# INSPIRATION MINING CORPORATION

# FORM 51-102F1

# MANAGEMENT DISCUSSION AND ANALYSIS

# FOR FISCAL QUARTER ENDED DECEMBER 31, 2012

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# INDEX

## Introduction

The following management's discussion and analysis ("MD&A") of the financial condition and results of the operations of Inspiration Mining Corporation ("Inspiration" or the "Company") constitutes management's review of the factors that affected the Company's financial and operating performance for the three months ended December 31, 2012. This MD&A has been prepared in compliance with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations. This discussion should be read in conjunction with the audited annual financial statements of the Company for the years ended September 30, 2012, and September 30, 2011, as well as the unaudited financial statements for the three months ended December 31, 2012, together with the notes thereto. Results are reported in Canadian dollars, unless otherwise noted. In the opinion of management, all adjustments (which consist only of normal recurring adjustments) considered necessary for a fair presentation have been included. The results for the interim periods presented are not necessarily indicative of the results that may be expected for any future period. Information contained herein is presented as at February 14, 2013, unless otherwise indicated.

These consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The Company's transition date to IFRS is October 1, 2010. The rules for first-time adoption of IFRS are set out in IFRS 1, "First-time adoption of International Financial Reporting Standards". In preparing the Company's first IFRS consolidated financial statements, these transition rules have been applied to the amounts previously reported in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Historical results and balances have been restated under IFRS. The comparative financial information of fiscal 2011 in this MD&A has been restated to conform to IFRS, unless otherwise stated.

For the purposes of preparing this MD&A, management, in conjunction with the Board of Directors, considers the materiality of information. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of Inspiration common shares; or (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board of Directors, evaluates materiality with reference to all relevant circumstances, including potential market sensitivity.

Information about the Company and its operations can be obtained from the offices of the Company or from www.sedar.com.

Certain statements included in this Management Discussion and Analysis are 'forward-looking statements'. These statements are based on the opinions, estimates and anticipated occurrences of management at the date the statements are made. Accordingly, those are subject to a variety of risks, uncertainties and other factors which could cause actual events or results to differ materially from those projected in those forward-looking statements. These factors include, but are not limited to, the inherent risks involved in project planning and execution, the estimations of time of occurrences, estimations of costs and expenditures, changes in management priorities, availability of personnel, equipment and services, interpretation of coring and assay results, the geology, grade and continuity of mineral deposits and conclusions of economic evaluations, metallurgical recovery rates, currency exchange rates, exploratory and other expenditures on property, increases and decreases in reserves and/or resources and anticipated grades and recovery rates and are or may be based on assumptions and/or estimates related to future economic, market and other conditions and other factors.

The Company disclaims any obligation to update or revise any forward-looking statements if circumstances or management's estimates or opinions should change. Actual results may differ materially from those anticipated. The reader is cautioned not to place undue reliance on forward-looking statements due to these and other obvious inherent uncertainties.

## Management's responsibility for financial statements

Information provided in this report, including the financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future value for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements. Management maintains a system of internal controls to provide reasonable assurances that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.

## Brief Corporate History

The Company was incorporated on November 15, 1972 pursuant to the *Company Act* of British Columbia upon amalgamation of two predecessor companies. On August 19, 1996, after various changes during the interim, the Company changed its name to Inspiration Mining Corporation under which it now operates. On March 2, 2004, the Company's stock commenced trading on Tier 2 of the TSX Venture Exchange under the symbol "ISM". On April 26, 2007, its stock became listed for trading on the Toronto Stock Exchange under that same symbol. It also trades on the Frankfurt Exchange under the symbol O18. On August 18, 2008, the Company continued itself from being a corporation existing and governed by the Business Corporations Act (British Columbia) to being a corporation existing under and governed by the Business Corporations Act *(Ontario).*

Additional information related to the Company is available for viewing on the Company's website at www.inspirationmining.com and on SEDAR at www.sedar.com.

## Overview of the Company's Business

## Description of Mineral Properties

The Company is a junior mining company. Except for certain investment activities discussed below, the Company is engaged in the acquisition and then the exploration of mineral claims for commercially producible minerals. Other than incidental interest and gains earned on its cash reserves, the Company has no ongoing revenues. Thus, its ability to ensure longer term operations is dependent on its successful discovery and delineation of economically recoverable reserves, which it can then either sell to a third party senior mining company or otherwise itself bring into profitable production.

For readers who are unfamiliar with the Company's exploratory properties, the Company has the rights to the mineral properties listed below, with a continued focus on the Langmuir Property and the development of its nickel resources.

***Langmuir Property:*** The Company owns, through its wholly owned subsidiary Metal Mines Inc., a 100% interest in a total of 28 unpatented and two patented contiguous claims. What is now referred to as the "Langmuir Property" now includes Luhta claims and the Keefe Cooke claims, each of which adjoin the original Langmuir claims. Combined, all of those now consist of 1,130 hectares lying in the north-central part of Langmuir Township, Porcupine Mining Division, and Ontario.

The property is approximately 25 km southeast of Timmins, Ontario, and hosts the past producing Langmuir No. 1 Mine, and the majority of the past producing Langmuir No. 2 Mine. Detailed information on this property is compiled and discussed in the two technical reports, one dated February 19, 2007, and the other dated September 1, 2009, each of which is available on the SEDAR website. (*See: www.SEDAR.com.)*

***Barton Syndicate (Dry Fork) Property:*** The Company, through its wholly owned U.S. subsidiary, also holds the exclusive rights to 31 contiguous lode claims (the "Barton Syndicate Property" or "Dry Fork Property") covering 246 hectares located approximately 35 km southwest of Salt Lake City, Utah, in the United States. The principal target on this property is gold.

