

## **Advanced Explorations Inc.**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2009**

*The following Management Discussion and Analysis (MD&A) is dated April 20, 2010 and reviews the business of Advanced Explorations Inc. (the "Company" or "AEI") for the year ended December 31, 2009, and should be read in conjunction with the accompanying audited annual consolidated financial statements and related notes for the year ended December 31, 2009. This MD&A and the accompanying audited annual consolidated financial statements and related notes for the year ended December 31, 2009 have been reviewed by the Company's audit committee and approved by the Company's Board of Directors.*

*This MD&A contains certain forward looking statements, such as statements regarding potential mineralization, reserves and exploration results and future plans and objectives of the Company that are subject to various risks and uncertainties. There can be no assurance that such statements will prove to be accurate, and actual results and future events could differ materially from those anticipated in such statements. Readers are cautioned not to place undue reliance on these forward-looking statements.*

#### **A. Core Business Strategy**

During the period from January 29, 2007 to June 7, 2007, the Company successfully completed the Option Agreement to earn an interest in the Roche Bay Magnetite Project (the "Roche Bay Project") and related financing (June 4, 2007). The stock was halted at \$0.31 and opened at \$1.71 on the first day of trading. During this time, the Company successfully migrated from the TSX: NEX to the TSX Venture Exchange.

AEI is a mining exploration company focused on developing high quality iron ore opportunities. With the option to earn a 100% interest in the Roche Bay Magnetite Project located on the Melville Peninsula in Nunavut, Canada, AEI plans to develop the Company's mineral resource estimate for the C-zone, which is currently an inferred resource of 357 million tonnes at an average grade of 28.07% iron at a 25% iron cutoff. In the spring of 2010, AEI published its preliminary economic assessment for the project indicating a base case net present value of US \$1.165 billion, a minimum of 50 years mine life and a return on investment of 24.4%. Led by an experienced management team with technical, exploration and mining expertise the Company has the capabilities to rapidly advance the Roche Bay Project and explore other local and global opportunities. Shares of the Company are traded on the TSX Venture Exchange (AXI) and on the Frankfurt Stock Exchange (AE6).

## B. Mining Properties

The mineral properties and deferred exploration costs are comprised as follows.

	Year ended December 31, 2009	Year ended December 31, 2008
	\$	\$
<b>Roche Bay Magnetite Project, Nunavut, Canada</b>		
<b>Acquisition costs</b>		
Beginning balance	9,126,187	8,427,749
Acquisition costs	845,000	275,000
Finders' fees	-	417,935
Government fees	35,576	5,503
<b>Total acquisition costs during the period</b>	<b>880,576</b>	698,438
Ending balance	10,006,763	9,126,187
<b>Exploration expenditures</b>		
Beginning balance	31,760,393	12,846,374
Salaries and stock compensation	642,033	2,571,066
Mobilization and demobilization	130,643	5,322,131
Camp costs	75,872	1,407,932
Miscellaneous	60,228	505,776
Drilling	160,528	6,005,980
Geophysics	79,660	456,157
Environmental	37,700	439,936
Technical studies	197,924	2,205,041
<b>Total expenditures during the period</b>	<b>1,384,588</b>	18,914,019
Ending balance	33,144,981	31,760,393
<b>Total</b>	<b>43,151,744</b>	40,886,580

### Roche Bay Iron Ore Project

The Roche Bay Project is located on the east coast of the Melville Peninsula, Nunavut, Canada. The Roche Bay Project consists of 4 mining leases on outcroppings of a banded iron formation. The eastern most exposures are ideally located being within 6 kilometers of tide water. Airborne magnetics and ground mapping indicate approximately 13 km of iron formation within the two eastern leases. Similar strike potential has been identified on the other two leases.

Four mineral claims (claim numbers F93842, F93843 and F93845 to F93849) were staked by the Company in 2007. They cover the entire Peninsula at Roche Bay, and comprise approximately 3730 ha. The claims were staked prior to the closure of the exploration camp in late 2007, and were recorded on November 14, 2007 by the Mining Recorder in Iqaluit. Claims records show the claims to be 100% owned by Advanced Explorations Inc. and they are part of the JV agreement.

The Company staked 8 additional claims (numbers F93193 to F93200 inclusive) in 2008, over and above those staked on the Peninsula in 2007. The Application to record the claims was submitted to the Nunavut Mining Recorder's Office on October 6, 2008, and the claims were recorded on February 11, 2009. The claims were staked surrounding the C Zone and D Zone leases, in order to acquire prospective iron formation along strike from and parallel to the main C and D Zones, as well all open ground between the existing mineral leases and the Inuit owned subsurface lands nearby. Claims records show the claims to be 100% owned by Advanced Explorations Inc, and they are part of the JV agreement.

In 2009, the Company staked 11 claims on a new iron ore discovery named "Tuktu", the Inuit word for caribou. Based on the summer 2009 mapping and prospecting program, the claims cover approximately 22,000 hectares of previously unexplored land on the Melville Peninsula in Nunavut, Canada. The Tuktu project is located within 60 kilometres of the Roche Bay Project area and within 45 kilometres of the ocean.

### The Agreement

The potential size and location of the project was the motivation for AEI to enter into the Option Agreement with Roche Bay plc ("Roche Bay"). The Company entered into an agreement with Roche Bay dated January 29, 2007 whereby the Company had the option to acquire up to a 50.1% interest in the Roche Bay Project (the "Option Agreement"). On June 4, 2007 the Company completed the Option Agreement and associated financing for \$11,090,750.

