

Beaufield Resources Inc.

Management's Discussion and Analysis

Nine-months ended May 31, 2010

The attached Management's Discussion and Analysis have been prepared by Management of Beaufield Resources Inc. and have not been reviewed by an auditor.

Beaufield Resources Inc.

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Beaufield Resources Inc.

Management's Discussion and Analysis

For the nine-month period ended May 31, 2010

The following discussion and analysis (the "MD&A") of the financial condition and results of the operations of Beaufield Resources Inc. ("Beaufield" or "the Company") constitutes management's review of the factors that affected the Company's financial and operating performance for the nine-month period ended May 31, 2010 ("Q2-10"). This MD&A should be read in conjunction with the Company's financial statements for the nine-month period ended May 31, 2010 and related notes and with the Company's MD&A included in the 2009 Annual Report. Beaufield's interim Financial Statements are prepared in accordance with Canadian generally accepted accounting principles ("**GAAP**") and reported in Canadian dollars unless otherwise noted.

Further information regarding the Company and its operations are filed electronically on the System for Electronic Document Analysis and Retrieval (SEDAR) in Canada and can be accessed at www.sedar.com.

Nature of activities

Beaufield is a mineral exploration and development company, which acquires, explores, joint ventures and develops mineral properties in Canada.

Highlights

During the first quarter of fiscal 2010, the Company completed a 960 line kilometre airborne survey of its Lab-Schefferville project.

During the second quarter of fiscal 2010, the Company completed a 2,472 metres drilling program on its 100% owned Tortigny base metal deposit (Troilus project) north of Chibougamau, Quebec.

During the third quarter of fiscal 2010, the Company was active on the following properties:

- a) the Company entered into an option agreement to acquire an undivided 50% of the Company's 100% interest in the Urban property with Amseco Exploration Ltd. ("Amseco"), a corporation listed on the TSX Venture Exchange. Amseco conducted an airborne survey in April 2010 and identified several potential gold and copper anomalies. (Amseco press release dated July 6, 2010);
- b) the Company has expanded its claims holding on the Schefferville property by map staking to cover a series of high zinc lake sediment anomalies indicative of possible SEDEX zinc-lead deposits. The Company has contracted an interpretation of an aeromagnetic survey to direct a 2010 summer exploration program for iron and zinc;
- c) The Company engaged SGS-Canada Inc. to prepare an updated model and a new resource calculation for the Troilus-Tortigny base metal project. A new drill program is expected to begin by the end of July 2010.
- d) Beaufield started an induced polarization (I.P.) geophysical survey on its Opinaca gold property. This survey intends to identify buried extensions and to better understand the spatial orientation of the currently known surface gold mineralization to help define targets for a future mechanical trenching and drill programs.

Operating activities

The Company reported a net loss of \$300,445 in Q3-10 compared to a net loss of \$535,716 in the nine month period ended May 31, 2009 ("Q3-09").

Administrative expenses

Administrative expenses for Q3-10 were \$515,562 (\$395,200 in Q3-09). The change in expenses is due primarily to:

- a) A \$100,000 stock-based compensation cost was recorded in October 2009 for the 1,000,000 vested options granted to directors and officers (nil in Q3-09);
- b) Salaries, benefits and management fees increased to \$155,449 in Q3-10 as compared to \$111,380 in Q3-09. This increase is mainly due to \$59,151 (\$23,835 in Q2-09) of geologists salaries that were recharged as consulting fees to Melkior Resources Inc. for its own projects.

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Operating activities (Cont'd)

Project management fees

In Q3-10, the Company earned \$75,223 (\$90,781 in Q3-09) in project management fees as follows:

- a) \$75,223 (\$31,075 in Q3-09) in project management fees on Melkior's own projects; and
- b) \$Nil (\$59,706 in Q3-09) of project management fees on Beaufield's Troilus joint venture with Melkior.

Investment income

In 2009, with very low rate of return being earned on the Company's cash reserves invested in treasury bills and with gold being the primary focus, the Company decided to invest up to \$2 million of its cash and cash equivalents with an investment in one ounce gold maple leaf coins and securities in publicly traded companies in the resource sector. The Company is actively evaluating investment opportunities to increase the return on its cash reserves.

