

**WOODRUFF CAPITAL MANAGEMENT INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDING DECEMBER 31, 2004**

The following discussion of the results of operations of the Company, dated March 28, 2005, for the fiscal year ending December 31, 2004, and in comparison to the prior year, should be read in conjunction with the Company's Consolidated Financial Statements and accompanying notes for the years ended December 31, 2004 and 2003.

**Description of Business**

Woodruff Capital Management ("the Company") is a Tier-2 Mining Issuer engaged in the exploration of base metals in properties located in Quebec, Ontario and Newfoundland. The Company was incorporated on December 13, 2002, and is a reporting issuer in British Columbia, Alberta and Ontario. The Company's fiscal year end is December 31 and trades on the TSX Venture Exchange under the symbol WOO.

**Significant Accounting Policies**

A detailed summary of the Company's significant accounting policies is included in note 2 of the Company's Annual Audited Financial Statements for the years ended December 31, 2004 and 2003.

**Significant Events**

On September 3, 2004, the Company announced the closing of a Qualifying Transaction with Inmet Mining Corporation, where Inmet granted to the Company an option (the "Option") to earn 50% of Inmet's interest in each of nine exploration properties located in Quebec, Ontario and Newfoundland (collectively, the "Properties"). Inmet also agreed to transfer its interest in certain office assets and data (the Office Assets and Data) to the Company in consideration for 400,000 common shares.

The Company also completed a C\$2.6 million private placement financing on September 3, 2004. The Company issued 2,769,232 flow-through common shares and 1,230,770 units. Each unit is comprised of one common share that is not a flow-through share and one warrant entitling the holder thereof, for a period of two years after the closing date, to purchase an additional common share of the Company at a price of \$1.02 per common share.

In connection with the Option on one or more of the Properties, the Company reimbursed Inmet on the Closing Date for C\$588,378 expenditures made on the Properties from December 1, 2003 until July 31, 2004 (the "Interim Expenditures"). On April 23, 2004, the Company announced that it entered into a letter agreement with Inmet (which was to become the Qualifying Transaction). From Dec. 1/2003 to April 23/2004, Inmet incurred expenditures of C\$345,425. From April 23/2004 to July 31/2004, Inmet incurred

exploration expenses acting as agent for the Company in the amount of C\$242,953. Total Interim Expenditures from December 1, 2003 to July 31, 2004 were therefore C\$588,378. Subsequently, the Company paid Inmet C\$34,123 for August. Total Interim Expenditures paid to Inmet were therefore C\$622,501.

As of Dec. 31, 2004, the Company had spent (including Interim Expenditures) \$1,846,467 on the Inmet Properties. In accordance with the Option Agreement, the Company has thus completed Phase One expenditures. The Company may exercise its Option in respect of any one or more of the Properties, by completing C\$3 Million of "Phase Two" exploration expenditures (pro-rated based on Inmet's interest in each project) on each such property, prior to June 30, 2009.

With respect to the transfer of Office Assets and Data from Inmet to the Company, the Company issued to Inmet 400,000 common shares of Woodruff Capital Management stock. These common shares could not be traded prior to March 4, 2005, in compliance with statutory requirements and a six-month hold period provided for in the letter agreement dated April 23, 2004 between the Company and Inmet.

The Company also announced in September, 2004 that Dr. Gerald Riverin, Inmet's former General Manager for North American Exploration, accepted the position of President of the Company, and that Mr. Orest Zajcew, CFA, Ph.D., accepted the positions of CFO and Corporate Secretary.

## **2004 Exploration Program**

The Company initiated its first exploration activities in 2004. From January until August, work was carried out by Inmet as agent for the Company. During that period, 3 holes were drilled at the Landrienne project in Quebec and one hole at the Robert's Arm project in Newfoundland. At Robert's Arm, altered and weakly mineralized felsics were intersected in the drilling and a significant distant conductor was detected by borehole geophysics. The conductor will be further detailed in 2005 and drill tested if warranted. Also, geophysical surveys were completed at the Selbaie West and Landrienne projects in Quebec. At Landrienne, the geophysical survey outlined one excellent conductor which will be drill tested in 2005.