Under this Option Agreement, the Company paid Roche Bay \$250,000 within 5 days of the acceptance of the transaction by the TSX Venture Exchange and granted 12,000,000 rights ("Rights") to Roche Bay upon TSX Venture Exchange approval of the transaction. Each Right entitled the holder to purchase one common share of the Company. Of the 12,000,000 Rights, 8,000,000 of the Rights have an exercise price of \$0.35 per Right and were issued upon completion of the Option Agreement and final acceptance by the TSX Venture Exchange. The next tranche of 2,000,000 Rights had an exercise price of \$0.60 per Right and be issued upon completion of 15,000 metres of drilling at the Roche Bay Project. An additional 2,000,000 Rights had an exercise price of \$1.00 per Right and be issued upon the completion of both (a) a total of 30,000 metres of drilling and (b) a NI 43-101 compliant pre-feasibility study based on an envisioned minimum 6 million tonnes per year mining operation containing a resource estimate of at least 750,000,000 tonnes of iron ore in the aggregate among the "measured" and "indicated" categories.

The Company's ownership interest in the Roche Bay Project was based on performance and completion of certain milestones as per original Option Agreement. Successful completion of these milestones would have lead to an ownership interest in the Roche Bay Project of 50.1% by the Company. The following milestones were amended and revised as of December 31, 2007 and included;

- 15% upon completing 7,500 metres of drilling,
- 25% upon completing 15,000 metres of drilling and pre-feasibility study,
- 5% upon completion of a feasibility study that contemplates a 6 Mtpy mining operation, and
- 5.1% upon attaining a mine permit.

In July 2008, the Company announced an amendment to the Option Agreement with Roche Bay that would allow the Company to earn up to 70% of the Roche Bay Project. Pursuant to the amendments, on or before September 1, 2008 (then extended to no later than November 30, 2008), AEI was to give notice to exercise an option to acquire an additional 19.9% interest in the Roche Bay Project, with payments consisting of \$3.5 million in cash plus 6 million AEI shares valued at 2.50 per share. Under the terms of an Extension Agreement, the Company paid Roche Bay \$200,000 in order to maintain its rights to exercise its option to earn the additional 19.9% interest.

On December 5, 2008 the Company announced that it had signed a memorandum of understanding with Roche Bay to acquire Roche Bay's remaining interest, and thus hold 100% ownership interest in the mineral leases comprising the Roche Bay Project. The resulting Definitive Agreement replaces all pre-existing agreements (Amended and Restated Option and Farm-Out Agreement) and amendments made between AEI and Roche Bay. The transaction will merge AEI's previously announced iron nugget plans with the Roche Bay mine joint venture.

Under the terms of the Definitive Agreement, AEI is required to make further payments of \$365,000 in fiscal 2009 and \$275,000 at the end of fiscal 2010, and the issuance of either 4,000,000 AEI shares or 6,000,000 share purchase warrants with an exercise price of \$0.20 for the purchase of one AEI share. All future rights to be issued to Roche Bay in accordance with the previous agreement will be cancelled. AEI has been granted an option to earn up to a 100% interest in the Leases, and once the option to acquire has been exercised, AEI may:

- (a) acquire Roche Bay's interest in the Leases and claims (or "project lands") subject to: (i) a retained 4% gross overriding royalty ("GOR") on iron products (such as nuggets) having greater than 90% iron content, (ii) a 6% GOR on iron products (such as concentrates and pellets) having less than 90% iron content, and (iii) a 10% gross overriding royalty on byproduct precious metals (the "Royalty"); or
- (b) purchase Roche Bay's interest in the Leases (see above) outright, and terminate the Royalty if effective, for a lump sum payment of \$25,000,000 on or before March 15, 2010 or \$30,000,000 after March 15, 2010 and on or before March 15, 2011; (the "Royalty Purchase Option").

If this Buy-Out Option is not exercised, AEI will thereafter have the right to buy out 50% of the Royalty (other than the precious metals royalty) before June 30, 2020 for a total payment of \$35,000,000 plus an inflation adjustment, allowing the Company to effectively reduce the gross overriding royalty on iron products to 2% on nuggets and 3% on concentrates/pellets, respectively.

On April 1, 2009 the Company announced that it completed the Definitive Agreement of the MOU announced on December 5, 2008. The Definitive Agreement has been approved by the TSX Venture Exchange and the 4,000,000 Company shares that form part of the additional payments were issued. The Definitive Agreement replaces the Amended and Restated Option and Farm-Out Agreement dated May 30th, 2007 between AEI and Roche Bay.

### Resource Update

In April 2009, the Company announced the resource estimate for its Roche Bay magnetite project in Nunavut, Canada had been completed and the NI 43-101 compliant resource estimate had been filed on SEDAR. The National Instrument (NI) 43-101 compliant Inferred Mineral Resource estimate was completed by Golder Associates Ltd. ("Golder") in conformance with the CIM Standards of Disclosure for Mineral Projects.

This resource only represents the first 4.8 km of C-Zone drill testing on a property that covers approximately 40 kilometres of geologic strike. The report reflects considerable work completed by AEI to date and allowed for the completion of the Preliminary Economic Assessment study that was posted on SEDAR in March 2010.

Golder considers that for the purpose of public reporting it is appropriate to use the 25% iron cut-off grade which defines an Inferred Mineral Resource of 357.0 million tonnes at an average grade of 28.07% iron to a depth of 250 metres below surface. AEI has advised Golder that they have preliminary metallurgical test work and studies to suggest an economically viable product can be produced from material of this grade.