Interest earned from cash balances held at financial institutions was \$10,919 in Q3-10 as compared with \$64,776 in Q3-09. This reduction is due primarily to lower market interest rates and lower cash balances invested in fixed-income securities.

In Q3-10, the disposal of publicly traded securities, at a cost of \$467,094 (\$40,240 in Q3-09), generated a realized gain of \$58,811 (\$58,970 in Q3-09) while the unrealized gain on mark-to-market on marketable securities totalled \$70,164 (\$46,490 gain in Q3-09).

Gold coins are considered a commodity and not a financial instrument and as such are recorded at cost. At May 31, 2010, the Company held 839 ounces of gold coins having an acquisition cost of \$999,420 and a market value of \$1,068,251.

<u>Date</u>	<u>Fair market value per ounce US\$</u>	<u>Exchange rate</u>	<u>Fair market value per ounce CDN\$</u>	<u>Total fair market value CDN\$</u>
March 27, 2009 (acquisition date)	984.46	1.21	1,191.20	999,420
May 31, 2010	1,220.40	1.0433	1,273.24	1,068,251

Write-off of mineral properties

At the beginning of 2009, The Company decided to take a write-off for a total amount of \$401,533 (\$Nil in Q3-10) on the Mainstreet project, Launay Township, Lac Evans, Matagami and Lab Schefferville properties. At that time, the Company did not anticipate any exploration expenditures of its own on those properties in the near future owing to the depressed base metal market and the difficulty to bring in a joint venture partner with whom to share investment risk.

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Investing activities

Mineral properties

During Q3-10, the additions of \$209,021 (\$34,898 in Q3-09) to the mineral properties consist of:

- a) Acquisition for an amount of \$103,146 by map staking of a 100% interest located 20 to 50 kilometres northwest of Schefferville, Quebec.

In 2008, the Company staked a group of claims within the Labrador Trough approximately 40 kilometres northwest of Schefferville Quebec. The 100% owned property consists of 139 claims or approximately 6,776 hectares. This area is in the middle of the current hot iron exploration area. The Labrador Trough is the host of world class iron deposits and potential host of rare earth and sediment-hosted exhalative, lead-zinc deposits ("SEDEX") deposits. The additional claims staked during Q3-10 bring the Company's total land position to 520 claims covering a surface area of 258 square kilometers (press releases of March 17 and April 21, 2010).

The objective of the staking is to cover a series of very high zinc lake sediment anomalies indicative of possible SEDEX zinc-lead deposits. The claims also cover a series of very strong magnetic features of the type occurring on neighbouring properties. The property adjoins New Millennium Capital Corp (NML.V), Labrador Iron Mines (LIM.T), Champion Minerals (CHM.V) and others;

- b) Acquisition for an amount of \$35,616 by map staking of a 100% interest in 297 claims covering a surface area of 127 square kilometers in the Eastmain area of James Bay in northern Quebec. Several companies have recently announced interesting lithium discoveries in this area
- c) Claim renewal cost on the other properties.

Exploration expenses

During Q3-10, the Company invested \$545,160 (\$306,078 in Q3-09) in exploration expenses.

The Company applies for refundable exploration tax credits to certain Quebec government bodies at each taxation year end and records the expected amounts as an amount receivable. For Q3-10, the Company has accrued \$244,587 in refundable tax credits related to expenditures.

Following are the deferred exploration expenses incurred in Q3-10 and Q3-09.

