

**MONTANA GOLD MINING COMPANY INC.**  
**Management's Discussion and Analysis**  
**Year Ended December 31, 2011**  
**Dated April 30, 2012**  
(Form 51-102F1)

*This Management Discussion and Analysis ("MD&A") is provided for the purpose of reviewing the fiscal year ended December 31, 2011 as well as the fourth quarter and comparing results to the previous periods. The MD&A was prepared as of April 30, 2012 and should be read in conjunction with the Company's audited consolidated financial statements and corresponding notes for the years ending December 31, 2011 and 2010. The consolidated financial statements are prepared in accordance with International Accounting Standard accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances. All monetary amounts are expressed in United States dollars unless otherwise indicated.*

Additional information related to the Company is available for view on SEDAR at [www.sedar.com](http://www.sedar.com) and at the Company's website located at [www.montanagoldmining.com](http://www.montanagoldmining.com).

**DESCRIPTION OF BUSINESS**

Montana Gold Mining Company Inc. (the "Company") is a mineral exploration company focused on the acquisition and exploration of mineral resources, primarily gold and silver in the States of Montana and Nevada, USA.

The Company is a reporting issuer in the Province of Ontario and its common shares trade on the Canadian National Stock Exchange ("CNSX") under the symbol MGM.

**CORPORATE ACTIVITIES**

In April, 2010, the Company hired a new management team with a mandate to formulate and execute a business strategy for the Company going forward. Edward L. Ellwood, MBA was appointed to the board of directors and was named the President and CEO. Eric Plexman was appointed to the board of directors and was named the Corporate Secretary and CFO. Mr. Ellwood and Mr. Plexman have considerable previous experience in serving as directors or officers of publicly traded mineral companies.

On January 5, 2011 the Company's consolidated shares began trading on CNSX as Montana Gold Mining Company Inc. under the symbol MGM.

During the first quarter of 2011, the Company settled various debt obligations by issuing common shares or completed private placements totaling \$696,037 (\$693,519 CAD). The common shares were issued at \$0.05 each resulting in 13,870,380 common shares being issued. The issuance of some of these shares did not occur until the bid price of the Company's shares was \$0.20, and as a result of the the difference between the ascribed value of \$0.05 CAD and the bid price of the shares on the date of issuance, the amount of \$752,463 US has been recorded as a loss on debt settlement in the consolidated statement of loss and comprehensive loss. On the date of this issuance, the Company had a price protection agreement with the Canadian National Stock Exchange (CNSX) that enabled the issuance of the Company's shares at \$0.05 CAD.

During the third quarter of 2011, the Company completed private placements totaling \$272,160 (\$270,000 CAD) and \$10,000 CAD by issuing 2,700,000 common shares for \$0.10 CAD and 100,000 common

shares for \$0.10 CAD respectively. The Company also issued 2,800,000 two-year share purchase warrants exercisable in Canadian currency. Each warrant entitles the holder to purchase one share at a price of \$0.20 CAD up to September 12, 2012 and then at a price of \$0.30 CAD to September 12, 2013. On October 5, 2011, the Company settled various debt obligations by issuing 1,061,530 common shares at \$0.10 CAD each for \$102,055 (\$106,153 CAD). On February 8, 2012, the Company issued 1,400,000 units at \$0.05 CAD per unit for \$70,273 (\$70,000 CAD). Each unit includes a 2-year share purchase warrant exercisable in Canadian currency. Each warrant entitles the holder to purchase one share at a price of \$0.10CAD up to February 8, 2013 and then at a price of \$0.20CAD to February 8, 2014. On April 24, 2012, the Company issued 2,000,000 units at \$0.05 CAD per unit for \$101,210 (\$100,000 CAD). Each unit includes a 2-year share purchase warrant exercisable in Canadian currency. Each warrant entitles the holder to purchase one share at a price of \$0.10 CAD up to April 24, 2013 and then at a price of \$0.20 CAD to April 24, 2014. The total issued as of April 30, 2012 is 27,381,007 common shares.

Also during the first quarter of 2011, the Company appointed three additional independent directors, Luard Manning, P.Eng., Paul Teodorovici, and John Wozny, MA, all of whom currently serve on other publicly traded company boards or have in the past. The board also approved a Mandate and Charter of the Board, a Communications and Disclosure Policy, and granted a total of 1,150,000 incentive stock options to directors, employees or consultants of the Company exercisable into common shares at an exercise price of \$0.26. The directors, management and a consultant agreed to cancel these options in the third quarter of 2011. On September 29, 2011, the Company appointed an additional independent director, Kent Britton, B.A. Economics who has completed level 2 of the CFA program and has extensive experience as an investor relations professional. In addition, the Company established three new committees: Health, Safety and Environment, Compensation and Corporate Governance.