The 2009 Golder resource estimate is for the C-Zone only, and does not include the previous tonnage estimated by Underhill in 1984 of 713 million tonnes (Roche Bay Magnetite Project Technical Report, February 14, 2007) for the proximally located A, B, D, and E Zones, which are also controlled by AEI. The same Underhill report estimated the C-Zone at 426 million tonnes, with grades ranging between 23% and 34% iron for the five deposits. These tonnages were considered by Golder to be historical estimates as a qualified person has not done sufficient work to classify the historical estimates as current mineral resources and the Company is not treating the historical estimates as current mineral resources and the historical estimates should not be relied upon. At a cut-off grade of 20% iron Golder's estimate for the C-Zone is equivalent to that of Underhill's.

**Roche Bay Magnetite Project: C- Zone  
Inferred Resource Estimate – April 2009**

<b>Cut-off grade Fe (%)</b>	<b>Tonnes (Mt)*</b>	<b>Total Fe (%)</b>	<b>Magnetics (%)**</b>	<b>SiO<sub>2</sub> (%)</b>	<b>Al<sub>2</sub>O<sub>3</sub> (%)</b>	<b>MnO (%)</b>	<b>P<sub>2</sub>O<sub>5</sub> (%)</b>	<b>S (%)</b>	<b>LOI (%)</b>
20	500.3	26.76	25.62	51.17	2.87	0.07	0.20	0.77	0.82
22	481.9	26.97	26.04	51.07	2.79	0.07	0.20	0.76	0.79
24	414.5	27.59	27.39	50.71	2.59	0.07	0.20	0.73	0.69
<b>25</b>	<b>357.0</b>	<b>28.07</b>	<b>28.57</b>	<b>50.37</b>	<b>2.44</b>	<b>0.07</b>	<b>0.20</b>	<b>0.71</b>	<b>0.62</b>
26	287.7	28.70	30.09	49.88	2.27	0.06	0.20	0.67	0.54
28	157.2	30.17	33.66	48.67	1.92	0.05	0.20	0.59	0.33
30	72.3	31.63	37.10	47.52	1.64	0.05	0.20	0.50	0.07

Notes:

(\*) All values rounded to the nearest 100,000 Tonnes

(\*\*) Magnetics is reported directly by SGS Lakefield Research Limited (SGS) laboratory as % Fe(3)O(4) and is the percentage of contained magnetics based on Satmagan test work. It assumes that all recovered material is magnetite. Golder accepts this as reasonable considering the pyrrhotite content is low as demonstrated by the sulphur assays.

(Note the Golder authorization at end of the page)

The Mineral Resource Estimate for the Roche Bay Magnetite Project was based on the following data:

- The drilling was conducted in the 2007 and 2008 field seasons, and consists of 92 NQ core holes, for a total drilled length of 25,289 m, all completed by AEI.
- The drilling was conducted on a line spacing of approximately 200 m over a strike length of 4800 metres.
- The 2007 drilling used a sampling interval of 1 m, and the 2008 drilling used a sampling interval of 2 m. All samples were composited to a standard 2 m length.
- The ordinary kriging (OK) interpolation method was used for resource estimation based on variography. Variograms with ranges of 800 m along strike were defined for Fe providing confidence in the grade continuity. There were two kriging passes, with the second one within the range identified by the variograms.
- Reported tonnages are constrained by a wireframe that limits extrapolation from the drill holes to generally 100 m from samples, and down to a maximum depth of 250 m below surface.

The mineral resource estimate for the Roche Bay Magnetite Project was completed under the supervision of qualified persons (Mr. Paul Palmer, PGeo., P.Eng of Golder and Dr. Bill Shaw, FAIG, RPGeo FAusIMM, CPGeo of Golder Associates Pty Ltd in Australia) who have provided written permission for the release of this resource estimate in the form and context in which it is provided here.

## Exploration Activity Fiscal 2009

The Company continues to advance its plans with respect to the potential development of the Roche Bay magnetite (iron) project. A program has been implemented that is designed to enhance the company's current understanding of the deposit's metallurgy and proposed iron reduction process. Additional core studies are also being undertaken with the objective to facilitate redefinition of a portion of the current inferred resource to an indicated status (per NI 43-101 standards).

The program objective is to more precisely define the requirements of a definition drill program (resource to measured classification) that will be part of a definitive feasibility study. Additional engineering studies will also examine the power plant designs and how surplus power might be integrated into a regional development strategy.

With recent impacts of the world economic recession and reduction in available financial credit, access to capital to finance ongoing mining operations and exploration activities has been slow and difficult. Despite the Company's success with raising capital in December 2008 and August 2009, the Company was unable to execute an extensive drill program in the summer of 2009. As a result, the Company's facilities and infrastructure in the Roche Bay area have been on a care and maintenance program for 2009.

The main exploration camp remained at a capacity of approximately 60 people. All shelters were secured for the winter months when camp was closed in September 2008. In April 2009, the Company arranged for twice-per-week trips to the camp from Hall Beach for the rest of the winter, and helicopter fly-bys during the summer field season, to maintain security of the camp as much as possible. It is the Company's plan to start the progressive, partial re-location of this camp to Crown lands at the Roche Bay Peninsula during 2010, contingent on financing; the appropriate water and land use license have been applied for from the Nunavut Water Board and INAC respectively.

The Company mobilized crews in mid-April and August 2009 to secure material at the beach as well as camp itself to the extent possible. There were also three (3) site visits and inspections conducted during 2009 by various Inspectors, and any matters identified by inspectors were addressed at or immediately following the time of the inspections.