After the closing of the Inmet transaction on September 3, the Company began managing its own exploration activities and focused on the Lemoine project, where a diamond drilling program totalling 8,871 metres in 11 holes was completed in 2004. Six of the holes tested Pulse EM anomalies identified either from borehole or surface geophysics, two holes tested the past-producing Lemoine mine stratigraphic horizon at depths of 600m and 900m respectively, and the remaining three holes targeted a newly identified, previously untested potential mineralized horizon in the footwall of the Lemoine deposit. Although no economic intersections were obtained, large altered and disseminated sulphide zones continued to be intersected and helped refine the geological model for future work. Results were encouraging enough to justify keeping the Loubel option in good standing and making a \$75,000 private placement in Loubel. Additional drilling is

planned for the summer of 2005. The Lemoine project encloses the former producing Lemoine mine where approximately 758,070 tonnes of massive sulphides were extracted between 1975 and 1983, with a grade of 4.2% Cu, 9.6% Zn, 4.2 g/t Au and 83.4 g/t Ag. In addition to the drilling, a deep penetrating EM survey was carried out on part of the property.

At the Noel Paul's Project in Newfoundland, located about 10 km from AUR Resources' Duck Pond Project, the Company's partner, Cornerstone Capital Resources completed a 333 m diamond drill hole, targeting Buchans-type, polymetallic massive sulphide deposits and testing a deep TDEM geophysical anomaly approximately 700m along strike from the Haven Steady VMS prospect. A 45m thick sequence of extensively altered and mineralized felsic volcanic rocks was encountered, carrying highly anomalous copper values ranging up to 4.5% Cu over 5 cm and 0.92% Cu over 0.45m. The borehole was surveyed by down-hole Pulse EM geophysics which showed that the hole was stopped about 50 metres short of a strong conductor. The hole will be deepened in 2005 to test that conductor.

One hole was drilled at the Hébécourt project to explore the top of a felsic unit but no significant results were obtained; a borehole EM survey is planned in this hole. Finally, geophysical surveys (TDEM) were completed at the Loveland project in the Timmins area. A number of significant conductors were detected but their significance has yet to be assessed in the light of previous drilling in the area.

### **Selected Financial Information**

A summary of selected financial information for the years ended December 31, 2004 and December 31, 2003 is as follows:

	<u>Year Ended December 31, 2004</u>	<u>Year Ended December 31, 2003</u>
Total Revenue	\$0	\$0
Net Income (Loss)		
- Total	\$(275,052)	\$(10,277)
- Per Share	\$(0.05)	\$(0.00)
Total Assets	\$2,915,518	\$245,704
Long-Term Financial Liabilities	\$0	\$0

For the years ended 2003 and 2004, the Company reported no discontinued operations and declared no cash dividends.

## **Results of Operations**

The Company's loss in 2004 was C\$275,052 compared with an operating loss of C\$10,227 for the same period in 2003. During the third quarter, the Company closed its Qualifying Transaction with Inmet Mining Corporation pursuant to which Inmet granted to the Company an Option to earn 50% of Inmet's interest in each of nine exploration properties located in Quebec, Ontario and Newfoundland. The Company also completed the closing of a C\$2.6 million financing. The TSX Venture Exchange approved the Qualifying Transaction and has classified Woodruff Capital Management as a Tier-2 Mining Issuer. Before Q3, 2004 the Company was classified as a Capital Pool Company, with no properties or businesses and with only cash as assets. The financial performance of 2004 is therefore not comparable to previous years. In Q3 2004, the Company expensed all exploration expenses. However, for the 2004 financial statements and going forward, the costs of exploration properties and deferred exploration expenditures are carried at cost until they are brought into production, at which time the costs are depleted on a unit-of-production method based on proven and probable reserves. If a property is subsequently determined not to be economically viable, the property and related deferred costs are written down to net realizable value.

