole where the Company re-entered and completed several deflections from this drillhole.

The Company has now received and reviewed the geological technical report based on the 43-101 format that has incorporated all historic and current drilling with recommendations for the next phase of drilling.

The Company has been active in perusing to invest in the Phase 3 and 4 drill programs to advance the project to a Inferred Resource stage.

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**Exploration and Evaluation Assets**

*New Zealand*

*Victory North*

The Company has been issued an Exploration Permit (52251) on ground immediately adjacent to that of the former Victory Gold property on which the Company had previously reported near surface gold intercepts from reverse circulation (RC) drilling. The new property (referred to as "Victory North") comprises an elongate NE-SW block of 249.7 ha. with topographical linear highs of magnetite-gold bearing Pleistocene beach strandlines known as "blacksand leads".

During the year ended July 31, 2012, the Company decided not to pursue further exploration on the property resulting in a write-off of \$114,596.

*Ross South*

The Company has also been issued an Exploration Permit (EP 51688) on ground immediately south of the former Ross property, from which the Company has withdrawn. The new property (referred to as "Ross South"), located 2.0 km to the south-east of the Victory Gold property, consists of Pliocene-aged alluvial gold leads peripheral to current or historical mining operations.

During the year ended July 31, 2012, the Company decided not to pursue further exploration and sold the property subsequent to the year-end which resulted in a write-off of \$155,232.

The Company retains a net smelter return ("NSR") royalty of 1-7% for a period of 3 years after commercial production. After the third anniversary, the NSR royalty becomes Nil.

*Collingwood*

Exploration Permit 52218 covering 16,750 hectares was granted in December 2010. The permit area covers numerous historical and alluvial gold workings in the Collingwood area, including the Johnston United underground mine, which produced around 20,000 oz at approximately 10g/t.

During April, 2011, Superior consultants visited the property and completed an initial reconnaissance over the Aorere Gold workings. The Company compiled historic data for focusing on prime target areas within the permit. In August, the Company visited the permit and began to negotiate land access with the key property owners. Analytical work was completed to reduce the size of the permit by dropping off non-prospective ground to focus on the areas of interest.

The Company again visited the property in November, 2011. Access was granted to the northern area and several stream sediment samples were panned and returned no gold. Attention was turned to the southern end of the property where several discussions were held with the owners regarding land access.

After no guarantees on gaining access, coupled with the poor results from the northern part of the property, the Company's Board of Directors decided to withdraw from the property due to the limited potential and difficulty with land owners and regulators for land access and development of the project. A surrender report will be written during the next quarter. As a result, the Company has decided not to pursue further exploration on the property, resulting in a write-off of \$223,825 during the year ended July 31, 2012.

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***Victory***

In November 2007, the Company entered into an option agreement to acquire 100% ownership in a mineral permit (EP 40872) for a property located near Ross Township, New Zealand (the "Victory" property, formerly the Placer property), through the purchase of all of the shares of Placer Gold Resources Limited ("Placer Gold").

In 2009, the Company amended the option agreement to advance the project more rapidly. Under the terms of the amended and restated option agreement (the "Agreement"), Placer Gold and its shareholders granted the Company a 24 month option to acquire a 100% interest in the permits comprising the Victory Gold property by carrying out an exploration program, constructing a placer mining facility (the "Plant") on that property, and processing 10,000 cubic meters of material through the Plant. The Agreement was structured as an option to purchase all of the issued and outstanding shares in the capital of Placer Gold, a New Zealand company. Upon exercise of the option, the Company was to grant to the Placer Gold shareholders a 7% net smelter royalty on the property.

During the year ended July 31, 2011, the Company terminated the Agreement, resulting in a write-off of \$683,518.

***Otama***

In 2010, the Company entered into an agreement with Lodestar Resources Limited to acquire an option to purchase an 80% interest in the Otama Property (EP 52315 and PP 52773), northern Southland – New Zealand. The property comprises a total area of 9,436 hectares under granted permit.

During the year ended July 31, 2011, the Company terminated the agreement, resulting in a write-off of \$275,908.

***Kirwans***

In late 2010, the Company, through a wholly owned subsidiary, applied for a Prospecting Permit. The permit application covered an area of approximately 883sq km, on the eastern edge of the prolific Reefton Goldfield. Within the application area are several hard rock gold and tungsten prospects.