On April 20, 2011, the Company filed on SEDAR and posted to the Company website [www.montanagoldmining.com](http://www.montanagoldmining.com) an NI 43-101 compliant technical report on the SBSL Property in Montana that the Company optioned in August, 2010. The NI 43-101 report was prepared by Mark R. Nyman, BA Geology, and John F. Childs, PhD., Reg. Geo. of Montana.

The Annual and Special Meeting of Shareholders was held on June 29, 2011, in London, Ontario at 11:00 am EDT. The slate of directors as proposed by the Company was elected at this meeting who were: Clifford Wiebe, Edward Ellwood, Eric Plexman, Paul Teodorovici, John Wozny and Luard Manning.

During the year ended December 31, 2011, the Company continued its ongoing geological assessment of the Silver Bell St. Lawrence ("SBSL") Project in Montana. On August 1, 2011, the Company paid the Silver Bell St. Lawrence Claim renewal fee for the assessment year 2012 beginning noon September 1, 2011 and ending noon September 1, 2012.

On September 1, 2011, the Company entered into an agreement to acquire 100% working interest in the SBSL Property by paying \$85,000 on signing and \$85,000 by March 1, 2012 for a total of \$170,000, and by issuing 200,000 common shares and granting a 2% Net Smelter Royalty to the arms-length vendor. This agreement supersedes the prior option agreement of August 1, 2010 which is terminated. The company paid \$85,000 on September 9, 2011 and issued 200,000 common shares on September 15, 2011. The Company paid \$85,000 on February 24, 2012. With the final payment having been made, title to the properties will be registered in the name of the Company which is in process.

On October 27, 2011, the Company staked 15 additional mining claims adjacent to the northern and eastern boundaries of the SBSL Property. The newly staked claims are called the Roar claims and bring the total size of the SBSL Property to approximately 394 acres. A program of geological mapping, geochemical and geophysical surveying is presently underway.

The Company holds 16 mineral claims at the Golden Trail Property in Elko County, Nevada, USA. The predecessor to the Company (Gold Reef International Inc.) advanced the Golden Trail from 2004 to 2007 incurring exploration expenditures of \$1.3 million on 52 claims. That work included extensive surface exploration including rock-chip sampling, geological mapping, geochemical surveys, gravity and ground magnetic surveys and 4 vertical reverse circulation drill holes. Fourteen angled drill holes recommended

in the 43-101 technical reports were never drilled due to a change in the management of the predecessor company. The targets of these uncompleted drill holes were numerous northwest-striking, high-angle gold-bearing veins and adjacent replacement zones. The largest identified vein, the Golden Trail Vein, is over 1,200 meters long, and has an associated alteration zone that averages about 30 meters wide. Gold values above 20 ppb are common within the zone and one rock chip sample of decalcified limestone contained over 28,000 ppb gold.

Current management of the Company plans to resume exploration on the Golden Trail Property.

### **OVERALL PERFORMANCE**

In summary the Company's financial condition has increased over the past year ended December 31, 2011. Working capital increased by \$357,962 from (\$664,337) at December 31, 2010 to (\$306,376) at December 31, 2011. The increase is mainly attributable to:

- (a) proceeds from the issuance of shares and promissory notes in the amount of \$342,953 (Jan-Dec 2010-\$284,605);
- (b) expending \$141,814 (Jan-Dec 2010 - \$170,354) on mineral properties
- (c) reducing director and management fees payable, legal fees payable and the SBSL assignment payable through the issuance of shares in the amount of \$521,737 (\$100,470 + \$148,779 + \$102,052 + \$170,434 (Jan-Dec 2010 & Nil));
- (d) reducing promissory notes payable through the issuance of shares in the amount of \$266,302 (\$102,054 + \$170,434) (Jan-Dec 2010 \$88,551);

### **SELECTED ANNUAL INFORMATION**

The following table provides selected financial information and should be read in conjunction with the Company's Audited Consolidated Financial Statements.

	Year Ended 31-Dec-11	Year Ended 31-Dec-10	Year Ended 31-Dec-09	Year Ended 31-Dec-08	Year Ended 31-Dec-07
	\$	\$	\$	\$	\$
Revenue	Nil	Nil	Nil	Nil	Nil
Income (loss) for the year (1)	(1,609,486)	(330,698)	198,423	(449,430)	(1,477,261)
Net income (loss) for the year	(1,609,486)	(387,732)	(1,387,877)	(3,147,449)	(1,666,979)
Net income (loss) per share (2)	(0.081)	(0.090)	(0.033)	(0.070)	(0.044)
Total assets	449,361	395,867	262,391	1,881,483	3,979,320
Long-term debt	Nil	Nil	Nil	Nil	Nil
Dividends per share	Nil	Nil	Nil	Nil	Nil

Notes: (1) before write down of mineral claims and deferred exploration costs  
(2) basic and diluted

### **SUBSEQUENT EVENTS**

On February 8, 2012 the Company issued 1,400,000 units with an ascribed value of \$0.05CAD per unit for net proceeds of \$70,539 (\$70,000CAD). Each unit consists of one common share and one share purchase warrant exercisable for 2 years. Each warrant entitles the holder to purchase one share at a price of \$0.10CAD up to February 8, 2013 and then at a price of \$0.20CAD up to February 8, 2014.