Q3-10	Urban	Troilus	Opinaca	Raglan	Hemlo	Schef- ferville	Total
	\$	\$	\$	\$	\$	\$	\$
Drilling	1,200	326,810	-	-	183	-	328,193
Geology	11,150	49,734	47,425	-	2,888	19,601	130,798
Geophysics & geochemistry	825	4,226	7,610	1,400	-	65,277	79,338
Depreciation	-	-	6,831	-	-	-	6,831
	<u>13,175</u>	<u>380,770</u>	<u>61,866</u>	<u>1,400</u>	<u>3,071</u>	<u>84,878</u>	<u>545,160</u>

Q3-09	Urban	Troilus	Opinaca	Raglan	Hemlo	Total
	\$	\$	\$	\$	\$	\$
Drilling	600	1,200	-	-	53	1,853
Geology	39,368	20,441	91,467	700	7,299	159,275
Geophysics & geochemistry	805	2,445	41,788	15,558	77,529	138,125
Depreciation	-	-	6,825	-	-	6,825
	<u>40,773</u>	<u>24,086</u>	<u>140,080</u>	<u>16,258</u>	<u>84,881</u>	<u>306,078</u>

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Investing activities (Cont'd)

Troilus

During the second quarter of fiscal 2010, The Company completed 2,472 metres drilling program consisting of seven diamond drill holes in the vicinity of the 100% owned Troilus-Tortigny base metal deposit.

The Tortigny polymetallic deposit is located in the Troilus area 100 kilometres north of the town of Chibougamau, Quebec. It consists of a deformed massive sulfide deposit hosted in meta-sedimentary rocks which are surrounded by mafic volcanic rocks. The deposit forms a "V" shape fold where in 1997 the previous operator, Mines et Exploration Noranda Inc., calculated a resource of 489,900 tonnes 2.21% copper, 6.15% zinc, 0.24% lead, 0.31 g/t gold and 60.08 g/t silver. The Tortigny resource calculation is not compliant as per NI 43-101/4.2(2b). A qualified person has not done sufficient work to classify the historical estimate as a current mineral resource and the historical estimate should not be relied upon.

In February 2008 Beaufield intersected massive sulfides in hole TO-08-05 for which assays included 12.55m 6.02% copper, 15.00% zinc, 145 g/t silver and 0.95 g/t gold. (Press release April 8th 2008). This hole and the new 2010 holes were not included in the prior resource calculation.

The 2010 program consisted of two aspects. The first aspect was to drill four infill holes (TO-10-10; TO-10-11; TO-10-12 and TO-10-15) for a total of 879 metres between previously drilled, widely spaced holes to better define the deposit. The second aspect was verifying three electromagnetic conductors, with three holes (TO-10-09; TO-10-13 and TO-10-14), totaling 1,593 metres located in the vicinity of the deposit.

Hole TO-10-10 intersected a total of 33.1 metres of massive sulfide mineralization grading 2.32% copper, 5.94% zinc, 0.16% lead, 0.25 g/t gold and 63.30 g/t silver, which is the longest mineralized intersection yet drilled at Tortigny. Hole TO-10-12 assayed the best gold intersection to date with 2.20 g/t gold over 11.90 metres and TO-10-15 obtained the best assays of the drill program: 8 metres of 6.15% copper, 9.98% zinc, 0.31% lead, 1.72 g/t gold and 157.96 g/t silver. The best intersections are summarized in the press release dated March 30, 2010.

Holes TO-10-09; TO-10-13 and TO-10-14 were drilled on the periphery of the known extent of the deposit in order to verify three off-hole electromagnetic conductors. Pyrrhotite stringers hosted in graphite rich sediments were intersected in holes TO-10-13 and TO-10-14 explaining the conductors. The conductor targeted by hole TO-10-09 was not explained. Minor mineralization was encountered in hole TO-10-14, which could represent a halo from deeper mineralization.

All drill hole data has been forwarded to SGS-Canada Inc. to prepare an updated model and a new resource calculation. A new drill program of approximately 3,000 metres is expected to begin by the end of July 2010 (Press release July 21, 2010).

Urban

On March 2, 2010, The Urban gold properties have been optioned to Amseco Exploration Ltd. (Press release March 4, 2010). Amseco must spend \$1,980,000 over a four year period to earn a 50% interest in Beaufield's Urban properties. Refer to Note 5 to the financial statements for additional details.

Amseco has conducted a high sensitivity airborne magnetic survey in April 2010 and identified several potential gold and copper anomalies. In a press release dated July 6, 2010, Amseco announced the planning of a more focused summer gold and copper exploration program on its Barry-Urban project. The activities being considered include stripping, channel saw sampling as well as diamond drilling.