During the year ended July 31, 2011, the Company elected to withdraw the permit application to concentrate its efforts on the Company's more advanced land holdings, resulting in a write-off of \$39,110.

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*Australia*

*Redcastle*

On May 4<sup>th</sup>, 2012 the Company executed a Farm-In/Joint Venture Heads of Agreement with a private Australian Company called Reinhold Resources Limited on their Redcastle property located some 200 km northeast of Kalgoorlie, Western Australia. Under the terms of the agreement, the Company is required to spend AUD\$200,000 over a 24 month period to earn a 51% interest.

The property comprises of 13 granted prospecting licences that cover 24km<sup>2</sup> area over the prospective greenstone belt in the Eastern goldfields of Western Australia.

The Redcastle Project lies within the Murrin-Margaret area which is a terrane of low strain greenstones and granitoids bounded by the Keith-Kilkenny lineament to the west and the Laverton Tectonic Zone to the east. There are three main lithological entities within the mapped portion of the project area:

- a greenstone sequence of tholeiite basalts with minor interflow sediments is intruded by gabbro and dolerite sills. The dolerite sills have pyroxenitic or gabbroic bases and quartz rich or more feldspar-rich tops;
- the greenstones have been intruded by weakly porphyritic tonalite and dacite porphyry. The late stage dacite porphyry is confined to the periphery of the tonalite bodies which it intrudes, and the greenstones close to the tonalite contact. Regional metamorphism is lower greenschist facies; and
- tonalite and dacite have been intruded early in the structural evolution of the greenstone belt. They are foliated and folded with the greenstone sequence. Early isoclinal folds have been refolded into broad north trending open folds with an amplitude of about four kilometres.

Gold mineralization is hosted in quartz veined faults and shears where they transect favourable mafic lithologies, in particular dolerite and more specifically quartz dolerite. The intersections of early structures by later cross cutting faults where mafic rocks are present are important sites for gold deposition, as are quartz stockworks in tonalite.

Considerable gold remobilization has occurred with depletion of gold from the laterite surface to a depth of approximately 8 to 15m. Supergene enrichment has occurred near the base of the pallid zone resulting in development of nuggets (as seen from the numerous "patches") and rich supergene gold as previously mined. Much of the early mining selectively targeted material containing these supergene enriched quartz veins, which were mined from between approximately 10 to 20 metres below the Tertiary laterite surface; or down to 11 metres below the present surface.

Geological mapping was completed during the quarter.

The dominant lithology in the greenstone sequence is tholeiitic basalt and associated mafic intrusives. Quartz veins range up to about 1m thick and are the primary source of the gold.

The lateritic weathering profile is variably exposed. Small areas of lateritic residuum are probably present. Mottled zone, ferruginous saprolite, saprolite and saprock are more widespread. Transported overburden covers much of the northern half of the Redcastle tenements.

Recent soil cover and colluvium obscure much of the Archaean sequence in the southern half of the Tenements. Broad alluvial channels are common in the north.

A soil sampling program was been designed over the property, for an estimated budget of \$50,000. This program has been submitted to the regulators for approval.

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**Results of Operations for the Three Months Ended July 31, 2012**

During the three months ended July 31, 2012, the Company had a comprehensive loss of \$384,701 (2011 - \$1,289,695). Significant fluctuations occurred in the following categories:

- a) consulting fees of \$21,704 (2011 - \$20,554). The increase was primarily due to increased consulting fees paid to a third-party.
- b) stock-based compensation of \$29,295 (2011 - \$82,138). Stock-based compensation in the current period was for options vested during the current period; and
- c) office, telephone and printing expenses of \$14,557 (2011 - \$19,643). The decrease was primarily due to decreased rent expense.
- d) Wrote-off mineral properties of \$284,228 (2011 - \$998,536).

**Results of Operations**

During the year ended July 31, 2012, the Company had a comprehensive loss of \$1,470,965 (2011 - \$1,660,971). Significant fluctuations occurred in the following categories:

- a) professional fees of \$166,381 (2011 - \$223,275). The decrease was primarily due to accounting and legal fees;
- b) stock-based compensation of \$548,094 (2011 - \$213,846). Stock-based compensation in the current period was for options vested during the current period;
- c) write-off of exploration and evaluation assets of \$493,653 (2011 - \$998,536) during the year as the Company decided not to pursue its Collingwood property, Victory North property and Ross South property;
- d) travel expense of \$1,148 (2011 - \$24,467). The decrease is due to decreased activities in the year.
- e) bank charges and interest of \$347 (2011 - \$19,930). The decrease is mainly due to less interest incurred since the loan was repaid in 2011.

