

# **MANO RIVER RESOURCES INC.**

## **Management's discussion and analysis**

**For the period ended July 31, 2004**

---

The following discussion is management's assessment and analysis of the results and financial condition of Mano River Resources Inc. (the "Company" or "Mano") and should be read in conjunction with the accompanying unaudited consolidated financial statements for the period ended July 31, 2004 and related notes. Unless otherwise indicated all amount are in US dollars (USD). The date of this management's discussion and analysis is September 15, 2004.

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com) or on the Company's website at [www.manoriver.com](http://www.manoriver.com).

### **Description of Business**

Mano River Resources Inc. is an exploration-stage company engaged in the acquisition, exploration and development of gold and diamond properties. The Company, through its subsidiaries, holds interests in properties located in Liberia, Sierra Leone and Guinea, with the aim of developing them to a stage where they can be exploited economically or arranging joint ventures whereby other companies provide funding for development and exploitation.

### **Forward-looking statements**

Certain information included in this discussion may constitute forward-looking statements. Forward-looking statements are based on current expectations and entail various risks and uncertainties. These risks and uncertainties could cause or contribute to actual results that are materially different from those expressed or implied.

### **Trends**

In recent years, the mineral exploration industry has been through a very difficult period, with low prices for both precious and base metals. Lack of investor interest in the sector in general led to low market capitalizations and large companies found it was easier to grow by purchasing companies or mines outright, rather than to explore for them. This has led to downsizing of the exploration staffs of large companies and many professionals took early retirement or left the industry to pursue other careers. As a result of these trends, there are few good gold projects in the pipeline and a developing shortage of experienced explorationists. With improving metal prices and burgeoning demand, especially from Asia, supply difficulties may occur in the near future and there is a discernible need for good exploration projects based on sound geological work. As junior companies (many of which are staffed by geologists who were formerly with large companies) find it easier to raise funds, they are tending to lead the way in identifying properties of merit to explore.

### **Risks and uncertainties**

The Company is subject to a number of risk factors due to the fundamental nature of the mining business in which it is engaged, not least adverse movements in commodity prices, which are impossible to forecast. Mano seeks to counter this risk as far as possible by selecting exploration areas on the basis of their recognized geological potential to host high grade (gold and diamond) deposits. The area of under-explored Archaean terrain on which the Company focuses in West Africa is also subject to a second significant risk, namely, political. While the region has suffered serious civil unrest and armed conflict in the recent past

(which is the basic reason why it remained under-explored), conditions have improved markedly in recent years. Mano field teams have operated safely in Sierra Leone since early 2002 and, following the completion of the comprehensive UN-led disarmament and retraining programme for former combatants in Liberia, Mano is confident that conditions will allow work to recommence on its licences in that country after the rainy season, i.e. as early as October, 2004.

## **Industry**

The Company is engaged in the exploration of mineral properties, an inherently risky business, and there is no assurance that an economic mineral deposit will ever be discovered and subsequently put into production. Most exploration projects do not result in the discovery of commercially mineable ore deposits. The geological focus of the Company is on areas in which the geological setting is well understood by management and the technological tools it employs are regularly updated to better focus exploration efforts.

## **Reserve and resource estimates**

The estimation of mineral resources and reserves is a subjective process and the accuracy of any such estimates is a function of the quality of available data, and of engineering and geological interpretation and judgement. No assurances can be given that the volume and grade of reserves recovered, and rates of production achieved, will not be less than anticipated.

## **Gold and metal prices**

The price of gold is affected by numerous factors totally beyond the control of the Company, including central bank sales, producer hedging activities, the exchange rate of the U.S. dollar relative to other major currencies, demand, political and economic conditions and production levels. In addition, the price of gold has been volatile over short periods of time due to speculative activities. The prices of other metals and mineral products that the Company may explore for also have the same or similar price risk factors.

## **Cash flows and additional funding requirements**

Mano currently has no revenues from operations. If any of the Company's exploration programs are successful and optionees of properties complete their earn-in, the Company would have to provide its share of on-going exploration and development costs in order to maintain its interest in the projects, or be diluted and reduced to a royalty interest. Substantial additional capital is required to put a property into commercial production. The sources of funds currently available to the Company for its exploration stage projects are either, the sale of equity capital, or, the offering of an interest in its projects to another party. Although Mano presently has sufficient financial resources to undertake its currently planned exploration programs, and has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

## **Exchange rate fluctuations**

Fluctuations in currency exchange rates can significantly impact cash flows. The U.S. dollar exchange rate in particular has varied substantially over time, while the Company has historically raised a large proportion of its equity financing in UK currency. Most of the Company's exploration expenses, meanwhile, are denominated in U.S. dollars. Fluctuations in exchange rates may give rise to foreign currency exposure, either favourable or unfavourable, which may impact financial results. Mano does not engage in currency hedging to offset the risk of exchange rate fluctuation.