With the recent financings completed in August 2009, the Company will remain on track for the completion of a definitive feasibility study in the later part of 2010 or no later than first quarter of 2011. The Company is currently in the process of securing the capital required for the execution of a 2010 drill program.

### **Tuktu**

In 2009, the Company staked 11 claims on a new iron ore discovery named "Tuktu", the Inuit word for caribou. Based on the summer 2009 mapping and prospecting program,

the claims cover approximately 22,000 hectares of previously unexplored land on the Melville Peninsula in Nunavut, Canada.

The Company initiated a mapping and systematic sampling program of the mineralized area in the later part of 2009. A total of 75 rock samples from various lithologies were collected from the discovery area. BIF samples were analyzed for iron and other elements using whole rock analysis and satmagan testing procedures. Preliminary results of the representative sample of the Tuktu banded iron formation were consistent and averaged 34% iron and with low contaminant levels.

#### Exploration Activity Fiscal 2008

The Company's objective for the fiscal 2008 drill program was to complete up to 30,000 metres of drilling which would focus on both in-fill drilling and extending the strike of the high grade zone of C1. Drilling commenced on the eastern flank of the C-Zone (C2) and on the A and B Zones which were the focus of drilling and economic studies in the mid 1980s. The 2008 drill program started in April 2008 and ended September 2008.

During the 2008 drill program over 16,505 metres of NQ sized (45 mm) diamond drilling were completed along nearly 5 kilometres of strike length on the C-Zone Banded Iron Formation ("BIF") structure. The 2008 drill campaign was successful in delineating the massive mineralized body with additional holes targeting the broadest high-grade areas first drilled and reported in 2007, filling-in through vast stretches of un-drilled and un-tested ground and proving the BIF continues to depth.

The drill core was logged on site by a group of nine geologists, photographed, sampled and sawn in half by core technicians.

#### **A and B Zones**

Previous exploration on the property had indicated the A and B Zones to be potentially as large as the C-Zone. The A-Zone has a strike of approximately 1.34 kilometres and an average width of 133 metres. The B-Zone extended 1.83 kilometres with an average width of 159 metres. These zones, along with the C, D and E Zones are subsets of a much larger regional iron formation that pinches and swells along strike that extends from the shore of Roche Bay to more than 30 kilometres to the Southwest. The defined zones are simply locations along strike where the iron formation swells. Mineralization of the various zones is thus expected to be similar. Most of the historic drilling is along the A and B Zones that are slightly closer to the ocean than the C-Zone. Although only two holes were drilled in 2008, the style of mineralization and results from the historic work suggest mineralization similar to the C-Zone.

#### **C-Zone**

Results to date indicate the C-Zone magnetite bearing banded iron formation has a strike length of approximately 5.7 kilometres of which slightly more than 4.8 kilometres has been drill tested. The C-Zone at surface varies in width from approximately 100 metres to

in excess of 300 metres. The C-Zone dips steeply to the east and is thicker to the north characterized by a higher grade core. The mineralization comes to surface but is locally covered by shallow overburden generally ranging from only one to six metres in thickness. Drill-hole RBC-08-84 is typical of the style of mineralization illustrating the higher grade core within a broader zone of banded iron formation. RBC-08-84 intersected a broader interval of 216 metres averaging 28.55% iron with a core interval of 33.80% iron over 90.0 metres.

A summary of the results for drill holes RBC-08-41 to RBC-08-92 is presented in the table included with the Management Discussion and Analysis for the year ended December, 31, 2008. Highlights of the results include:

- Drill-hole RBC-08-62, drilled on section 10400N, intersected 48 metres of 30.62% iron within a broader interval of 326 metres of BIF that assayed 25.31% iron. The drill hole marks the deepest BIF intercept on the property to date and confirms iron mineralization to depths greater than 550 metres below surface.
- Drill-hole RBC-08-67, drilled on section 11000N, intersected a 153 metre interval of BIF averaging 27.30% iron which includes several subintervals of higher grade mineralization (e.g. 26 metres of 33.14% Fe).

In October 2008, the Company announced that it intended to strengthen its Roche Bay Project in Nunavut with the addition of an iron nugget plant. The Company plans to utilize the MIDREX/Kobe Steel ITmk3® Process to produce "pig iron" nuggets which are higher in grade (~98% Fe) and sell at a price multiple to the traditional iron ore products.

In pursuing the development of an iron nugget plant, the Company believes the higher value attributable to nuggets is supported with a number of additional benefits. By shipping a high grade iron product, fewer ships are needed to move the same amount of iron and, thus may simplify transportation requirements. Also, the nugget production process will generate surplus heat that may be sufficient to generate electrical power for mining and concentrate operations. There are additional environmental benefits to this business plan, and the Company has also identified a number of synergies with respect to the Canadian Government's northern development strategy.

#### Exploration Activity Fiscal 2007

With the short field season affecting the completion of the 2007 drill program, the Company undertook a series of non-recourse debt financings, prior to the close of the Option Agreement and related financings, in order to allow for the mobilization of a camp and drills to the site in May 2007. The first drill began in mid-June 2007 and the second drill by the end of the month. In total, the Company completed 37 drill holes and 9,277 metres of drilling in the 2007 drill program.