**Selected Annual Information**

The following table provides a brief summary of the Company's financial operations. For more detailed information, refer to the financial statements and the overall performance section.

	2012 <sup>(1)</sup>	2011 <sup>(1)</sup>	2010 <sup>(2)</sup>
Net and comprehensive loss for the year	\$ (1,470,865)	\$ (1,660,971)	\$ (1,293,730)
Basic and diluted loss per share	(0.03)	(0.04)	(0.03)
Total assets	1,330,805	1,559,931	2,572,217

(1) Prepared in accordance with International Financial Reporting Standards ("IFRS").

(2) Prepared in accordance with Canadian generally accepted accounting principles ("CGAAP").

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**Summary of Quarterly Results**

	July 31, 2012	April 30, 2012	January 31, 2012	October 31, 2011
Total assets	\$ 1,330,805	\$ 1,676,667	\$ 1,707,696	\$ 1,346,932
Exploration and evaluation assets	1,283,408	1,533,121	1,485,995	1,289,367
Working deficit	(264,004)	(158,311)	(9,070)	(328,679)
Shareholders' equity	1,019,404	1,374,810	1,480,615	964,704
Net and comprehensive loss	(371,126)	(225,980)	(304,960)	(568,799)
Basic and diluted loss per share	(0.01)	(0.00)	(0.01)	(0.01)

  

	July 31, 2011	April 30, 2011	January 31, 2011	October 31, 2011
Total assets	\$ 1,559,931	\$ 2,325,602	\$ 2,824,649	\$ 2,829,567
Exploration and evaluation assets	1,417,637	2,248,998	2,056,247	1,878,581
Working deficit	(193,323)	(134,442)	(796,047)	(511,766)
Shareholders' equity	1,228,655	2,119,362	1,860,110	1,969,001
Net and comprehensive loss	(1,288,471)	(134,203)	(116,736)	(121,561)
Basic and diluted loss per share	(0.03)	(0.00)	(0.00)	(0.00)

**Liquidity and Capital Resources**

The Company's cash position as at July 31, 2012 was \$22,614, an decrease of \$85,046 from July 31, 2011. As at July 31, 2012, the Company had a working capital deficiency of \$264,004 (July 31, 2011 - \$193,323).

Net cash used in operating activities for the year ended July 31, 2012 was \$328,161 to net cash used of \$419,212 during 2011. The cash utilized by operating activities for the period consists primarily of the operating expenses and changes in non-cash working capital.

Net cash used in investing activities for the year ended July 31, 2012 was \$322,245, compared to cash provided by investing activities of \$152,467 during 2011. The cash utilized by investing activities consists of acquisition of exploration and evaluation assets and exploration costs.

Net cash provided by financing activities for the year ended July 31, 2012 was \$565,422 compared to net cash provided by financing activities of \$247,852 during 2011. The difference was primarily due to loan repayment during 2011.

During the year ended July 31, 2012, the Company:

- a) Completed a non-brokered private placement for aggregate gross proceeds of \$583,500 by issuing 5,835,000 units at a price of \$0.10 per unit. Each unit consists of one common share and one share purchase warrant exercisable at \$1.00 for a period of one year. The Company paid cash share issue costs of \$18,078 and issued 54,800 agent warrants exercisable at \$0.10 per share.
- b) Issued 719,384 common shares at \$0.10 to reimburse a firm in which a director of the Company is a partner for \$71,938 accounting services rendered in the ordinary course of business.
- c) Issued 761,600 common shares at \$0.10 to reimburse a company controlled by director of the Company for \$71,938 management services rendered in the ordinary course of business.

During the year ended July 31, 2011, the Company completed a non-brokered private placement for \$396,000 by issuing 3,300,000 common shares at a price of \$0.12 per share. The Company paid \$13,498 in cash in connection with the private placement.

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The Company received \$200,000 in connection to its unsecured convertible notes private placement. The notes may be converted at anytime into common shares of the Company at \$0.10 per share. The principal amount and all accrued interest at 12% per annum will be payable a year from the closing date. Each \$100 note will also include 1,000 share purchase warrants exercisable at \$0.10 for a period of 1 year from the closing date. The financing is subject to the acceptance of the TSX Venture Exchange.

