

# Heenan Blaikie

**FILED VIA SEDAR**

**Of Counsel**

The Right Honourable Pierre Elliott Trudeau, P.C., C.C., C.H., Q.C., FRSC (1984 - 2000)  
The Right Honourable Jean Chrétien, P.C., C.C., O.M., Q.C.  
The Honourable Donald J. Johnston, P.C., O.C., Q.C.  
Pierre Marc Johnson, G.O.Q., FRSC  
The Honourable Michel Bastarache  
The Honourable René Dussault, FRSC  
The Honourable John W. Morden  
Peter M. Blaikie, Q.C.  
André Bureau, O.C.

April 30, 2012

ONTARIO SECURITIES COMMISSION  
BRITISH COLUMBIA SECURITIES COMMISSION  
ALBERTA SECURITIES COMMISSION  
SERVICE NEWFOUNDLAND AND LABRADOR

Dear Sirs/Mesdames:

**Re: Viking Gold Exploration Inc. (the “Corporation”)  
Annual MD&A filed on April 27, 2012  
SEDAR Project Number 01897576**

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The purpose of this cover letter is to describe certain errors contained in the Corporation’s Annual MD&A that was filed under SEDAR Project 01897576 on April 27, 2012.

The typographical errors are in the section “Share Data” on page 17. All dates reported as “April 24, 2011” should read “**April 24, 2012**”. All dates reported as “September 30, 2011” should read “**December 31, 2011**”.

Please refer to the attached corrected version of the Corporation’s Annual MD&A and disregard the previous version filed on April 27, 2012.

Yours truly,

Heenan Blaikie LLP

“Helen Tweedie”

Helen Tweedie  
Securities Law Clerk

Helen Tweedie  
T 416 643.6851  
F 416 360.8425  
htweedie@heenan.ca

Bay Adelaide Centre  
333 Bay Street, Suite 2900  
P.O. Box 2900  
Toronto, Ontario  
Canada M5H 2T4

heenanblaikie.com



**VIKING GOLD EXPLORATION INC.**  
**FORM 51-102F1**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

**A) GENERAL:**

This Management Discussion and Analysis ("MD&A") document prepared as of April 24, 2012, should be read together with the annual financial statements of **Viking Gold Exploration Inc.** (hereafter "**Viking Gold**" or "**the Company**") for the year ended December 31, 2011, including the related notes. The annual financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

The Company's transition date from Canadian generally accepted accounting principles ("Canadian GAAP") to IFRS was January 1, 2010, with a corresponding IFRS adoption date of January 1, 2011. Accordingly, the preparation of the annual financial statements for the year ended December 31, 2011 resulted in significant changes to the accounting policies as compared with the Company's last annual Canadian GAAP financial statements prepared as at December 31, 2010 and for the year then ended. The Company's interim financial statements for 2011 were prepared in accordance with IFRS. The penultimate section to this MD&A, "N) Conversion to IFRS", contains additional information concerning the Company's transition to IFRS.

All amounts herein are expressed in Canadian dollars, and are based on the Company's IFRS accounting policies, unless otherwise indicated. The address of the Company's registered head office is #2B – 2900 John Street, Markham, Ontario, Canada, L3R 5G3. Additional information about Viking Gold is available on the SEDAR website at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.vikinggold.ca](http://www.vikinggold.ca).

**B) DESCRIPTION OF BUSINESS:**

Viking Gold Exploration Inc. is incorporated under the laws of the Province of Ontario and is a junior exploration company engaged in mineral exploration in Canada. It is a reporting issuer in the Provinces of Ontario, Newfoundland and Labrador, British Columbia and Alberta, and is a Tier-2 listed company on the TSX Venture Exchange, trading under the symbol VGC.

**C) RISK AND UNCERTAINTIES:**

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. These financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern. Such adjustments could be material.

As at December 31, 2011, the Company had working capital of \$564,139 and a flow-through expenditure commitment of approximately \$722,000. The Company needs to raise additional funds in 2012 in order to finance both current operations and acquisition/exploration commitments.

Long-term continuing operations of the Company are dependent on its ability to generate future cash flows or obtain additional financing. Management believes that the Company will continue to obtain sufficient working capital from external financing to meet the Company's current and future liabilities and commitments as they become due, although there is a risk that additional financing may not be available on a timely basis or on terms acceptable to the Company.

**Viking Gold Exploration Inc.**  
**(A Development Stage Enterprise)**  
**MD&A for the year ended December 31, 2011**

**C) RISK AND UNCERTAINTIES (Continued):**

Viking Gold is primarily involved in gold exploration, an inherently high-risk activity. Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements, unregistered claims, aboriginal claims and non-compliance with regulatory and environmental requirements.

Exploration is also capital intensive and the Company has no funding mechanism other than equity financings (including private placements and exercises of warrants and stock options) and potential joint venture financing arrangements with other mineral exploration companies.

Market risk and environmental risk are additional risks the Company faces. Market risk is the risk of depressed metals prices, particularly gold. The Company is dependent on capital markets to fund exploration, development and general working capital requirements and a period of depressed gold prices might make access to investment capital more difficult. Environmental regulations affect the cost of exploration and development as well as future mining operations.

**D) FORWARD-LOOKING STATEMENTS:**

The skills of management and staff in mineral exploration and raising capital serve to mitigate these risks. The ability of the Company to continue operations into the future is dependent upon continuing to obtain favourable results from its exploration activities, which will affect its ability to raise funds and to attract potential joint venture partners. In addition, there is also a risk that existing joint venture partners may be unable to meet their financial obligations, which could delay resource projects and possibly place additional stress on the Company's cash resources.

This MD&A may contain certain forward looking statements relating to, but not limited to, the Company's operations, exploration plans, anticipated equity financing, business prospects and strategies. Forward looking information typically contains statements with words such as "anticipate", "believe", "expect", "plan" or similar words suggesting future outcomes. Such forward-looking statements are subject to risks, uncertainties and other factors as identified under "Risks and Uncertainties" below, which could cause actual results to differ materially from future results expressed, projected or implied by such forward-looking statements. Such factors include financial market conditions and economic, competitive, regulatory and business conditions. The Company updates its forward-looking statements at future dates based on outcomes not presently known and as such, readers should not place undue reliance on forward-looking statements.

**Viking Gold Exploration Inc.**  
**(A Development Stage Enterprise)**  
**MD&A for the year ended December 31, 2011**

**E) EXPLORATION AND EVALUATION ASSETS:**

***Description of Properties:***

The Company has 6 mineral property interests that comprise the “Morris Lake Project” – a block of contiguous claims and leases situated approximately 73 kilometres north of Yellowknife, Northwest Territories.

In 2011, the Company acquired 5 additional mineral property interests, 2 in Ontario and 3 in Quebec as outlined below, bringing the total number of properties to 11.

<u>Properties</u>	<u>Year Acquired</u>	<u>Mineral Tenure (all 100% unless otherwise stated)</u>	<u># of Claims/Leases</u>
Morris Lake Project, NT			
Viking Yellowknife	2003	Leases; 60% undivided working interest	3
Max Lake	2004	Leases	2
ML Properties	2006	Claims	5
Peregrine	2006	Claims; 60% undivided working interest	5
Maguire Lake	2009	Claims	3
LM Claims	2010	Claims	3
			<hr/>
			21
			<hr/>
Venton Lake, ON	2011	Claims	13
Larose, ON	2011	Claims	16
			<hr/>
			29
			<hr/>
Verneuil, QC			
Verneuil Central	2011	Claims; 70% undivided working interest	44
Verneuil West	2011	Claims	19
Verneuil East	2011	Claims	10
			<hr/>
			73
			<hr/>
Total			123
			<hr/>

NT = Northwest Territories; ON = Ontario, QC = Quebec

Under IFRS accounting conventions, the Company now refers its mineral exploration property interests as “exploration and evaluation assets” or “E&E assets” for short. Previously, these assets were simply referred to as “mineral properties”.

A portion of the Company’s activities is conducted jointly with other parties wherein the Company enters into agreements that provide for specified percentage interests in mineral properties. Once the parties have earned their respective interests and undertake to conduct further acquisition, exploration or development through a joint venture or other legal arrangement, the Company determines the proper accounting treatment for its continued interest in the mineral property.

Where the property is subject to the shared joint control of the parties, the Company discloses this relationship as “a joint venture” and applies proportionate consolidation accounting. Under this method of accounting, the Company’s share of assets, liabilities, revenue and expenses are grouped with similar items in the Company’s financial statements. Where shared joint control is not present, the Company discloses this relationship as being one of “undivided working interests” and instead recognizes its assets, liabilities, revenue and expenses and/or its relative shares thereof. In either case, costs incurred during earn-in periods remain capitalized and are added to amounts recorded under the new arrangement, subject to any overriding impairment tests.

**Viking Gold Exploration Inc.**  
**(A Development Stage Enterprise)**  
**MD&A for the year ended December 31, 2011**

**E) EXPLORATION AND EVALUATION ASSETS (Continued):**

**Description of Properties (Continued):**

A continuity of the Company's "E&E Assets", prepared under IFRS for the years ended December 31, 2011 and 2010, follows:

Properties– Canada	Expenditures		Expenditures		Write-downs	Balance, December 31, 2011
	Balance, January 1, 2010	for year ended December 31, 2010	Balance, December 31, 2010	for year ended December 31, 2011	for year ended December 31, 2011	
<b>Acquisition costs</b>						
Morris Lake, NT						
Viking Yellowknife	\$ 123,500	\$ -	\$ 123,500	\$ -	\$ (123,499)	\$ 1
Max Lake	29,700	-	29,700	-	(29,699)	1
ML Properties	8,359	-	8,359	-	(8,358)	1
Maguire Lake	10,967	-	10,967	-	(10,966)	1
LM Claims	-	8,277	8,277	-	(8,276)	1
	172,526	8,277	180,803	-	(180,798)	5
Venton Lake, ON	-	-	-	112,536	-	112,536
Larose, ON	-	-	-	93,028	-	93,028
Verneuil, QC						
Verneuil Central	-	-	-	137,372	-	137,372
Verneuil West	-	-	-	93,926	-	93,926
Verneuil East	-	-	-	65,615	-	65,615
	172,526	8,277	180,803	502,477	(180,798)	502,482
<b>Deferred exploration expenditures</b>						
Morris Lake, NT						
Viking Yellowknife	1,840,393	875	1,841,268	42,261	(1,883,529)	-
Max Lake	510,826	1,843	512,669	1,843	(514,512)	-
ML Properties	104,634	128	104,762	-	(104,762)	-
Peregrine	498,942	472,440	971,382	(20,213)	(951,168)	1
Maguire Lake	720	-	720	-	(720)	-
	2,955,515	475,286	3,430,801	23,891	(3,454,691)	1
Larose, ON	-	-	-	179	-	179
Verneuil, QC						
Verneuil Central	-	-	-	718,829	-	718,829
Verneuil West	-	-	-	164,214	-	164,214
Verneuil East	-	-	-	98,177	-	98,177
	2,955,515	475,286	3,430,801	1,005,290	(3,454,691)	981,400
<b>Total expenditures</b>						
Morris Lake, NT						
Viking Yellowknife	1,963,893	875	1,964,768	42,261	(2,007,028)	1
Max Lake	540,526	1,843	542,369	1,843	(544,211)	1
ML Properties	112,993	128	113,121	-	(113,120)	1
Peregrine	498,942	472,440	971,382	(20,213)	(951,168)	1
Maguire Lake	11,687	-	11,687	-	(11,686)	1
LM Claims	-	8,277	8,277	-	(8,276)	1
	3,128,041	483,563	3,611,604	23,891	(3,635,489)	6
Venton Lake, ON	-	-	-	112,536	-	112,536
Larose, ON	-	-	-	93,207	-	93,207
Verneuil, QC						
Verneuil Central	-	-	-	856,201	-	856,201
Verneuil West	-	-	-	258,140	-	258,140
Verneuil East	-	-	-	163,792	-	163,792
	\$ 3,128,041	\$ 483,563	\$ 3,611,604	\$ 1,507,767	\$ (3,635,489)	\$ 1,483,882

**Viking Gold Exploration Inc.**  
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**MD&A for the year ended December 31, 2011**

**E) EXPLORATION AND EVALUATION ASSETS (Continued):**

**Description of Properties (Continued):**

Capitalized acquisition costs of \$8,277 for the year ended December 31, 2010 consisted of claims staking costs for the Morris Lake LM Claims property.

Capitalized acquisition costs of \$502,477 for the year ended December 31, 2011 are comprised of:

<u>Properties</u>	<u>Price Per share</u>	<u># of common shares issued</u>	<u>Common shares issued</u>	<u>Cash payments made</u>	<u>Option payments rec'd</u>	<u>Legal and other fees</u>	<u>Totals</u>
Venton Lake, ON	\$0.20	150,000	\$ 30,000	\$ 75,000	\$ -	\$ 7,536	\$ 112,536
Larose, ON	0.20	400,000	80,000	(1) 10,000	(8,500)	11,528	93,028
Verneuil, QC							
Verneuil Central	0.20	600,000	120,000	-	-	17,372	137,372
Verneuil West	0.20	300,000	60,000	30,000	-	3,926	93,926
Verneuil East	0.215	200,000	43,000	20,000	-	2,615	65,615
<b>Totals</b>		<b>1,650,000</b>	<b>\$ 333,000</b>	<b>\$ 135,000</b>	<b>\$ (8,500)</b>	<b>\$ 42,977</b>	<b>\$ 502,477</b>

(1) = advance royalty payment made in June 2011, pursuant to an existing 3% net smelter return royalty ("NSR") on the Larose property which was assumed by the Company.

The values assigned to the common shares issued by the Company for the acquisition of exploration and evaluation assets, are all based on the closing prices per share on the respective dates of issuance in 2011. See MD&A section "K) Related Party Transactions" for information concerning amounts billed to the Company by related parties and capitalized as either acquisition costs or deferred exploration expenditures.

Information concerning each of the individual properties follows.

**Additional Information:**

a) Viking Yellowknife:

As of January 1, 2008, the Company owned a 60% working interest in the Viking Yellowknife property, which consisted of three mineral leases. Viking Yellowknife Gold Mines Limited, a 78.8%-owned subsidiary of Tembo Gold Corp. (formerly Lakota Resources Inc.), sold its 40% interest in the property to a privately owned company.

In 2011, the Company incurred property restoration costs of \$33,750 including a December 31, 2011 accrual of \$20,000. The Company also reversed a receivable due from its former working interest partner in the amount of \$7,961. These amounts were capitalized to deferred exploration expenditures in 2011.

See part i) of this section for additional information in support of the \$2,007,028 write-down of this Morris Lake, NT property on December 31, 2011, due to impairment.

b) Max Lake:

Pursuant to an arm's length option agreement with Aur Resources Inc. dated September 15, 2004, the Company earned a 100% interest in two mining leases located in the Northwest Territories (the "Max Lake Gold Property"), subject to a 2% NSR. The Company has the right to repurchase 50% of the NSR for \$1,000,000. These leases expire in May 2018.

See part i) of this Section for additional information in support of the \$544,211 write-down of this Morris Lake, NT property on September 30, 2011, due to impairment.

**Viking Gold Exploration Inc.**  
**(A Development Stage Enterprise)**  
**MD&A for the year ended December 31, 2011**

**E) EXPLORATION AND EVALUATION ASSETS (Continued):**

**Additional Information (Continued):**

c) ML Properties:

This group of contiguous properties is comprised of five claims staked by the Company, which are all in good standing as a result of receiving the Federal government's approval of the Company's Limnic Survey Report in January 2011. This report was filed in May 2009 to attest to the completion of assessment work.

See part i) of this section for additional information in support of the \$113,120 write-down of this Morris Lake, NT property on September 30, 2011, due to impairment.

d) Peregrine:

The Company has an agreement with Peregrine Diamonds Ltd. ("PeregrineD") with respect to certain lands held by PeregrineD. The Peregrine property consists of five claims.

Under the original agreement, the Company had a four-year right to explore for minerals other than diamonds, subject to completing an airborne geophysical survey in 2006 (completed) and maintaining the property in good standing under the Mining Act (NT). If the Company completed \$1 million of exploration work by September 9, 2011 (modified from April 21, 2010 by way of an amending agreement dated April 9, 2009), it would earn a 60% joint venture interest with PeregrineD owning the other 40%. The amending agreement contains a dilution formula in the event either party to the joint interest fails to fund approved programs, and a conversion clause requiring an automatic conversion to a 2% net smelter royalty should a party's interest fall below 15%. The amending agreement also acknowledged that BHP Billiton held a 2% NSR, which could be repurchased for fair value as determined by a third party valuator acceptable to the parties. On February 2, 2012, the Company was informed by BHP Billiton that it had relinquished the 2% NSR to PeregrineD.

As of May 31, 2010, the Company believed it had satisfied its earn-in expenditure commitment (with the permitted inclusion of a calculated allowance for overhead) though this was not confirmed by PeregrineD until March 2011. The Company now holds a 60% working interest and could, at any time, submit a joint exploration program for approval by PeregrineD, as previously explained.

The Peregrine claims are presently all in good standing as a result of receiving approval of the Company's Limnic Survey Report, as previously explained in Note 3c. In February 2011, the Company fulfilled additional reporting obligations to the Federal government and to PeregrineD, with the filing of a comprehensive technical report and supporting cost analysis, covering the years 2009 and 2010.

See part i) of this section for additional information in support of the \$951,168 write-down of this Morris Lake, NT property on March 31, 2011 (\$72,000) and December 31, 2011 (\$879,168), due to impairment.

e) Maguire Lake:

This group of three contiguous claims lies to the north of, and adjoins, the Peregrine property described above. The Company staked these claims in April 2009. Parts of these claims fall within a one-kilometre area of influence defined by the original Peregrine Option agreement.

See part i) of this section for additional information in support of the \$11,686 write-down of this Morris Lake, NT property on December 31, 2011, due to impairment.

f) LM Claims:

In May 2010, the Company staked three claims on new lands adjacent to ML Properties, Max Lake and Peregrine at a cost of \$8,277. Parts of these claims fall within the one-kilometre area of influence of the original Peregrine Option agreement.

See part i) of this section for additional information in support of the \$8,276 write-down of this Morris Lake, NT property on December 31, 2011, due to impairment.

**Viking Gold Exploration Inc.**  
**(A Development Stage Enterprise)**  
**MD&A for the year ended December 31, 2011**

**E) EXPLORATION AND EVALUATION ASSETS (Continued):**

***Additional Information (Continued):***

g) Venton Lake

On April 12, 2011, the Company signed a letter agreement in which it was granted an option to earn a 100% undivided interest in 13 mining claims located near Thunder Bay, Ontario known as "Venton Lake." The agreement provides that the Company (as optionee) will earn a 100% interest in the property by making an initial \$75,000 cash payment followed by three additional annual cash payments of \$75,000 each from the "Effective Date" (of the transaction) which is defined as the date the TSX-V approves the transaction plus 10 days. Each respective cash payment is also to be accompanied by the issuance of common shares of the Company to the optionor, as follows – 150,000 shares (initial – completed), 50,000 shares (after the first year), 50,000 shares (after the second year) and 100,000 shares (after the third year), for a total of 350,000 shares.

Upon the exercise of the option, the optionor will retain a 2.5% NSR on output from the properties following the commencement of commercial production. For the period commencing on the date that is 60 months following the Effective Date and ending on the commencement of commercial production, the Company is required to pay an advance minimum royalty of \$15,000 per year to the optionor within 30 days of the start of each year, which aggregate amounts shall be deducted from the subsequent 2.5% NSR payments. The Company may buy back up to one-fifth of the 2.5% NSR at a price of \$500,000, for a period of 20 years from the Effective Date. The Company may abandon the option granted to it by giving 30 days notice prior to abandonment, provided that the mineral rights have been in good standing for at least six months following the date of abandonment.

The TSX-V approved the Venton Lake transaction on April 26, 2011. The transaction closed on September 19, 2011.

h) Verneuil and Larose Properties

On May 10, 2011, the Company signed a property sale agreement with Freewest Resources Canada Inc. ("Freewest"), a wholly owned subsidiary of Cliffs Natural Resources Inc. (NYSE: CLF), in which it agreed to acquire a 70% interest in the Verneuil property ("Verneuil Central") and a 100% undivided interest in the Larose property ("Larose"), in exchange for a combined share-based payment of 1,000,000 common shares and a 0.5% NSR on each property.

Verneuil Central is comprised of 44 claims in Verneuil Township in the Abitibi region of Quebec. The other 30% interest in Verneuil Central is held by Golden Tag Resources Ltd. ("Golden Tag"). Larose is comprised of 16 claims in Moss Township in northwestern Ontario. Verneuil Central is subject to an existing 1% NSR and Larose to an existing 3% NSR. The NSR's described herein apply to all minerals in perpetuity. The Company allocated the share consideration paid – 60% to Verneuil Central and 40% to Larose.

On June 7, 2011, the Company signed a letter agreement with other parties in which it agreed to acquire "Verneuil East", a 100% undivided interest in 10 mining claims located immediately east of Verneuil Central, in exchange for cash of \$20,000 (paid), a share-based payment of 200,000 common shares (issued) and a 2% NSR in perpetuity. The Company may re-purchase half of the 2% NSR for \$1,000,000 at any time.

On June 13, 2011, the Company signed a letter agreement with other parties in which it agreed to acquire "Verneuil West", a 100% undivided interest in 19 mining claims located immediately west of Verneuil Central, in exchange for cash of \$30,000 (paid), a share-based payment of 300,000 common shares (issued) and 150,000 warrants (issued and exercisable at a price of \$0.30 for 2 years), and a 2% NSR in perpetuity. The estimated fair value of the warrants issued was treated as a \$17,000 transaction cost for the common shares issued (see Note 7d). The Company may re-purchase half of the 2% NSR for \$1,000,000 at any time.



**Viking Gold Exploration Inc.**  
**(A Development Stage Enterprise)**  
**MD&A for the year ended December 31, 2011**

**E) EXPLORATION AND EVALUATION ASSETS (Continued):**

**Additional Information (Continued):**

h) Verneuil and Larose Properties (Continued)

The TSX-V approved the Verneuil/Larose transaction on May 27, 2011 and the Verneuil East and West transactions on June 21, 2011. These three transactions closed on June 28, July 20 and June 29, 2011, respectively.

On December 8, 2011, the Company (as optionor) entered into an option agreement with Golden Share Mining Corporation ("Golden Share" as optionee) whereby the optionee may earn up to a 50% interest in the Larose property. Under the terms of the agreement, Golden Share agreed to issue 100,000 shares to the Company on the later of (i) execution of the agreement and (ii) TSX Venture Exchange approval (completed with an assigned value of \$8,500), and an additional 100,000 shares on the first anniversary date of the agreement.

Golden Share has agreed to spend \$200,000 in the first year of the agreement on exploration of the property plus another \$150,000 in each of years two and three of the agreement. The parties have also agreed that at the time they become 50/50 owners in the property, they will enter into a joint venture agreement with Golden Share as the operator.

i) Write-downs of Morris Lake Properties in 2011

The Company's ability to explore its Morris Lake properties was interrupted by the expiry of its two land-use permits in March 2011 and January 2012. Continued exploration of these properties is subject to the Company securing new permits. In the case of Peregrine, the parties would also be required to conduct a land survey at an estimated cost of \$60,000 per claim in order to bring one or more of the five individual expiring claims to lease on November 7, 2012.

In 2011, the Company wrote down the carrying values of its Morris Lake properties to nominal amounts (i.e. \$1 each) to reflect management's view that (for each property):

- significant efforts and financial resources would be required to restore and/or extend the Company's rights and abilities to explore the property;
- the Company has incurred limited exploration expenditures in recent years (with the exception of Peregrine which was last explored in 2010), and has no current plans for exploration;
- while the Company may have achieved certain favourable assay results and identified certain mineral anomalies and significant geological trends, it has not identified any commercially viable mineral reserves on the property; and
- the Company is presently unable to establish a higher recoverable amount for the property on the basis of a potential sale or option to a third party including, where applicable, an existing joint venture partner.

The total write-down of the Morris Lake properties in 2011 is \$3,635,489. The breakdown by property is listed in the continuity of the Company's E&E assets for the year ended December 31, 2011, which is presented earlier in this section.

These accounting write-downs do not mean that the Company has permanently abandoned all its Morris Lake mineral exploration rights and, in future, its plans, financial resources and opportunities could change. In certain circumstances of recovery from impairment, IFRS accounting rules allow for a reversal of previously recorded write-downs.

**Viking Gold Exploration Inc.  
(A Development Stage Enterprise)  
MD&A for the year ended December 31, 2011**

**E) EXPLORATION AND EVALUATION ASSETS (Continued):**

***Additional Information (Continued):***

j) Undivided Working Interests

Gross deferred exploration expenditures of \$1,883,529 for Viking Yellowknife as at December 31, 2011 (December 31, 2010 – \$1,841,268; January 1, 2010 – \$1,840,393), include \$1,597,819 (December 31, 2010 - \$1,597,819; January 1, 2010 – \$1,597,819) attributable to the Company's earn-in efforts and \$285,710 (December 31, 2010 – \$243,449; January 1, 2010 – \$242,574) attributable to post earn-in activities.

Gross deferred exploration expenditures of \$951,168 for Peregrine as at December 31, 2011 (December 31, 2010 – \$971,382; January 1, 2010 – \$498,942) are all attributable to the Company's earn-in efforts.

The Company and Golden Tag have agreed that Golden Tag (see Note 3h) is not required to contribute financially to deferred exploration expenditures incurred on the Verneuil Central property prior to January 1, 2012.

The Company has not generated any revenue or expenses in respect of these undivided working interests since their inception.

***Northwest Territories Activities – 2011 and 2012:***

In February 2011, the Company fulfilled additional reporting obligations to the government and to PeregrineD, with the filing of a comprehensive technical report and supporting cost analysis, covering the years 2009 and 2010.

In April 2011, the Company worked with its Viking Yellowknife Joint Venture partner to renew a mineral lease that would have otherwise expired on April 30, 2011.

Only site restoration work was conducted on the Morris Lake properties in 2011 and 2012 to date.

In March 2012, the Company submitted a Final Plan report to the Mackenzie Valley Land and Water Board (NT) in connection with the expiration of its remaining land use permit in January 2012. The report reviewed the Company's historical exploration efforts on the Morris Lake properties covered by the permit, as well as recent site restoration work.

The Company continues to review the possibility of optioning parts of its Morris Lake properties to third parties, though it presently has no plans for its own active exploration programs on these properties. As indicated in part i) of this section, the Company has now written down the carrying value of its Morris Lake properties to nominal value.

***Quebec Exploration Activities – 2011 and 2012:***

**HISTORICAL INFORMATION – VERNEUIL**

In the early 1990's, Freewest Resources Canada Inc. estimated, based on 10 drill holes intersecting the Toussaint Shear Zone (TSZ), historical gold reserves of approximately 188,000 tonnes with an average grade of 7.1 g/t Au. *(A qualified person has not done sufficient work to classify the historical estimate as current mineral resources; the Company is not treating the historical estimate as current mineral resources and the historical estimate should not be relied upon.)*

From 1991 to 1995, Freewest carried out a series of extensive exploration programs resulting in the discovery of several gold-bearing shear zones. These programs consisted of prospecting, geophysics, trenching and diamond drilling. Six mineralized zones were uncovered by trenching with several significant gold values. Freewest completed a series of 35 diamond drill holes intersecting the TSZ. The results and location of these zones are posted on the Company's website.

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**E) EXPLORATION AND EVALUATION ASSETS (Continued):**

***Quebec Exploration Activities – 2011 and 2012 (Continued):***

**2011 SUMMER EXPLORATION PROGRAM – VERNEUIL**

In June 2011, the Company commenced a summer exploration program on its newly acquired Verneuil properties (Central, East and West) situated in Verneuil Township in the Abitibi area of Quebec. The purpose of the program at Verneuil was to generate new exploration targets. The program included line cutting, followed by geological and geophysical surveys, stripping, trenching and channel sampling and finally diamond drilling, as outlined below.

**Line Cutting**

A total of 128 kilometres of line have been cut, including 37 kilometres on a detailed grid covering the area of the Toussaint-Midrim showings area, and 91 kilometres on the main grid of the Verneuil Property.

**Geophysical Surveys**

A detailed magnetometer survey was carried out over the Toussaint-Midrim showings area to define with more accuracy the geological structures and the drilling targets. An extensive Induced Polarization (IP) survey was also completed in August over the entire main property grid. That survey revealed several extensive “textbook case” anomalies distributed throughout the property. Five new main target zones were outlined from the IP survey, the majority of which have not been previously explored.

**Channel Sampling**

Trenching and systematic channel sampling were performed over the TSZ, the Benoist Showing, and the new JD Showing. The main Toussaint Showing, well exposed by trenching, was sampled with closely spaced systematic channels with one-meter samples. Overburden thickness did not allow exposure of the north-east extension of the Toussaint zone.

At the Benoist Showing, a total of 8 channels were sampled to get representative Au values across the mineralized zone. Trenching was also completed at the new JD Showing, exposing a rusted silicified shear zone, as well as a quartz-feldspar porphyry dyke and quartz-tourmaline veining.

**Diamond Drilling**

In July, five shallow holes (VP-11-01 to 05) were drilled over the TSZ, covering a strike length of 550 metres (m) east from the main Toussaint lens. All the holes intersected the TSZ at a depth ranging from 40 to 70 m, confirming the continuity of the shear zone at shallow depth.

The Company sent all samples to ALS Chemex Lab in Val d’Or for a conventional 35-element ICP analysis with an aqua regia digestion process, and a 30-gram fire assay with Atomic Absorption Spectroscopy finish for gold. Samples with gold values above 10.0 ppm were re-analyzed using a 30-gram fire assay with gravimetric finish.

Assay results for the Company’s Verneuil summer exploration program were presented in the Company’s September 13, 2011 and November 15, 2011 press releases, copies of which may be found on the Company’s website.

**2011 FALL-WINTER EXPLORATION PROGRAM – VERNEUIL**

On October 28, 2011, the Company commenced a planned 4500 m, 25-hole fall-winter drilling program at Verneuil. On February 14, 2012, the Company announced that it had completed this drilling program distributed between 20 new drill holes and 2 holes from previous programs that were deepened.

The objective of the Company’s fall-winter program was to verify certain new exploration targets revealed by its summer 2011 induced polarization (IP) survey, and to expand and better define the structure of the Toussaint mineralized zone. Sampling of drill core was completed by mid-January 2012 and most of the assay results were received by the end of February. Over 500 samples were subsequently submitted for re-assay by metallic sieve method due to the coarse-gold nature of the mineralization as observed in several places.

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**E) EXPLORATION AND EVALUATION ASSETS (Continued):**

***Quebec Exploration Activities – 2011 and 2012 (Continued):***

**2011 FALL-WINTER EXPLORATION PROGRAM – VERNEUIL (Continued)**

The Company has recently received a significant portion of these re-assays and is currently interpreting the results prior to making them public. However, drill core observations suggest that:

- The original Toussaint Lens, in the western part of the Toussaint Zone, is still present at a depth of 250 metres (drill holes VP-11-25 and extension of drill hole VP-94-48).
- The mineralization is not restricted to the highly sheared, silicified and sericitized units, but is also found in thin, more or less chloritized, shear zones near the main sheared units. Such mineralization could be observed in drill holes VP-11-11, VP-11-14 and VP-11-18, and at the surface in the trench TR-11-02.
- In the Eastern part of the Toussaint Zone, over a strike length of 300 m from section L52+50E to L55+50E, several drill holes intersected a series of consecutive moderately to well-altered silicified zones. (Note: Drill hole VP-93-22, located in section L54+35E, was completed in 1993 at which time it assayed the following results – 3.16 g/t Au over 5.7 m, 2.9 g/t Au over 1.7 m, and 9.87 g/t Au over 6.2 m.)

Samples from the winter program were fire-assayed by ALS Chemex, at its Val d'Or, Quebec laboratory. All samples were initially analyzed for Au by atomic absorption spectroscopy (AAS), and those samples with results above a detection limit of 10 ppm were automatically re-analyzed by the gravimetric method (GRA).

Selected core intervals were assayed by the metallic sieve (SCR) method in order to verify the presence of coarse gold and its possible effects on the results. The atomic absorption spectroscopy (AAS) and metallic sieve (SCR) based assays used 30-gram and 1000-gram charges of prepared sample pulp, respectively. For additional explanations of the assay procedures used, please refer to the Company's website. Any samples that intersected altered shear zones and/or have higher Au values are currently being re-analysed by SCR. SCR analysis will also be applied to samples from the Company's summer 2011 drilling and channel sampling program. Further, the drill core from the 1990's drilling programs on the Verneuil Project is still available. It will be examined, and selected segments of core will also be sent for SCR analysis, during the spring of 2012.

Initial assay results for the Verneuil fall-winter exploration program were presented in the Company's February 1 and 14, 2012 press releases, copies of which may be found on the Company's website.

Once the re-assays have all been received and interpreted, the Company will make a determination on how best to proceed with this property.

**QUALIFIED PERSON**

Mr. Pierre Poisson, P.Geo., is the Company's independent "qualified person" for the Verneuil properties, as that term is defined in NI 43-101, and he has reviewed and approved the technical disclosures in this MD&A.

***Ontario Exploration Activities – 2011 and 2012:***

The Company has not yet commenced exploration of its Venton Lake property, though it expects to do so later in 2012.

Golden Share has commenced exploration of the Larose property under its option agreement with the Company.

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**E) EXPLORATION AND EVALUATION ASSETS (Continued):**

***Mineral Properties Advisory Committee:***

The Company identifies new exploration properties for acquisition through its Property Advisory Committee, whose members are presently Mr. Mackenzie Watson and Mr. Rejean Gosselin. These members are investors of the Company, and are experienced and successful prospectors/geologists who are well known in the Canadian mining industry. In exchange for their participation on the Committee, these members periodically receive stock options. Background information on the members is presented on the Company's website.

**F) SELECTED ANNUAL INFORMATION:**

Selected annual financial information for Viking Gold for the past three years, prepared under IFRS, is as follows:

<u>Year Ended December 31</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Financial Results</b>			
Additions to E&E assets - acquisition	\$ 502,477	\$ 8,277	\$ 10,967
Additions to E&E assets - exploration	1,005,290	475,286	289,051
Write-downs of E&E assets	(3,635,489)	-	-
Net (decrease) increase in E&E assets	<u>(2,127,722)</u>	<u>483,563</u>	<u>300,018</u>
Interest income	4,999	-	716
Stock-based compensation	566,000	321,000	-
Net loss and comprehensive loss	(4,253,785)	(617,056)	(129,375)
Basic and diluted loss per share	(0.067)	(0.011)	(0.004)
Dividends	-	-	-
<b>Financial Position</b>			
Working capital	\$ 564,139	\$ 1,010,983	\$ 109,057
E&E Assets	1,483,882	3,611,604	3,128,041
Total assets	2,612,315	4,767,477	3,329,195
Deferred income tax liability	-	363,382	302,510
Share capital and reserve	9,294,708	7,313,844	5,596,549
Deficit	(7,229,646)	(3,042,328)	(2,646,631)

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**G) QUARTERLY RESULTS:**

Summarized quarterly results for Viking Gold for the past eight quarters, prepared under IFRS, are as follows:

<u>Quarter ended</u>	<u>December 31,</u> <u>2011</u> <u>(Q4)</u>	<u>September 30,</u> <u>2011</u> <u>(Q3)</u>	<u>June 30,</u> <u>2011</u> <u>(Q2)</u>	<u>March 31,</u> <u>2011</u> <u>(Q1)</u>
Additions to E&E assets (a)	\$ 701,491	\$ 298,914	\$ 504,854	\$ 2,508
Income tax (recovery)	(198,267)	(133,900)	(5,500)	(39,382)
Net (loss)	(3,133,132)	(861,978)	(139,072)	(119,603)
Basic and diluted (loss) per share	(0.050)	(0.013)	(0.002)	(0.002)
<u>Quarter ended</u>	<u>December 31,</u> <u>2010</u> <u>(Q4)</u>	<u>September 30,</u> <u>2010</u> <u>(Q3)</u>	<u>June 30,</u> <u>2010</u> <u>(Q2)</u>	<u>March 31,</u> <u>2010</u> <u>(Q1)</u>
Additions to E&E assets (a)	\$ 17,140	\$ 3,399	\$ 52,754	\$ 410,270
Income tax expense (recovery)	14,835	(12,150)	(1,881)	85,675
Net (loss)	(299,447)	(33,381)	(44,487)	(239,741)
Basic and diluted (loss) per share	(0.004)	(0.001)	(0.001)	(0.005)

(a) Excluding write-downs (see below)

The Company is involved in mineral exploration and has no operating revenues. The fluctuations in the quarterly loss are mainly due to the normal timing of expenditures, however, certain additional non-cash items may also have a significant impact. Examples include share-based compensation expense, write-downs of exploration and evaluation assets, and deferred income tax provisions.

Share-based compensation expense was recorded in the following quarterly periods: Q4-2011 – \$273,000; Q3-2011 – \$231,000; Q2-2011 – \$62,000; Q4-2010 – \$210,000; Q1-2010 – \$111,000.

Write-downs of exploration and evaluation assets were recorded in the following quarterly periods: Q4-2011 – \$2,906,158; Q3-2011 – \$657,331; Q1-2011 – \$72,000, as explained in MD&A section “E) Exploration and Evaluation Assets”.

Income tax (recovery) expense for each quarter is also disclosed above. In each of Q4-2011 and Q3-2011, the Company’s substantial income tax recovery was attributable to operating losses and the tax impact of write-downs of E&E assets, as reduced by income tax adjustments relating to flow-through shares.

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**H) RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2011:**

**Net Loss:**

Net loss of \$4,253,785 for 2011 was \$3,636,729 higher than the 2010 net loss of \$617,056. The \$3,636,729 increase in the annual net loss was due to: i) increased operating expenses (\$410,433), ii) increased other expenses (\$3,689,824), less iii) increased income tax recovery (\$463,528), as outlined below.

**Total Expenses and Operating Loss:**

Total expenses and operating loss of \$931,987 in 2011 was \$410,435 (96%) higher than the 2010 total expenses and operating loss of \$521,552. The increase in total expenses and operating loss is further explained below:

<u>Components of expenses, under IFRS</u>	<u>% change</u>	<u>Year ended December 31, 2011</u>	<u>Year ended December 30, 2010</u>	<u>Increase (decrease)</u>
Management fees	a) + 90	\$ 158,284	\$ 83,120	\$ 75,164
Share-based compensation	b) + 104	566,000	321,000	245,000
Professional and regulatory fees	c) + 119	118,167	54,067	64,100
Office and administration	d) + 32	76,363	58,052	18,311
Depreciation	- 30	2,396	3,445	(1,049)
Claims management	e) -	3,013	-	3,013
Investigation of new properties	+ 316	7,764	1,870	5,894
Total expenses and operating loss	+ 96	<u>\$ 931,987</u>	<u>\$ 521,554</u>	<u>\$ 410,433</u>

Some key explanations follow:

- a) A new, full-time CEO was in place in 2011, but not in 2010.
- b) Options granted/expensed in 2011 were 3,650,000 (2010 – 3,100,000).
- c) Increased filing, legal and audit fees are applicable in 2011 which is consistent with greater activity.
- d) Combined increases in 2011 rent (additional space), insurance (increased coverage), trust services; newswire services; these items account for most of the net increase in 2011.
- e) N/A in 2010.

**Other Income (Expense):**

Other expense of \$3,698,847 in 2011 was \$3,689,824 higher than 2010 other expense of \$9,023. The increase in other income (expense) is further explained below:

<u>Components of other income (expense), under IFRS</u>	<u>% change</u>	<u>Year ended December 31, 2011</u>	<u>Year ended December 30, 2010</u>	<u>(Increase) decrease in expense</u>
Interest income	f) -	\$ 4,999	\$ -	\$ 4,999
Loss on disposal of equipment	g) -	(3,233)	-	(3,233)
Part XII.6 tax	h) + 622	(65,124)	(9,023)	(56,101)
Write-down of E&E assets	i) -	(3,635,489)	-	(3,635,489)
Other (expense)	-	<u>\$ (3,698,847)</u>	<u>\$ (9,023)</u>	<u>\$ (3,689,824)</u>

Some key explanations follow:

- f) Investment in flexible GIC's in 2011; N/A in 2010.
- g) Disposal of all-terrain-vehicle (ATV) in 2011 for nil proceeds; N/A in 2010.
- h) Part XII.6 tax on large flow-through share commitment that was carried for much of 2011.
- i) Large write-down of Morris Lake properties in Northwest Territories in 2011, due to impairment.

**Deferred Tax (Recovery) Expense:**

See Note 8 to the financial statements and also MD&A section "G) Quarterly Results" for information concerning the large income tax recovery in 2011.

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**I) LIQUIDITY AND CAPITAL RESOURCES:**

The Company has available cash and working capital resources as outlined below. The Company also has a flow-through expenditure commitment to be satisfied from available resources.

<u>Under IFRS, as at</u>	<u>December 31,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>	<u>January 1,</u> <u>2010</u>
Cash and cash equivalents	\$ 1,008,105	\$ 1,099,517	\$ 171,496
Working capital [includes cash and cash equivalents]	564,139	1,010,983	109,057
Flow-through expenditure commitment	722,000	940,000	187,000

The Company's management recognizes the need to raise additional capital in 2012 to fund both exploration and operating activities.

**Shares Issued to Acquire Assets**

Details of common shares issued by the Company in 2011 to acquire exploration and evaluation assets, are disclosed in MD&A section "E) Exploration and Evaluation Assets". No shares were issued in 2010 to acquire such assets.

**Net Capital Resources Raised**

In 2011, the Company raised total net capital resources of \$1,126,331 (2010 – \$1,623,821) from private placements and warrant/option exercises. This amount is net of issue costs paid/payable in cash (but excludes the effect of other warrants issued and recorded as transaction costs, and also deferred tax benefits). Further details follow.

**Private Placements**

The Company participates in capital resource transactions with investors and others to raise funds for exploration and working capital purposes. This may include private placements and exercises of share purchase warrants and stock options.

In 2010, the Company raised a total of \$1,670,000 through two non-brokered private placements, to finance exploration activities and to provide working capital. The private placements were for units comprised of 11,833,332 flow-through and 8,150,000 non-flow-through common shares, and 18,866,666 warrants to acquire non-flow-through common shares. Issue costs charged to share capital in 2010 were \$106,679.

In November 2011, the Company completed a non-brokered private placement of 6,991,667 units at a price of \$0.15 each for total gross proceeds of \$1,048,750. Each unit consisted of one common share and one-half purchase warrant, each whole warrant entitling the holder to purchase one additional non-flow-through common share at a price of \$0.20 per share for a period of 24 months from the closing of the offering. The 6,991,667 common shares and 3,495,834 investor warrants issued are subject to a 4-month restricted period. Of the common shares issued in the private placement, 5,243,750 (i.e. 75%) were flow-through shares. Issue costs were \$98,369 and 200,000 broker warrants were also issued in connection with this offering. The \$45,000 value assigned to these broker warrants was calculated using the Black-Scholes pricing model, and recorded as a transaction cost reducing both share capital and deficit.

**Other Warrants Issued**

On June 29, 2011, the Company issued 150,000 other warrants to acquire the Verneuil West mineral property. The \$17,000 value assigned to these warrants was calculated using the Black-Scholes pricing model, and recorded as a transaction cost reducing both share capital and deficit.



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**I) LIQUIDITY AND CAPITAL RESOURCES (Continued):**

**Warrants Exercised**

On December 2, 2010, the Company received proceeds of \$40,000 from the exercise of 200,000 investor warrants at \$0.20 per share.

On February 2, 2011, the Company received proceeds of \$40,000 from the exercise of 200,000 investor warrants at \$0.20 per share. On April 19 and 21, 2011, the Company received total proceeds of \$69,200 from the exercise of 346,000 warrants at \$0.20 per share.

**Stock Options Granted**

On February 4, 2010, the Company granted a total of 1,200,000 options to officers, directors and consultants of the Company. On October 7, 2010, the Company granted a total of 1,200,000 options to officers, directors and consultants. On November 16, 2010, the Company granted a total of 700,000 options to an officer/director and two consultants.

On May 17, 2011, the Company granted a total of 300,000 options to an officer/director and two other officers of the Company. On September 12, 2011, the Company granted a total of 1,675,000 options to officers, directors and consultants. On December 8, 2011, the Company granted a total of 1,675,000 options to officers, directors and consultants.

**Stock Options Exercised/Expired**

On December 10, 2010, the Company received \$20,500 from the exercise of 150,000 options by a director. The grant date fair value of these options was \$14,370.

During the year ended December 31, 2010, 1,770,000 vested options expired unexercised, including 1,400,000 options that expired early due to resignation or retirement. The total grant date fair value of the 1,770,000 options was \$199,359.

On February 25, 2011, the Company received \$18,750 from the exercise of 125,000 options by a director. The grant date fair value of these options was \$11,165. On April 25, 2011, the Company received \$27,500 from the exercise of 250,000 options by a Consultant (who was a former CEO/director of the Company). The grant date fair value of these options was \$23,121. On June 8, 2011, the Company received \$20,500 from the exercise of 150,000 options by a director. The grant date fair value of these options was \$14,367.

On March 2, 2011, 50,000 vested options expired unexercised. The grant date fair value of these options was \$4,467.

**Event Occurring After December 31, 2011**

On January 26, 2012, 150,000 of the Company's stock options expired. See MD&A section "J) Share Data" for additional details.

**Off-Balance Sheet Arrangements**

The Company has no off-balance sheet financing arrangements.

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**J) SHARE DATA:**

The Company's share data as at December 31, 2011 with a roll-forward to April 24, 2012, the date of this MD&A, is as follows:

	<u>As at</u> <u>December 31,</u> <u>2011</u>	<u>Transactions</u> <u>after Dec. 31,</u> <u>2011</u>	<u>As at</u> <u>April 24,</u> <u>2012</u>
Share data, under IFRS			
Common shares outstanding	70,569,369	-	70,569,369
Potential issuance of common shares			
Warrants (see schedule below)	28,903,001	-	28,903,001
Stock options issued to directors, officers and others (see schedule below)	7,050,000	(ii) (150,000)	6,900,000
Fully diluted number of common shares outstanding	<u>106,522,370</u>	<u>(150,000)</u>	<u>106,372,370</u>

**Outstanding Warrants:**

<u>Expiry date</u>	<u>Original</u> <u>term</u> <u>(years)</u>	<u>Exercise</u> <u>price</u>	<u>As at</u> <u>December 31,</u> <u>2011</u>	<u>Transactions</u> <u>after Dec. 31,</u> <u>2011</u>	<u>As at</u> <u>April 24,</u> <u>2012</u>
June 30, 2012	3	\$0.20	4,091,500	-	4,091,500
November 2, 2012	2	\$0.15	3,750,000	-	3,750,000
November 2, 2012	2	\$0.08	110,000	-	110,000
December 30, 2012	3	\$0.20	3,000,000	-	3,000,000
January 27, 2013	3	\$0.20	13,654,000	-	13,654,000
June 29, 2013	2	\$0.30	150,000	-	150,000
Nov./Dec., 2013 (i)	2	\$0.20	3,495,834	-	3,495,834
Nov./Dec., 2013 (i)	2	\$0.20	651,667	-	651,667
Totals			<u>28,903,001</u>	<u>-</u>	<u>28,903,001</u>

The 28,903,001 outstanding warrants have a weighted average exercise price of \$0.19 each. The Company has the right to accelerate the expiry of the unexercised 13,654,000 investor warrants issued on January 27, 2010, if the Company's stock trades over \$0.30 for 30 consecutive days.

**Outstanding and Exercisable Stock Options:**

<u>Expiry date</u>	<u>Exercise</u> <u>price</u>	<u>As at</u> <u>December 31,</u> <u>2011</u>	<u>Transactions</u> <u>after Dec. 31,</u> <u>2011</u>	<u>As at</u> <u>April 24,</u> <u>2012</u>
January 26, 2012	\$0.13	150,000	(ii) (150,000)	-
January 8, 2013	\$0.135	50,000	-	50,000
April 9, 2013	\$0.16	550,000	-	550,000
September 12, 2013	\$0.115	100,000	-	100,000
February 4, 2015	\$0.11	650,000	-	650,000
October 6, 2015	\$0.125	1,200,000	-	1,200,000
November 15, 2015	\$0.17	700,000	-	700,000
May 17, 2016	\$0.24	300,000	-	300,000
September 12, 2016	\$0.17	1,675,000	-	1,675,000
December 8, 2016	\$0.20	1,675,000	-	1,675,000
Totals		<u>7,050,000</u>	<u>(150,000)</u>	<u>6,900,000</u>

The 6,900,000 outstanding warrants have a weighted average exercise price of \$0.16 each.

- (i) See section "I) Liquidity and Capital Resources" re Private Placements.  
(ii) See section "I) Liquidity and Capital Resources" re Event Occurring After December 31, 2011.

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**K) RELATED PARTY TRANSACTIONS:**

At present, the Company considers its related parties to consist of the Company's key management personnel (e.g. officers, directors and advisory committee members), including close family members and companies related to such individuals. Details of transactions with key management personnel and their related companies, for the year ended December 31, 2011 and 2010, are as follows:

	<u>2011</u>	<u>2010</u>
<u>Statements of Financial Position</u>		
Evaluation and exploration assets – capitalized during year		
Legal fees – officer's law firm, capitalized as acquisition costs	\$ 37,062	\$ -
Geology fees – advisory committee member's company (2010 – officer/director), capitalized as deferred exploration expenditures	24,000	23,000
	<u>\$ 61,062</u>	<u>\$ 23,000</u>
<u>Statements of Equity</u>		
Legal fees – officer's law firm, included in issue costs	\$ 12,563	\$ 11,885
<u>Statements of Loss and Comprehensive Loss</u>		
Management fees – officers' companies	\$ 158,284	\$ 78,120
Management fees – director (for acting as temporary officer)	-	5,000
	<u>158,284</u>	<u>83,120</u>
Rent – officer's company	5,250	-
Rent – non-executive director's company	7,000	-
	<u>12,250</u>	<u>-</u>
Legal fees – officer's law firm, expensed to operations	61,818	24,498
Share-based compensation		
Stock options granted to employees, vested		
Officers	197,403	125,018
Non-executive directors	191,821	118,500
Advisory committee members and consultants	176,776	77,482
Total (Note 7e)	<u>566,000</u>	<u>321,000</u>
Total expense	<u>\$ 798,352</u>	<u>\$ 428,618</u>

The Company's officers receive fees through their companies pursuant to fee-for-service arrangements in lieu of salaries. The Company's board of directors approves these fees and the share-based compensation. Common shares and warrants purchased by employees during the year on the same terms as other investors, were insignificant.

Trade and other payables as at December 31, 2011 includes amounts owed to related parties of \$32,507 (December 31, 2010 – \$17,047, January 1, 2010 – \$29,694), consisting of owed to officers and their companies/law firm (see Note 9). These related party liabilities are unsecured, non-interest bearing and due within 30 days.

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**L) FINANCIAL INSTRUMENTS:**

The Company's financial instruments primarily consist of cash (classified as loans and receivables), cash equivalents (classified as fair value through profit or loss), amounts receivable (classified as loans and receivables), investments (classified as either held for trading or as an unquoted equity instrument), and accounts payable and accrued liabilities (classified as other financial liabilities).

The Company's investor warrants are equity instruments and not financial liabilities or financial derivatives.

As at December 31, 2011, the carrying values and fair values of the Company's financial instruments are approximately the same. In addition, the Company's financial instruments that are carried at fair value consist of cash equivalents, classified as "Level 2", and a FVTPL investment, classified as "Level 1", within the fair value hierarchy.

The Company has not used any hedging or financial derivatives.

See Note 13 to the 2011 audited financial statements for additional information concerning financial instruments and related risks.

**Event Occurring after December 31, 2011**

On March 22, 2012, the Company sold its 10% investment in CHRI (the FVTPL investment described above with a carrying value of \$8,500) for proceeds of \$20,000 and a 2% NSR on CHRI's "Turks Gut" exploration property. CHRI may purchase at any time from the Company, half of the 2% NSR for \$1 million.

**M) COMMITMENTS AND CONTINGENCIES:**

***Flow-through Shares:***

As at December 31, 2011, the Company is committed to incur, on a best efforts basis, \$786,563 in qualifying Canadian exploration expenditures pursuant to a private placement for which flow-through share proceeds had been received and renounced to investors with an effective date of December 31, 2011. As at December 31, 2011, the Company had incurred qualifying expenditures of approximately \$65,000; accordingly, the Company must incur approximately \$722,000 of qualifying expenditures prior to January 1, 2013.

The Company has agreed to indemnify the subscribers of its flow-through shares for tax-related amounts that become payable by them, if the Company fails to meet its expenditure commitments.

***Environmental Contingencies:***

The Company's exploration activities are subject to various federal, provincial and international laws and regulations governing the protection of the environment. These laws and regulations are continually changing and are generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations and has made, and expects to make in the future, appropriate expenditures to comply with such laws and regulations.

**N) CONVERSION TO IFRS:**

***Key IFRS Transition Dates:***

The Company's transition date from Canadian generally accepted accounting principles ("Canadian GAAP") to IFRS is January 1, 2010, with a corresponding IFRS adoption date of January 1, 2011. Accordingly, the preparation of the annual financial statements for the year ended December 31, 2011 has resulted in changes to the accounting policies as compared with the Company's last annual Canadian GAAP financial statements prepared as at December 31, 2010 and for the year then ended. The Company's IFRS accounting policies were also applied in preparing an opening IFRS statement of financial position as at the IFRS adoption date, as is required by IFRS 1, "First Time Adoption of International Financial Reporting Standards."

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**N) CONVERSION TO IFRS (Continued):**

***Key IFRS Transition Dates (Continued):***

The impact of the transition from Canadian GAAP to IFRS is explained in Note 16 to the financial statements for the year ended December 31, 2011. That note contains four Canadian GAAP-IFRS reconciliations, which enable a reader to trace original GAAP-based assets, liabilities, equity and other financial statement items to the equivalent IFRS-based items. The GAAP-IFRS reconciliations contained in the December 31, 2011 audited financials include a net \$8,000 modification to the IFRS transition adjustment for flow-through shares and issue costs (that was previously presented in the Company's unaudited interim financial statements for 2011). The impact was to increase both share capital and deficit by \$8,000 as at both December 31, 2010 and January 1, 2010.

The Company's management included a table in the March 31, 2011 MD&A (the first interim period where financial information was reported under IFRS) to provide readers with additional qualitative analysis about the Company's accounting conversion to IFRS from Canadian GAAP. A copy of that table is also included in this section with some minor updates. The table's column "Impact of differences on transition" identifies the overall financial statement impact to the Company in converting from Canadian GAAP to IFRS on a retrospective basis.

***IFRS Transition Exceptions, Exemptions and Elections:***

IFRS 1 identifies certain exceptions to retrospective application of some aspects of other IFRS's. For the Company, this includes – Non-controlling Interests (IAS 27). In accordance with IFRS 1, the Company has elected to apply the following exemption to full retrospective application of IFRS – Business Combinations (IFRS 3). The Company has optionally elected under IFRS 1 to apply IFRS 2, Share-based Payments, on a retrospective basis, as follows.

Under IFRS 1, the Company is required to account for its share-based payment transactions (for stock options) that were granted after November 2, 2002 and that have not vested before the Company's January 1, 2010 IFRS transition date (of which there were none). For options granted before November 2, 2002, or granted after November 2, 2002 and vesting before the Company's IFRS transition date, the Company is not required to apply IFRS 2, but may choose to do so only if the fair value of those options granted was previously disclosed publicly and was determined at the grant date in accordance with IFRS 2. The Company has optionally elected under IFRS 1 to apply IFRS 2 to options granted in 2002 (which were granted prior to November 2, 2002) as well as those options granted in subsequent years and vesting before the IFRS transition date, on the basis that these options satisfy the necessary inclusion tests. During the years 2002 to 2009 inclusive, there were no exercises of the Company's stock options.

It is important to note that the Company's transition to IFRS from Canadian GAAP did not result in any changes to the carrying value of its exploration and evaluation assets (previously called "mineral properties").

***Use of Judgments, Estimates and Assumptions:***

The preparation of financial statements using accounting policies that comply with IFRS, requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. The estimates and underlying assumptions are based on historical experience and other factors believed to be reasonable under the circumstances. Accounting estimates are reviewed on an on-going basis and revisions are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Significant items in the financial statements that involve the use of estimates include the valuation of exploration and evaluation assets, other warrants and share-based compensation, decommissioning, restoration and similar obligations, and the valuation of deferred income tax assets.

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**N) CONVERSION TO IFRS (Continued):**

***Significant Accounting Policies:***

The Company's management has prepared the table below to provide readers with additional qualitative analysis about the Company's conversion to IFRS from Canadian GAAP. The Company considers its most significant accounting policies to be: mineral properties; share capital and warrants; flow-through shares; decommissioning, restoration and similar obligations; and share-based payments (especially share options granted to key employees), which are all reviewed and compared below in point-form. It is important to note that the Company's management has selected its new IFRS accounting policies from a range of acceptable alternatives. The column "Impact of differences on transition" identifies the overall financial statement impact to the Company in converting from Canadian GAAP to IFRS on a retrospective basis.

<u>Accounting policy</u>	<u>IFRS – key points</u>	<u>Canadian GAAP – key points</u>	<u>Impact of differences on transition</u>
Mineral properties	<ol style="list-style-type: none"> <li>1. Expensing of pre-exploration expenditures before the legal right to explore.</li> <li>2. Exploration properties are intangible assets and are referred to as exploration and evaluation ("E&amp;E") assets.</li> <li>3. Exploration expenditures may be capitalized if the Company has secured the legal rights to explore.</li> <li>4. Acquisition costs include cash consideration paid and the fair market value of shares issued by the Company. Properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts when the payments are made.</li> <li>5. Impairment tests for E&amp;E assets are conducted at each reporting date, and focus on factors that may indicate that the carrying amount may not be recoverable (e.g. expiry of rights to explore, management's intent with the property). Write-downs of E&amp;E assets are charged to profit or loss.</li> </ol>	<ol style="list-style-type: none"> <li>1. Similar policy applied for pre-exploration expenditures.</li> <li>2. Exploration properties are a separate class of tangible asset.</li> <li>3. Exploration expenditures may be capitalized if the Company has secured the legal rights to explore. EIC-174 is applied for the capitalization of costs to properties.</li> <li>4. Same as IFRS.</li> <li>5. A three-year test is applied to exploration delays, such that if a property was not worked on for three years, there is a presumption that the property is impaired. Impairment write-downs are charged to profit or loss.</li> </ol>	<p>Some balance sheet/statement of financial position classification differences under IFRS, e.g. intangible, E&amp;E assets.</p> <p>The carrying values of mineral properties under Canadian GAAP, as at the IFRS transition dates, did not change under IFRS.</p> <p>Impairment tests will be conducted more frequently under IFRS, though the Company's transition to IFRS did not result in any changes to existing carrying values of mineral properties.</p> <p>The Company's decision to write-down an E&amp;E asset in Q1-2011 is not directly attributable to the Company's conversion to IFRS.</p>

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**N) CONVERSION TO IFRS (Continued):**  
**Significant Accounting Policies (Continued):**

<u>Accounting policy</u>	<u>IFRS – key points</u>	<u>Canadian GAAP – key points</u>	<u>Impact of differences on transition</u>
Share capital and warrants	<ol style="list-style-type: none"> <li>Where units (common shares and warrants) are issued to investors in a private placement, the gross proceeds are assigned 100% to share capital. No separate value is assigned to investor warrants. The Company's investor warrants are equity instruments and not financial liabilities or financial derivatives.</li> <li>Transaction costs attributed to the issuance of units decrease share capital.</li> <li>Other warrants (e.g. broker warrants or extra warrants issued in an acquisition of mineral properties) are included in transaction costs (at estimated fair value using Black-Scholes option-pricing model) and reduce share capital with an offsetting credit to deficit.</li> <li>When investor or other warrants are exercised, the exercise proceeds increase share capital.</li> <li>When investor or other warrants expire, no accounting entry is recorded.</li> </ol>	<ol style="list-style-type: none"> <li>Where units (common shares and warrants) are issued to investors in a private placement, the gross proceeds are allocated to both common shares and warrants (equity component). The warrant allocation is made using Black-Scholes option-pricing model.</li> <li>Transaction costs attributed to the issuance of units are allocated to decrease both share capital and warrants.</li> <li>Other warrants are included in transaction costs (at estimated fair value using Black-Scholes option-pricing model) and reduce share capital with an offsetting credit to warrants.</li> <li>When warrants are exercised, their original value is transferred from warrants to share capital and added to the exercise proceeds.</li> <li>When warrants expire, the value of the warrants at issuance is transferred to contributed surplus.</li> </ol>	<p>Under IFRS, the Company's share capital dollar value is increased to include the equity previously allocated to a separate warrants equity component and contributed surplus.</p> <p>As at the January 1, 2010 IFRS transition date, the Company has reclassified \$693,001 to share capital – \$152,917 from warrants (representing unexpired investor warrants) and \$540,084 from contributed surplus (representing expired investor warrants).</p> <p>As at the January 1, 2011 IFRS adoption date, the Company has reclassified \$1,103,409 to share capital and \$22,000 to deficit for a total of \$1,125,409 – \$545,465 from warrants (representing unexpired investor and other warrants) and \$579,944 from contributed surplus (representing expired investor warrants).</p>

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**N) CONVERSION TO IFRS (Continued):**  
**Significant Accounting Policies (Continued):**

<u>Accounting policy</u>	<u>IFRS – key points</u>	<u>Canadian GAAP – key points</u>	<u>Impact of differences on transition</u>
<p>Flow-through shares and issue costs</p> <p>Note: The Company commenced issuing flow-through shares in 2004.</p>	<ol style="list-style-type: none"> <li>IFRS has no specific guidance on accounting for flow-through shares.</li> <li>Proceeds of issuing flow-through shares are allocated to share capital and the sale of tax benefits.</li> <li>Allocation to tax benefits is recorded as a liability and is based on the estimated premium, if any, an investor pays for the Company's common shares over their quoted price.</li> <li>As qualifying expenditures are made in each reporting period, they are capitalized to E&amp;E assets and if the Company intends to renounce them under an existing flow-through agreement (whether using the General or Look-back Rule), they are earmarked as "effectively renounced" as at the end of the reporting period, A deferred tax expense/liability is recorded, net of a proportionate amount of any related share issue premium.</li> </ol>	<ol style="list-style-type: none"> <li>Canadian GAAP follows EIC-146 for guidance on accounting for flow-through shares.</li> <li>Proceeds of issuing flow-through shares are allocated to share capital and warrants.</li> <li>A future income tax liability should be recognized on the date the Company files its renouncement documents with the tax authorities to renounce the tax credits associated with the expenditures, provided there is reasonable expenditures that the expenditures will be made. The cost of future income taxes related to the resulting temporary difference is recorded as a cost of issuing the securities to the investors when the expenditures are renounced; the cost is allocated to common shares and warrants.</li> <li>The date of this renouncement may differ from the effective date of renouncement that allows an investor to claim the tax deduction.</li> <li>Future tax assets (for loss carry-forwards and/or deductible temporary differences) may be recorded (i.e. as a reduction of future tax liabilities) if certain tests can be met.</li> </ol>	<p>Under IFRS, the deferred tax cost relating to flow-through shares is charged to operations as deferred tax expense. Under Canadian GAAP, the future tax cost is charged against share capital and warrants. Net loss increases under the Company's IFRS accounting policy when flow-through shares are issued and qualifying expenditures are made.</p> <p>As at the January 1, 2010 IFRS transition date, the Company reclassified \$704,471 to share capital, \$3,893 to liability for share issue premium, and \$46,310 to deferred income tax liability – total \$754,674 – from deficit.</p> <p>As at the January 1, 2011 IFRS adoption date, the Company reclassified \$781,554 to share capital, \$35,667 to liability for share issue premium, and \$52,382 to deferred income tax liability – total \$869,603– from deficit.</p> <p>As at January 1, 2010 and December 31, 2010, the Company also reclassified \$88,000 of equity from deficit to share capital in order to recognize the tax benefit of share issue costs on an as-incurred basis under IFRS. This adjustment was made to complement the flow-through share adjustments.</p>



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**N) CONVERSION TO IFRS (Continued):**  
***Significant Accounting Policies (Continued):***

<u>Accounting policy</u>	<u>IFRS</u>	<u>Canadian GAAP</u>	<u>Impact of differences on transition</u>
Decommissioning, restoration and similar obligations	<ol style="list-style-type: none"> <li>Obligations to perform, or fund, site decommissioning, restoration or other rehabilitative work arise when a disturbance to a mineral property is caused by exploration, development or production. The costs associated with these obligations are capitalized to asset carrying value and accrued as liabilities on a pre-tax, discounted basis as incurred, based on management's assumptions and best estimates.</li> <li>Capitalized costs are charged to profit or loss over the economic life of the related asset using the unit-of-production method of amortization.</li> <li>The related liability is adjusted each period for changes in the current market-based discount rate, and the amount and timing of the underlying cash flows needed to settle the obligation. The increase in provisions for decommissioning, restoration and similar obligations due to the passage of time, is charged to profit or loss as a finance cost.</li> </ol>	<ol style="list-style-type: none"> <li>The fair values of asset retirement obligations are recorded as liabilities on a discounted basis when incurred.</li> <li>Amounts recorded for the related assets are increased by the amount of these obligations.</li> <li>Over time, the liabilities will be accreted for the change in their present value and the initial capitalized costs will be depleted and amortized over the useful lives of the related assets.</li> </ol>	The more comprehensive accounting policy under IFRS did not result in any changes to the Company's financial statements as at either the date of IFRS transition or date of IFRS adoption.
Note: Under Canadian GAAP, these obligations are referred to as "Asset retirement obligations".			

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**N) CONVERSION TO IFRS (Continued):**  
**Significant Accounting Policies (Continued):**

<u>Accounting policy</u>	<u>IFRS</u>	<u>Canadian GAAP</u>	<u>Impact of differences on transition</u>
Share-based payments – share options	<ol style="list-style-type: none"> <li>1. When shares or other securities are issued to compensate key employees, the fair value is determined using the market value of the securities issued.</li> <li>2. The fair value of share options granted to employees is determined using the Black-Scholes option-pricing model. A share-based compensation expense is recorded in profit or loss at time of vesting with an offsetting credit recorded to an Equity-settled Employee Benefit Reserve. Since the Company grants options that vest entirely at the grant date, no adjustments to compensation expense for forfeitures or graded vesting are required.</li> <li>3. When options are exercised, a transfer is made from the reserve to share capital and added to the proceeds of exercise.</li> <li>4. When share options expire, a transfer is made from the reserve to retained earnings (deficit).</li> <li>5. The balance of the reserve at each reporting date reflects the Company's unexpired/unexercised options.</li> </ol>	<ol style="list-style-type: none"> <li>1. Same as under IFRS.</li> <li>2. The fair value of stock options granted to employees is determined using the Black-Scholes option-pricing model. A stock-based compensation expense is recorded in profit or loss at time of vesting with an offsetting credit recorded to contributed surplus.</li> <li>3. When options are exercised, a transfer is made from contributed surplus to share capital and added to the proceeds of exercise.</li> <li>4. When stock options expire, no accounting entry is required.</li> </ol>	<p>Under IFRS, the Company's equity-settled employee benefit reserve is increased to include the equity previously allocated to contributed surplus. Accordingly, share-based compensation to employees is now tracked separately whereas previously, it was comingled with expired warrant values in contributed surplus.</p> <p>As at the January 1, 2010 IFRS transition date, the Company has reclassified \$290,904 to equity-settled employee benefit reserve and \$194,799 to deficit – total \$485,703 – from contributed surplus.</p> <p>As at the January 1, 2011 IFRS adoption date, the Company has reclassified \$398,175 to equity-settled employee benefit reserve and \$394,158 to deficit – total \$792,333 – from contributed surplus.</p> <p>Total compensation expense of \$806,703 for the years 2002 to 2010 is the same under both Canadian GAAP and IFRS.</p>
Note: The Company commenced issuing stock options and valuing them at estimated fair value commencing in 2002.			

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**O) NEW IFRS ACCOUNTING STANDARDS NOT YET ADOPTED:**

The Company has not yet adopted certain new IFRS standards, amendments and interpretations to existing standards, which have been published but are only effective for the Company's accounting periods beginning on or after January 1, 2012. These include:

<u>New IFRS standards</u>	<u>Description</u>	<u>Effective date</u>
• Amendments to IFRS 7 – Disclosures – Financial Instruments (issued October 2010)	The amendments to this standard will allow users of financial statements to improve their understanding and disclosures of transfer transactions of financial assets.	January 1, 2012
• IFRS 9 – Financial Instruments (issued November 2009 and revised October 2010)	The existing standard was expanded in 2010 to include guidance on the classification and measurement of financial liabilities.	January 1, 2015 (extended from January 1, 2013)
• IFRS 10 – Consolidated Financial Statements (issued May 2011)	The standard provides a new definition of control, which is intended to provide more consistent guidance in the determination of whether control exists to justify consolidation of investees.	January 1, 2013
• IFRS 11 – Joint Arrangements (issued May 2011)	The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities.	January 1, 2013
• IFRS 12 – Disclosure of Interests in Other Entities (issued May 2011)	The standard sets out disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off statement of financial position vehicles.	January 1, 2013
• IFRS 13 – Fair Value Measurement (issued May 2011)	The standard provides guidance on measuring fair value when required by other IFRS's.	January 1, 2013
• Amendments to IAS 1 – Presentation of Financial Statements (issued June 2011)	The standard addresses accounting and disclosure for investments in subsidiaries, joint ventures and associates in separate financial statements.	January 1, 2012
• Amendments to IAS 27 – Separate Financial Statements (issued May 2011)	The standard addresses accounting and disclosure for investments in subsidiaries, joint ventures and associates in separate financial statements.	January 1, 2013
• Amendments to IAS 28 – Investments in Associates and Joint Ventures (issued May 2011)	The standard establishes accounting principles for investments in associates under significant influence. It sets out the equity method of accounting for investments in associates and joint ventures.	January 1, 2013

These nine new IFRS standards apply to annual periods beginning on or after the stated effective date. Early adoption is available, however, if an entity early adopts any of IFRS 10, 11, 12, or amendments to IAS27/28, it must adopt all five of these standards at the same time. Management is currently assessing the impact of adopting these proposed new standards on the Company's financial reporting.