## **Environmental**

Mano's exploration and development activities are subject to extensive laws and regulations governing environmental protection. The Company is also subject to various reclamation-related conditions. Although the Company closely follows and believes it is operating in compliance with all applicable environmental regulations, there can be no assurance that all future requirements will be achievable on reasonable terms. Failure to comply may result in enforcement actions causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures.

## **Laws and regulations**

Mano's exploration activities are subject to local laws and regulations governing prospecting, development, production, exports, taxes, labour standards, occupational health and safety, mine safety and other matters. Such laws and regulations are subject to change, can become more stringent, and compliance can therefore become more costly. The Company applies the expertise of its management, its advisors, its employees and contractors to ensure compliance with current laws.

## **Title to mineral properties**

While the Company has undertaken all the customary due diligence in the verification of title to its mineral properties, this should not be construed as a guarantee of title. The properties may be subject to prior unregistered agreements or transfers and title may be affected by undetected defects.

## **Competition**

There is constant competition from other mining exploration companies, with operations similar to those of the Company. Many of the mining companies with which the Company competes have operations and financial resources substantially greater than those of Mano.

## **Dependence on management**

Mano strongly depends on the business and technical expertise of its small management team and there is little possibility that this dependence will decrease in the near term. Mano has no key-man insurance.

## **Operations**

Having selected gold and diamonds as its commodities of prime interest, Mano's fundamental strategy since its inception has been to target highly prospective under-explored Archaean terrain in Liberia, Sierra Leone and Guinea, West Africa. In both Sierra Leone and Liberia, important additions to Mano's property portfolio were announced in the quarter ended April 30th, 2004, culminating in the acquisition of contiguous cross-border licences totalling 25,000 km<sup>2</sup> and extending from the Kono diamond district in Sierra Leone, south eastwards to Kpo in Liberia, where Mano made the first ever discoveries of diamondiferous kimberlite pipes in Liberia in 2001. Drilling is now well under way on the Yirisen gold project in Pampana, Sierra Leone, with extremely encouraging results from the first holes.

## **Corporate**

In May 2004, Mr. Greg Nowak took up his position as Regional Manager for Sierra Leone, Liberia and Guinea, based in Freetown, Sierra Leone. A former Exploration & Country Manager for Ashanti Goldfields in Côte d'Ivoire, Mali & Sierra Leone, Greg will oversee all aspects of Mano's operations, to give effect to the strategy formulated by Mano's Board.

## Exploration projects

Within Mano, there is a continual process of technical assessment and evaluation of the prospectivity of each individual licence held in the portfolio, while political and security risks are also assessed and factored in. Consequently, Sierra Leone has since early 2002 been the country in which the bulk of the exploration activity has taken place. Funding has been divided between advancing the diamond properties in the Kono district and gold properties in the Sula Mountains.

In May 2004, the Company announced that it had signed a Mineral Cooperation Agreement (“MCA”) with the Ministry of Lands Mines & Energy of Liberia. The three-year agreement permits the Company to undertake exploration in an area that covers 15,000km<sup>2</sup> of western Liberia. Importantly, the MCA is contiguous with the Mano’s Regional Exclusive Prospecting Licence (“REPL”) in Sierra Leone, creating a unified land holding in excess of 25,000km<sup>2</sup> underlain by the prospective Archaean Man Craton.

Also in May 2004, in a development of great significance for Sierra Leone as well as for Mano, the Company announced that it had signed a Memorandum of Agreement (MoA) with BHP Billiton to explore for diamonds and other minerals over its recently awarded REPL in Sierra Leone.

In that connection, Sierra Leone’s Honourable Minister for Natural Resources, Mohamed Deen, declared, “The introduction of BHP-Billiton to Sierra Leone by Mano is exceptionally positive news for our country. Companies like Mano have proven crisis-proof and play a key role in attracting investment into Sierra Leone. We are grateful for their perseverance, which is now being rewarded by the introduction of such world-class companies as BHP Billiton and Golden Star Resources as their partners.”