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Investing activities (Cont'd)

Schefferville iron-zinc project

During the first quarter of fiscal 2010, the Company completed a 960 line kilometre airborne survey of its Schefferville project. The survey was carried out using a high sensitivity magnetometer to map geology, structure and iron formations and using a spectrometer to map radioactive minerals. The equipment was flown in helicopter to get optimum ground clearance. The objective of the survey was to assist in the exploration for SEDEX and to map iron formations.

In April 2010, Beaufield has contracted an interpretation the aeromagnetic survey flown in to Scott Hogg and Associates Ltd. The objective of the survey is to direct a 2010 summer exploration program for iron and for zinc.

Hemlo

In Fiscal 2009, the Northern Eagle gold property has been optioned to Jiminex Inc. Jiminex has contracted Caracle Creek International Consulting Inc., of Toronto to prepare a geological model for the property. The Barrick Gold Corporation mines are located 15 kilometres due east. Jiminex must spend \$1,300,000 over a three year period to earn a 50% interest in this property.

In April 2010, Jiminex announced that the interpretation of an interactive computer geotechnical data model suggests the western part of the target alteration zone/barite horizon dips north at a moderate to steep angle rather than vertical as predicted by historical work. This model is being examined to determine the best location to begin phase one of the deep geophysical surveying program.

Financing activities

There was no financing activities in Q3-10.

Liquidity

The Company has no long term debt and a working capital (current assets less current liabilities) of \$6,809,528 as at May 31, 2010 as compared to \$7,387,736 on August 31, 2009. Management is of the opinion that it will be able to maintain the status of its current exploration obligations and to keep its properties in good standing for several years with the level of liquidity on hand.

Advanced exploration of some of the mineral properties would require substantially more financial resources. In the past, the Company has been able to rely on its ability to raise financing in public or privately negotiated equity offerings. There is no assurance that such financing will be available when required, or under terms that are favourable to the Company. The Company may also elect to advance the exploration and development of mineral properties through joint-venture participation. Management is not currently considering further financing at this time.

Summary of quarterly results

For the eight most recent quarters:

	<u>May 31, 2009</u>	<u>February 28, 2010</u>	<u>November 30, 2009</u>	<u>August 31, 2009</u>
Net loss for the period	\$ (10,787)	\$ (111,677)	\$ (177,981)	\$ (87,443)
Net loss per share	-	-	-	-
	<u>May 31, 2009</u>	<u>February 28, 2009</u>	<u>November 30, 2008</u>	<u>August 31, 2008</u>
Net loss for the period	\$ (218,634)	\$ (254,831)	\$ (62,251)	\$ (21,723)
Net loss per share	(0.005)	(0.005)	-	-

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Related party transactions

The principal transactions concluded with companies controlled by officers are as follows:

	Nine-month period ended May 31,	
	2010	2009
	\$	\$
Deferred exploration expenses ¹⁾	17,175	30,095
Professional fees ²⁾	68,185	89,676
Management fees ³⁾	54,825	47,850
Rent ³⁾	22,500	22,500
Total	<u>162,685</u>	<u>190,121</u>

These transactions were concluded in normal course of operations and were measured at the exchange amount that is the amount established and accepted by the parties.

- (1) Fees paid to a private company controlled by the President of Beaufield, for geological services rendered by the President of Beaufield who is also a director;
- (2) Professional fees paid to a private company controlled by the Chief Financial Officer of Beaufield for bookkeeping, accounting and administrative services;
- (3) Management fees and rental office spaces paid to a private company controlled by the President of Beaufield.

There were accounts payable or accrued liabilities at May 31, 2010 to companies controlled by officers in the amount of \$19,726 (\$23,121 on May 31, 2009).

Subsequent Event

There are no subsequent events to report.

Disclosure of outstanding share data (as of July 21, 2010)

	<u>Number</u>
Common shares	83,349,519
Options	5,000,000
Warrants	-
Total on a fully-diluted basis	<u>88,349,519</u>

Stock Option Plan

The purpose of the Stock Option Plan (the "Plan") is to serve as an incentive for the directors, officers and service providers who will be motivated by the Company's success as well as to promote ownership of common shares of the Company by these people. There is no objective attached to the Plan and no relationship to manage the Company's risks.