On February 24, 2012, the Company paid the final \$85,000 option payment for the Silver Bell St. Lawrence claims.

On March 16, 2012, the Company received \$22,907 from the Bureau of Land Management for the release of a reclamation bond on the Golden Trail property.

On April 24, 2012, the Company issued 2,000,000 units with an ascribed value of \$0.05 per unit for net proceeds of \$101,210 (\$100,000CAD). Each unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one share at a price of \$0.10CAD up to April 24, 2013 and then at a price of \$0.20CAD up to April 24, 2014.

## **RESULTS OF OPERATIONS**

For the years ended December 31, 2011 and December 31, 2010, the Company had no revenue. Exploration expenses for the current year were \$162,140 compared to \$175,745 during the same period last year. Proceeds from the sale of claims for the current year were \$Nil compared to \$122,109 during the same period last year.

Expenses incurred during the period consist of:

- i) Management fees of \$204,188 (2010-\$117,074) to the President, Vice-President and Secretary of the Company;
- ii) Director fees of \$133,213 (2010 - \$65,870) to the Directors of the Company;
- iii) Office and general of \$42,527 (2010-\$53,950) representing filing fees, telephone and office expenses;
- iv) Professional fees of \$173,677 (2010-\$83,884) relates to consulting, legal and accounting fees incurred during the period;
- v) Write off of deferred exploration expenditures of \$Nil (2010 - \$57,034);
- vi) Net reclamation costs of \$4,362 (2010 - \$Nil) consisting of expenditures totaling \$24,863 less bond releases of \$(20,501) ;
- vii) Stock based compensation of \$303,330 (2010-\$Nil). The stock options have been cancelled.;
- viii) Loss on debt settlement of \$752,463 (2010-\$6,604).
- ix) Amortization of \$Nil (2010-\$3,316).

Total assets as at the end of December 31, 2011 were \$449,361 (2010 - \$395,867) and consisted of cash \$76,059 (2010 - \$170,436), prepaid expenses of \$6,232 (2010 - \$Nil), mineral claims and deferred exploration expenditures \$303,892 (2010-\$141,752) which represent staking expenditures to secure the Company's mineral exploration project, exploration expenditures as well as the net recoverable amount on the sale of the Rimrock claims, and reclamation bonds \$63,178 (2010-\$83,679). During the prior year, the Rimrock property was sold for gross proceeds of \$122,109 (\$130,000 CAD) and a subsequent write-down on the mineral property was realized in the amount of \$57,034.

Total current liabilities as at December 31, 2011 were \$388,667 (December 31, 2010 - \$834,773) consisting primarily of trade payables and amounts due to managers and directors. In the prior year, current liabilities included promissory notes due in the amount of \$196,053.

The Company has no long term financial liabilities except for management's estimated site restoration costs relating to their exploration program of \$22,000 (December 31, 2010 - \$45,501) and warrants denominated in a foreign currency of \$90,464 (December 31, 2010 - \$Nil).

The Company has no sales and has never earned revenues with the exception of non-material interest revenue. Raising capital through sales of its common shares funds the Company's exploration operations.

## **SUMMARY OF QUARTERLY RESULTS**

### **Three months Ended December 31, 2011 Compared to Three months Ended December 31, 2010**

*Operating Revenues:* The Company is a mineral exploration company and has no operating revenues.

*Loss (Gain) on Debt Settlement:* For the three months ended December 31, 2011, the Company realized a gain on debt settlement in the amount of \$(61,233). Shares of the Company were issued at \$0.10 CAD to settle this debt and at the time the bid price of the shares was \$0.04 CAD resulting in a gain of \$61,233. For the three months ended December 31, 2010, the Company realized a loss on the Debt Settlement with a consultant in the amount of \$6,604.

*Expenses:* Expenses for the three months ended December 31, 2011 were \$136,019, a decrease of \$24,444 over the amount of \$157,463 for the three months ended 2010. These amounts are for professional fees, management fees, director fees, office and administrative, as well as travel expenses and amortization.

*Write-off of mineral claims and deferred exploration costs:* During the three months ended December 31, 2011 the Company did not write off mineral claims and deferred exploration costs. In the three months ended December 31, 2010 the Company did not write of mineral claims and deferred exploration costs.

*Reclamation costs:* During the three months ended December 31, 2011 the Company received \$(20,501) as a recovery of reclamation costs paid and paid \$693 in reclamation costs. In the three months ended December 31, 2010, the company did not pay reclamation costs.