As part of the Qualifying Transaction, the Company reimbursed Inmet on the Closing Date for the C\$588,378 of expenditures Inmet made on the Properties from December 1, 2003 to July 31, 2004. The Company further reimbursed Inmet C\$34,123 for August expenditures, bringing total Interim Expenditures paid to Inmet to C\$622,501. In accordance with the Option Agreement, the Company completed Phase One of the Agreement having spent over \$1.8 million on the Properties as of December, 2004. In 2004, the Company spent \$949,059 at Lemoine, \$149,320 at Robert's Arm, and \$175,901 at Landrienne. The remainder was spread amongst the other Properties.

## **Liquidity and Capital Resources**

At December 31, 2004, the Company had working capital of C\$1,263,727 compared to C\$178,679 as at December, 2003. The significant changes to working capital involved the C\$2.6 Million private placement completed September 3, 2004 and the addition of \$448,811 in refundable tax credits and refundable mining duties due from the Quebec government as a result of its exploration expenditures in Quebec during the year ended December 31, 2004. 1675 broker warrants were exercised in 2004. On March 28, 2005, the Company announced a non-brokered private placement to issue up to 1,400,000 shares at \$0.75 per share, to raise up to \$1,050,000. The Company anticipates receiving approximately \$448,811 in refundable tax credits and refundable mining duties from the Quebec government as a result of its exploration expenditures in Quebec during the year ended December 31, 2004. Working capital is being used for exploration as described under the Outlook section of this report and to support corporate overhead.

## **Related Party Transactions**

During 2003 and 2004, the Company shared its premises with other companies that have common directors, and the Company reimburses the related companies for their proportional share of the expenses. Management services were provided to the Company by certain of its shareholders during the 2003 and 2004 fiscal years at no charge. The fair value of these services cannot be reasonably determined.

## **Financial Instruments**

### **Fair Value:**

Canadian generally accepted accounting principles require that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates. The carrying amounts for cash, sundry receivables and accounts payable and accrued liabilities approximate fair market value due to the short-term nature of these instruments.

### **Commodity Price Risk:**

The ability of the Company to develop its properties and the future profitability of the Company is directly related to the market price of certain minerals.

## **Changes In Accounting Policies**

The Company adopted the following accounting policies during in 2004 (there were no accounting policy changes in 2003):

### **Generally Accepted Accounting Principles:**

Effective January 1, 2004, the Company adopted the new CICA Handbook section 1100, Generally Accepted Accounting Principles ("GAAP"). The new standard clarifies what constitutes Canadian GAAP, identifies its sources and describes the order of authority of these sources. It requires the Company to identify and apply every primary source of GAAP and to adopt policies and disclosures that are consistent with the primary sources of GAAP on a prospective basis. Application of the new accounting standard did not have an effect on the current year's financial position or results of operations.

Stock-based compensation:

The Company follows the recommendations of CICA Handbook Section 3870, Stock-based Compensation and Other Stock-based Payments. This Section establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. These recommendations require that compensation for all awards made to non-employees and certain awards made to employees be measured and recorded in the financial statements at fair value. This Section also sets out a fair value based method of accounting for stock options issued to employees. Effective January 1, 2004, the Company adopted the revised recommendations of Section 3870 on a prospective basis for all stock-based awards. Accordingly, no adjustment was required to the 2003 and 2004 opening deficits. For the year ended December 31, 2004, the amount of compensation cost recognized in income and credited to contributed surplus was \$50,400.

**Additional Disclosure for Venture Corporations without Significant Revenue**

The following table sets forth a breakdown of material components of the general and administration costs of the Company for the year ended December 31, 2004.