***Cleaver/Douglas Properties:*** In 2007, the Company, by separate options, acquired control of two more claim groups south of Timmins, Ontario, area. One property, referred to as the "Cleaver Property", consists of 13 mining claims containing 192 mining claim units and is located in the northeastern portion of Cleaver Township, the southeastern portion of Fallon Township, the southwestern portion of Fasken Township and the northwestern portion of McNeil Township. The second claim group, referred to as the "Douglas Property", is located in the same general area. This property consisted of five mining claims that contained 16 claim units. The Douglas Property is located near, but not adjacent to the Cleaver Property. Subsequent to their acquisition, the company acquired by staking an additional 6 claims adjacent to and tying together both the Cleaver and Douglas Claims, thereby joining all of the claims into a contiguous property. The purpose was to pursue location of gold targets indicated by historic samples.

The properties are generally accessible by an all-weather gravel logging road approximately 47 km south of Highway 101 at South Porcupine, Ontario. Subsequently, after a number of diamond coring holes were drilled on both properties, management determined that the targeted resources do not extend onto the Douglas portion of the property and the options for those claims were surrendered back to the owner. The portions of the Cleaver Douglas properties which the Company yet holds consist of 19 mining claims covering approximately 11,000 acres.

***Desrosier Properties:*** The Company owns, through its wholly owned subsidiary, 1691063 Ontario Ltd. ("1691063"), claims totaling approximately 4,184 hectares (i.e. approximately 10,440 acres). That property lies in a mountainous area, covered by native forest, approximately 75 miles southwest of Timmins, Ontario. Its targeted minerals are molybdenum, rare earths and base metals.

***Nitinat Properties:*** The Company also owns approximately twenty nine percent of the outstanding shares of the common stock of Nitinat Minerals Corporation ("Nitinat"), a British Columbia company whose stock is listed for trading on the Toronto Venture Exchange. Nitinat owns a 100% interest in a group of mineral claims on Vancouver Island, British Columbia (the "Jasper Property") covering approximately 6,615 hectares. In June of 2011 Nitinat acquired an undivided 100% interest in certain mining claims located in Chibougamau in the Province of Quebec. In November 2012 Nitinat acquired all of the issued and outstanding shares of Taman Petroleum Corporation ("Taman"). Taman assets include an 8% ownership interest in the South Temryuk Oil & Gas Exploration-Exploitation license located in the mature Azov-Kuban petroleum region of southwest Russia.

A more detailed and comprehensive description of each of these properties appears in the Company's 2012 Annual Information Form which may be accessed either under its section on www.sedar.com.

## Overview of Current Operations

- The Company incurred a $298,305 operating gain for the fiscal year ended December 31, 2012. This gain was a result of a gain on the sale of marketable securities during the period in the amount of $801,154. This gain offset the operating expenses in the period of $573,849. Operating expense for the equivalent quarter in the prior year was $469,415.
- The Company's consolidated subsidiary, Nitinat, acquired the issued and outstanding shares of Taman as discussed above. Nitinat issued 10,000,000 common shares valued at $3,500,000 to complete the acquisition. This resulted in a reduction in the Company's interest in Nitinat from 39% to 29%. These changes are reflected in the current quarter's results and in the non-controlling interest, as discussed in Note 22 of the interim financial statements dated December 31, 2012.
- During the three months ended December 31, 2012 the company sold marketable securities with a cost of $814,305 for proceeds of $1,615,459 for a gain of $801,154

## Market Trends

The spot nickel price has been in fluctuation for the past six months. In early August, 2012, the spot price had descended to a recent low of around $7.00 per pound. By early October, it had rebounded to near $8.00 (US) per pound, but then began a slide down to $7.25 range by mid-November. From there, it made a rather quick return to near $8.00 by year end. It vacillated in that range throughout most of January, 2013 but has again jumped to the range of $8.30 as of the end of January, which is the time of this writing. The present increase represents an approximate 20% increase over the past six months. This has occurred in spite of Europe still being in a recession, the United States seeing only moderate growth and China and India continuing to lead in growth.

China, being one of the world's largest users of nickel, represents one of the greatest influences on the world price of both laterite and sulphide nickel. Laterite nickel ore deposits, which occur most often in the lower latitudes, are far more plentiful throughout the world than sulphide nickel deposits which are the form of nickel deposits which occur in Ontario's nickel district. However, laterite nickel mineralization is significantly more expensive to refine than the sulphide form of nickel mineralization. Thus, when used in steel making, the laterite ores are generally utilized in a less refined form resulting in an inferior grade of steel known as nickel pig iron.

Nickel pig iron can only be utilized in applications not requiring high grade characteristics. This interchangeability, even though limited, does impact to an extent the price of refined nickel, regardless of its source. But, as the price of nickel pig iron increases, its competitive price advantage over steel derived from sulphide nickel begins to disappear.

China's domestic prices of steelmaking nickel pig iron rose approximately 4% within the last month. As its prices rise, its desirability, and thus its competitiveness verse that of sulphide nickel steel, decreases substantially. This, in turn, increases the demand for and consequently the price of sulphide nickel. Market participants in the Far East are reportedly confident that nickel prices will remain stable, or even over the coming months.

In the West, industry sources reportedly believe that, from the technical perspective, the recent rebound of London Metal Exchange nickel prices reflect confidence in a stronger mid to long term economy. Even though, Steel mills and producers, though somewhat optimistic, at this time are taking a wait and see stance with regard to decision making. The result is that the present optimism is yet tempered by the uncertainty which yet exists in the world financial realm.