In an important new development for gold exploration in Sierra Leone, in June 2004, Mano and Golden Star Resources Ltd. (“Golden Star”) announced encouraging assay results from the first five diamond drill holes on the Yirisen gold project (see Mano website: [http://www.manoriver.com/mano/projects/gold\\_sl\\_pampana.shtml](http://www.manoriver.com/mano/projects/gold_sl_pampana.shtml) for location and details). Significant intersections include 14m at an average grade of 7.77g/t and 9.07m at an average grade of 15.99g/t. Significant assay results are summarised as follows:

Hole	Easting (m)	Northing (m)	From (m)	To (m)	Total Length (m)	Gold Grade (g/t)
<b>YDD1</b>	1997	2009	39.00	53.00	<b>14.00</b>	<b>7.77</b>
<b>YDD2</b>	1997	2009	53.78	62.85	<b>9.07</b>	<b>15.99</b>
<b>YDD4</b>	1976	1948	15.56	20.00	<b>4.4</b>	<b>3.59</b>
<b>YDD5</b>	2000	1900	23.19	32.00	<b>8.81</b>	<b>0.99</b>

The diamond drilling campaign is supported by a USD1.0 million 12 month budget funded by Golden Star, (which will also cover work on the Sonfon and Nimini Licences), with Mano as operator.

Core is being sawn on site, with samples air-freighted to TransWorld Laboratories in Tarkwa, Ghana, for preparation and fire assay. All sample preparation, crushing and fire assaying procedures of 30g sub-samples pulverised to 95% at minus 100 microns (150#) is carried out at the TransWorld laboratories in Ghana. In addition to Golden Star’s Quality Assurance-Quality Control (QA-QC) programme of duplicates, blanks and certified standards, Mano has implemented its own QA-QC programme with repeat splits of approximately 1 in 50 core samples. As yet, there is insufficient geological information to enable true widths to be calculated

with confidence and, furthermore, no assays have been cut. Independent geological consultants, A C A Howe International, have analysed the duplicate channel sample data and report that the repeatability of samples and the variance of analytical results are well within acceptable limits.

Mano's Qualified Person responsible for supervising the exploration programme is Greg Nowak, who holds an M.S. degree from the Mackay School of Mines, University of Nevada-Reno, USA, is a Fellow of the Society of Economic Geologists and a Member of the Geological Society of America.

Finally, in June 2004, Mano announced the discovery of diamonds and indicator minerals from within the Sonfon licence package in Sierra Leone, held in Joint Venture with Golden Prospect. An initial 250kg stream sample yielded five macro-diamonds weighing a total of 0.841 carats, with two diamonds being over 4mm in size. Stream samples were then processed for kimberlite indicator minerals, results suggesting that kimberlites may be present within the licences and, furthermore, any that kimberlites are likely to be diamond-bearing. Samples from follow-up stream and loam sampling over the two anomalous areas have been dispatched to South Africa for analysis. It is hoped that the results will isolate the source areas, over which ground geophysics can be focused in the dry season, to identify possible drill targets.

Apart from concluding the negotiation and signing of the Mineral Cooperation Agreement, activity in Liberia during the period under review was primarily related to keeping the Mineral Development Agreement licences totalling 1,200km<sup>2</sup> in good standing, and to maintaining the Mano office facility in the capital, Monrovia. With the security situation in the country steadily improving, it is currently anticipated that fieldwork will re-commence during the fourth quarter of 2004, after the rainy season.

There was no exploration activity in Guinea, expenditure being limited to maintaining the licences and Conakry office. Talks regarding possible joint ventures over Mano's gold licences at Missamana and Gueliban continue.

### Subsequent Events – Exploration

In August 2004, gold assay results from a further six diamond drill holes on the Yirisen gold project were announced, as follows:

Hole	Easting (m)	Northing (m)	From (m)	To (m)	Total Length (m)	Gold Grade (g/t)
<b>YDD6</b>	2000	1900	0.60	2.00	<b>1.40</b>	<b>7.33</b>
<b>YDD7</b>	1825	2060	19.00	27.00	<b>8.00</b>	<b>0.59</b>
<b>YDD8</b>	2002	2054	57.00	76.00	<b>19.00</b>	<b>4.07</b>
<b>and</b>			82.00	97.00	<b>15.00</b>	<b>1.71</b>
<b>YDD9</b>	1989	2101	69.00	73.00	<b>4.00</b>	<b>0.98</b>
<b>YDD10</b>	1954	2154	74.00	76.00	<b>2.00</b>	<b>1.07</b>
<b>YDD11</b>	1948	2200	79.00	81.00	<b>2.00</b>	<b>1.51</b>