	<u>Year ended December 31, 2004</u>	<u>Year ended December 31, 2003</u>
Head Office Travel	\$6,283	
Head Office Salaries	\$12,253	
Bank Charges	\$525	
Consulting Fees	\$915	
Filing Fees	\$400	
Office & General	\$50	\$227
Press Releases	\$2,416	
Transfer Agent Fees	<u>\$9,881</u>	_____
Total	<u>\$32,723</u>	<u>\$227</u>

## Outstanding Share Data

As at December 31, 2004, the following is a description of the outstanding equity securities and convertible securities previously issued by the Company:

	<u>Authorized</u>	<u>Outstanding</u>
Voting or Equity Securities Issued and Outstanding	Unlimited Common Shares	9,068,341 Common Shares
Securities convertible or exercisable into voting or equity securities-stock options	Stock Options to acquire up to 10% of outstanding Common Shares	Stock options to acquire 466,665 Common Shares*
Securities convertible or exercisable into voting or equity securities-agents option	Agents option to acquire up to 200,000 Common Shares	Agents Option to acquire up to 198,325 Common Shares**

\*In January, 2005 the Company announced it had granted 440,000 stock options to its directors, officers, and consultants to purchase common shares of the Company at an exercise price of \$0.66 per share expiring Jan. 18, 2010.

\*\*The broker warrants expire September 4, 2005.

The Company has the following warrants outstanding as at December 31, 2004:

<u>Number of Shares</u>	<u>Price per Share</u>	<u>Expiry Date</u>
1,230,770	\$1.02	September 3, 2006

## Subsequent Events

On March 1, 2005, the Company signed a letter of intent to purchase a 70% interest in the Estrades Mine property from Atlas Precious Metals Inc. The former producing Estrades Mine is located 150 kilometres north of Rouyn-Noranda, Quebec, and was in operation from July 1990 to May 1991. The ore deposit was a precious metal-rich volcanogenic massive sulphide deposit from which Breakwater Resources reported to have sent for milling 174,946 tonnes of massive sulphide ore grading 1.14% Cu, 12.93% Zn, 6.35 g/t Au and 173.2 g/t Ag. Breakwater reports remaining reserves in the Main Zone of 456,415 tonnes grading 0.84% Cu, 11.51 % Zn, 5.79 g/t Au and 205.81 g/t Ag to a depth of 600 metres. These resource estimates were prepared by Breakwater and Wright Engineers in accordance with internal policies following generally accepted industry reporting standards. However, they were made prior to February 1, 2001 and are not supported by a report done in compliance with National Instrument 43-101, which was not existing policy at that time. The Company has not thoroughly verified the classification of the stated historical resources under National Instrument 43-101 and therefore the above-quoted historical estimate should not be relied upon. Woodruff management believes, however, that the reported historical resource estimates are relevant and indicate that high grade resources may extend below the mined out area. A full NI-43-101 compliant technical report is currently in preparation on the Estrades Mine and adjacent property.

## **Outlook**

The Company has developed a strategic focus on base metal exploration in areas with infrastructure favorable for mining development. Accordingly, it will focus its work in the Abitibi Belt of Quebec and Ontario, and in the Central Belt of Newfoundland. The Company is working on high quality VMS projects including nine properties optioned from Inmet Mining and two 100% owned properties. Two of Woodruff's projects enclose former high grade VMS producers, namely Lemoine and Estrades, and in both cases the focus will be on exploring the properties at depth and on strike to locate additional deposits. In 2005, the Company anticipates to be drilling about 20,000 metres on 7 different properties, including at Lemoine and Estrades.

## **Forward-Looking Statements**

This MD&A contains certain forward-looking statements related to expected future events, future spending levels and the future financial and operating results of the Company. Forward-looking statements are subject to inherent risks and uncertainties including but not limited to, market and general economic conditions, changes arising as drilling results unfold, changes in regulatory environments affecting the Company and the availability and terms of subsequent financings. Mining exploration itself contains a high degree of risk and uncertainty. Risks include but are not limited to unfavourable drill results including uneconomic grades or costs of recovery, falling commodity prices, key personnel changes, environmental legislation, federal and provincial legislation, and falling capital markets. Consequently, actual results and events may differ materially from those included in, contemplated or implied by such forward-looking statements for a wide variety of reasons.