## Selected Financial Information

The following table provides a brief summary of the Company's financial operations for the three months ended December 31, 2012, 2011 and 2010. (For more detailed information, refer to the Financial Statements for each of those respective periods.)

| SELECTED QUARTERLY INFORMATION | Three Month Period Ended | | |
|---|---|---|---|
| | 31-Dec-2012 IFRS | 31-Dec-2011 IFRS | 31-Dec-2010 IFRS * |
| Interest Income | $ 115,547 | $ 131,157 | $ 127,344 |
| Net Profit or (loss) before share based payments | $ 298,305 | (338,258) | (431,030) |
| Net pre-tax profit or (loss) | $ 298,305 | (338,258) | (692,251) |
| Total Assets | 44,581,559 | 46,422,559 | 51,137,128 |
| Total Long–term liabilities | - | - | - |
| Shareholders Equity | 41,493,420 | 41,670,387 | 45,719,167 |
| Cash dividends | - | - | - |

* Interest income, net profit or (loss) before share based payments and net pre-tax profit or (loss) for fiscal 2010 have been presented in Canadian GAAP as the financial information was not prepared in accordance with IFRS.

The Company's accounting policy is to capitalize its mineral properties at cost. Acquisition, exploration and development expenditures relating to mineral properties are deferred until the properties are either brought into production, at which time they are amortized on a unit of production basis, or until the properties are sold or abandoned, at which time the deferred costs are written off.

The Company's sole realized cash earnings are interest realized from cash reserves deposited in financial institutions or other short term investments. The combined amount of interest earned on those deposits and investments during the quarter ended December 31, 2012, was $115,547, compared with interest earned of $131,157 for the previous quarter ended December 30, 2011. The Company manages cash and short term investment balances to ensure adequate liquidity for short term needs and to maximize returns.

In the most recent fiscal years, a portion of the Company's cash reserves has been applied to investments in various trading securities. These investments are included in the Total Assets of the company as Marketable Securities. These investments are presented at fair market value at the balance sheet date. The difference between the fair market value and the cost of the investments is presented as Other Comprehensive Income in the Shareholders Equity. The amount of gain or loss is also presented in the Statements of Comprehensive Loss.

Other than future income tax liabilities which may be owed in the future but are not yet due, the Company does not have, nor has it ever had, long term debt to any non-governmental party.

The Company has no present intention of paying dividends on its common shares as it anticipates that all available funds will be invested to finance the growth of its business.

## Summary of Quarterly Results (unaudited except for periods ending September 30)

The following charts summarize the quarterly results of the Company's past eight fiscal quarters of operations.

| Summary of Quarterly Results | Fiscal Quarter Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | December 31 2012 | September 30 2012 | June 30 2012 | March 31 2012 | December 31 2011 | September 30 2011 | June 30 2011 | March 31 2011 |
| Total Assets | $44,581,559 | $ 41,875,417 | $ 45,663,190 | $ 46,605,424 | $ 46,422,559 | $ 47,131,821 | $48,662,240 | $49,843,482 |
| Non-controlling interest | 4,365,550 | 1,732,704 | 1,702,225 | 1,785,824 | 1,821,424 | 1,866,455 | 1,653,491 | 1,686,691 |
| Mineral property costs | 30,015,337 | 29,964,811 | 29,842,540 | 29,787,036 | 29,634,815 | 29,193,890 | 28,016,193 | 27,531,464 |
| Working capital | 3,798,633 | 4,819,798 | 5,851,358 | 9,442,420 | 9,157,767 | 10,622,798 | 13,360,577 | 15,168,941 |
| Shareholders' Equity Excl. non-controlling interest | 37,127,870 | 36,826,416 | 41,102,841 | 42,097,092 | 41,670,387 | 41,745,443 | 43,465,895 | 44,629,016 |

*Our IFRS transition date is October 1, 2010, therefore the above comparable information has been presented in accordance with IFRS.*

The Non-controlling interest represents the portion of Nitinat Minerals Corporation that is not held by the company. The Company is required to consolidate the full amount of the financial statement line items of Nitinat' s financial results into its financial statement line items and then reduce shareholders equity and net income by the portion related to the non-owned amount of Nitinat.

The mineral property costs reflect development expenses for the mineral properties held by the company. The Langmuir property represents the largest portion of the expenditures at $20,188,921 of the total expended at December 31, 2012 of $30,015,337 or 67%. The Desrosiers and Cleaver properties represent $4,114,875 and $3,524,385 respectively of the total or 14% and 12%.

The working capital decreased by $1,021,165 from the end of the previous fiscal quarter, September 30, 2012. The decrease is discussed and detailed in the liquidity section below.