The 2007 drill program indicated the main body of the C-Zone strikes for over 5000 metres and, where tested, had a width that varied from 100m to almost 300 metres. The banded iron formation (“BIF”) has been locally intruded by gabbroic dikes which fragment the iron formations into multiple zones. The 2007 drill results appear to be consistent with previously reported drilling (in the 1980s) with a slightly higher grade in hole. Hole RB-07-03 showed (145m @ 28.8% Fe including 46.8m @ 34.1% Fe) in comparison to the results from hole DDH-82-C1 (230.1 m @ 25.7% Fe including 159m @ 29.1% Fe) that was drilled on the same zone 25 years earlier.

### Expenditures

Since the inception of the project, AEI has incurred resource property costs of \$43.2 million as at December 31, 2009. The total property costs consist of acquisition costs of \$10.0 million, which is primarily made up of the value of the first 8.0 million Rights issued to Roche Bay, and exploration expenditures of \$33.1 million. The Company has incurred a lower amount of expenditures in the year ending December 31, 2009, as a result of not having a 2009 drill program. Instead, the focus of this year’s program was to enhance the Company's current understanding of the deposit's metallurgy and proposed iron reduction process. Additional core studies were undertaken with the objective to facilitate redefinition of a portion of the current inferred resource to an indicated status (per NI 43-101 standards) which has not been completed as of the report date.

The Company has incurred exploration expenditures of \$1.38 million for the year ended December 31, 2009 compared to \$18.9 million for the year ended December 31, 2008. The exploration expenditures incurred for the year ended December 31, 2008 include the mobilization and demobilization of the camp for fiscal 2008 which allowed for a large drill program during the summer months in fiscal 2008. Since there was no 2009 drill program executed, the Company did not incur any significant mobilization or demobilization costs, or any significant drilling and camp costs. The expenditures were made towards the completion of the Preliminary Economic Proposal and Tuktu sampling program, as well as progress towards the completion of Definitive Feasibility Study.

A portion of the expenditures incurred in fiscal 2008 were for the purchase of supplies to be used in the 2009 drill program. The values of these supplies are approximately \$1.2 million and are located in the Roche Bay area.

### C. Selected Financial Information

The following table presents selected financial information in Canadian dollars (\$), for each of the three most recently completed financial years, and have been prepared in accordance with Canadian generally accepted accounting principles.

	2009	2008	2007
	\$	\$	\$
Loss from operations	1,684,499	2,997,641	2,562,825
Net loss for the year	1,093,576	794,090	2,562,825
Net loss per share	0.02	0.02	0.15
Total assets	44,674,783	43,439,312	32,363,441
Total long-term financial liabilities	-	-	-

During fiscal 2006 the Company's business focus was changed from the technology sector to the resource sector. The losses reported in fiscal 2006 reflect that there was no active business in the company. In the middle of fiscal 2007, the Company acquired its first mining property (the Roche Bay Project) and completed its first financing. The financing allowed the Company to build its infrastructure required to support a limited exploration program for fiscal 2007 on the Roche Bay Project. In fiscal 2008 the Company had a full and successful drill program that started April 2008 and ended September 2008.

Total assets grew to \$43.4 million for the year ended December 31, 2008 from \$32.4 million for the year ended December 31, 2007. The increase is due to the additional exploration and development expenses incurred on the Roche Bay Project in fiscal 2008 which were capitalized on the balance sheet. The majority of the total assets are made up of the capitalized exploration and development expenses incurred on the Roche Bay Project which was \$40.9 million as at December 31, 2008 compared to \$21.3 million as at December 31, 2007.

Total assets only grew to \$44.7 million for the year ended December 31, 2009 from \$43.4 million for the year ended December 31, 2008. With recent impacts of the world economic recession and reduction in available financial credit, access to capital to finance ongoing mining operations and exploration activities had been slow and difficult. Despite the Company's success with raising capital in December 2008 and August 2009, the Company was unable to execute an extensive drill program for the summer of 2009. As a result, the Company's facilities and infrastructure in the Roche Bay area have been on a care and maintenance program for 2009.

## **D. Results of Operations**

This analysis of the results of the Company's operations should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2009.

### **Revenues**

The Company's revenues for the years ended December 31, 2009 and 2008 were \$NIL.

### **Operating and administrative expenses**

Operating and administrative expenses decreased to \$1,684,499 for the year ended December 31, 2009, compared to \$2,997,641 in the prior year.

The significant decrease in operating and administrative expenses is due to a planned reduction in head office expenses, as a result of the limited financial resources to finance the 2009 drill program. Despite the Company's success with raising capital in December 2008 and August 2009, the Company was unable to execute an extensive drill program for the summer of 2009. Head office expenses, as well as consulting and professional fees, were significantly curtailed or eliminated in order to conserve cash and financial resources.

In comparing fiscal 2008 and fiscal 2007, the significant increase in operating and administrative expense in fiscal 2008 is due to the change in business for the Company. During the year ended December 31, 2007, the Company successfully completed the Option Agreement to earn an interest in the Roche Bay Project. The Company did not have an active business prior to the Roche Bay Project and as a result, operating and administrative costs were significantly lower in the first half of fiscal 2007. Operational expenses to support the exploration activities of the Roche Bay Project, as well as the administrative overhead and public company expenses, increased significantly in the last two quarters of fiscal 2007. This higher level of activity and expenses continued throughout fiscal 2008. The Company incurred higher professional fees such as legal and professional accounting, consulting fees relating to the project, and higher office and administration costs due to the creation of a Toronto office and hiring of administrative staff to support the higher level of exploration activity of the Roche Bay Project.