Off-balance sheet arrangements

The Company does not have any off-balance sheet arrangements.

Contractual obligation and contingencies

The Company does not have any contractual obligation and contingencies.

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Management's responsibility for financial information and critical accounting estimates

Beaufield financial statements are the responsibility of the Company's management. The interim financial statements were prepared by the Company's management in accordance with Canadian generally accepted accounting principles. A description of the Company's significant accounting policies can be found in Note 3 of the Company's 2009 annual financial statements. The interim financial statements include certain amounts based on the use of estimates and assumptions. Management has established these amounts in a reasonable manner, in order to ensure that the interim financial statements are presented fairly in all material respects. Significant estimates include the carrying amount of mineral properties and stock-based compensations. The estimates mentioned above involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control and are described in the Company's 2009 MD&A.

Change in accounting policies including initial adoption

Taking effect September 1, 2009, according to the transition dispositions, the Company adopted the following new accounting policy published by the Canadian Institute of Chartered Accountants ("CICA"):

Financial Instrument: In June 2009, the CICA amended Section 3862, "Financial instrument - disclosure". This section has been amended to introduce new financial disclosure requirements, particularly with respect to fair value measurement of financial instruments (three hierarchy levels) and entity exposure to liquidity risk. The amendments to this section apply to annual financial statements for years ending after September 2009. Disclosure and presentation requirements pertaining to this section are contained in Note 9 and have no impact on the Company's financial results.

IFRS Convergence

The Company is using a four step roadmap to convert to IFRS:

Step 1: diagnostic

The initial diagnostic stage has been completed in 2009 to understand, identify and assess the overall effort required to produce financial information under IFRS.

Step 2: design and planning

Step 2.1: accounting policies

The detailed analysis of the accounting policies impacted by the IFRS convergence is expected to be completed by the end of December 2010. Overall, a lot of effort will be put in the financial statements presentation as IFRS requires more disclosure.

Set out below are the main areas where changes in accounting policies are expected to have a significant impact on the Company's financial statements. The list below should not be regarded as a complete list of changes that will result from transition to the IFRS. It is intended to highlight areas that the Company believes to be the most significant; however, the analysis of changes is still in process and the selection of accounting policies where choices are available under IFRS has not been completed. We note that the regulatory bodies that promulgate the Canadian GAAP and the IFRS have significant ongoing projects that could affect the ultimate differences between Canadian GAAP and IFRS and their impact on the Company's financial statements in future years. The future impacts of the IFRS will also depend on the particular circumstances prevailing in those years. The standards listed below are those existing based on current Canadian GAAP and IFRS. At this stage, the Company is not able to reliably quantify the expected impacts of these differences on its financial statements.

They are as follows:

First time adoption (IFRS 1)

IFRS 1 provides guidance to entities on the general approach to be taken when first adopting IFRS. The underlying principle of IFRS 1 is retrospective application of IFRS standards in force at the date an entity first reports using IFRS. IFRS 1 acknowledges that full retrospective application may not be practical or appropriate in all situations and prescribes:

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IFRS Convergence (Cont'd)

- Optional exemptions from specific aspects of certain IFRS standards in the preparation of the Company's opening balance sheet; and
- Mandatory exceptions to retrospective application of certain IFRS standards.

Additionally, to ensure financial statements contain high-quality information that is transparent to users, IFRS 1 contains disclosure requirements to highlight changes made to financial statement items due to the transition to IFRS.

The Company is presently evaluating the impact of these potential modifications.

Impairment of assets (IAS 36)

IFRS requires the use of a one-step impairment test (impairment testing is performed using discounted cash flows) rather than the two-step test under Canadian GAAP (using undiscounted cash flow as a trigger to identify potential impairment loss).

IFRS requires reversal of impairment losses (excluding goodwill) where previous adverse circumstances have changed; this is prohibited under Canadian GAAP.