## Results of Financial Operations

The following lists the Company's income, its general and operating expenses and its Net Operating Gain (or Loss) for the fiscal quarter ended December 31, 2012, and the same period for the two preceding fiscal years.

| *RESULTS OF OPERATION* | Fiscal Quarter Ended December 31 | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| | | | CGAAP |
| **INCOME ITEMS** | | | |
| Foreign exchange gain (loss) | $ - | $ - | $ - |
| Interest income | 115,547 | 131,157 | 127,344 |
| Taxes (Flow-Through Expense) | (44,547) | - | - |
| Gain on sale of marketable securities | 801,154 | - | - |
| Impairment of marketable securities | - | - | - |
| Impairment of loan receivable | - | - | - |
| Write off of mineral property | - | - | - |
| **TOTAL** | **$ 872,154** | **$ 131,157** | **$ 127,344** |
| **GENERAL & ADMINISTRATIVE EXPENSE** | | | |
| Amortization | 1,002 | 1,034 | 1,135 |
| Stock-based compensation - Management & Directors | - | $ - | $ 176,721 |
| Investor relations | 137,895 | 75,671 | 230,739 |
| Management fees | 96,000 | 90,000 | 146,100 |
| Office and miscellaneous | 127,290 | 108,671 | 61,444 |
| Professional fees | 141,256 | 129,384 | 119,165 |
| Rent and telephone | 53,731 | 38,223 | 27,299 |
| Shareholders information | (2,949) | 8,935 | 13,413 |
| Transfer agent and filing fees | 11,294 | 7,058 | 13,642 |
| Travel and related | 8,330 | 10,439 | 29,937 |
| **TOTAL GENERAL & ADMINISTRATIVE** | **$ 573,849** | **$ 469,415** | **$ 819,595** |
| **Net Income (Loss) for Period before Non-Controlling Interest in Subsidiary Results** | **$ 298,305** | **$ (338,258)** | **$ (692,251)** |
| **Non-controlling interest in subsidiary results** | **$ 116,814** | **$ 45,031** | **$ 50,900** |
| **NET INCOME (LOSS) FOR THE YEAR BEFORE TAXES** | **$ 415,119** | **$ (293,227)** | **$ (641,351)** |

Information for fiscal 2010 has been presented in Canadian GAAP as the financial information was not prepared in accordance with IFRS.

The Company's mineral properties are all in the developmental phase so no revenues were recorded in the current or previous quarters. Income was earned on invested cash balances as discussed above.

General and Administration expenses were $104,434 higher than the previous year's equivalent quarter. Increased spending on Investor Relations accounted for $62,224 of the increase with the balance accruing to higher office and professional fees.

The gain on sale of marketable securities is a realized gain from the sale of certain securities in the quarter as discussed above in the Overview of Operation section above.

## Performance Summary

## Langmuir Property

The Company's Langmuir Property, located near Timmins, Ontario, is its most advanced exploration property. In the late 1980s and early 1990s, Timmins Nickel, a previous owner of the property, milled a total of 111,502 tonnes grading 1.74% Ni from that mine. All underground work at the Langmuir No.1 site ceased in early 1992 for reasons unrelated to the amount of ore yet remaining on that mine. The 1,650 foot ramp extending to the 315 foot mine level and used in that previous mining operation, although requiring dewatering, yet exists and appears to be usable.

Summarizing the Company's exploration in the past few years, a total of 358 diamond drill holes for a total of just under 90,000 meters have been completed, assayed and plotted. Based on the Company's exploration, Micron International Limited, an internationally recognized consulting firm, determined resources in the Indicated category for the Langmuir North deposit to be 8,324,000 tonnes grading 0.40% nickel. It further determined Resources in the Indicated Resources category for the Langmuir No. 1 deposit to be 1,733,000 tonnes grading 0.51% nickel. The Micon study was an analysis just two of the various zones of the Langmuir No. 1 Extension Zone of the Langmuir Property Langmuir North Deposit and the Langmuir No 1 Deposit. Those zones were chosen in that those had been extensively core drilled to the approximate depth of 250 meters.

That, and subsequent studies, do not include analysis of the mineralization below that depth, even though the core drilling results were open at those depths. Neither do those analysis include the KCC-Allerston mineral sites on the Langmuir property, which is a lower grade, high tonnage nickel-mineralized zone located 2 km northwest of the Langmuir No.1 deposit. The KCC deposit was revealed by exploration drill programs in 2008 and 2009, listed in the Corporation's National Instrument 43-101compliant report dated September 2009, a copy of which can be obtained under the Corporation's profile on the SEDAR website (www.sedar.com), as well as drill program completed in March 2011

Apart from the geological studies just discussed, the Company retained SGS Mineral Services ("SGS") to conduct a separate preliminary metallurgical evaluation for the Langmuir North deposit. The results are summarized in a report entitled "An Investigation into the Recovery of Nickel and Copper from the Langmuir #2 North Zone" dated September 25, 2009. A copy of the SGS Report can also be viewed under the Corporation's profile on the SEDAR website (www.sedar.com). According to the report, most of the nickel is contained in millerite, a mineral with 65% nickel, much higher than the pentlandite showing 35% Nickel found in other deposits in the general area away from the Langmuir Property. Excellent recovery between 75-77% of nickel sulphides contained in the Millerite are obtained at a relatively coarse grind size of 230 microns.

The rather shallow depth from surface of the mineralization tested by the drill holes, however, suggests the mineralization to be amenable to open pit exploitation. As open pit mining cost only a fraction of underground mining, this factor should allow recovery of lower grade portions of deposits which would not otherwise be economically justified. This directly impacts the extent of ore which is economically producible. With respect to certain higher grade Ni mineralization located below or near the historic Langmuir No.1 mine, significant portions of those are also partly accessible from the existing development ramp from earlier historical production.

In close proximity of the Company's Langmuir property are the Liberty Mines Ltd. mining and processing operations. Those operations include a recently completed mill and concentration facility. Although fully operational, those were recently been deactivated and are under care and maintenance by the owners. Until closed, preliminary conversations had been commenced with the Company about matters of mutual interest.

During the fiscal quarter ended December 31, 2012, no significant further exploration was undertaken on the Langmuir Properties. Apart from the ongoing care and maintenance of that property, the Company is continuing in the evaluation of the directions available to it for that property. The various alternatives are significantly impacted by the current nickel prices and the market considerations upon which those are based. Those, in turn, are yet heavily impacted by the world economic conditions which have not yet fully recovered from the economic melt-down of 2008. As those improve, the Company is positioning itself to take advantage of the opportunities which its exploratory operations on the Langmuir Property provide.