**Related Party Transactions**

Amounts paid to related parties are as follows:

	2012	2011
<b>Key Management:</b>		
Management and administration fees paid to a company owned by a director	\$ 71,000	\$ 102,000
Capitalized geological fees paid to a company owned by the CEO	144,000	-
Consulting fees paid to a director of a subsidiary of the Company	53,468	68,462
Stock-based compensation (i)	355,415	162,868
Professional fees paid to a firm in which the CFO is a partner (ii)	<u>83,844</u>	<u>63,750</u>
	<u>\$ 707,727</u>	<u>\$ 397,080</u>
<b>Related Parties:</b>		
Stock-based compensation (iii)	\$ 160,736	\$ 50,755

(i) Stock-based compensation is the fair value of options granted and vested to key management personnel.

(ii) The CFO joined the Company in this role during 2012. In 2011, the CFO was a director of the Company.

(iii) Stock-based compensation is the fair value of options granted and vested to related parties.

The transactions with related parties were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the parties.

The amounts due to the related party included in accounts payable are as follows:

	July 31, 2012	July 31, 2011	August 1, 2010
Due to a firm in which a director has an interest	\$ 88,416	\$ 66,256	\$ 33,072
Due to a company owned by a director	11,000	38,080	-
Due to a company owned by the president	<u>60,803</u>	<u>-</u>	<u>-</u>
	<u>\$ 160,219</u>	<u>\$ 104,336</u>	<u>\$ 33,072</u>

**Capital Management**

The Company's objective when managing capital is to safeguard the entity's ability to continue as a going concern. In the management of capital, the Company monitors its adjusted capital which comprises all components of equity (ie. share capital, reserves and deficit).

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue common shares through private placements. The Company is not exposed to any externally imposed capital requirements. The Company's policy remains unchanged from the prior year.



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**Financial Instruments**

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

The Company estimates the fair value of its financial instruments based on current interest rates, market value and pricing of financial instruments with comparable terms. Unless otherwise indicated, the carrying value of these financial instruments approximates their fair market value because of the near maturity of those instruments.

The Company's risk exposures and the impact on the Company's financial instruments are summarized in note 13 of the Company's condensed consolidated financial statements.

**Risks and Uncertainties**

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The Company manages risks to minimize potential losses. The main objective of the Company's risk management process is to ensure that the risks are properly identified and that the capital base is adequate in relation to those risks. A summary of financial risk factors related to the Company's business are provided in note 13 of the Company's audited financial statements. The additional risks to which the Company is exposed are described below.

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, 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.

The key determinants as to the Company's operational outcomes are as follows:

- a) the state of capital markets, which will affect the ability of the Company to finance further mineral property acquisitions and expand its contemplated exploration programs;
- b) the prevailing market prices for base metals and precious metals;
- c) the consolidation and potential abandonment of the Company's properties as exploration results provide further information relating to the underlying value of the properties; and
- d) the ability of the Company to identify and successfully acquire additional properties in which the Company may acquire an interest whether by option, joint venture or otherwise, in addition to or as an alternative to the property.

*Exploration and Mining Risks:* Exploration for mineral resources involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. The cost of conducting programs may be substantial and the likelihood of success is difficult to assess. The Company has limited financial resources and, as pointed out above, has no current source of recurring income with which to cushion financial setbacks. In future there is no assurance that the Company will produce revenue, operate profitably or provide a return on investment. The Company seeks to counter this risk as far as possible by selecting exploration areas on the basis of their recognized geological potential to host economic deposits. The focus of the Company is on areas in which the geological setting is well understood by management.

*Metal Price Risk:* Metal prices have historically fluctuated widely and are affected by numerous factors beyond the Company's control, including international, economic and political trends, expectations for inflation, currency exchange fluctuations, interest rates, global or regional consumption patterns, speculative activities and worldwide production levels. The price of gold is affected by numerous factors beyond the control of the Company and can be extremely volatile. The price of this metal greatly affects the value of the Company.

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*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.

*Permits and Licenses:* The Company's operations may require licenses and permits from various governmental authorities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out exploration, development and mining operations at its projects.