The long intersections in drill hole YDD8 confirm the presence of a significant zone of mineralisation beneath the 60m long artisanal working locally called the 'UN Pit', first encountered in holes YDD1 and YDD2 with intersections grading 7.77g/t gold over 14m and 15.99g/t gold over 9.07m, respectively, (see August 4th news release at [http://www.manoriver.com/mano/investor/nr/nr0413\\_04Aug.pdf](http://www.manoriver.com/mano/investor/nr/nr0413_04Aug.pdf)). In drill hole YDD8, a series of

individually narrow (i.e.  $\pm 1\text{m}$ ) intersections grading 23.96g, 19.58g, 9.62g, 14.86g and 20.86g comprise high-grade veins within a wide, lower-grade 'envelope'.

### Selected quarterly information

The following is the selected financial information of the Company for the last eight Quarters: (unaudited)

	July 31, 2004	April 30, 2004	January 31, 2004	October 31, 2003
Total revenue (Interest income)	15,984	20,381	279	1,267
Net loss	107,284	448,299	363,751	97,775
Net loss per share	0.001	0.002	0.002	0.001
Total assets	17,015,342	16,979,706	16,987,073	12,756,697

  

	July 31, 2003	April 30, 2003	January 31, 2003	October 31, 2002
Total revenue (Interest income)	353	1,853	525	3,151
Net loss	215,133	74,993	238,062	50,531
Net loss per share	0.001	0.001	0.002	0.000
Total assets	12,741,546	12,390,528	12,253,662	11,941,379

### Results of operations

The Company's net loss for the six month period ended July 31, 2004 was \$555,583 or \$0.003 per share as compared to a net loss of \$290,126 for the corresponding period in 2003. This is a \$265,457 increase in net loss compared to 2003. This increase in net loss was attributable to new accounting requirements that require companies to record non-cash stock-based compensation awards (stock options) as an expense. During the first quarter ending April 30, 2004, a total of 2,745,000 stock options were granted to employees, directors and consultants at an exercise price of Cdn.\$0.24 per share exercisable until March 23, 2009, resulting in a stock based compensation expense of \$444,891.

General and administrative expenses were \$591,948 in the six month period ended July 31, 2004 compared to \$202,242 in 2003, the increase being largely attributable to the aforementioned new accounting requirements that require companies to record non-cash stock-based compensation awards (stock options) as an expense. Some administrative expense categories also experienced higher costs: bank and interest charges \$17,046 (2003 - \$7,785) increased by \$9,261 mainly due to interest payable on convertible debentures. Professional fees \$79,972 (2003 - \$55,671) increased by \$24,301 due to increased regulatory requirements, Investor communications \$46,388 (2003 - \$26,968) increased by \$19,420 during the quarter as the Company focused its effort on expanding investor awareness of the Company's exploration projects and the Company's participated in industry conferences in the second quarter of 2004. In general the Company was much more active in this first six months of 2004 compared to the same period ended July 31, 2003. Transfer agent and filing fees \$38,559 (2003 - \$16,473) increased by \$22,086 due to higher postage costs of mailing the annual reports and share activity including granting of stock options and increased filing fee rates. The Company also experienced a foreign exchange gain during the period due to a weak US dollar against the UK currency. At July 31, 2004, the Company held approximately \$1,185,888 cash in bank accounts denominated in UK currency.

The Company has no revenue from mining operations. Revenue for the six month period, consisting of interest earned from cash deposits, was \$36,365 as compared to \$2,206 in 2003, an increase of \$34,159. This

increase in interest income was mainly due to increased cash balances as a result of funds raised by private placement and exercise of warrants during the year ended January 31, 2004.

### Liquidity and capital resources

At July 31, 2004, the Company had working capital of \$2,763,949 as compared to a working capital of \$3,498,652 at year-end January 31<sup>st</sup> 2004. The Company had cash and cash equivalents of \$2,460,007 (2003 - \$418,928) at July 31, 2004. The significant year-on-year increase in cash was primarily due to the issuance of common shares for equity financing and the exercise of warrants during the year ended January 31, 2004.