*The Desrosier, Cleaver/Douglas and Dry Fork Properties:* The Desrosier, Cleaver/Douglas and Barton Syndicate Trust/Dry Fork properties continued under care and maintenance with no significant exploration being performed on any of those. The Company, however, is exploring various business strategies to realize the considerable intrinsic value of all of those properties. Those include ongoing discussions of relationships through which each of those might be developed in conjunction with other junior mining companies or even the possibility of a sale of one or more of those.

## The Desrosier, Cleaver/Douglas, and Dry Fork Properties

The Desrosier, Cleaver/Douglas and Barton Syndicate Trust/Dry Fork properties continued under care and maintenance with no significant exploration being performed on any of those. The Company, however, is exploring various business strategies to realize the considerable intrinsic value of all of those properties. Those include ongoing discussions of relationships through which each of those might be developed in conjunction with other junior mining companies or even the possibility of a sale of one or more of those.

## Equity Investments

## Nitinat Minerals Corporation

The Company continues to seek near term investments opportunities in the natural resource industry and to monitor those in which it now holds an interest. It's largest equity position remains its interest in Nitinat Minerals Corporation ("Nitinat"), of whose stock the Company holds approximately 39%. Two of the Company's directors also are members of the three person board of Nitinat. Because of this control, Nitinat's financial statements are consolidated into those of Inspiration Mining Corporation.

Nitinat holds two mineral properties, one of which is a base metal prospect and lies on the west coast of Vancouver Island in British Columbia, and the other which is a gold prospect and lies in Quebec. Both of those are early stage exploratory properties. In addition to those, Nitinat controls 100% of the outstanding shares of Taman Petroleum Ltd. Through Taman, Nitinat owns an 8% interest in Techniton, a Russian private company, which owns an oil and natural gas project; covering an estimated 4,000 hectares near the Black Sea in Russia, an area which has been a major petroleum producing area for Europe. Currently, one well has been drilled, but not yet completed, on that property. Other well spacing's on that property allow for further development there.

Further details regarding that property and Taman's interest in it are available through the documents on Nitinat's website: www.nitinatminerals.com as well as the sedar website www.sedar.com under Nitinat Minerals Corporations profile.

## Potash Dragon

As reported in the Company's Consolidated Financial Statements for the fiscal year ended September 30, 2012, and the related Management Discussion and Analysis for that period, in June, 2012, Inspiration Mining acquired 20% interest in Potash Dragon, a private company incorporated under the laws of Barbados. Through its wholly owned Chilean subsidiary, Potash Dragon holds various potash properties and applications covering an area of 4,133 Hectares in Region I of Northern Chile. All the properties are located within the Pampa del Tamarugal area on the Salar de Llamara.

As part of that transaction, Inspiration was also granted an aggregate of 3,750,000 common share purchase warrants by Potash Dragon. Each of those warrants entitles Inspiration to acquire additional common shares of Potash Dragon at an exercise price of $0.80 per share. Those warrants are exercisable anytime within a period ending 45 days after Potash Dragon completes and delivers to Inspiration a National Instrument 45-101compliant report with respect to Potash Dragon's brine resource in Chile. In the event that the Company exercises all of those warrants, Inspiration will then own and control over 50% of the issued and outstanding securities in the capital of Potash Dragon.

## Financial Results of Exploratory Operations

The Company's accounting policy is to capitalize its mineral properties at cost. Acquisition, exploration and development expenditures relating to mineral properties are capitalized until either the properties are brought into production, at which time they are amortized on a unit of production basis, or until the properties are sold or abandoned, at which time the capitalized costs are written off.

The following table sets out the expenditures of the Company on its currently held mineral exploratory properties during the three months ended December 31, 2012, and the same period for the preceding fiscal year.

| MINERAL PROPERTY EXPENDITURES | Fiscal Quarter Ended December 31, 2012 | | Fiscal Quarter Ended December 31, 2011 | |
|---|---|---|---|---|
| Mineral Property | Expenditures During Period | Cumulative from Inception - End of Period | Expenditures During Period | Cumulative from Inception - End of Period |
| **Langmuir Property - Timmins, ON** | $ 48,834 | $ 20,188,921 | $ 229,767 | $ 19,944,959 |
| **Barton / Dry Forks Property - Utah** | $ - | $ 1 | $ - | $ 264,141 |
| **Cleaver/Douglas Property - Timmins, ON** | $ - | $ 3,524,385 | $ 11,704 | $ 3,498,192 |
| **Desrosiers Property - Desrosiers Twnsp, ON** | $ 1,620 | $ 4,114,875 | $ 7,532 | $ 4,092,010 |
| **Total - Inspiration Properties Only** | $ 50,454 | $ 27,828,182 | $ 249,003 | $ 27,799,302 |
| **Jasper (Nitinat) Property** (fn 1) | $ 72 | $ 1,093,881 | $ 41,742 | $ 1,082,933 |
| **Jasper (Chibougamau) Property** (fn 1) | $ - | $ 1,093,274 | $ 150,000 | $ 752,400 |
| **Total - All Properties** | **$ 50,526** | **$ 30,015,337** | **$ 440,745** | **$ 29,634,635** |

[FN 1] The Jasper and Chibougamau properties, although owned separately by Nitinat Minerals Corporation, are consolidated in the Consolidated Financial Statements of Inspiration Mining for the reasons stated below. (See: Nitinat Minerals Corporation - As a Subsidiary of the Company")

The Barton / Dry Forks property was deemed to be impaired due to access issues as discussed in the Company's MD&A dated for the year ended September 30, 2012.