Stock based compensation, as explained in Note 12 to the audited annual consolidated financial statements was \$276,852 for the year ended December 31, 2009 compared to \$779,166 for fiscal 2008. Yearly fluctuations in stock option expense are dependent on a number of factors including, but not limited to, number of options issued, valuation of options, vesting period and timing. Total options issued for the year ended December 31, 2009 were 5,750,000 compared to 1,295,000 issued in fiscal 2008. The expense for the current year is based on the valuations of options granted in both the current and prior

fiscal years which are recognized as an expense in the current fiscal year, based on the portion of options vested in the current fiscal year.

The net of bank interest income and expense, and bank charges decreased to an income of \$8,220 for the year ended December 31, 2009 from income of \$159,642 for the prior year. Interest income is earned on the excess cash invested in term deposits with a major chartered bank. The Company had a higher average cash balance in the fiscal 2008 period relative to the current 2009 period, which generated higher interest income in fiscal 2008.

The renunciation of Canadian exploration costs in 2007 created a future income tax liability of \$3.7 million which was recorded in February 2008. The future income tax liability was reduced as losses were generated in fiscal 2008. As at December 31, 2008, the future income tax liability had been reduced by \$2.2 million which is shown as a recovery of future taxes in the income statement. The renunciation of Canadian exploration costs in 2008 created a future income tax liability of \$2.5 million which was recorded in February 2009. The future income tax liability was reduced from the losses generated for the year ended December 31, 2009 by \$590,923. The balance of the future income tax liability as at December 31, 2009 was \$3.4 million.

#### **E. Liquidity and Capital Resources**

As at December 31, 2009, the Company had \$870,000 in cash and cash equivalents compared to \$1.48 million as at December 31, 2008. The Company has a working capital deficit of \$1.07 million as at December 31, 2009 compared to \$1.68 million of working capital deficit at December 31, 2008. The Company has no bank indebtedness. Liabilities include accounts payable and accrued liabilities of \$2.2 million as at December 31, 2009 compared to \$3.6 million as at December 31, 2008.

The source of the cash and cash equivalents is a direct result of the cash proceeds generated from the shares issued from private placements, as well as the exercise of warrants, rights and options during fiscal 2008 and 2009. During fiscal 2009 the Company generated \$3.5 million in gross proceeds from three private placements and \$109,000 in proceeds from the exercise of warrants and options.

## Share Capital Analysis

The authorized share capital is unlimited.

	December 31, 2009		December 31, 2008	
	Number of shares	\$ Amount	Number of shares	\$ Amount
Balance, beginning of period	53,697,868	30,782,042	27,876,553	24,223,168
Shares issued for cash pursuant to a private placements	20,966,664	3,509,990	23,503,725	9,998,438
Shares issued for finder's fees for the acquisition of mineral properties	-	-	614,610	417,935
Shares issued to acquire Roche Bay Project	4,000,000	480,000	-	-
Bonus shares issued	50,000	9,000	-	-
Rights exercised	-	-	1,027,500	359,625
Warrants exercised	779,992	97,130	625,480	181,850
Options exercised	75,000	12,000	50,000	25,500
Fair value of rights, warrants and options exercised	-	62,944	-	1,061,618
Less:				
Warrant fair value from private placements	-	2,161,998	-	896,845
Share issue costs	-	273,759	-	890,344
Forgone tax benefit from flow through shares	-	2,470,672	-	3,698,903
Balance – end of period	79,569,524	30,046,677	53,697,868	30,782,042

On July 29, 2009, the Company completed a non-brokered private placement. A total of 2,986,667 units were sold at a price of \$0.15 per unit for gross proceeds of \$448,000. Each unit comprised of one common share of the Company and one common share purchase warrant, wherein each whole common share purchase warrant is exercisable at the price of \$0.20 for the first 12 months and \$0.30 for the next 12 months. All issued shares and issuable shares pursuant to the exercise of share purchase warrants are subject to a 4 month hold period from the date of issuance of the units. All warrants are exercisable for a term of 2 years from the date of distribution of the units.

On August 21, 2009, the Company completed a private placement where a total of 13,666,330 flow-through units were sold at a price of \$0.18 per unit, for gross proceeds of \$2,459,940. Each flow through unit comprises of one flow through common share of the Company and one common share purchase warrant, wherein each whole share purchase warrant is exercisable at the price of \$0.25 to purchase one common share. All issued shares and issuable shares pursuant to the exercise of share purchase warrants are subject to a 4 month hold period from the date of issuance of the units. All warrants are exercisable for a term of 1 year from the date of distribution of the units.

In addition, a total of 1,013,667 units were sold at a price of \$0.15 per unit for gross proceeds of \$152,050. Each unit comprises of one common share of the Company and one share purchase warrant, wherein each whole common share purchase warrant is exercisable at the price of \$0.20 for the first 12 months and \$0.30 for the next 12 months. All issued shares and issuable shares pursuant to the exercise of share purchase warrants

are subject to a 4 month hold period from the date of issuance of the units. All warrants are exercisable for a term of 2 years from the date of distribution of the units.

On September 23, 2009, the Company announced the completion of a non-brokered private placement. A total of 3,000,000 units were sold at a price of \$0.15 per unit, for gross proceeds of \$450,000. Each unit comprised of one common share of the Company and one common share purchase warrant, wherein each whole common share purchase warrant is exercisable at the price of \$0.25 for a term of 2 years from the date of distribution of the units. All issued shares and issuable shares pursuant to the exercise of share purchase warrants are subject to a 4 month hold period from the date of issuance of the units. The Company paid total cash commission of 300,000 common shares valued at \$0.20 per share as Finders Fees in connection with this offering.

On July 31, 2008 and August 5, 2008, the Company completed two tranches of a non-brokered private placement. A total of 7,489,725 flow-through units were sold at a price of \$1.10 per unit, for gross proceeds of \$8,238,698. Each flow through unit comprises of one common share of the Company. The Company paid total cash commission of \$644,116 and compensation warrants of 445,483 as Finders Fees in connection with this offering. Each compensation warrant entitles the holder to purchase one common share of the Company at an exercise price of \$1.10 per common share for a term of 2 years from the closing date of this offering.

In addition, a total of 105,000 units were sold at a price of \$0.95 per unit, for gross proceeds of \$99,750. Each non-flow through unit comprises of one common share of the Company and one half non-flow through share purchase warrant, wherein each whole share purchase warrant shall be exercisable at the price of \$1.35 per common share for a term of 2 years.

On December 3, 2008 the company completed a brokered private placement for a total of 15,999,909 units at a price of \$0.11 per unit for gross proceeds of \$1,759,990. Each unit consisted of one flow through common share and one-half of one common share purchase warrant. Each whole warrant is exercisable into one common share for two years from the closing date at an exercise price of \$0.16.

Of the 15,999,909 Units, 6,909,000 were sold by Sandfire Securities Inc. ("Sandfire") pursuant to an agency agreement between Sandfire and the Company and the balance of 9,090,909 Units were sold to the MineralFields Group.

The Company paid a cash commission of \$45,599 and 552,720 compensation options to Sandfire and a cash commission of \$57,000 and 690,909 compensation options to Limited Market Dealer Inc. in connection with the private placement of Units. Each compensation option will entitle the holder to purchase one common share of the Company at an exercise price of \$0.11 per common share for a period of 2 years from the closing date. All securities issued pursuant to this transaction are subject to a four month hold period.

## Rights, Warrants and Stock Options

The Company has special rights, warrants and options issued and outstanding that can be converted to shares at predetermined prices. For the year ended December 31, 2009, gross proceeds of \$109,000 were generated from the exercise of such warrants and options. For the year ended December 31, 2008 gross proceeds of \$566,975 were generated from the exercise of options, warrants and rights. If the entire lot of special share rights, warrants and options were exercised, based on the total amounts outstanding as of December 31, 2009, the Company would be able to generate total proceeds of \$11.1 million. The details are as follows: Total outstanding special rights as at December 31, 2009 were 6,492,297. The total value of proceeds to the Company, if all rights were exercised, would be \$2.3 million. Total outstanding warrants as at December 31, 2009 were 30.8 million. The total value of proceeds to the Company, if all warrants were exercised, would be \$7.2 million. Total outstanding options as at December 31, 2009 were 7,445,000. The total value of proceeds to the Company, if all options were exercised, would be \$1.6 million

## F. Quarterly Information

Selected quarterly information for the eight most recently completed quarters is presented below, in Canadian currency (\$), and in accordance with Canadian generally accepted accounting principles.

### Summary of Quarterly Results:

	2009				2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
	-	-	-	-	-	-	-	-
Loss for the period	(97)	(289)	(302)	(406)	(712)	(521)	(395)	834
	\$	\$	\$	\$	\$	\$	\$	\$
Loss per share	(0.00)	(0.00)	(0.01)	(0.01)	(0.02)	(0.02)	(0.01)	0.03

## G. Fourth Quarter

During fiscal 2006 the Company's business focus was changed from the technology sector to the resource sector. By the beginning of fiscal 2007 the Company acquired its first property and completed its first financing. The financings completed during fiscal 2007 allowed the Company to build its infrastructure required to support the exploration program of the Roche Bay project. From the establishment of infrastructure in 2007, the Company was allowed to move forward on its 2008 drill program and 2009 care and maintenance program.

The exploration program is subject to favourable weather during the non-winter months. This will result in a seasonal drill program where the activity is ramped up in the second and third quarter, with sample analysis and completion of the 43-101 requirement completed in the fourth. The losses between the quarters are relatively consistent as these costs represent the administrative overhead required to support the Roche Bay project and public company expenses. In the current year, the low net loss second and third quarter is reflective of the lower activity as a result of the care and maintenance program. The fourth quarter shows an increase due to return of some of infrastructure expenses in preparation for the 2010 year.

#### **H. Off-Balance Sheet Arrangements**

The Company had no off-balance sheet arrangements as of December 31, 2009 or December 31, 2008.

#### **I. Changes in Accounting Policies including Initial Adoption**

The accounting policies used in the preparation of the accompanying audited annual consolidated financial statements are the same as those described in Note 2 of the Company's audited annual consolidated financial statements and the notes thereto, for the year ended December 31, 2009, except that the company has adopted the following CICA standards, effective January 1, 2009 as described below:

##### **Goodwill and Intangible Assets**

CICA Handbook Section 3064, "Goodwill and Intangible Assets", establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. Concurrent with the introduction of this standard, the CICA withdrew EIC 27, "Revenues and Expenses during the pre-operating period". Companies will no longer be able to defer costs and revenues incurred prior to commercial production at new mine operations. The changes are effective for interim and annual financial statements beginning January 1, 2009. The adoption of this standard will not have a material impact on the financial position and results of operation of the Company.

##### **International Financial Reporting Standards ("IFRS")**

In February 2008, the CICA announced that Canadian generally accepted accounting principles ("GAAP") for publicly accountable enterprises will be replaced by IFRS for fiscal years beginning on or after January 1, 2011. Accordingly, the conversion from Canadian GAAP to IFRS will be applicable to the Company's financial statements starting with the first quarter of 2011.

The Company has commenced its IFRS conversion project that consists of the following three steps: scoping, evaluation and design and implementation. Some of the key activities will continue in 2009 and 2010 which include the review and approval of accounting topic papers, analysis of considerations of IFRS elections, accounting policy

choices, training programs, and internal control review and risk assessments.

To date our analysis of IFRS in comparison with currently applied accounting principles have identified a number of differences. Many of the differences identified are not expected to have a material impact on the reported results. However there may be significant changes from the IFRS accounting principles and provision for first time adoption of IFRS on certain areas.

IFRS 1 “First Time Adoption of International Financial Reporting Standards” provides entities adopting IFRSs for the first time with a number of optional exemptions and mandatory exemptions, in certain areas, to the general requirement for full retrospective application of IFRS. The Company is analyzing the various accounting policy choices available and will implement those determined to be most appropriate in the Company’s circumstances. 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. The key areas where changes in accounting policies are expected that may impact the Company’s consolidated financial statements are policies governing impairment of assets (deferred exploration costs), share-based payments, accounting for options and warrants and income taxes. This should not be viewed as a complete list, but only to highlight the key areas that could impact the Company’s consolidated financial statements.

The Company has not completed its quantification of the effects of adopting IFRS. The financial performance and financial position, as disclosed in our Canadian GAAP financial statements, may be significantly different when presented in accordance with IFRS.

## **J. Outlook**

The demand for iron ore and the potential for higher iron ore prices in early 2008 and in 2010 have created a significant demand for iron ore projects. Having a strong management team with the strength in iron ore development and exploration will aid the Company through this time of global economic uncertainty. However, as always, there can be no assurance that the Company will be successful in attracting new financing or new opportunities.

## **K. Risks and Uncertainties**

The prospects of the Company are currently being driven by a single iron ore project. This strategy has required, and continues to require, significant financings and is subject to risks associated with mineral prices, mineral resources and operations. There is no certainty that new projects will be acquired or that the Roche Bay Project will successfully advance. Due to the nature of the Company’s business and the present stage of development of its mineral resource projects, readers should carefully review and consider the financial, environmental and operational risk factors affecting the Company.

## **No Production Revenues**

To date, the Company has not achieved a sustainable stream of revenues, neither from mining operations nor from the technology agreement. There can be no assurance that significant additional losses will not occur in the near future, or that the Company will be profitable in the future. The amounts and timing of expenditures will depend on the progress of ongoing exploration and development, the results of consultants' analyses and recommendations, and the rate at which operating losses are incurred, the execution of any joint venture agreements with strategic partners, the Company's acquisition of new properties and other factors, many of which are beyond the Company's control. In particular, the Company's operating expenses and capital expenditures may increase in subsequent years as needed consultants, personnel, and equipment associated with advancing exploration, development and commercial production of its properties are added.

The Company does not expect to receive revenues from mining operations in the near future. While the Company is encouraged by the results from the Roche Bay Project, the Company expects to continue to incur losses until such time as its properties enter into commercial production, and generate sufficient revenues to fund its continuing operations. There can be no assurance that the Company will generate any revenues or achieve profitability.

## **Political and Economic Uncertainties of Operations**

Changes in the laws and regulations within Canada (Provinces and Territories) and foreign countries can have a material adverse impact on the business of AEI with respect to such countries. AEI currently has one project located in northern Canada. The recently formed Territorial Government of Nunavut, while indicating a strong support for the Roche Bay Project, has not yet permitted a mining operation. As the Company examines other opportunities within Canada and abroad, foreign currency exchange controls, expropriation of assets and profits, foreign ownership controls, and changes in taxation laws could negatively affect AEI and its business.

## **Competition**

The business of the Company is intensely competitive. The Company competes with other mining companies, many of which have greater resources and experience. Competition in the mining industry is primarily for mineral properties that can be economically developed, the technical expertise to find, develop, and operate such properties, the labour to operate the properties, and the capital for the purpose of funding such properties. The Company's key asset is the Roche Bay Project. Many competitors both explore for and mine iron ore on a worldwide basis. Such competition may result in the Company being unable to acquire additional properties, to recruit or retain qualified employees, or to acquire the capital necessary to fund its operations and develop its

properties. The inability of the Company to compete with other mining companies for these resources would have a material adverse effect on the results of operations and business of the Company.

### **Dependence on Management**

The success of the operations and activities of the Company are dependent to a significant extent on the efforts and abilities of the management of the Company. Investors must be willing to rely to a significant extent on the discretion and judgment of the management of the Company. The Company does not maintain key employee insurance on any of its employees.

### **Conflicts of Interest**

The directors and officers of the Company may serve as directors or officers of other natural resource companies or companies providing services to the Company, or they may have significant shareholdings in other resource companies and, to the extent that such other companies may participate in ventures in which the Company may participate, the directors of the Company may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In the event that such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms.

From time to time, several companies may participate in the acquisition, exploration and development of natural resource properties, thereby allowing for the participation in larger programs, permitting involvement in a greater number of programs, and reducing financial exposure in respect of any one program. It may also occur, that a particular Company will assign all or a portion of its interest in a particular program to another of these companies due to the financial position of the Company making the assignment.

In accordance with the laws of Canada, the directors of the Company are required to act honestly, in good faith and in the best interest of the Company. In determining whether or not the Company will participate in a particular program and the interest therein to be acquired by it, the directors will primarily consider the degree of risk to which the Company may be exposed and its financial position at the time.

### **L. Other MD&A Requirements**

Additional information related to the Company is filed electronically on the System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com).