Impairment testing should be performed at the asset level for long-lived assets and intangible assets. Where the recoverable amount cannot be estimated for individual assets, it should be estimated as part of a Cash Generating Unit ("CGU").

The Company believes that the changes of this policy should not have an impact on the financial statements on the changeover date. Nevertheless, in the subsequent years, this policy could generate more impairment than Canadian GAAP would since it uses a one-step test.

Share-based payments (IFRS 2)

Per IFRS, the forfeiture rate, with respect to share options, needs to be estimated by the Company at the grant date instead of recognizing the entire compensation expense and only record actual forfeitures as they occur.

For graded-vesting features, IFRS requires each instalment to be treated as a separate share option grant, because each instalment has a different vesting period and hence the fair value of each instalment will differ.

The Company believes that the changes of this policy should not have a material impact on the Financial Statements of the Company.

Mineral property interests, exploration and evaluation costs (IFRS 6)

Under IFRS, the Company would be required to develop an accounting policy to specifically and consistently identify which expenditures on exploration and evaluation activities will be recorded as assets. Unlike IFRS, Canadian GAAP indicates that exploration costs may initially be capitalized if the Company considers that such costs have the characteristics of property, plant and equipment.

Exploration and evaluation assets shall be classified as either tangible or intangible according to the nature of the assets acquired.

The Company believes that the changes of this policy should not have a material impact on the Financial Statements on the changeover date and in subsequent years.

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IFRS Convergence (Cont'd)

Financial instruments (IAS 39)

Under IFRS, all financial assets must be classified into "loans and receivables", held-to-maturity", "fair value through profit or loss" or "available-for-sale" categories. Like IFRS, all financial assets under Canadian GAAP must be classified into "loans and receivables", "held-to-maturity", "held-for-trading" (fair value through profit or loss) or "available-for-sale" categories. However, there are certain differences from IFRS with respect to the types of assets that may be classified into each of these categories.

Financial instruments may be designated on initial recognition as measured at fair value through profit or loss only if certain criteria are met. Like IFRS, financial instruments may be designated on initial recognition as held for trading (and measured at fair value through profit and loss) only if certain criteria are met. However, these criteria are less restrictive than under IFRS.

The Company is presently evaluating the impact of these potential modifications.

Step 2.2: financial statements preparation

By the end of December 2010, we will prepare the financial statement model and we will identify the IFRS convergence adjustments.

Step 2.3: training and communication

The CFO participated to several courses organized specific to the mining industry given by CA firms. Now, the CFO must keep updated as IFRS is expected to change before 2011.

A communication plan beyond the mandatory disclosure required in the MD&A will be developed in the summer 2011 if the changes on the financial statements are important.

Step 2.4: IT systems

The accounting processes of the Company are simple since it is still at the exploration stage and no major challenges are expect at this point to operate the accounting system under the IFRS. Nevertheless, some Excel spreadsheets will probably have to be adapted to support the changes made in accounting policies.

The Company has yet to establish if historical data will have to be regenerated to comply with some of the choices to be made under IFRS 1.

Step 2.5: Internal Controls:

BY the end of December 2010, Management will review existing internal control process and procedures to address significant changes to existing accounting policies and practices.

Step 2.6: Impact on the business:

The business processes of the Company are simple and no major challenges are expected at this point to operate under IFRS.

Step 3: implementation

In this stage the Company will implement the changes that have been developed including changes to the accounting processes and policies. The Company will also quantify the IFRS impacts.

Management will prepare the structure of the first quarterly financial statements as of November 30, 2011 with the opening balance as of September 1st, 2010 and the comparables as of November 30, 2010 with the disclosure notes.

Management plans to complete this step in the summer 2011.

Step 4: post implementation

Management will prepare the interim and annual financial statements in compliance with IFRS for the year ending August 31, 2012.

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Financial Instruments

Financial instruments – recognition and measurement

On initial recognition, all financial assets and liabilities are measured and recognized at their fair value, except for financial assets and liabilities resulting from certain related party transactions. Subsequently, financial assets and liabilities are measured and recognized as follows:

- Held for trading financial assets are measured at their fair value and changes in fair value are recognized in the statement of operations. Changes in fair value that are recognized in the statement of operations include interest income and unrealized gains or losses. Cash and marketable securities are classified as held for trading;
- Loans and receivable are measured at amortized cost which is generally the initially recognized amount, less any allowance for doubtful account. Due from partners is classified as loans and receivable;
- Other financial liabilities are measured at amortized cost using the effective interest method. Interest calculated using the effective interest method is presented in the statement of operations. Account payable and accrued liabilities are classified as other financial liabilities;

The Company is exposed to various financial risks resulting from both its operations and its investments activities. The Company's management manages financial risks. The Company does not enter into financial instrument agreements including derivative financial instruments for speculative purposes.

Financial risks

The Company's main financial risk exposure and its financial risks management policies are as follows:

Fair Value

The Company defines the fair value hierarchy under which its financial instruments are valued as follows: Level 1 includes unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 includes inputs other than quoted prices in level 1 that are observable for assets or liability, either directly or indirectly and level 3 includes inputs for the asset or liability that are not based on observable market data. Cash and marketable securities are considered a level 1.

The fair value of shares in publicly traded companies held for trading is measured based on the quoted closing bid prices on the stock market at the balance sheet date or the closing bid price on the last day the security traded if there were no trades at the balance sheet date. The fair value and cost of the marketable securities is reflected on Note 3. Since this evaluation is based on quoted prices in active markets, it's considered a level 1 in the fair value hierarchy.

The fair value of cash, due from partners and accounts payable and accrued liabilities is comparable to their carrying value due to the relatively short period to maturity of the instruments.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Financial instruments that potentially subject the Company to credit risk consist of cash as at May 31, 2010. During the nine month period ended May 31, 2010, the Company has minimized its credit risk by holding the majority of its cash with a Canadian chartered bank. Management believes that the credit risk concentration with respect to these financial instruments is remote.

The Company aims at signing partnership agreements with established companies and follows closely their cash position to reduce its credit risk on due from its partners.

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Financial Instruments (Cont'd)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet the obligations associated with its financial liabilities. Liquidity risk management serves to maintain a sufficient amount of cash and cash equivalents and to ensure that the Company has at his disposal sufficient sources of financing such as private placement. The Company's policies and processes for managing capital are set out in note 6c). As the Company currently has no debt, the Company establishes cash estimates to ensure that there are

adequate funds to fulfill its obligations and to meet its commitments, for the next twelve months, as they become due under normal operating conditions.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates.

Cash bear interest at a variable rate and the Company is, therefore, not exposed to the risk of changes in fair value resulting from interest rate fluctuations. The Company's other financial assets and liabilities do not comprise any interest rate risk since they do not bear interest. The Company does not use financial derivatives to decrease its exposure to interest risk.

Other risk

Other risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will significantly fluctuate because of changes in market prices. The Company is exposed to other risk in trading its investments and unfavourable market conditions could result in the disposal of investments at less than favourable prices.

As at May 31, 2010, a 10% increase or decrease in the closing bid prices on its publicly traded companies would result in an estimated decrease or increase in net after-tax loss of approximately \$95,000.

Risk factors

Details of risk factors are outlined in the Company's MD&A included in the 2009 annual report.

Qualified Person

Jens E. Hansen, P.Eng. is the Qualified Person under National Instrument 43-101 who has reviewed the scientific and technical information in this document.

Forward-looking statements

This Report contains forward-looking statements that are based on beliefs of its management as well as assumptions made by and information currently available to management of the Company. When used in this Report, the words "estimate", "believe", "anticipate", "intend", "expect", "plan", "may", "should", "will", and the negative thereof or other variations thereon or comparable terminology are intended to identify forward-looking statements. Such statements reflect the current views of the Company with respect to future events based on currently available information and are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in those statements. The statements contained in this Report speak only as of the date hereof. The Company undertakes to inform shareholders and to update forward-looking statements if circumstances or management's estimates or opinions should change.

July 21, 2010

(S) *Jens E. Hansen*
Jens E. Hansen
President

(S) *Vatché Tchakmakian*
Vatché Tchakmakian, CA
Chief Financial Officer and Secretary