The Bateman Property was surrendered back to its owner in the fiscal year ended September 30, 2011.

The Jasper Property was exchanged with Nitinat Minerals Corporation for a block of the stock of that entity. (See "Non-Controlling Interest in Subsidiary", below.) As Nitinat is only partially owned, but considered to be under the control of Inspiration Mining, its financial statements are consolidated into those of the Company and are therefore shown on the foregoing table.

## Capital Resources

As a junior mining company, no significant source of cash revenues will occur to the Company from its principal business of mineral exploration activities until either it sells one or more of its properties for cash or brings one or more of those into production. The sale of the Jasper Property just discussed, although only initially explored and therefore not valued for its minable resources, may be considered representative of an instance of such sale. Since none of the Company's other properties have yet reached the point of sale or the mining development stage, the Company's only income is realized from interest on its capital reserves deposited in financial institutions or gains occurring from its investment in marketable securities in which it invests.

The operating funds necessary for its general and administrative expenses, as well as all cash requirements for acquisition and exploratory expenditures, not met by its revenues just mentioned must therefore come from cash generated from the use of existing cash reserves, the exercise of its outstanding options or new public or private placements of its securities. The Company currently has no outstanding warrants from previous private placements. Its unexercised incentive stock options are detailed in the Financial Statements as well as below in this Management's Discussion and Analysis.

## Liquidity & Working Capital

The financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. As the Company has no revenues from operations (except for interest on deposits in financial institutions and certain investments in marketable securities), its continuing operations requiring cash payments are funded by its cash reserves either carried over from previous fiscal years or generated, and being generated, from its various financing activities. (See: "Overview of Current Operation – Financing Activities" above and "Stock Options" and "Warrants" below.) No cash was received from exercise of either stock options or warrants during the fiscal year ended December 31, 2012.

The uses of its cash occurs in two places, namely, funding of its general and administrative cash expenditures and cash expended in its investment activities in its mineral properties. Those investing activities include the cash expended in paying the cash portions of its acquisition and exploration of its mineral claims. More recently, the Company has invested a portion of its cash reserves in publicly tradable securities and what management feels are adequately secured shorter term loans.

The following table shows the available working capital during each of the last eight fiscal quarters, through the fiscal quarter ended December 31, 2012.

| **Working Capital (Deficiency)** | 31-Dec-2012 | 30-Sep-2012 | 30-Jun-2012 | 31-Mar-2012 | 31-Dec-2011 | 30-Sep-2011 | 30-Jun-2011 | 31-Mar-2011 |
|---|---|---|---|---|---|---|---|---|
| **Current Assets** | | | | | | | | |
| Cash | $ 1,489,251 | $ 456,979 | $ 95,333 | $ 10,526 | $ 473,501 | $ 355,607 | $ 6,307,895 | $ 7,415,122 |
| Short-term Investments | 10,731 | 379,702 | 1,430,005 | 4,123,377 | 4,573,244 | 5,892,493 | 1,908,324 | 2,285,731 |
| Marketable Securities | 2,441,682 | 4,243,477 | 4,475,365 | 5,214,970 | 4,351,673 | 4,786,175 | 5,680,400 | 5,867,585 |
| Receivables | 205,694 | 218,147 | 166,675 | 175,856 | 126,529 | 214,210 | 148,947 | 159,555 |
| Prepaid Expenses | 92,850 | 67,740 | 79,732 | 85,376 | 113,973 | 37,236 | 81,742 | 127,595 |
| **Total Current Assets** | **$ 4,240,208** | **$ 5,366,045** | **$ 6,247,110** | **$ 9,610,105** | **$ 9,638,920** | **$ 11,285,721** | **$ 14,127,308** | **$ 15,855,588** |
| **Current Liabilities** | | | | | | | | |
| Accounts Payable & Accrued Liabilities | (441,575) | (546,247) | (395,752) | (167,685) | (481,153) | (662,923) | (766,731) | (686,647) |
| **Total Current Liabilities** | **$ (441,575)** | **$ (546,247)** | **$ (395,752)** | **$ (167,685)** | **$ (481,153)** | **$ (662,923)** | **$ (766,731)** | **$ (686,647)** |
| **Working Capital** | **$ 3,798,633** | **$ 4,819,798** | **$ 5,851,358** | **$ 9,442,420** | **$ 9,157,767** | **$ 10,622,798** | **$ 13,360,577** | **$ 15,168,941** |
| **Increase (Decrease) from Preceeding Period** | **$ (1,021,165)** | **$ (1,031,560)** | **$ (3,591,062)** | **$ 284,653** | **$ (1,465,031)** | **$ (2,737,779)** | **$ (1,808,364)** | **$ 15,168,941** |

**Our IFRS transition date is October 1, 2010, therefore the above comparable information has been presented in accordance with IFRS.**

That working capital, which was generated through various private placements as well as the exercise of outstanding warrants and options over the past four years, is held partly in cash and short-term investments and some marketable securities, as shown on the balance sheet of the Company's consolidated financial statements for each of those financial periods. The amounts shown for the fiscal periods ended September 30, 2012 and September 30, 2011, were audited. *(Those audited consolidated financial statements are available and may be accessed through the website: www.sedar.com.)*

At the close of the fiscal quarter ended December 31, 2012, the Company had available working capital of $3,798,633. This amount was a reduction of $1,021,165 from the end of the previous fiscal quarter ended September 30, 2012. This reduction was incurred during the period to pay for the Company's net operating expenses of $502,849 its investment of $141,231 in its mineral properties and changes in working capital.