*Net earnings (loss):* The Company incurred a net loss of (\$54,978) for the three months ended December 31, 2011, a decrease of (\$102,485) over the three months ended December 31, 2010 (\$157,463). Since the Company had no revenue, the net losses are attributable to the expenses and recoveries noted above.

### **Year ended December 31, 2011 Compared to Year ended December 31, 2010**

*Operating Revenues:* The Company is a mineral exploration company and has no operating revenues.

*Loss (Gain) on Debt Settlement:* For the year ended December 31, 2011, the Company realized a net loss on debt settlement in the amount of \$752,463. The debt was settled through the issuance of 13,870,380 at \$0.05 or \$0.10 per share. The issuance of some of these shares did not occur until the bid price of the Company's shares was \$0.20, and as a result of the the difference between the ascribed value of \$0.05 CDN or \$0.10 and the bid price of the shares on the date of issuance, the amount of \$752,463 US has been recorded as a loss on debt settlement in the consolidated statement of loss and comprehensive loss. The issuance at \$0.10 resulted in a \$61,233 gain which has been netted against the loss. On the date of the issuance at \$0.05, the Company had a price protection agreement with the CNSX that enabled the issuance of the Company's shares at \$0.05 CDN. For the year ended December 31, 2010, the Company realized a loss on the debt settlement with a consultant in the amount of \$6,604.

*Expenses:* Expenses for the year ended December 31, 2011 were \$791,428 (including \$303,330 in stock-based compensation, which was subsequently cancelled), an increase of \$460,730 over the amount of \$324,094 for the year ended December 31, 2010. These amounts are for professional fees, management fees, director fees, office and administrative, as well as travel expenses and amortization.

*Write-off of mineral claims and deferred exploration costs:* During the year ended December 31, 2011 the Company did not write off mineral claims and deferred exploration costs. In the year ended December 31, 2010 the Company wrote off \$57,034 of mineral claims and deferred exploration costs relating to the sale of the Rimrock claims.

*Reclamation costs:* During the year ended December 31, 2011 the Company paid reclamation costs of \$24,863 relating to the Golden Trail claims and received \$(20,501) in reclamation bond releases on the Rimrock property resulting in a net expenditure of \$4,362. In the year ended December 31, 2010, the company did not pay reclamation costs.

*Net earnings (loss):* The Company incurred a net loss of (\$1,609,486) for the year ended December 31, 2011, an increase of \$1,221,754 over the year ended December 31, 2010 (\$387,732). Since the Company had no revenue, the net losses are attributable to the expenses noted above. The majority of the net loss is due to the aggregate loss on debt settlements of \$752,463 due to the majority of shares issued at a price considerably less than the market bid price at the time of issue and stock-based compensation of \$303,330. The stock options were cancelled in September, 2011.

### Summary of Quarterly Results to December 31, 2011

Description	Dec 31/11	Sep 31/11	Jun 31/11	Mar 31/11	Dec 31/10	Sep 30/10	June 20/10	Mar 31/10
	\$	\$	\$	\$	\$	\$	\$	\$
Sales/Revenue	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Net Income/Loss	(868,674)	(141,495)	(116,141)	(483,176)	(157,463)	(161,898)	(47,194)	(21,177)
Net Income/Loss Per share – Basic & Diluted	(0.0363)	(0.0069)	(0.0058)	(0.0312)	(0.0037)	(0.0038)	(0.0011)	(0.0005)

### LIQUIDITY

As at December 31, 2011, the Company had cash and cash equivalents in the amount of \$82,291 (Dec 31, 2010-\$170,436) and current liabilities of \$388,666 (Dec 31 2010-\$834,773). As at December 31, 2011, the Company has a working capital deficiency of \$306,375 (Dec 31 2010 - \$664,337). As a result, the Company has liquidity risk and is dependent on raising capital.

### CAPITAL RESOURCES

For its long term business objectives, the Company will require funds for ongoing exploration work on its SBSL Property in Montana and its Golden Trail Property in Nevada, to work on any other mineral projects that it acquires, as well as to meet its ongoing day-to-day operating requirements and will have to continue to rely on equity and debt financing during such period. There can be no assurance that financing, whether debt or equity, will be available to the Company in the amount required at any particular time or for any particular period or, if available, that it can be obtained on terms satisfactory to the Company. The Company does not have any other commitments for material capital expenditures over either the near or long term or none are presently contemplated other than as disclosed above and/or over normal operating requirements.

The Company is not in default of its obligations on any of its mineral properties at this time.

### OFF-BALANCE SHEET ARRANGEMENTS

At April 30, 2012, the Company had no off-balance sheet arrangements such as guarantee contracts, contingent interest in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market or credit risk to the Company.

### TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties are incurred in the normal course of business and are measured at the exchange amount. Related party transactions have been listed below, unless they have been disclosed elsewhere in the financial statement.

Remuneration of Directors and key management of the Company was as follows:

	<b>December 31, 2011</b>	December 31, 2010
Share based payment <sup>(i)</sup>	<b>\$ 276,953</b>	\$
Management and director fees <sup>(ii)</sup>	<b>337,401</b>	182,945
	<b>\$ 614,354</b>	\$ 182,945

- (i) Fair market value of incentive stock options issued to officers and directors which were subsequently cancelled.
- (ii) Included in office and administrative costs in the consolidated statements of loss and comprehensive loss.

Other related party balances are listed below:

- (a) Included in accounts payable and accrued liabilities is approximately \$187,872 (December 31, 2010 \$157,345) of amounts owing to directors of the Company for management and director fees.  
Included in accounts payable and accrued liabilities is \$Nil (December 31, 2010 - \$169,520) of amounts owing to a former director for legal fees.
- (b) Included in loss on debt settlement is \$84,169 (2010 - \$Nil) relating to 2,028,196 shares issued to former and current members of management to settlement management and directors fees payable and the SBSL assignment payable.

## **PROPOSED TRANSACTIONS**

The Company is actively investigating mineral properties with a view toward potentially optioning or purchasing. The Company is primarily interested in properties within the States of Montana and Nevada but will also consider mineral properties of merit in other jurisdictions. In the future, the Company will also consider bringing joint venture partners into mineral properties that the Company has previously optioned or purchased.

There are no proposed or pending transactions as of April 30, 2012.

## **SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of Measurement**

The consolidated financial statements are prepared on the historical cost basis except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at their fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting.

These consolidated financial statements are presented in United States dollars, which is also the Company's and subsidiary's functional currency.

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, incomes and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The accompanying consolidated financial statements include all adjustments that are, in the opinion of management, necessary for a fair presentation.

Information regarding significant areas of estimation, uncertainty and critical judgements made in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements relate to measurement of the recoverable amounts of mining claims and deferred exploration expenditures, measurement of share-based payments, the amount accrued for restoration liabilities, the valuation of stock options and warrants issued, the value attributed to warrants on unit financings and provisions for legal claims.

### **Basis of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Gold Reef of Nevada, Inc. (United States). The financial statements of the subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

All transactions and balances between the Company and its subsidiary are eliminated on consolidation.

### **Financial Instruments**

The Company recognizes a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument. Such financial assets or financial liabilities are initially recognized at fair value and the subsequent measurement depends on their classification.

Financial assets classified as fair value through profit and loss ("FVTPL") are measured at fair value with any resultant gain or loss recognized in profit or loss. Financial assets classified as available-for-sale are measured at fair value with any resultant gain or loss being recognized directly under other comprehensive income. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. When available-for-sale financial assets are derecognized, the cumulative gain or loss previously recognized directly in equity is recognized in profit or loss. Financial assets classified as loans and receivables and held to maturity, are measured at amortized cost using the effective interest rate method.

Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

All financial liabilities are recognized initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs. Financial liabilities are classified as other financial liabilities, and are subsequently measured at amortized cost using the effective interest rate method.

The Company's financial assets include cash and reclamation bonds. The Company's financial liabilities include accounts payable and accrued liabilities, restoration liabilities and promissory notes payable. Classification of these financial instruments is as follows:

<u>Financial Instrument</u>	<u>Classification</u>
Cash	FVTPL
Reclamations bonds	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Restoration liabilities	Other financial liabilities
Promissory notes payable	Other financial liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets are derecognized when the Company's rights to cash flows from the respective assets have expired or have been transferred and the Company has neither exposure to the risks inherent in those assets nor entitlement to rewards from them. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the income statement.

The Company categorizes its financial assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs used in the measurement.

Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.

Level 2: This level includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1. Derivative instruments in this category are valued using models or other standard valuation techniques derived from observable market inputs.

Level 3: This level includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

The Company's financial instruments measured at fair value on the balance sheet consist of cash. Cash is measured at level 1 of the fair value hierarchy while warrants denominated in a foreign currency are measured at level 2 of the fair value hierarchy.

## **Equipment**

Equipment is stated at cost less accumulated amortization. Where an item of equipment comprises major components with different useful lives, the components are accounted for as separate items of equipment.

Expenditures incurred to replace a component of an item of equipment that is accounted for separately are capitalized. Amortization of corporate equipment and equipment used in the exploration and evaluation phase is recorded using the declining balance method, with management reviewing the useful lives of property and equipment at each statement of financial position reporting date to verify the asset is being amortized over a period equivalent to the useful life of the asset.

The vehicle previously held by the Company was amortized at 20% per annum on a declining basis.

### **Mining Claims and Deferred Exploration Expenditures**

Mining claims and deferred exploration expenditures relate to costs incurred on the exploration for and evaluation of potential mineral reserves and include costs related to the following: acquisition of exploration rights; conducting geological studies; exploratory drilling and sampling, and; evaluating the technical feasibility and commercial viability of extracting a mineral resource.

Mining claims and deferred exploration expenditures, including costs of acquiring licenses, are capitalized as mining claims and deferred exploration expenditure assets on an “area of interest basis” which generally is defined as a project. The Company considers a project to be an individual geological area whereby the presence of a mineral deposit is considered favourable or has been proven to exist and, in most cases, comprises a single mine or deposit.

Pre-exploration costs are expensed unless it is considered probable that they will generate future economic benefits. The Company expenses all costs incurred prior to obtaining legal rights to a mineral property.

Mining claims and deferred exploration expenditure assets are recognized if the rights to the project are current and either (1) the expenditures are expected to be recouped through successful development and exploitation of the project, or alternatively by its sale, and (2) active and significant operations in, or in relation to, the project are continuing.

Deferred exploration expenditures are initially capitalized as intangible deferred exploration expenditure assets. Such deferred exploration expenditures may include costs of license acquisition, technical services and studies, seismic acquisition, exploration drilling and testing, materials and fuels used, rentals and payments made to contractors and consultants. To the extent that a tangible asset is consumed in developing an intangible deferred exploration expenditure asset, the amount reflecting that consumption is recorded as part of the cost of the intangible asset.

Once the technical feasibility and commercial viability of the extraction of mineral reserves in a project are demonstrable and permitted, deferred exploration expenditure assets attributable to that project are first tested for impairment and then reclassified to Mine Property and Development Projects. Currently, the Company does not hold any assets classified as Mine Property and Development Projects.

### **Impairment**

The Company's tangible and intangible assets are reviewed for an indication of impairment at each statement of financial position reporting date. If an indication of impairment exists, the asset's recoverable amount is estimated. The recoverable amount is the greater of the (1) asset's fair value less costs to sell and (2) value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates, or is expected to generate, cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss with respect to goodwill is never reversed.

### **Foreign Currency Translation**

Foreign currency transactions are initially recorded in the functional currency at the transaction date exchange rate. At the balance sheet date, monetary assets and liabilities denominated in a foreign currency are translated into the functional currency at the reporting date exchange rate. Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items at year-end exchange rates are recognized in the income statement.

Non-monetary items measured at historical cost are translated using the historical exchange rate. Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

### **Income Taxes**

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect both accounting nor taxable loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

### **Share Capital**

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

### **Stock-based Compensation Transactions**

The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants. The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period. At

each reporting date, the Company revises its estimates of the number of options that are expected to vest, based on the non-marketing vesting conditions. Consideration paid for the shares on the exercise of stock options is credited to share capital.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be reliably measured, they are measured at the fair value of the share-based payment. Otherwise, the stock-based compensations are measured at the fair value of goods or services received.

### **Income/Loss per Share**

The Company presents basic and diluted income/loss per share data for its common shares, calculated by dividing the income/loss attributed to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted income/loss per share does not adjust the income/loss attributed to the common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

### **Restoration Liabilities**

The Company recognizes the fair value of restoration liabilities related to statutory, contractual or legal obligations associated with the retirement of mining claims in the year in which it is incurred when a reasonable estimate of fair value can be made, in which case the carrying amount of the related mining claim is increased by the same amount as the net present value of the restoration liability. Discount rates using a pretax rate that reflects the time value of money are used to calculate the net present value. The Company's estimates of such costs could change as a result of changes in regulatory requirements and assumptions regarding the amount and timing of the future expenditures and changes in the net present value.

### **Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

### **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 reasonable estimate can be made of the amount of the obligation. Provisions for environmental restoration, legal claims, onerous leases and other onerous commitments are recognized at the best estimates of the expenditures required to settle the Company's liability.

Provisions are measured at the present value of the expenditures required to settle the obligation using a pre-tax discount 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 the passage of time is recognized as interest expense.

### **Warrants Denominated in a Foreign Currency**

Warrants denominated in a foreign currency different from the functional currency of the Company meet the definition of a derivative financial liability and are fair valued at each statement of financial position date using the Black-Scholes pricing model, with changes in the fair value recognized in profit or loss.

Fair values of warrants are determined based on estimated fair values at the time of grant using the Black-Scholes option pricing model.

Warrants that are issued as compensation are not subsequently revalued.

## **CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION**

### **Recent Accounting Pronouncements**

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods after December 31, 2011 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded from the list below. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

- (a) IFRS 9 Financial Instruments was issued by the IASB in October 2010 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.
- (b) IFRS 10 Consolidated Financial Statements was issued by the IASB in May 2011. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 replaces the consolidation requirements in SIC 12 Consolidation—Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements and is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.
- (c) IFRS 11 Joint Arrangements was issued by the IASB in May 2011. IFRS 11 provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities Non Monetary Contributions by Venturers, and is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.
- (d) IFRS 12 Disclosure of Interests in Other Entities was issued by the IASB in May 2011. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.
- (e) IFRS 13 Fair Value Measurement was issued by the IASB in May 2011. IFRS 13 establishes new guidance on fair value measurement and disclosure requirements for IFRSs and US generally accepted accounting principles (GAAP). The guidance, set out in IFRS 13 and an update to Topic 820 in the FASB's Accounting Standards Codification (formerly referred to as SFAS 157), completes a major project of the boards' joint work to improve IFRSs and US GAAP and to bring about their convergence. The standard is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

- (f) IAS 1 Presentation of Financial Statements was amended by the IASB in June 2011 in order to align the presentation of items in other comprehensive income with US GAAP standards. Items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or two separate statements of profit and loss and other comprehensive income remains unchanged. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012.

## **TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)**

As stated in Significant Accounting Policies, the financial statements are the Company’s first annual consolidated financial statements prepared in accordance with IFRS as issued by the IASB.

The policies set out in the Significant Accounting Policies section have been applied in preparing the consolidated financial statements for the year ended December 31, 2010 and in the preparation of an opening IFRS balance sheet at January 1, 2010 (the Company’s date of transition).

### **First-time Adoption of IFRS**

Under IFRS 1, IFRS has been applied retrospectively at the date of transition to the balance sheet and the statement of loss and comprehensive loss, changes in equity and cash flows with all adjustment to assets and liabilities as stated under Canadian GAAP taken to retained earnings, except where certain exemptions and elections were applied. The primary exemptions used by the Company are:

**Business Combinations** - IFRS 3 (“Business Combinations”), has not been applied retrospectively to past business combinations. Accordingly, the Company did not restate business combinations that took place prior to January 1, 2010.

**Share Based Payment** – The Company has elected to apply IFRS 2 (“Share Based Payment”) retrospectively in respect of options granted and vested prior to January 1, 2010

**Fair Value of Revaluation as Deemed Costs** - IFRS 1 allows us measure certain assets of property, plant and equipment at fair value at the Transition Date or revalue amounts previously determined under GAAP. The Company has elected to use the carrying value as determined under IFRS as the deemed cost as at January 1, 2010.

**Decommissioning Liabilities** - IFRS 1 would allow the Company to measure decommissioning liabilities as at the transition date in accordance with IAS 37, “Provisions, Contingent Liabilities and Contingent Assets” and recognize directly in deficit the difference between that amount and the carrying amount of those liabilities at the date of transition determined under Canadian GAAP. The Company has elected to apply this exemption, and accordingly, did not have any difference upon transition.

In addition below are the changes in accounting policies:

### **Expenditures on Exploration and Evaluation Projects**

The Company has elected to continue to capitalize exploration costs.

### **Impairment of Exploration and Evaluation Projects**

In the year ended December 31, 2010, the Company recorded a write down of its Rimrock Property in the amount of \$57,034 due to a change in recoverable value at that time. Under IFRS, reversals of write downs are permitted and required where the recoverable value of the project is supported. As of December 31, 2011, the Company has no information that would lead it to reverse part or the entire previous write down on the Rimrock Property.

### Estimates

IFRS 1 does not permit changes to estimates that have been made previously. Accordingly, estimates used in the preparation of the Company's opening IFRS consolidated statement of financial position as at the Transition Date are consistent with those that were made under Canadian GAAP.

### Reconciliations from Canadian GAAP to IFRS

The adoption of IFRS had no impact on the Company's consolidated financial position, financial performance and cash flows.

### Comparative Consolidated Financial Statements

The Company's adoption of IFRS had no impact on the consolidated balance sheets as at January 1, 2010 and December 31, 2010, or on the statement of cash flows for the year ended December 31, 2010.

### Reconciliation of Comprehensive Loss and Equity

<b>Reconciliation of net loss and comprehensive loss</b>	December 31, 2010
Net loss and comprehensive loss under Canadian GAAP	\$ (387,732)
IFRS adjustments to net loss and comprehensive loss	-
<b>Net loss and comprehensive loss under IFRS</b>	<b>\$ (387,732)</b>

<b>Reconciliation of shareholders' deficiency</b>	December 31, 2010	January 1, 2010
Total shareholders' equity under Canadian GAAP	\$ (484,407)	\$ (185,226)
IFRS adjustments to shareholders' equity	-	-
<b>Total shareholders' equity under IFRS</b>	<b>\$ (484,407)</b>	<b>\$ (185,226)</b>

### **ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE**

Additional disclosure concerning the Company's: (a) capitalized or expensed exploration and development costs; (b) expensed research and development costs; (c) deferred development costs; (d) general and administrative expenses; and (e) any material costs, deferred or expenses, not already referred to in (a) through (d), is provided in the Company's Consolidated Statement of Comprehensive Income (Loss) contained in its unaudited Interim Consolidated Financial Statements for the period ended

December 31, 2011, which can be accessed on SEDAR under the Company's profile page at [www.sedar.com](http://www.sedar.com).

## **DISCLOSURE OF OUTSTANDING SHARE DATA**

The Company's authorized share capital consists of unlimited common shares without par value.

Issued and outstanding: December 31, 2011 – 23,981,007;  
Issued and outstanding: April 30, 2012 (date of this report) – 27,381,007

Warrants outstanding: December 31, 2011 – 2,800,000  
Warrants outstanding: April 30, 2012 – 6,200,000

Options outstanding: December 31, 2011 – 20,000  
Options outstanding: April 30, 2012 – 2,610,000

### **Dividend Policy**

No dividends have been paid on any shares of the Corporation since the date of its incorporation, and it is not contemplated that any dividends will be paid in the immediate or foreseeable future.

### **Controls and Procedures**

Management is responsible for the design of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements in accordance with International Financial Reporting Standards. Based on a review of its internal control procedures at the end of the period covered by this MD&A, management believes its internal controls and procedures, for the nature and size of the entity, are effective in providing reasonable assurance that financial information is recorded, processed, summarized and reported in a timely manner.

Management is also responsible for the design and effectiveness of disclosure controls and procedures to provide reasonable assurance that material information related to the Company, is made known to the Company's certifying officers. Management has evaluated the effectiveness of the Company's disclosure controls and procedures and has concluded that these controls and procedures are effective, for the nature and size of the entity, in providing reasonable assurance that material information relating to the Company is made known to them by others within the Company.

### **Litigation**

The Company became a party to a legal proceeding in February 2010. On February 15<sup>th</sup>, 2010, the company was served with a claim in The District Court 150<sup>th</sup> Judicial District Bexar County, Texas. Target Strike Inc., the plaintiff alleged several past employees of the company used information that belonged to Target Strike for Gold Reef's benefit in direct contradiction of the agreement between the parties involved. The Plaintiffs initially claimed \$1,000,000,000 in monetary damages against all of the named Defendants, including the Company, and subsequently made a settlement offer of \$30,000,000.

In February 2012, the Court dismissed all of the claims against all of the named Defendants, including the Company. In early March 2012, the Plaintiff filed an appeal which is ongoing and which the Company will defend.

The outcome of the above claim is not determinable and therefore, no provision is recorded.

### **Risks Associated with Exploration and Mining Operations**

The exploration of mineral properties involves a high degree of risk which cannot be avoided despite the experience, knowledge and careful evaluation of prospective properties by management. There can be no assurance commercial quantities of ore will be discovered on the Corporation's mineral properties. Even if such commercial quantities are subsequently discovered by the Corporation's exploration efforts, there can be no assurance such properties can be brought in to commercial production. Operations may be subject to disruption due to weather conditions, labour unrest or other causes beyond the control of the Corporation. Hazards such as unexpected formations, pressures, flooding, or other conditions over which the Corporation does not have control may be encountered and may adversely affect the Corporation's operations and financial results.

### **Environmental Risks**

Environmental legislation is continuing to evolve such as will require strict standards and enforcement, increased fines and penalties for non-compliance, more stringent assessment of proposed projects and a greater degree of corporate responsibility. There can be no assurance that future changes to environmental legislation may not adversely affect the Corporation's operations.

### **Mineral Market**

The market for minerals is subject to factors beyond the Corporation's control, such as market price fluctuation, currency fluctuation and government regulation. The effect of such factors cannot be accurately calculated. The existence of any or all such factors may restrict the access to a market, if same exists, for the sale of commercial ore which may be discovered.

### **Funding Requirements**

In order to move forward with its exploration activities, the Corporation may require additional funding. There can be no guarantee that such funds will be available as and when required or, if available, be accessible on reasonable commercial terms.

### **Reliance on Management**

The Corporation anticipates that it will be heavily reliant upon the experience and expertise of management with respect to the further development of the mineral properties. The loss of any one of their services or their inability to devote the time required to effectively manage the affairs of the Corporation could materially adversely affect the Corporation

### **Auditors, Transfer Agent and Registrar**

The auditors of the Corporation are Collins Barrow LLP, Chartered Accountants of Toronto, Ontario. The Transfer Agent and Registrar for the Common Shares of the Corporation is Equity Financial Trust Company of Toronto, Ontario.

### **Forward Looking Statements**

Certain statements contained in this document constitute "forward-looking statements". When used in this document, the words "may", "would", "could", "will", "intend", "plan", "propose", "anticipate", "believe", "forecast", "estimate", "expect" and similar expressions used by any of the Company's management, are intended to identify forward-looking statements. Such statements reflect the Company's internal projections, expectations, future growth, performance and business prospects and opportunities and are based on information currently available to the Company. Since they relate to the Company's current views with respect to future events, they are subject to certain risks, uncertainties and assumptions. Many factors could cause the Company's actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. The Company does not intend, and does not

assume any obligation, to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future results, events or developments.