As at July 31, 2004, the following stock options were outstanding:

Number of Common Shares	Exercise price per share (Cdn\$)	Expiry date
100,000	\$ 0.34	April 14, 2005
990,000	\$ 0.22	May 1, 2006
845,000	\$ 0.10	February 21, 2007
5,000,000	\$ 0.11	March 21, 2007
905,000	\$ 0.10	August 14, 2008
2,745,000	\$ 0.24	March 23, 2009
<u>10,585,000</u>		

As at July 31, 2004, the following warrants were outstanding:

Number of Warrants	Exercise price per share	Expiry date
<u>20,000</u>	<u>£0.04</u>	<u>January 3, 2005</u>

Cash used for operating activities during the first six months of 2004 was \$902,934 (2003 – (\$106,023)) after adjusting for the non-cash activities of stock-based compensation and liability component of convertible debenture. Cash flows from financing activities for the first six months of 2004 were \$139,305 compared to \$755,322 during the first six months of 2003. The Company's equity financing activity decreased during the first six months of 2004 as compared to 2003.

As at July 31, 2004, the Company had total assets of \$17,015,342 as compared with \$16,987,073 for the fiscal year ended January 31, 2004. At July 31, 2004, the Company had total liabilities of \$610,787 as compared to \$517,731 at year ended January 31, 2004. Current liabilities include \$512,198 due to related parties for accrued management fees and reimbursable expenses.

During the period the Company expended \$669,916 on deferred exploration expenditures on wholly owned properties as compared to \$336,407 in 2003. The increased exploration expenditures were due to increased exploration activity with available funding.

During the six month period ended July 31, 2004, the Company expended \$229,442 in connection with the Regional Exclusive Prospecting Licence in Sierra Leone, this amount being recoverable from joint venture partner BHP Billiton required to incur the exploration expenditures to earn an interest in the Company's diamond project. In addition the Company expended \$754,029 on behalf of joint venture partner Golden Star Resources, who are also required to incur exploration expenditures to earn their interest in a group of gold properties in Sierra Leone. As at July 31, 2004, the Company had recovered \$195,013 from Golden Star

Resources and \$559,016 remained receivable as at July 31, 2004. Subsequent to the period ended July 31, 2004, the Company received an additional \$543,955 from Golden Star Resources.

### **Outstanding share data**

The Company is authorized to issue an unlimited number of common shares without par value. As at July 31, 2004 there were 213,405,813 common shares outstanding compared to 152,390,216 common shares outstanding at July 31, 2003. The increase was mainly due to the success of the Company in raising funds by equity financing, and the exercise of warrants and stock options.

### **Related party transactions**

During the year to date, the Company incurred billings of \$80,067 from related parties for management fees and professional services. All transactions with related parties have occurred in the normal course of operations. As at July 31, 2004, the amount due to related parties totals \$512,198. These balances have no fixed terms of repayment and have arisen from the accrued provision of services referred to above and reimbursable expenses.

### **Changes in accounting principles**

#### **Stock-based compensation**

The Canadian Institute of Chartered Accountants (“CICA”) amended the stock option compensation and other stock based payments accounting standard during 2003. The Company adopted the standard and the unaudited consolidated financial statements for the period ended July 31, 2004 reflect this change.

### **Outlook**

As a result of the placement concluded in December 2003, the Company is well funded to pursue its policy of adding shareholder value through further exploration and development of its Liberian gold properties, expected to recommence in the fourth quarter of 2004, while early results from the Golden Star-funded gold exploration programme in Sierra Leone have been most encouraging. It will be late 2004 before the first results can be reported on the major reconnaissance programmes now under way in eastern Sierra Leone (the BHPBilliton joint venture) and western Liberia (over the Mineral Cooperation Agreement licence), but given the prospectivity of the ground holding for both gold and diamonds, Mano remains very hopeful that significant discoveries will be made.

The main focus of Mano-funded (as distinct from joint-ventured) exploration is expected to be the further investigation later in 2004 of the KGL and Weaju gold projects in Liberia, together with the diamond reconnaissance over the Bea Licence and the Mineral Cooperation Agreement ground in western Liberia. Elsewhere in Liberia, joint venture partner, Trans-Hex, now anticipate commencing their diamond farm-in programme at Weasua in the Kpo Licence with an airborne geophysical survey in the 1<sup>st</sup> quarter of 2005.

In the Kono-Yengema area of Sierra Leone, the Company is actively seeking the participation of suitably experienced partners able to put one or more of the high-grade diamondiferous kimberlite dykes discovered by Mano into production.

On the political front, the arrival of Mano’s joint venture partner, BHPBilliton, to fund exploration in Sierra Leone is a massive endorsement for the country (as well as for Mano). Meanwhile, in neighbouring Liberia, the UN are making steady progress in the comprehensive disarmament and retraining programme for former combatants and Mano is confident that conditions will allow exploration work to recommence in the Bea and Kpo licences after the rainy season, i.e. as early as October, 2004.