### Fixed Capital Requirements

The Company's fixed payments and capital commitments on its entire exploratory properties total less than $400,000 for the current fiscal year. Its annual net operating losses, excluding stock-based compensation and non-controlling interest in its subsidiary, have ranged between losses of $750,000 to just over $1,500,000 during the past three years. The exploratory and other expenditures are discretionary. As the Company has no long term debt or significant fixed future obligations, it is expected that working capital to the Company is, and will be, adequate for the Company to continue its operations well into the future.

### Short Term Investments

Short-term investments are highly liquid investment certificates with maturity dates of more than 90 days and less than 12 months. As of December 31, 2012, the Company held short term investments of $10,731 as compared to the value at September 30, 2012, of $379,702. This reduction was used to fund the company's cash requirements as noted in the Liquidity and Working Capital section above.

### Marketable Securities

Marketable securities are comprised of investment in shares and warrants of other public companies. As of December 31, 2012, the Company held marketable securities with total accounting cost of $2,843,569. The market value as at December 31, 2012 is $2,441,682 as stated on the Consolidated Balance Sheet dated December 31, 2012. The unrealized loss is recorded as Other Comprehensive Income in the Statement of Shareholders Equity.

### Loan Receivable

The Company entered into a loan agreement with a private company on July 30, 2009, whereby the Company agreed to loan that company a total of up to $6,000,000. The loan originally was repayable on demand and bore interest at prime plus 4%. On February 9, 2010 the Company and the borrower amended the loan such that the loan is repayable on July 30, 2014 and bears interest is at 4% per annum. As at September 30, 2012, the Company has advanced $6,000,000 and accrued interest income of $816,979.

The borrower invested in a European managed fund. As collateral for the loan, the borrower granted the Company a general security interest over its interest in that fund as well as the present and after acquired property of the borrower. The market value of the borrower's interest in the managed fund as at December 31, 2012 was approximately$3,500,000. In the fiscal period ended September 30, 2012 Company recorded an impairment charge on the loan in the amount of $2,648,598 to recognize the difference between the original loan value plus accrued interest and the value of the loan collateral.

## The Company's Securities

The Company has two forms of securities outstanding, namely, shares of its common stock and options issued to its directors, officers, employees and contractors to purchase those shares.

### Common Shares:

The following sets out the issuances and cancelations of the Company's common stock during the current fiscal quarter and the two preceding fiscal year ends.

| Common Stock Outstanding<br>Unlimited (No Par) Shares Authorized | 3 Months Ended<br>12/31/2012 | Fiscal Year Ended September 30<br>2012 | 2011 | 2010 |
|---|---|---|---|---|
| Balance Outstanding at Beginning of Period | 68,632,770 | 69,843,770 | 70,633,770 | 72,294,270 |
| Shares issued in public offerings | - | - | - | - |
| Shares issued in private placements | - | - | - | - |
| Cancellation of shares | - | (1,351,000) | (790,000) | (2,789,500) |
| Shares Issued to acquire mineral properties | - | 100,000 | - | 54,000 |
| Shares issued for debt settlement | - | - | - | - |
| Shares issued for services | - | 40,000 | - | - |
| Shares issued for finder's fees | - | - | - | - |
| Exercise of incentive stock options | - | - | - | 1,075,000 |
| Exercise of warrants | - | - | - | - |
| **Balance Outstanding at End of Period** | **68,632,770** | **68,632,770** | **69,843,770** | **70,633,770** |

## Stock Options

The Company has an incentive stock option plan in place which, while listed with the Toronto Venture Exchange, complied with the rules and regulations of that exchange. Under that plan, the Company was authorized to grant options to executive officers, directors, employees and consultants. Options granted under the plan will have a term not to exceed 10 years and are granted at an option price and on other terms which the directors determine necessary to achieve goals of the plan and in accordance with regulatory policies. The options vest as determined by the board of directors.

The following chart sets out the number of option to purchase shares outstanding at the beginning and end of the fiscal quarter ended December 31, 2012, for each series outstanding, together with all changes occurring in those series during that period.

| Option Series | | Start of Period | Activity During Fiscal Period | | | Fiscal Period Ended |
|---|---|---|---|---|---|---|
| Strike Price | Expiry Date | Options Outstanding September 30, 2011 | Granted | Exercised | Expired or Canceled | Options Outstanding September 30, 2012 |
| $ 0.78 | 14-Oct-2013 | 1,300,000 | - | - | - | 1,300,000 |
| $ 0.50 | 11-Mar-2014 | 1,300,000 | - | - | - | 1,300,000 |
| $ 0.50 | 4-Jun-2014 | 1,150,000 | - | - | - | 1,150,000 |
| $ 0.62 | 8-Oct-2014 | 480,000 | - | - | - | 480,000 |
| $ 0.33 | 24-Feb-2015 | 25,000 | - | - | - | 25,000 |
| $ 0.34 | 24-Mar-2015 | 2,300,000 | - | - | - | 2,300,000 |
| $ 0.21 | 12-Aug-2015 | 1,300,000 | - | - | - | 1,300,000 |
| $ 0.24 | 21-Oct-2015 | 1,500,000 | - | - | - | 1,500,000 |
| $ 0.15 | 23-Sep-2016 | 500,000 | - | - | 500,000 | - |
| | **TOTALS** | **9,855,000** | **-** | **-** | **500,000** | **9,355,000** |

## Warrants

The Company had no unexercised stock warrants outstanding at the end of the fiscal quarter ended December 31, 2012.

