

## **SENNEN RESOURCES LTD.**

### **Management Discussion and Analysis**

#### **For the Six Months Ended July 31, 2009**

This management discussion and analysis of financial position and results of operations (“MD&A”) is prepared as at September 24, 2009 and should be read in conjunction with the unaudited interim consolidated financial statements for the six months ended July 31, 2009 of Sennen Resources Ltd. (“Sennen” or the “Company”) with the related notes thereto. Those unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements and, as a result, do not contain all disclosure required under generally accepted accounting principles for annual financial statements. Accordingly, readers may want to refer to the January 31, 2009 audited consolidated financial statements and the accompanying notes.

All dollar amounts included therein and in the following MD&A are expressed in Canadian dollars except where noted. This discussion contains forward-looking statements that involve risks and uncertainties. Such information, although considered to be reasonable by the Company’s management at the time of preparation, may prove to be inaccurate and actual results may differ materially from those anticipated in the statements made. Additional information on the Company is available for viewing on SEDAR at [www.sedar.com](http://www.sedar.com).

#### **Description of Business**

The Company is a natural resource company engaged in the acquisition and exploration of mineral properties. The Company trades on the TSX Venture Exchange under the symbol SN.

#### **Overall Performance**

The Company held title to the Ownaview, Middlemount and Collingwood coal deposits in Queensland, Australia since 1998. In fiscal 2008, the Company completed the sale of the Middlemount coal deposit to Custom Mining (Middlemount) Pty Ltd. for a total sale price of AUD\$15,000,000 with the final tranche of AUD\$4.5 million being received in June 2009. Additionally during fiscal 2008, the Company received a total sale price of AUD\$10,000,000 from Mitsui Coal Holdings for the sale of Ownaview and Collingwood coal deposits.

The global credit and financial crisis has resulted in a severe decline in publicly traded share prices with the resource sector being particularly hard hit and although the Company is currently evaluating several potential resource acquisitions it will only consider projects with the potential for increasing shareholder value over the medium to long term.

Should market conditions improve, the Company, which at mail date of these interim financial statements, has over \$17 million in cash and cash equivalents and will be able to respond to or pursue potential opportunities that may present themselves in the months to follow. The Company’s financial instruments consist of cash, and short-term deposits.

## Results of Operations

During the three months ended July 31, 2009, the Company recorded net income of \$314,657 compared to net income of \$438,683 for the three months ended July 31, 2008. The significant changes during the three months ended July 31, 2009 compared to the three months ended July 31, 2008 are as follows:

- During the three months ended July 31, 2009, the Company incurred directors' fees of \$15,000 as compared to \$5,000 during the three months ended July 31, 2008. Two additional independent directors were remunerated during the current period. Each of the three independent directors is paid \$5,000 per quarter.
- Property investigation costs decreased to \$Nil during the three months ended July 31, 2009 from \$16,269 during the three months ended July 31, 2008 when the Company hired certain geological consultants to identify projects of merit subsequent to the sale of the coal deposits.
- During the three months ended July 31, 2009, the Company recorded a foreign exchange gain of \$429,846 compared to a gain of \$391,061 recorded in the three months ended July 31, 2008. This was a result of the currency fluctuations between the Canadian and Australian dollars. The majority of the Company's cash and cash equivalents are currently held in Australian dollars.
- During the three months ended July 31, 2009, office and miscellaneous expense decreased to \$9,334 from the \$88,149 incurred during the three months ended July 31, 2008 primarily as a result of \$82,927 recorded for interest expense on income taxes payable by Huisan Inc., the Company's wholly-owned subsidiary, in connection with the sale of the Middlemount deposit in the comparative period.
- During the three months ended July 31, 2009, the Company incurred professional fees of \$53,091 as compared to the \$80,905 incurred during the three months ended July 31, 2008. This change was related to an increase in the year-end audit fee during the comparative period.
- Interest income of \$90,662 was earned during the three months ended July 31, 2009 on cash held in short-term investments from the sale of the coal deposits. This compares to interest income of \$366,351 earned during the three months ended July 31, 2008, which included \$113,698 of accreted interest as a result of the outstanding receivable on the sale of the Middlemount deposit. The decrease during the current period was a result of the drop in interest rates from that of the comparative period.
- During the six months ended July 31, 2009, the Company had earnings of \$981,996 compared to earnings of \$1,617,468 for the six months ended July 31, 2008. The decrease over the comparative period was primarily attributed to an interest income decrease during the current period from \$714,316 in 2008 to \$197,916 as a result of the drop in interest rates from that of the comparative period. Also, stock-based compensation expense of \$738,068 (2008 - \$3,731) was recorded during the six months ended July 31, 2009 with respect to 5,650,000 options granted during the current period. Pursuant to the Company's stock option plan, this amount represents the fair value of the vested options. This is a non-cash transaction. The Company also incurred \$52,888 in travel and related costs in the current period compared to \$38,545 in 2008. Increased travel related to identifying possible new property acquisitions for the Company. Property investigation decreased to \$Nil from the \$32,502 incurred during the six months ended July 31, 2008 for remuneration of certain geological consultants. A foreign exchange gain of \$1,903,306 was recorded during the six months ended July 31, 2009 compared to a gain of \$1,470,311 recorded in the comparative period. As a result of currency fluctuations between Canadian and Australian dollars. Lastly, office and miscellaneous decreased from \$178,669 in the six months ended July 31, 2008 to \$16,155 in the six months ended July 31, 2009. This was primarily a