*Industry:* The Company is engaged in the acquisition and exploration of resource properties, an inherently risky business, and there is no assurance that an economic mineral deposit will ever be discovered and subsequently put into production. Most exploration projects do not result in the discovery of commercially mineable deposits.

*Capital Needs:* The exploration of the Company's current and future properties will require additional financing. The only current source of future funds available to the Company is the sale of additional equity capital. There is no assurance that such funding will be available to the Company or that it will be obtained on terms favorable to the Company or will provide the Company with sufficient funds to meet its objectives, which may adversely affect the Company's business and financial position. Failure to obtain sufficient financing may result in delaying or indefinite postponement of exploration activities on the Company's properties or even a loss of a property interest.

**Critical Accounting Policies**

Reference should be made to the Company's significant accounting policies contained in note 3 of the Company's condensed consolidated interim financial statements. These accounting policies can have a significant impact of the financial performance and financial position of the Company.

**Going Concern**

The financial statements are prepared in accordance with IFRS on a going concern basis, which presume the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. Management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern.

For the year ended July 31, 2012, the Company incurred a net loss of \$1,470,865 (2011 - \$1,660,971), had a working capital deficiency of \$264,004 (July 31, 2011 - \$193,323) and a deficit of \$18,957,310 (July 31, 2011 - \$17,846,113). The Company does not generate sufficient cash flow from operations to adequately fund its future exploration activities and has relied principally upon issuance of securities and loans from related parties to fund its exploration and administrative expenditures. These conditions raise significant doubt regarding the Company's ability to continue as a going concern.

The Company will require additional capital to fund its future property acquisitions and exploration programs as well as for administrative purposes. If the management is unable to obtain new funding, the Company may be unable to continue its operations, and amounts realized for assets may be less than amounts reflected in these financial statements.

The financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

**Change in Accounting Policies**

These unaudited condensed consolidated interim financial statements, including comparatives have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*. The condensed consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as

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financial instruments at fair value through profit and loss, which are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

The condensed consolidated interim financial statements are presented in Canadian dollars, which is the functional currency of the parent company. These are the Company's third IFRS condensed consolidated interim financial statements for part of the period covered by the first IFRS consolidated annual financial statements to be presented in accordance with IFRS for the year ended July 31, 2012. Previously the Company prepared its consolidated annual and consolidated interim financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP").

The preparation of these condensed consolidated interim financial statements resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Canadian GAAP. The accounting policies in the financial statements note 3 have been applied consistently to all periods presented in these condensed consolidated interim financial statements. They also have been applied in preparing an opening IFRS balance sheet at August 1, 2010 for the purposes of the transition to IFRS, as required by IFRS 1, First Time Adoption of International Financial Reporting Standards (IFRS 1). The impact of the transition from Canadian GAAP to IFRS is explained in the financial statements note 18.

**New Standards Not Yet Adopted**

Certain new accounting standards and interpretations have been published that are not mandatory for the July 31, 2012 reporting period. These standards and interpretations have not been adopted and are yet to be assessed by the Company:

- Amendments to IFRS 7, *Financial Instruments: Disclosures*, to require information about all recognized financial instruments that are set off in accordance with paragraph 42 of IAS 32 *Financial Instruments: Presentation*. This standard is effective for years beginning on or after January 1, 2013.
- New standard IFRS 9, *Financial Instruments*, classification and measurement is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, "Financial Instruments: Recognition and Measurement." IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit and loss. This standard is effective for years beginning on or after January 1, 2015.
- New standard IFRS 10, *Consolidated Financial Statements*, replaces the guidance on control and consolidation in IAS 27, *Consolidated and Separate Financial statements*, and SIC-12, *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control under IFRS so that the same criteria are applied to all entities to determine control. This standard is effective for years beginning on or after January 1, 2013.
- New standard IFRS 11, *Joint arrangements*, requires a venture 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 joint operation, the venture will recognize its share of assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionally consolidate or equity account for interest in joint ventures. IFRS 11 supersedes IAS 31 – *Interest in Joint Ventures* and SIC 13 – *Jointly Controlled Entities – Non-monetary Contributions by Venturers*. This standard is effective for years beginning on or after January 1, 2013.
- New standard IFRS 12, *Disclosure of Interests in Other Entities*. This new standard provides the disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and consolidated structured entities. This standard is effective for years beginning on or after January 1, 2013.