## Non-Controlling Interest in Subsidiary Corporation

As at December 31, 2012, the Company's interest in Nitinat was at 29% as compared to 39% at September 30, 2012. The reduction was due to the issuance of 10,000,000 common shares by Nitinat in conjunction with its purchase of Taman as discussed above. The Company continues to consolidate Nitinat even after its stock ownership in that company was reduced below 50% as it yet maintains control of Nitinat due to the influence it exerted on the board of directors. *(The separate, and unconsolidated, financial statements for Nitinat Minerals Corporation can be viewed on [www.SEDAR.com](http://www.SEDAR.com) under that company's name.)*

## Financial Instruments

As discussed in Note 2 of the financial statements dated December 31, 2012, all financial instruments are classified into one of four categories; held for trading, loans and receivables, available for sale and other financial liabilities. All financial instruments and derivatives are measured in the balance sheet initially at fair value; subsequently they are measured at fair value except for financial assets classified as held to maturity investments or loans and receivable, which are measured at amortized cost using the effective interest method.
Financial assets are assessed for indicators of impairment at the end of each reporting period. In the current fiscal period the value of the loan receivable was identified as impaired and reported value written down, as discussed in the Loans Receivable section above.

The company is exposed to various financial instrument risks and assesses the impact of this exposure. These risks include liquidity risk, currency risk, interest rate risk and credit risk.

## Capital Management

When managing capital, the Company's objective is to ensure the entity continues as a going concern as well as to achieve optimal returns to shareholders and benefits for other stakeholders. Management adjusts the capital structure as necessary, in order to support the acquisition, exploration and development of its projects. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital that it manages as its shareholders' equity. As at December 31, 2012, total shareholders' equity [managed capital] was $41,493,420 (September 30, 2012 - $38,559,170).

The properties in which the Company currently has an interest are in the exploration stage. As such, to the extent that the Company's cash reserves are not otherwise sufficient, the Company is dependent on external financing to fund its exploratory activities. In order to carry out the planned exploration programs and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts when economic conditions permit it to do so.

Management has chosen to mitigate the risk and uncertainty associated with raising additional capital within the current economic environment by:

(i) minimizing discretionary disbursements;
(ii) reducing or eliminating exploration expenditures which have limited strategic value;
(iii) using stock-based compensation and payments in lieu of cash, when and where accepted and advisable, and
(iv) maintaining a liquidity cushion in order to address any potential disruptions or industry downturns.

In light of the above, the Company will continue to assess new properties and seek to acquire an interest in additional properties if it believes there is sufficient potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is appropriate. There were no changes in the Company's approach to capital management during the fiscal period ended December 31, 2012.

The Company is not subject to any capital requirements imposed by a regulator or lending institution. The Company expects that its current capital resources will be sufficient to discharge its liabilities as at December 31, 2012.

## Effectiveness of Disclosure Controls

Management has evaluated the effectiveness of the Company's disclosure controls as of December 31, 2012. They have concluded that the Company's disclosure controls and procedures provide reasonable assurance that material information relating to the Company would be made known to them by others within the Company, particularly during the period during which this report was being made.

## Future Accounting Changes

There are no relevant changes in accounting standards applicable to future periods other than as disclosed in the section entitled “Future Accounting Changes “ in the Company’s MD&A for the fiscal year ended September 30, 2012.

## Transactions with Related Parties

The financial statements for the quarter ended December 31, 2012 disclosed related party transactions in Note 18. The Company’s Chief Executive Officer and Chief Financial Officer are under management service agreements. Compensation for the three month period ended December 31, 2012 was $105,000 in fees, $4,500 car allowance and rent expense of $46,292 for the CEO and $16,500 in fees for the CFO. In addition the company paid a director of the company $26,000 and the former CFO $2,500.

## Critical Accounting Estimates

In preparing the financial statements of the Company, management has to make estimates and assumptions that affect the reported amounts of the assets, liabilities, shareholders equity and expenses. Based on historical experience, current conditions and expert advice, management makes assumptions that are believed to be reasonable. Different assumptions would result in different estimates and actual results may vary from the results based on these assumptions. These estimates and assumptions are also affected by management’s application of accounting policies as prescribed by IFRS accounting principles. Critical accounting estimates are those that affect the Company’s financial statements materially and involve a significant level of judgment by management.

## Risks and Uncertainties

Mineral property exploration, development, production and processing involve a number of business risks, some of which are beyond the Company’s control. All of the Company’s mineral properties are in the exploration and development phase and none have entered into the production phase. The decision as to whether a property contains a commercial mineral deposit and should be brought into production will depend upon the results of exploration programs and/or feasibility studies, and the recommendations of duly qualified engineers and/or geologists, all of which involves significant expense. The decision will involve consideration and evaluation of several significant factors including but not limited to; operational costs to bring the property into production, availability and cost of financing, ongoing production costs, market prices for the minerals to be produced, environmental compliance requirements and government regulation and control in the jurisdictions of the particular mineral property. Many of these factors are beyond the control of the Company and therefore represent risks which could impact the long term viability of the Company and its operations.

## Contingencies

The Company continues to be involved with various items of litigation or dispute resolution. Each of those is matters falling within the normal course of business. It is management’s opinion that the ultimate outcome of any of these matters, even if negative, will not have a material effect on the Company’s affairs

## Subsequent Events

Subsequent to December 31, 2012, and as at the date of this Management Discussion & Analysis, no material events have occurred not otherwise already discussed in this document.