result of the \$171,662 interest expense on income taxes payable by Huisan Inc., the Company's wholly-owned subsidiary, in connection with the indirect sale of the Middlemount deposit.

### Quarterly Information

The following table sets forth selected unaudited consolidated financial information prepared by management of the Company.

### Summary of Quarterly Results

	Three Months Ended July 31, 2009	Three Months Ended April 30, 2009	Three Months Ended January 31, 2009	Three Months Ended October 31, 2008
Total assets	\$17,079,401	\$19,246,168	\$17,633,575	\$18,316,470
Working capital	17,015,272	16,700,614	15,295,208	15,467,595
Interest income	90,662	107,253	216,015	367,362
Net income (loss)	314,657	667,339	(172,387)	(2,538,325)
Earnings (loss) per share - basic/diluted	0.01/0.01	0.01/0.01	(0.01)/(0.01)	(0.05)/(0.05)

  

	Three Months Ended July 31, 2008	Three Months Ended April 30, 2008	Three Months Ended January 31, 2008	Three Months Ended October 31, 2007
Total assets	\$21,447,080	\$24,240,172	\$21,813,348	\$22,976,655
Working capital	18,005,920	13,578,492	12,012,900	17,973,420
Interest income	366,351	347,965	450,444	154,355
Net income (loss)	438,683	1,178,785	(6,376,064)	(663,235)
Earnings (loss) per share - basic/diluted	0.01/0.01	0.03/0.03	(0.14)/(0.14)	(0.01)/(0.01)

The unaudited consolidated financial statements for the six months ended July 31, 2009 have been prepared on a going concern basis which assumes that the Company will be able realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future.

### Fiscal 2010

During the second quarter of fiscal 2009, the Company received AUD\$4,500,000 (CDN\$4,133,250), representing the third and final tranche in connection with the sale of the Company's interest in the Middlemount coal deposit. Also during this quarter, the Company paid AUD\$2,879,842 (CDN\$2,526,773) towards the income taxes payable by Racehorse Investment Inc. ("Racehorse"), the Company's wholly-owned subsidiary, in connection with the sale of the Collingwood and Ownaview coal deposits. Lastly, the Company reported net income of \$314,657 primarily a result of the \$429,846 foreign exchange gain recorded by the Company.

During the first quarter of fiscal 2010, the Company reported a gain of \$667,339 primarily a result of the \$1,416,524 foreign exchange gain recorded during this quarter. The Company's funds from the sale of its coal assets are mostly held in Australian dollars. The fiscal 2010 first quarter gain was partially offset as the Company recorded a \$738,068 stock based compensation expense on the granting of 5,650,000 stock options exercisable at \$0.17 per share over a five year period.

### **Fiscal 2009**

During the fourth quarter of fiscal 2009, the Company reported a loss of \$172,387. During this quarter, management recorded a recovery of income tax expense of \$320,481. This was a result of the overestimate in income tax payable recorded in the year January 31, 2008.

During the third quarter of fiscal 2009, the Company reported a loss of \$2,538,325, primarily a result of the \$2,667,553 loss on foreign exchange on its funds held in Australian dollars. The Company also earned \$367,362 in interest income during the third quarter. Lastly, during the third quarter the Company paid \$89,348 of income taxes on the sale of the Middlemount coal deposit.

During the second quarter of fiscal 2009, the Company reported a net income of \$438,683, primarily a result of interest income totaling \$366,351 and a foreign exchange gain of \$391,061. Included in interest income was \$113,698 of accreted interest income. The Company also paid \$3,377,500 (AUD\$3,500,000) towards taxes payable on the sale of the Middlemount deposit during the second quarter of fiscal 2009. Lastly, during the second quarter, the Company received the second installment payment of \$4,359,150 (AUD\$4,500,000) from the sale of the Middlemount deposit.

During the first quarter of fiscal 2009, the Company reported a net income of \$1,178,785. This was primarily attributed to the gain on foreign exchange of \$1,079,250. Additionally, the Company earned \$347,965 in interest income of which \$116,725 was accreted interest income in connection with the net present value calculation on the Company's receivables. Also in the first quarter of fiscal 2009, the Company received \$699,500 through the exercise of 3,497,500 stock options at an exercise price of \$0.20 per share.

### **Fiscal 2008**

In the fourth quarter of fiscal 2008, the Company earned \$450,444 in interest income on short-term deposits held by the Company, of which \$258,141 was the accreted interest in connection with the net present value calculation on the Company's receivables. Additionally, in the fourth quarter taxes payable were calculated at \$6,059,000 on the sale of the coal deposits.

During the third quarter of fiscal 2008, the Company recognized a foreign exchange loss of \$634,606 as a result of the currency fluctuation of the Australian dollar on the Company's approximate \$15.9 million Australian dollars held in cash and equivalents. Also, during the third quarter the Company earned \$154,355 in interest income primarily on these short-term deposits.

### **Liquidity and Capital Resources**

The Company has no operational cash flow. At July 31, 2009, the Company had working capital of \$17,015,272, inclusive of cash and cash equivalents of \$17,059,895. This compares to working capital of \$15,295,208 at January 31, 2009, inclusive of cash on hand and equivalents of \$14,023,407.

The increase in cash during the six months ended July 31, 2009, was a result of the approximate \$1,900,000 foreign exchange gain on cash and cash equivalents held by the Company in Australian dollars. There was a significant increase in the Australian dollar against the Canadian dollar as at July 31, 2009. Also, the Company received \$4,133,250 representing the third and final tranche on the sale of the

Middlemount deposit. These amounts were offset by the \$2,526,773 payment for income taxes payable by Racehorse.

As at July 31, 2009, the Company had current and total assets of \$17,059,895 and total liabilities of \$64,129. There is no long-term debt. There are no known trends in the Company's liquidity or capital resources.

The Company has sufficient funds on hand to fund its operating expenses for the balance of fiscal 2010.

Cash flow from operations to date has not satisfied the Company's operational requirements. The development of the Company may in the future depend on the Company's ability to obtain additional financings. In the past, the Company has relied on the sale of equity securities to meet its cash requirements. Future developments, in excess of funds on hand, will depend on the Company's ability to obtain financing through joint venturing of projects, debt financing, equity financing or other means. There can be no assurances that the Company will be successful in obtaining any such financing or in joint venturing its properties.

### **Related Party Transactions**

The Company entered into the following transactions with related parties during the period:

- a) Paid or accrued consulting fees of \$90,000 (2008 - \$90,000) to a company controlled by Ian Rozier, a director of the Company.
- b) Paid or accrued rent of \$33,000 (2008 - \$32,000) to a company controlled by Mr. Rozier.
- c) Paid or accrued management fees of \$60,000 (2008 - \$60,000) to a company controlled by Barbara Dunfield, the Chief Financial Officer of the Company.
- d) Paid or accrued director's fees of \$30,000 (2008 - \$10,000) to James Robertson ("Robertson"), Merfyn Roberts ("Roberts") and Douglas B. Hyndman ("Hyndman"), directors of the Company.

As of July 31, 2009, accounts payable included \$10,000 (January 31, 2009 - \$10,000) owed to Robertson, Roberts and Hyndman.

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

### **Off Balance Sheet Arrangements**

The Company has no off Balance Sheet arrangements.

### **Adoption of New Accounting Standards and Accounting Pronouncements**

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

Effective February 1, 2009, the Company adopted CICA Section 3064 "Goodwill and Intangible Assets", which replaced CICA Handbook sections 3062, "Goodwill and Other Intangible Assets" and 3450, "Research and Development Costs", as well as EIC-27, "Revenues and Expenditures During the Pre-operating Period", and part of Accounting Guideline 11, "Enterprises in the development stage". Under previous Canadian standards, a greater number of items were recognized as assets than are recognized under International Financial Reporting Standards ("IFRS"). The provisions relating to the definition and initial recognition of intangible assets reduce the differences with IFRS in the accounting for intangible assets. The objectives of CICA 3064 are: 1) to reinforce the principle-based approach to the recognition

of assets; 2) to establish the criteria for asset recognition, and; 3) to clarify the application of the concept of matching revenues and expenses such that the current practice of recognizing asset items that do not meet the recognition criteria is eliminated. The new standard also provides guidance for the recognition of internally developed intangible assets (including research and development activities), ensuring consistent treatment of all intangible assets. The portions in the new standard relating to goodwill remain unchanged.

The adoption of this standard had no impact on the Company's presentation of its financial position or results of operations as at July 31, 2009.

### **Credit Risk and the Fair Value of Financial Assets and Financial Liabilities**

In January 2009, the Emerging Issues Committee of the CICA issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" which applies to interim and annual financial statements for periods ending on or after January 20, 2009. The adoption of this standard had no impact on the Company's presentation of its financial position or results of operations as at July 31, 2009.

### **Mining Exploration Costs**

On March 27, 2009, the Emerging Issues Committee of the CICA approved an abstract EIC-174, "Mining Exploration Costs", which provides guidance on capitalization of exploration costs related to mining properties in particular and on impairment of long-lived assets in general. The adoption of this abstract had no impact on the Company's presentation of its financial position or results of operations as at July 31, 2009.

### **New Accounting Pronouncements Effective in Future Periods**

In 2006, the AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transitional date of February 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended January 31, 2011.

The CICA issued three new accounting standards in January 2009: Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements" and Section 1602, "Non-Controlling Interests". These new standards will be effective for fiscal years beginning on or after January 1, 2011. Section 1582 replaces section 1581 and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to IFRS 3, "Business Combinations". Section 1601 and 1602 together replace section 1600, "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS-27, "Consolidated and Separate Financial Statements". The Company is in the process of evaluating the requirements of the new standards.

## **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

### **Fair Values**

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

### **(a) *Financial Risk Management***

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company considers the fluctuations of financial markets and seeks to minimize potential adverse effects on financial performance.

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

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management process.

#### *Credit Risk*

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligation. The Company's exposure to credit risk includes cash and receivables. The Company reduces its credit risk by maintaining its bank accounts at large international financial institutions. The Company's receivables consist primarily of tax receivables due from federal government agencies. The maximum exposure to credit risk is equal to the fair value or carrying value of the financial assets.

#### *Liquidity Risk*

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments.

#### *Market risk*

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

##### **(a) Interest rate risk**

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

##### **(b) Foreign currency risk**

The Company is exposed to foreign currency risk on fluctuations in exchange rates in Australian dollars. The effect of a 1% change in foreign exchange is approximately \$170,000.

##### **(c) Price risk**

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

### **Risks and Uncertainties**

The business of mineral exploration and extraction involves a high degree of risk. Few properties that are explored ultimately become producing mines. Other risks facing the Company include competition for

mineral properties, environmental risks, fluctuations in metal prices, fluctuations in exchange rates, share price volatility and uncertainty of obtaining additional financing. The Company will require additional capital to pursue its exploration projects. Given the nature of capital market demand for speculative investment opportunities, there is no assurance that additional financing will be available for the appropriate amounts and at the times required. The impact of fluctuations in the price of gold and other minerals is a risk to the Company's ability to advance its properties as well as future profitability and cash flow. As the price for gold and other minerals is denominated in U.S. dollars, the Company is also at financial risk as the currency exchange rate between Canadian and U.S. dollars fluctuates. If the Canadian dollar strengthens against to the U.S. dollar, revenue from future gold and other mineral sales, which is generated in U.S. dollars, would convert to fewer Canadian dollars available to pay for operating costs that are almost entirely incurred in Canadian dollars. The ability of the Company's exploration projects to be successfully permitted to be developed as mining projects requires the approval of regulatory agencies which are beyond the Company's control.

### **Commitments**

The Company leases office premises under an operating lease with a company controlled by a director. During the year ended January 31, 2009, the Company extended term of its operating lease for an additional three year term, to expire in March 2012. The landlord has the right to increase the annual base rent by 10% on April 1, 2010 and 2011. The lease provides for basic lease payments as follows:

2010	\$ 33,000
2011	66,000
2012	66,000
2013	<u>11,000</u>
	<u>\$ 176,000</u>

The Company entered into management contracts with companies having directors in common. The Company has agreed to pay the companies a combined total of \$25,000 per month. The contracts can be terminated by the Company by providing 60 days written notice. If termination of services is without cause, the Company will be obligated to pay 36 months of services to one of the director's company and 24 months to a company owned by an officer of the Company.

### **Contingencies**

The Company is not aware of any contingencies or pending legal proceedings as of September 24, 2009.

### **Additional Information**

As at September 24, 2009, the Company had:

- a) 47,998,665 common shares issued and outstanding;
- b) 5,700,000 stock options granted at exercise purchase prices ranging from \$0.17 to \$0.20 per share and expiration dates from November 2011 to March 2014; and
- c) No share purchase warrants are outstanding.

### **Disclaimer**

The information provided in this document is not intended to be a comprehensive review of all matters concerning the Company. It should be read in conjunction with all other disclosure documents provided

by the Company, which can be accessed at [www.sedar.com](http://www.sedar.com). No securities commission or regulatory authority has reviewed the accuracy or adequacy of the information presented herein.

### **Cautionary Statement on Forward Looking Information**

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