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- New standard IFRS 13, *Fair Value Measurement*. This standard defines fair value and sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. The standard does not determine when an asset, a liability or an entity’s own equity instrument is measured at fair value. Rather, the measurement and disclosure requirements of IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value (with limited exceptions). This standard is effective for years beginning on or after January 1, 2013.
- Amendments to IAS 12, *Income Taxes*, to provide a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 *Investment Property* will, normally, be through sale. As a result of the amendments, SIC-21 *Income Taxes — Recovery of Revalued Non-Depreciable Asset* would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC-21, which is accordingly withdrawn. This standard is effective for years beginning on or after January 1, 2012.
- Reissued IAS 27, *Separate Financial Statements*, requires that when an entity prepares separate financial statements, investments in subsidiaries, associates, and jointly controlled entities are accounted for either at cost, or in accordance with IFRS 9 *Financial Instruments*. This standard is effective for years beginning on or after January 1, 2013.
- Reissued IAS 28, *Investment in Associates and Joint Ventures*, supersedes IAS 28 *Investments in Associates* and defines 'significant influence' and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment. This standard is effective for years beginning on or after January 1, 2013.
- Amendments to IAS 1, *Presentation of Financial Statements*, to revise the way other comprehensive income (“OCI”) is presented. The amendments require entities to group items presented in OCI based on whether they are potentially reclassifiable to profit or loss subsequently. i.e. those that might be reclassified and those that will not be reclassified. It also requires tax associated with items presented before tax to be shown separately for each of the two groups of OCI items (without changing the option to present items of OCI either before tax or net of tax). This standard is effective for years beginning on or after July 1, 2012.

**Outstanding Share Data**

As at the date of this MD&A, the Company has 57,566,479 common shares issued and outstanding and has the following options and warrants outstanding:

	Number of Shares	Exercise Price	Expiry Date
<b>Options</b>	100,000	\$ 0.05	May 28, 2014
	200,000	0.12	September 24, 2014
	230,000	0.215	April 7, 2015
	300,000	0.185	June 25, 2015
	1,527,500	0.22	March 4, 2016
	<u>3,180,000</u>	0.12	September 29, 2016
	<b>5,537,500</b>		

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**Changes in Directors and Management**

Mr. John Proust resigned as Executive Chairman and Director and Mr. Michael Andrews resigned as director of the Company during the year.

**Off-Balance Sheet Arrangements**

The Company currently has no off-balance sheet arrangements.

**Cautionary Note Regarding Forward-Looking Statements**

Certain of the statements made and information contained herein is "forward-looking information" within the meaning of the British Columbia Securities Act. These statements relate to future events or the Company's future performance. All statements, other than statements of historical fact, may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "propose", "possible", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon by investors as actual results may vary. These statements speak only as of the date of this MD&A and are expressly qualified, in their entirety, by this cautionary statement. In particular, this MD&A contains forward-looking statements pertaining to the following: capital expenditure programs, development of resources, treatment under governmental and taxation regimes, expectations regarding the Company's ability to raise capital, expenditures to be made by the Company on its properties and work plans to be conducted by the Company. With respect to forward-looking statements listed above and contained in the MD&A, the Company has made assumptions regarding, among other things:

- uncertainties relating to receiving exploration permits;
- the impact of increasing competition;
- unpredictable changes to the market prices for minerals;
- exploration and developments costs for its properties;
- availability of additional financing and opportunities for acquisitions or joint-venture partners;
- anticipated results of exploration and development activities; and
- the Company's ability to obtain additional financing on satisfactory terms.

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this MD&A and in the Company's Management's Proxy Circular which can be found on the SEDAR website ([www.sedar.com](http://www.sedar.com)): volatility in the market price for minerals; uncertainties associated with estimating resources; geological, technical, drilling and processing problems; liabilities and risks, including environmental liabilities and risks, inherent in mineral exploration and operations; fluctuations in currencies and interest rates; incorrect assessments of the value of acquisitions; unanticipated results of exploration activities; competition for, amongst other things, capital, undeveloped lands and skilled personnel; lack of availability of additional financing and farm-in or joint venture partners and unpredictable weather conditions.

Investors should not place undue reliance on forward-looking statements as the plans, intentions or expectations upon which they are based might not occur. Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement. The Company does not undertake to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws.