Midlands Minerals

TSX-V:MEX

# Midlands Minerals Corporation

# Management's Discussion and Analysis

# Year ended December 31, 2012

April 22, 2013

*This management discussion and analysis ("MD&A") has been prepared based on information available to Midlands Minerals Corporation ("Midlands" or the "Company") as at April 22, 2013. The MD&A of the operating results and financial condition of the Company for the year ended December 31, 2012, should be read in conjunction with the Company's audited consolidated financial statements and the related notes for the year ended December 31, 2012 and 2011 (collectively, the "Financial Statements"). The Financial Statements have been prepared by management and are in accordance with International Financial Reporting Standards ("IFRS") and all amounts are expressed in Canadian dollars unless otherwise noted. Other information contained in this document has also been prepared by management and is consistent with the data contained in the Financial Statements. Additional information relating to the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com).*

## *MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING ("ICFR")*

Management is responsible for establishing and maintaining adequate internal control over the Company's financial reporting. The internal control system was designed to provide reasonable assurance to the Company's management regarding the preparation and presentation of the financial statements.

**Internal Controls over Financial Reporting ("ICFR")**

The inherent limitations in all control systems are such that they can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error, if any have been detected. Therefore, no matter how well designed, ICFR has inherent limitations and can provide only reasonable assurance with respect to financial statement preparation and may not prevent and detect all misstatements.

As the Company is a Venture Issuer (as defined under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*) ("NI 52-109"), the Company and Management are not required to include representations relating to the establishment and/or maintenance of disclosure controls and procedures ("DC&P") and/or ICFR, as defined in NI 52-109.

## *CAUTIONARY NOTE*

This document contains or refers to forward-looking information. Such forward-looking information includes, among other things, statements regarding targets, estimates and/or assumptions in respect of future production, capital costs and future economic, market and other conditions, and is based on current expectations that involve a number of business risks and uncertainties. Factors that could cause actual results to differ materially from any forward-looking statement include, but are not limited to: the grade and recovery of ore which is mined varying from estimates; exploration and development costs varying significantly from estimates; inflation; fluctuations in commodity prices; delays in the development of the any project caused by unavailability of equipment, labour or supplies, climatic conditions or otherwise; termination or revision of any debt financing; failure to raise additional funds required to finance the completion of a project; and other factors. Forward-looking statements are subject to significant risks and uncertainties and other factors that could cause actual results to differ materially from expected results. Readers should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof and we assume no responsibility to update them or revise them to reflect new events or circumstances, except as required by law. See the section entitled ***RISK FACTORS***.

## OVERVIEW

Midlands is a junior exploration-stage company focused on growing its mineral assets in Ghana and Tanzania. The Company trades on the TSX Venture Exchange under the ticker symbol "MEX" and holds a diversified portfolio of gold and diamond projects and operates in stable low risk countries with a long history of gold mining.

The Company works to minimize the social and environmental impact in all its exploration activities, and puts the health and safety of its employees first and foremost. The Company and its employees interact well and effectively with the host and local communities to ensure that its exploration activities do not compromise the values of the local communities.

Our Objective is to build shareholder value through exploration and development of our gold properties in Ghana and our gold and diamond properties in Tanzania. Our business model is to operate in low risk, politically stable and mining-friendly countries. The Company has two first-priority projects in Ghana: Sian-Praso and Kaniago; and thirteen second-priority projects in Tanzania: Lwenge, Kishapu, Lalago, Vukene, Geita, Sengrema and Itilima (in the Lake Victoria Goldfields area) and the Kilindi Projects - Tamota, Mziha East, Ruanda, Bagamoyo, Mvomero and Turian East (in the Handeni Area). The Itilima Project has been explored for both gold and diamonds; Kishapu also has both gold and diamond potential.

## GOING CONCERN

The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business, as they come due for the foreseeable future. The Company is in the process of exploring and developing its mineral properties and has not yet realized profitable operations. The Company requires additional financing for its working capital and for the costs of exploration and development of its mineral properties. Due to continuing operating losses, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. The Company will continue to seek additional forms of debt or equity financing, however, there is no assurance that it will be successful in doing so or that funds will be available on terms acceptable to the Company or at all. The ability of the Company to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of the Company. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Financial Statements do not give effect to adjustments, if any that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities in other than the normal course of business and at amounts that may differ from those shown in the accompanying Financial Statements.

## DESCRIPTION OF BUSINESS

Midlands is a publicly-traded Canadian natural resource company incorporated in Ontario, Canada with the registered office address of 120 Adelaide Street West, Suite 2400, Toronto, Ontario, M5H 1T1 and is engaged in the exploration and evaluation of mineral properties. The Company is an early-stage organization and is presently in the process of exploring its mineral properties, and has not yet determined whether these properties contain reserves that are economically recoverable. The primary focus of the Company is on its gold and diamond exploration and development properties in Tanzania and gold exploration properties in Ghana. To date the Company has raised funds to explore its mineral properties principally through the issuance of shares, the Company will continue to depend on the issuance of additional shares to further the development of its mineral properties. The exploration and development of mineral deposits involve significant financial risk and the success of the company will be influenced by a number of factors including risks associated with exploration and eventual extraction, foreign investment regulations, renegotiation of contracts and political uncertainty.

Gold is the primary focus and Tanzania and Ghana are the target countries. At present the Company's natural resource activities do not generate any revenues.

**PROJECTS UPDATE**

During the year ended December 31, 2012, Midlands' exploration objective has remained to explore, define and develop an economic gold resource in a politically stable environment as quickly and cost effectively as possible.

During last year as well as in the first quarter of 2013, Midlands undertook field work on its Kaniago, Sian and Praso projects in Ghana, and Itilima project in Tanzania. A significant portion of the new management team's efforts went into raising the Company's technical operating platform which saw the rebuild and re-evaluation of the company's databases, geochemical datasets and QA/QC protocols across all projects in general and with full geological remodelling and reinterpretations. A specific focus was to prepare for the upgrade of the 2008 Sian gold resource with the 2010 drilling data and to facilitate the planned acceleration to a feasibility review.

As a result of the ongoing impasse at Sian and continued weak resource equity markets, during Q4-2012 and Q1-2013 Midlands implemented a number of rationalization and cost cutting initiatives. All operations have been effectively been put on care and maintenance. Management has focused its efforts on resolving the Sian impasse as well as pursuing other strategic alternatives.

***Sian/Praso, Ghana***

In conjunction with the technical effort, extensive liaising was undertaken between Q1 and Q3-2012 with the local and regional Ghanaian tribal and government authorities to understand and resolve the Sian impasse and to ensure government support for the Company's continued exploration at Sian. Negotiations to define a commercial outcome with the Company's Sian joint venture partner have been ongoing in the last three quarters.

The Sian Project has a NI 43-101 qualified resource tabulated in 2008 with 192,400 oz Au at an average grade of 2.33 g/t Au in the indicated category and 203,350 oz Au at an average grade of 2.35 g/t Au in the inferred category. A significant amount of resource drilling was completed subsequent to the resource estimate, and, pursuant to peaceful access being restored to the Sian property, the Company intends to update the NI 43-101 resource estimate.

Since 2008 Midlands' local joint venture partner on the Sian project has objected to the Company's exploration progress and perceived delay in redeveloping the Sian mine. In June 2011, with mounting financial pressures relating to historical mining debts they affirmed to no longer recognize the shareholder's agreement. Contemporaneously Midlands' access to the project was obstructed by a violent minority group in the local community who upheld the same agenda. The Company conducted an extensive community relations program to inform and educate the community in the process of exploration to mining and has full support from the tribal authorities to continue operations. This has not been enough to limit the actions of the dissidents and the Company has not received protection from the police for its continued right to operate. The Company attempted to drill on a number of occasions during 2012 but were forced to demobilize the drill after facing repeated armed resistance and being unable to obtain local or regional police support. Due to the irresolvable safety and access issues, and the obvious and ongoing impact on the company's market performance, Midlands postponed its expectations to update the NI 43-101 resource estimate and sought an alternative strategy to resolve the impasse.

Midlands maintains continuous communication with the Minerals Commission of Ghana who remain supportive of the efforts being made by the Company to resolve the impasse.

At the Kwahu Praso property the pitting program continued during Q4-2012. A total of two lines of pitting totaling 63.5m were dug at a depth of 3m to test the best gold-in-soil results in an attempt to locate the source of the soil anomalies. The pits are 5m long and sited every 25m. The program was discontinued in December to further reduce costs.

***Kaniago, Ghana***

During Q1-2012 Midlands interpreted the results of the 9,519 meter RC drill program that was completed at the Kaniago Project on the Asankrangwa Belt in Ghana during the previous quarter. Drill results from that program provided the following significant intercepts:

***Mmooho drill target:***

| | | |
|---|---|---|
| KNRC-11-029 | 9 meters grading 1.12 g/t gold | (from 96 meters) |
| KNRC-11-035 | 9 meters grading 1.06 g/t gold | (from 91 meters) |
| KNRC-11-039 | 16 meters grading 1.05 g/t gold | (from 132 meters) |
| KNRC-11-012 | 12 meters grading 1.04 g/t gold | (from 88 meters) |
| KNRC-11-015 | 10 meters grading 1.18 g/t gold | (from 78 meters) |
| KNRC-11-018 | 21 meters grading 1.48 g/t gold | (from 22 meters) |
| -- and | 7 meters grading 1.45 g/t gold | (from 51 meters) |

***Kaniago West drill target:***

| | | |
|---|---|---|
| KNRC-11-041 | 27 meters grading 2.97 g/t gold | (from 123 meters) |
| KNRC-11-044 | 16 meters grading 1.21 g/t gold | (from 10 meters) |
| KNRC-11-048 | 33 meters grading 0.87 g/t gold | (from 117 meters) |
| -- and | 17 meters grading 1.83 g/t gold | (from 171 meters) |
| KNRC-11-052 | 3 meters grading 6.80 g/t gold | (from 57 meters) |

During Q4-2011 the Company had completed a 162.5 meter trenching and pitting program on Kaniago West and Mmooho and the two new target areas named Kobinaso and Kampese. The objective of this program was to assess the local structural trends, to gain insight into the geology of the region and to test geochemical soil and geophysical anomalies. During Q1-2012 the results were interpreted and provided 1.89 g/t Au over 6 meters at Kaniago West and 0.89 g/t Au over 9 meters at Mmooho.

In March 2012, a 1,995m diamond drilling program was completed at the Kaniago West and Mmooho targets. Drilling confirmed the structural controls to mineralization. The core drilling aimed to confirm the gold mineralization obtained from previous RC drilling programs, to provide valuable structural orientation information to facilitate modeling, and to probe for deeper parallel zones of mineralization. Drilling at Mmooho totaled 1,289 meters and returned a best composite of 3.8 meters grading 4.86 g/t Au at a depth of 95.6 meters in KNDD-12-002. Drilling at Kaniago West totaling 606.7 meters returned a best composite of 7.0 meters grading 1.75 g/t Au at a depth of 165.5 meters in KNDD-12-005.

The reinterpretation of the soil geochemistry has refined the continuity of the soil gold trends between the Company's target areas and deposits on neighbouring concessions, such as Asanko Gold's Esaase gold deposit (3.83 million ounces in the Measured and Indicated category at an average grade of 1.73 g/t and 1.25 million ounces in the Inferred Resource category at an average grade of 1.75 g/t) and PMI Gold

Corporation's Abore (3.11 million ounces in the Measured and Indicated category at an average grade of 2.16 g/t and 1.40 million ounces in the Inferred Resource category at an average grade of 1.99 g/t), gold deposits.

A consultant was utilized to conduct a full re-assessment and reconciliation of the VTEM geophysical dataset with the 2011-2012 drill results. This work confirmed that the drilling efficiently tested the shear zones originally identified by the airborne geophysical survey and soil geochemistry.

During Q2-2012, the Kaniago database was revised and rebuilt in preparation for upcoming work.

Midlands' next phase of work on the Kaniago concession will focus on expanding the potential for large shallow, potentially bulk-mineable gold deposits associated with NNE shear zones along the soil geochemical trends by testing them with systematic fences of air core drilling. To preserve cash whilst the Company seeks a resolution at Sian, the planned 10,000-meter follow-up aircore drill program has been postponed.

Management is currently reviewing opportunities for joint venture or sale of this project with a number of companies.

***Tanzania***

The Company currently has tenure to 21 permits in Tanzania, East Africa. These projects are located within the Geita-Bulyanhulu-Itilima-Sekenke Trend and the Kilindi-Handeni Trend.

A limited orientation program was carried out at Itilima in Q2-2012 with three soil lines totalling 171 soil samples and channel sampling totalling 640 samples along streams crossing an unexplored 2 km-long shear zone of the Itilima property.

With the exception of Itilima, the Tanzanian properties are at a grassroots stage of development, and the Company is actively seeking joint venture partnerships to conserve cash and expand its capacity to achieve its work obligations on this large and prospective portfolio. A number of confidentiality agreements have been signed towards this end. During Q4-2012 relinquishment of non-core permits to defray annual fee payments was initiated. During 2013 management anticipates that it will continue to locate joint venture partnerships and relinquish further permits to mitigate costs and preserve cash for core functions.

*Dr. Dominique Fournier, EurGeol, a "qualified person" as defined by National Instrument 43-101, has reviewed and approved the technical information and data included in this project update.*

## SELECTED FINANCIAL INFORMATION

The following table sets forth selected consolidated financial information of the Company for the year ended December 31, 2012 and the year ended December 31, 2011. The selected consolidated financial information should be read in conjunction with the Financial Statements of the Company.

| | **Year ended** | |
|---|---|---|
| | **December 31, 2012** | December 31, 2011 |
| **Consolidated statements of operations** | **$** | $ |
| Total revenue | **-** | - |
| Net loss | **(3,387,328)** | (5,468,454) |
| Basic and diluted net loss per share | **(0.017)** | (0.041) |
| Exploration and evaluation expenses | **1,869,193** | 2,216,074 |

| | **As at Dec. 31, 2012** | As at Dec. 31, 2011 |
|---|---|---|
| **Consolidated statements of financial position** | **$** | $ |
| Total cash and short-term investment | **1,135,594** | 4,416,147 |
| Working capital | **1,122,516** | 4,522,178 |
| Total long-term debt | **-** | - |
| Total assets | **1,245,416** | 4,964,654 |

**SUMMARY OF QUARTERLY RESULTS**

Selected consolidated financial information for the 8 most recently completed quarters is as follows:

| **Three months ended** | Dec. 31, 2012 | Sep. 30, 2012 | Jun. 30, 2012 | Mar. 31, 2012 | Dec. 31, 2011 | Sep. 30, 2011 | Jun. 30, 2011 | Mar. 31, 2011 |
|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ |
| **Revenue** | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil |
| **Net Loss** | (456,309) | (707,622) | (846,265) | (1,377,132) | (1,752,053) | (1,004,312) | (1,980,223) | (731,866) |
| **Basic and fully-diluted loss per share** | (0.002) | (0.004) | (0.004) | (0.007) | (0.008) | (0.007) | (0.019) | (0.007) |

**SIGNIFICANT ACCOUNTING POLICIES**

**Basis of consolidation**

The Financial Statements include the financial statements of the Company and its wholly-owned subsidiaries, Midlands Minerals Ghana Limited, Midenka Resources Limited, Midlands Minerals Tanzania Limited, Manonga Minerals Limited, Harbour Capital Corporation, and its 75%-owned subsidiary, Itilima Mining Company Limited, and its 65% indirectly-owned subsidiary, Akroma Gold Company Limited, which the Company controls. Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

All inter-company transactions, balances, income and expenses are eliminated in full on consolidation.

**Property and equipment**

P&E is stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of P&E consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is provided at rates calculated to write off the cost of P&E, less their estimated residual value, using the declining-balance method or unit-of-production method over the following expected useful lives:

| | |
|---|---|
| • Computer equipment and software | 20% |
| • Office equipment | 20% |
| • Field Equipment | 20% |
| • Mineral Properties | units of production |

An item of P&E is derecognized upon disposal, when held for sale or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the consolidated statements of income (loss).

The Company conducts an annual assessment of the residual balances, useful lives and depreciation methods being used for P&E and any changes arising from the assessment are applied by the Company prospectively.

Where an item of P&E comprises major components with different useful lives, the components are accounted for as separate items of P&E. Expenditures incurred to replace a component of an item of P&E that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

**Exploration and evaluation expenditures**

All exploration and evaluation expenditures, the elements of which include: Acquisition of rights to explore; studies of all nature (topographical, geological, geochemical and geophysical), exploratory drilling, coring, sampling, trenching, and in general, all activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource, net of incidental revenues, are charged to operations in the period incurred until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized into property and equipment. On the commencement of commercial production, depletion of each mining property will be provided on a unit-of-production basis using estimated resources as the depletion base.

**Share-based payments**

***Share-based payment transactions***

The Company has a share-based compensation plan (the "Plan) whereby participants (including directors, senior executives, employees and consultants) may receive a portion of their remuneration or fees in the form of share-based payment transactions. The participants render their services in consideration for equity instruments ("equity-settled transactions").

If the Company cannot estimate reliably the fair value of the goods or services received, the Company measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

***Equity-settled transactions***

The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense is recognized for equity-settled transactions at each reporting date until the vesting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in share option reserve.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

The dilutive effect of outstanding options is reflected as additional dilution in the computation of earnings per share.

**Taxation**

Income tax expense represents the sum of tax currently payable and deferred tax.

***Current income tax***

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the date of the statement of financial position.

***Deferred income tax***

Deferred income tax is provided using the liability method on temporary differences at the date of the statement of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the

extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each date of the statement of financial position and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the statement of financial position.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive income.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

**Decommissioning, restoration and similar liabilities (asset retirement obligations)**

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mineral properties and PP&E, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an asset retirement obligation is recognized at its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement obligation is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using either the unit-of-production method or the declining-balance method, as appropriate. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation.

The Company does not currently have any asset retirement obligations.

**Provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense and is applied as an offset to the specific obligation on the statement of financial position.

## EXPLORATION AND EVALUATION EXPENDITURES

The exploration and evaluation expenditures for the Company are broken down as follows:

| | Year ended | | |
|---|---|---|---|
| | **December 31, 2012** | December 31, 2011 | **Cumulative to-date** |
| | **$** | $ | **$** |
| **Tanzania:** | | | |
| Itilima | **56,952** | 2,597 | **2,295,011** |
| New Kilindi | **16,116** | - | **16,116** |
| Vukene | **8,897** | 7,917 | **91,545** |
| Lwenge | **508** | 712 | **21,793** |
| Kishapu | **1,962** | 1,568 | **49,423** |
| Lalago | **4,023** | 6,325 | **67,761** |
| Tamota | **-** | 830 | **42,270** |
| East Turiani | **9,278** | - | **9,278** |
| Others | **179,508** | 214,851 | **662,365** |
| | **277,244** | 234,800 | **3,255,562** |
| ***Ghana:*** | | | |
| *Kwahu Praso* | **203,491** | 98,693 | **973,248** |
| Kaniago | **703,034** | 1,131,788 | **2,052,393** |
| Sian | **308,755** | 292,072 | **8,713,813** |
| Bonuama | **3,932** | 51,515 | **101,252** |
| Others | **372,737** | 407,206 | **1,430,389** |
| | **1,591,949** | 1,981,274 | **13,271,095** |
| **Exploration and evaluation expenditures** | **1,869,193** | 2,216,074 | **16,526,657** |

## RESULTS OF OPERATIONS

For the year ended December 31, 2012, the Company's loss attributable to the owners of the parent company was $3,387,328, as compared to loss of $5,468,454 for the year ended December 31, 2011. The major variance in costs relate to the following six categories:

1. Exploration and evaluation expenditures.
2. Office and administrative expenses.
3. Professional fees.
4. Share-based compensation.
5. Salaries and benefits.
6. Shareholder information.

Explanations of the significant changes for year ended December 31, 2012 compared to the year ended December 31, 2011 are as follows:

1. Exploration and evaluation expenditures decreased from $2,216,074 in 2011 to $1,869,193 in 2012. The decrease is attributable to reduced exploration and development activities in the last quarter of 2012. Exploration and evaluation expenditures in the year ended December 31, 2012 included drilling and assaying on the Kaniago properties and field activities on the Sian project.

2. Office and administrative expenses decreased from $469,610 in 2011 to $276,926 in 2012. The decrease is attributable to management changes within the Company and a policy aimed at reducing expenditures.

3. Professional fees decreased from $959,045 in 2011 to $405,276 in 2012. The large difference is primarily relating to increased legal fees in 2011 for such items as the annual shareholders meeting; counsel on personnel issues and with regard to the Company's dissident proxy materials.

4. Share-based compensation costs in the year ended December 31, 2012 was $124,850 compared to $443,700 during the same period in 2011. The increased costs in 2011 were due to the issuance of stock options to eligible participants in the Company's stock option plan, most of which vested immediately.

5. Salaries and benefits decreased from $906,112 in 2011 to $547,002 in 2012. The decrease reflects increased efficiencies and changes in management. In addition, the company incurred one-time severance costs of $480,000 in 2011, to the former CEO of the Company.

6. Shareholder information costs decreased from $473,090 in 2011 to $115,979 in 2012. The higher cost in 2011 was due to increased communications with shareholders, the shareholders' annual and special meeting and general costs of the proxy materials.

## LIQUIDITY AND CAPITAL RESOURCES

The working capital as at December 31, 2012 was $1,122,516, as compared to $4,522,178 as at December 31, 2011.

For the year ended December 31, 2012, cash decreased by $3,310,553 (2011 – increased by $892,882) as a result of cash used in operating activities of $3,249,751 (2011 - $5,552,472) plus cash provided from financing activities of $Nil (2011 - $6,415,354) offset by cash used in investing activities of $60,802 (2011 - cash provided from investing activities of $30,000).

The Company's priority projects are located in Ghana where the majority of cash expenditures are being spent on the exploration and advancement of mineral properties on the Ashanti and Asankrangwa gold belts. The priority projects are Sian, Praso and Kaniago.

## USE OF OFF-STATEMENT-OF-FINANCIAL-POSITION ARRANGEMENTS

With the exception of the Company's right to accelerate the expiration of warrants issued as part of various financings, the Company has not entered into any specialized financial agreement to minimize its investment, currency or commodity risk. There are no off-statement-of-financial-position arrangements, such as a guarantee contract, contingent interest in assets transferred to an entity, derivative instruments obligations and/or any obligations that trigger financing, liquidity, market or credit risk to the Company.

## CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The Company does not have any commitments, or contractual obligations, long-term debt, capital lease obligations, or purchase obligations, other than leases which are part of day-to-day corporate business activities such as an office rental lease and leased equipment.

## RELATED-PARTY TRANSACTIONS

***Year ended December 31, 2012 and 2011***

During the year ended December 31, 2012, $182,207 (2011 - $62,222) was paid or payable to RG Mining Investments Inc. ("RGMI") for management (including CFO) services and administrative fees. RGMI provides management and administrative services to the Company pursuant to an agreement that had an original term of 1 year that expired on September 30, 2012. It was automatically renewed for successive 12-month periods (such renewal having taken place) unless terminated upon 60 days prior notice by either party or upon the criminal conviction, death, disability, incapacity, bankruptcy, insolvency, gross negligence, gross dereliction of duty or gross misconduct, of RGMI. The Company's Chairman of the Board and CFO beneficially own RGMI.

During the year ended December 31, 2012, $567,130 (2011 - $1,878,125) was paid to key management personnel or to companies controlled by them, with regard to office and administrative expenses, professional fees, capitalized financing fees and salaries and benefits. The Company identifies key management personnel as current and former officers of the Company including the President and CEO, CFO and VP Exploration as well as current and former directors of the Company.

During the year ended December 31, 2012, the Company paid $30,802 (US$30,000) (2011 - $nil) to purchase a field vehicle in Ghana from one of its officers who has been relocated to Canada.

During the year ended December 31, 2012, officers and directors earned non-cash, share-based compensation of $124,300 (2011 - $377,500).

As at December 31, 2012, the statement of financial position includes balances due to related parties comprising of $2,787 (2011 - $15,064) due to an entity in which a Director of the Company is a Partner, $16,666 (2011 - $16,666) due to an officer of the Company and $nil (2011 - $25,000) due to a company controlled by the Company's former CEO .

## OUTSTANDING SECURITIES

The following table sets forth information concerning the outstanding securities of the Company as at April 22, 2013:

| | **Number** |
|---|---:|
| Shares | 194,228,231 |
| Warrants | 91,250,000 |
| Agent Compensation Units | 6,480,000 |
| Options | 12,450,000 |

## RISK FACTORS

The Company is a mineral exploration and development company and is exposed to a number of risks and uncertainties that are common to other companies in the same business. These risks and uncertainties include exploration and development, commodity, operating, ownership, political, funding, currency and environmental risk.

***Exploration and development***

Mineral exploration and development involves several risks which experience, knowledge and careful evaluation may not be sufficient to overcome. Large capital expenditures are required in advance of anticipated revenues from the Company's operations.

Many exploration programs do not result in the discovery of an economic deposit. The commercial viability of exploiting any precious metal deposit is dependent on a number of factors including infrastructure and governmental regulation, in particular those relating to the environment, taxes, and royalties. No assurance can be given that minerals will be discovered of sufficient quality, size and grade on any of the Company's properties to justify a commercial operation.

***Uncertainty of reserve and resource estimates***

The mining business relies upon the accuracy of determinations as to whether a given deposit has significant mineable reserves. This reliance is important in that reported mineral reserves and resources are only estimates and do not represent any certainty that the estimated mineral reserves and resources will be recovered. Market fluctuations in the price of metals, as well as increased production costs or reduced recovery rates, may render certain mineral reserves and resources uneconomic.

***Political***

Political and related legal and economic uncertainties exist in countries where the Company operates. Risk of foreign operation in these countries may include political unrest, corruption, war, civil disturbances and terrorist actions, arbitrary changes in the law or policies, changes to governmental regulation, foreign taxation, price and currency controls, delays in obtaining, or the inability to obtain, necessary governmental permits, opposition to mining from environmental or other non-governmental organizations, limitations on foreign ownership, limitation on the repatriation of earnings, limitation on gold exports and increased financing costs. These risks may limit or disrupt the Company's activities.

***Future financing***

Continued development of the Company's properties will require significant financial resources. As such, the Company needs to raise significant financing. Failure to obtain such additional financing at critical times could lead to delay and indefinite postponement in the exploration and development of the Company's projects. There is no assurance that such funding will be available or that it will be obtained on favourable terms.

***Lack of operating profit***

The Company has incurred operating losses on an annual basis, for a number of years, arising from administrative costs related to continued exploration and development of mineral resources properties. It is anticipated that the Company will continue to experience operating losses for the foreseeable future. There can be no assurance that the Company will ever achieve significant revenues or profitable operations.

***Precious metal price***

The price of precious metals can fluctuate widely and is affected by numerous factors including demand, inflation, strength of the US dollar and other currencies, interest rates, gold sales by the central banks, forward sales by producers, global or regional political or financial events, and production and cost levels in major producing regions. In addition, the gold price is sometimes subject to rapid short-term changes because of speculative activities.

Even if the Company discovers commercial amounts of precious metals on its properties, it may not be able to place the property into commercial production if precious metal prices are not at sufficient levels.

***Currency***

A substantial portion of the Company's activities is expected to be carried on outside Canada. Such activities are subject to risk associated with the fluctuation in the rate of exchange of the Canadian dollar and foreign currencies.

***Environmental and permitting***

All aspects of the Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. These regulations, among other things, mandate the maintenance of air and water quality standards, land reclamation, transportation, storage and disposal of hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors, and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations.

***Acquisition***

The Company uses its best judgment to acquire mining properties for exploration and development. In pursuit of such opportunities, the Company may fail to select appropriate acquisition candidates or negotiate acceptable agreements, including arrangements to finance the acquisitions and development, or integrate such opportunity and their personnel with the Company. The Company cannot assure that it can complete any acquisition that it pursues or is currently pursuing, on favourable terms, or that any acquisition completed will ultimately benefit the Company.

***Competition***

The mining industry is intensely competitive in all of its phases, and the Company competes with many companies possessing greater financial resources and technical facilities than the Company. Competition in the mining business could adversely affect the Company's ability to acquire suitable producing properties or prospectus for mineral exploration in the future.

***Segregation of duties***

Segregation of duties is a basic, key internal control and one of the most difficult to achieve in a small company. It is used to ensure that errors or irregularities are prevented or detected on a timely basis by employees in the normal course of business. Due to the Company's small size and limited resources, a complete segregation of duties within the Company's accounting group cannot be fully achieved. The result is that the Company is highly reliant on the performance of mitigating procedures during the process of closing its financial statements in order to ensure the financial statements are presented fairly in all material respects. Management will identify and hire additional accounting resources where cost effective and when required. Where it is not cost effective to obtain additional accounting resources, management will review existing mitigating controls and, if appropriate, implement changes to its internal control processes whereby more effective mitigating controls will be adopted.

***Key personnel***

The success of the Company depends to a large extent upon its abilities to retain the services of its senior management and key personnel. The loss of the services of any of these persons could have a materially adverse effect on the Company's business and prospects. There is no assurance the Company can maintain the services of its directors, officers or other qualified personnel required to operate is business.

***Internal controls over financial reporting***

Internal controls over financial reporting are procedures designed to provide reasonable assurance that transactions are properly authorized, assets are safeguarded against unauthorized or improper use, and transactions are properly recorded and reported. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance with respect to the reliability of financial reporting and financial statement preparation.