

# **OREZONE GOLD CORPORATION**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS**

**FOR THE YEAR ENDED DECEMBER 31, 2010**

March 31, 2011

### **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2010 (the "MD&A") may contain or refer to certain forward-looking statements relating, but not limited to, the Company's expectations, intentions, plans and beliefs. Forward-looking information can often be identified by forward-looking words such as "anticipate", "believe", "expect", "goal", "plan", "intend", "estimate", "may" and "will" or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. Forward-looking information may include reserve and resource estimates, estimates of future production, unit costs, capital costs and timing of commencement of operations, 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, failure to establish estimated resources and reserves, the grade and recovery of ore which is mined varying from estimates, capital and operating costs varying significantly from estimates, delays in obtaining or failures to obtain required governmental, environmental or other project approvals, inflation, changes in exchange rates, fluctuations in commodity prices, delays in the development of projects and other factors. Forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from expected results. Potential shareholders and prospective investors should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. Shareholders are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events will not occur. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking information whether as a result of new information, future events or other such factors which affect this information, except as required by law.

### **CAUTIONARY NOTE TO US INVESTORS CONCERNING RESOURCE ESTIMATES**

The resource estimates in the MD&A were prepared in accordance with National Instrument ("NI") 43-101 adopted by the Canadian Securities Administrators. The requirements of NI 43-101 differ significantly from the requirements of the United States Securities and Exchange Commission (the "SEC"). The MD&A uses the terms "measured", "indicated" and "inferred" resources. Although these terms are recognized and required in Canada, the SEC does not recognize them. The SEC permits US mining companies, in their filings with the SEC, to disclose only those mineral deposits that constitute "reserves". Under United States standards, mineralization may not be classified as a reserve unless the determination has been made that the mineralization could be economically and legally extracted at the time the determination is made. United States investors should not assume that all or any portion of a measured or indicated resource will ever be converted into "reserves". Further, "inferred resources" have a great amount of uncertainty as to their existence and whether they can be mined economically or legally, and United States investors should not assume that "inferred resources" exist or can be legally or economically mined, or that they will ever be upgraded to a higher category.

## **Introduction**

Orezone Gold Corporation ("Orezone" or the "Company") was incorporated under the Canada Business Corporations Act on December 1, 2008 as part of the business combination between Orezone Resources Inc. ("Resources") and IAMGOLD Corporation ("IMG") (the "Transaction"). Upon completion of the Transaction on February 25, 2009, IMG effectively acquired the Essakane Mining Project and the Company acquired the non-Essakane assets and liabilities of Resources as well as CAD \$9.7 million in cash. The Company's shares were listed on the Toronto Stock Exchange (the "TSX") on the same date and currently trades under the symbol "ORE". The key management and Board of Directors (the "Board") of Resources, with over 14 years of experience exploring, developing, financing and constructing gold operations in Burkina Faso, West Africa, have remained with the new Company. The Company continues to focus on the exploration and development of gold properties in Burkina Faso. The Company is also focused on the development of uranium properties in Niger, West Africa.

The Company's audited annual consolidated financial statements and accompanying notes as at, and for, the year ended December 31, 2010 (the "Financial Statements") contain comparative amounts that were estimated based on a carve-out of the historical financial results of the non-Essakane assets and liabilities of Resources prior to February 25, 2009, as well as the Company's independent operating results from February 25, 2009 to December 31, 2010. The acquisition of the non-Essakane assets and liabilities has been accounted for on a continuity of interest basis. On this basis, the Financial Statements include comparative historical results of the non-Essakane exploration interests. These comparative figures are intended to represent what the Company's results would have been, had it been the independent operator of the non-Essakane exploration interests prior to February 25, 2009.

The MD&A is provided to enable the reader to assess material changes in financial condition and results of operations for the Company for the fiscal years ended December 31, 2010 and December 31, 2009.

The MD&A is also intended to supplement and complement the Financial Statements and should be read in conjunction with the Financial Statements and Annual Information Form ("AIF") on file with the Canadian provincial securities regulatory authorities, for the year ended December 31, 2010. All dollar amounts in this report are in United States dollars, unless otherwise specified.

The Financial Statements have been prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP").

The MD&A is prepared in conformity with NI 51-102F1 and has been approved by the Board of Directors prior to its release.

## **Nature of Operations**

The Company is engaged in the acquisition, exploration and development of gold properties in Burkina Faso, West Africa and uranium properties in Niger, West Africa. The Company is in the exploration stage and has not yet determined whether any of its properties contain mineral deposits that are economically recoverable. The Company's primary objective is to maximize shareholder value by identifying and developing commercially exploitable gold deposits.

Although the Company began trading publicly on February 25, 2009, the projects, management and Board represent the continuation of Resources' successful track record in Burkina Faso extending back to its inception in 1996. This includes the acquisition, exploration, development, financing, construction and divestiture of Essakane, the largest gold deposit in Burkina Faso. Burkina Faso is on track to become the fourth largest African gold producer in 2011 and much of this production will come from Essakane. Burkina Faso has similar geology, but is relatively underexplored, compared to the neighboring countries of Mali and Ghana, where more major discoveries have been made and a number of large mines have been built. Bomboré, now the second largest deposit in Burkina, was also acquired by Resources in 2002 at much lower gold prices.

Burkina Faso has been politically stable for many years, has good infrastructure relative to much of West Africa, and has provided the opportunity to acquire both relatively large unexplored tracts of land, as well as more advanced stage assets, on reasonable terms. The Company will continue to focus the majority of its efforts in Burkina Faso.

The Company has three advanced stage gold projects. In 2011, the Company is continuing to focus on advancing its Bomboré and Sega projects towards pre-feasibility and a production decision. The Company expects to have completed all critical tasks necessary to evaluate whether the projects are economic during the year. The Company resumed work during Q3 2010 on Brighton Energy Corporation ("Brighton"), its 67%-owned subsidiary that holds uranium exploration permits in Niger, West Africa. Until recently, the permits were under force majeure as a result of security issues in northern Niger. The Company began drilling its highest priority targets before year end.

Significant developments during, and subsequent to, 2010 included:

- On January 5, 2010, the Company announced an increase in the NI 43-101 compliant gold resource estimate on its Sega project;
- On January 26, 2010, the Company completed an equity financing with net proceeds of CAD \$9.2 million as well as another on December 21, 2010 for net proceeds of CAD \$50.9 million, the proceeds of which will be used to fund ongoing exploration and development activities at the Company's West African projects;
- On January 28, 2010, the Government of Burkina Faso formally approved the renewal of the Bomboré permit for a period of three years with a reduced surface area of 104.5 km<sup>2</sup>;
- On April 14, 2010, the Company received formal notification of the renewal of its Tiba permit from the Government of Burkina Faso for a period of three years;
- The Company completed a 3,000 m, 489-hole auger drilling program and a 42,456 m, 619 hole RC infill and expansion drilling program at its Bomboré gold project and announced the results of the NI 43-101 compliant resource update on October 19, 2010;
- On June 30, 2010, the Company's 80%-owned subsidiary, Niger Resources Inc. ("NIRES"), completed a non-brokered private placement whereby it issued 5,000,000 common shares in exchange for CAD \$5 million;
- On September 8, 2010, the Company's subsidiary, Orezone Inc., purchased all 2,000,000 common shares of Brighton held by North Atlantic Resources Limited ("NAC") for CAD \$1 million. As a result, the Company's ownership interest of Brighton increased to 67%;
- On September 15, 2010, the Company announced that it had commenced uranium exploration in Niger;
- The Company's Chief Financial Officer ("CFO"), Sean Homuth, resigned effective September 29, 2010 and subsequently returned on January 12, 2011. In his absence, Joseph McCoy, the Company's Vice-President Administration served as CFO;
- On October 4, 2010, the Board of Orezone Inc. approved the issuance of 545,000 warrants to certain members of the Company and its subsidiaries' management and board of directors to purchase 545,000 of the common shares of Brighton held by Orezone Inc. The warrants have a price of CAD \$1.00, vest immediately and expire one year subsequent to the date of a go-public transaction or 20 days subsequent to change of control;
- On October 21, 2010, the Board approved the issuance of 350,000 stock options to new employees. 300,000 of the options are at a strike price of CAD \$2.35 per share and expire on October 21, 2020 while 50,000 options are at a strike price of CAD \$3.65 per share and expire on November 16, 2010. One-third of the options vest immediately (or upon completion of the probationary period if applicable) and the other two-thirds vest in equal amounts on the one and two year anniversary dates;
- On December 22, 2010, the Board of Brighton approved the creation of a stock option plan and the subsequent issuance of 1,500,000 options at a price of CAD \$1.00 with a life of ten years. On February 24, 2011, Brighton announced the completion of its 30-hole reconnaissance drilling program on its Zéline 1 exploration permit in Niger whereby it found a significant presence of uranium;
- On December 31, 2010, the Government of Burkina Faso signed an amendment to the Décret, originally passed March 3, 2010, increasing precious metal royalties and annual mining permit taxes. Royalties are now calculated on a sliding scale with the maximum amount payable being 5% if the spot price of gold is greater than or equal to \$1,300/oz;

- On February 9, 2011, the Board approved the issuance of 1,055,000 stock options to employees and directors at a price of CAD \$4.00 per share. The options vest in two years, with the exception of new participants to the plan for whom one-third vest immediately and the remaining two-thirds vest evenly on the first and second anniversary dates. All of the options granted expire on February 9, 2021; and
- On March 23, 2011, the Company announced the results of the first 3,151 m of diamond drilling and 3,361 m of reverse circulation drilling on its Bomboré project. The results indicate a bias towards higher average grade and slightly narrower widths when compared to the current resource model.

### **Qualified Persons**

Dr. Pascal Marquis, P. Geo., Vice President of Exploration, the Company's qualified person under NI 43-101, supervises all work associated with exploration and development programs in West Africa. Mr. Ron Little, P. Eng., the President and Chief Executive Officer ("CEO"), is also a qualified person under NI 43-101.

### **Exploration Permits**

#### **Burkina Faso**

The Company's three gold projects in Burkina Faso, covering 642 km<sup>2</sup>, are comprised of exploration permits as defined by The Burkina Mining Act #031-2003/AN (the "Mining Act"), dated May 8, 2003. Exploration permits in Burkina Faso give the holder the exclusive right to explore for specific minerals within the boundaries of the permit, require minimum annual expenditures of \$550 per km<sup>2</sup>, are valid for three years from the date of issue and may be renewed for two more consecutive terms of three years for a total of nine years. Permits are subject to a surface area reduction of 25% at the second renewal. The Government of Burkina Faso has been amenable to issuing new permits after the final expiration in certain circumstances. Although Orezone has been successful in obtaining new permits subsequent to the nine year period, there can be no assurance that we will be able to do so in the future. The permit holder has the exclusive right, at any time, to convert the exploration permit to a mining exploitation license ("Mining Permit"). For Mining Permits, the government retains a 10% carried interest and a small 3-5% royalty on all gold produced. On December 31, 2010, the Government of Burkina Faso amended its Mining Law, as originally announced on March 3, 2010, whereby the government's royalty interest would be maintained at 3% if the price of gold is less than or equal to \$1,000/oz, increased to 4% if the price of gold is between \$1,000/oz and \$1,300/oz and increased to 5% if the price of gold is greater than or equal to \$1,300/oz. The royalty level is applied to all gold sold or delivered by a refinery, based on the daily spot price of such distribution. The annual mining permit taxes were also increased from \$1,020/km<sup>2</sup> to \$15,306/km<sup>2</sup> for the first five years, to \$20,408/km<sup>2</sup> for the next five years and then to \$30,612/km<sup>2</sup> from the eleventh year on based on current XOF exchange rates. The revised royalty and tax rates will apply to all of the Company's gold projects, should they go into production.

#### **Niger**

In the Republic of Niger, exploration permits are also granted for an initial three year period and are renewable twice with mandatory size reductions of 50% each renewal. For exploitation licenses, the government has the right to a 10% carried (equity) interest in the Nigerien corporation formed to hold the mining license and can increase its interest to 40% by participating in development of the permits granted under the 2006-026 *Décret* dated August 9, 2006. The Government also receives a net smelter royalty ("NSR") between 5.5% and 12% on all uranium produced. The royalty rate is established by the gross profit margin of the Nigerien mining company; the higher the profit, the higher the royalty rate, to a maximum of 12%.

The Company, through its 67%-owned subsidiary Brighton, also holds five uranium exploration permits covering 3,958 km<sup>2</sup>. Two of the permits (Zéline 1 and Zéline 4), covering 982 km<sup>2</sup>, were granted in Q4 2007. The other three permits (Abelajouad, Assaouas 1 and Assaouas 2), covering 2,976 km<sup>2</sup>, were acquired from NAC in a transaction that closed during Q1 2010. During the three months ended September 30, 2010, the Company received extensions on all of its permits; 20 months for the Abelajouad permit, 26 months for the Zéline 1 and Zéline 4 permits, and 27 months for the Assaouas 1 and Assaouas 2 permits. The extensions were granted on the basis that work could not be completed due to security risks in the region from 2007 to 2010. A total minimum expenditure of \$9,625,890 for the term of the permits was established at the time the extensions were granted. As at December 31, 2010, Brighton had spent \$547,767 of the \$2,039,325 minimum requirement for

the first year due to delays in approving the acquisition of the NAC permits, delays in extending the term of all five permits, and the inability, due to security risks, to conduct the planned airborne geophysical surveys. The Company is expecting to meet the minimum work commitments on its Zéline 1 and Assaouas 1 permits but will likely fall short of its commitments on the three other more isolated permits due to the security risks. Since security risks have been the principle reason for not meeting the minimum expenditures and the Company has been active and meeting its minimums on those projects with less security risk, the Company is optimistic that further extensions may be granted once the newly elected Government is established during Q2 2011. The minimum expenditure amounts are required in order to renew an exploration permit but are not a guaranteed expenditure commitment nor a liability for the permit holder.

The Company has signed Mining Conventions for each of the permits held in Niger, which specify the precise terms of any exploration or mining activity on each permit should the Company elect to take a project into production. It provides guarantees of exclusivity, fiscal and legal policy. These Conventions have a term of 30 years for the Abelajouad permit and 20 years for each of Zéline 1, Zéline 4, Assaouas 1 and Assaouas 2. If the mine life is greater than the term of the Convention, the Conventions provide for re-negotiation. The Conventions grant fiscal incentives only available to the mining industry in Niger, including a five year income tax holiday for the Abelajouad permit.

Resources on the Company's projects are as follows:

<b>Category</b>	<b>Tonnes (million)</b>	<b>Grade (Au g/t)*</b>	<b>Contained Gold (oz)*</b>
<b>Bomboré</b>			
Indicated resources	60.9	0.81	1,589,000
Inferred resources	60.6	0.96	1,873,000
<b>Sega</b>			
Indicated resources	8.3	1.69	450,000
Inferred resources	2.9	1.58	147,300
<b>Bondi</b>			
Measured and indicated resources	4.1	2.12	282,000
Inferred resources	2.5	1.84	149,700

\* using a 0.5 g/t cut-off, except for Bomboré which uses a cut-off of 0.30 g/t for oxide material, 0.35 g/t for transition material and 0.50 g/t for fresh material

### Exploration activity

Exploration expenditures and drilling activity on the Company's gold projects for the years ended December 31 were as follows:

	<b>2010</b>		<b>2009</b>		<b>2008</b>	
	<b>\$</b>	<b>Drilling (m)</b>	<b>\$</b>	<b>Drilling (m)</b>	<b>\$</b>	<b>Drilling (m)</b>
Bomboré	4,887,426	48,597	2,471,687	7,737	3,248,366	23,657
Sega	370,680	-	295,096	-	2,153,845	12,145
Bondi	65,899	-	304,023	2,162	186,121	-
Niger and Other	818,700	1,637	349,761	-	1,249,396	6,103
	<b>6,142,705</b>	<b>50,234</b>	<b>3,420,567</b>	<b>9,899</b>	<b>6,837,728</b>	<b>41,905</b>
Write-off of deferred exploration costs	-		387,541		10,095,457	

### Bomboré Project

The Company is evaluating the economic potential of Bomboré to host a large-tonnage, low-grade, conventional Carbon in Leach ("CIL") operation as well as a Heap Leach ("HL") operation of the near surface oxide resource. Located only 85 km east of the capital city, the project has excellent infrastructure with access to sufficient water, a paved national highway, a local power nearby and a large labour force. Resources remain open at depth and for the most part on strike. The Company will

spend approximately \$24 million to complete 170,000 m of infill and expansion drilling by Q1 2012. The drilling will consist of approximately 85,000 m of reverse circulation ("RC") and 85,000 m of core drilling. The Company plans to release a Preliminary Economic Assessment study during Q2 2011 as an interim step to complete pre-feasibility by year end and full feasibility by Q2 2012. The Company expects to release an update of resources and its geological model during Q4 2011 which will incorporate approximately 80,000 m of the drilling that should be completed by July 2011. The remainder of the drilling will be reflected in a subsequent resource update which the Company expects to be in a position to release by Q2 2012.

The 2010 resources are based on 120,000 m of drilling to an average vertical depth of 60 m. The geological model indicates continuity and consistency at depth. The additional 170,000 m drill program will both increase the average vertical depth of drilling to 120 m and expand the surface footprint of the shallow (50 m) oxide resource.

Based on the positive results of the detailed metallurgical test program undertaken in 2009, the Company completed a 42,456 m, 619-hole RC drilling program during the first half of 2010 to infill and expand the oxide resource at Bomboré. A new geological model and a resource update were completed by Orezone, audited by SRK Consulting (Canada) Inc. and released on October 19, 2010 (see Table 1). The resource estimate was based on RC and core drilling data completed up to April 2010, using a lower cut off of 0.30 g/t in oxide material, 0.35 g/t in transition material and 0.50 g/t in fresh material, and top cuts of 1.44 g/t, 4.05 g/t and 8.07 g/t applied to 2 m composite samples within, respectively, the low grade, laterite and high grade domains of the model. The resources occur at surface to a depth of up to 170 m in five main zones contained within the Bomboré geochemical anomaly. Over 80% of the resource occurs within 80 m from surface. The gold-in-soil anomaly overlying the resource extends virtually uninterrupted at a level of +0.1 g/t for more than 14 km and represents the largest gold anomaly in Burkina Faso.

**Table 1: 2010 Audited Mineral Resource Statement\* for the Bomboré deposit, Burkina Faso, West Africa, SRK Consulting, October 15, 2010, CIL Processing Scenario**

Cut-off (g/t)	Weathering Profile	Indicated Mineral Resource			Inferred Mineral Resource		
		Tonnage (Mt)	Grade (g/t)	Gold (Moz)	Tonnage (Mt)	Grade (g/t)	Gold (Moz)
0.30	Oxide	34.0	0.67	0.73	25.0	0.59	0.48
0.35	Transition	11.2	0.84	0.30	5.4	0.88	0.15
0.50	Fresh	15.7	1.10	0.55	30.3	1.28	1.24
	<b>TOTAL</b>	<b>60.9</b>	<b>0.81</b>	<b>1.59</b>	<b>60.6</b>	<b>0.96</b>	<b>1.87</b>

\*Mineral Resources are not mineral reserves and do not have demonstrated economic viability. All figures have been rounded to reflect the relative accuracy of the estimates. The cut-off grades are based on a gold price of US \$1,025 per ounce with CIL processing recoveries of 93% for oxide, 92% for transitional and 78% for fresh material. Indicated and Inferred Mineral Resources are all reported within conceptual optimized open pit shells. **Unlike 2008, those resource blocks that occur outside the pit shells are not included in this resource estimate.** Mt= million metric tonnes; Moz= million troy ounces; g/t=grams gold per tonne.

Exploration expenditures at Bomboré in the year ended December 31, 2010 were greater than the prior year comparative period mainly due to an increase in drilling more than tenfold (42,456 m RC, 3,087 m DD and 3,055 m Auger vs. 7,737 m DD). Note, average all in drilling costs were \$59/m for RC in 2010 as compared to \$152/m for diamond drilling in 2009. An increase in drilling also results in an increase in sample analysis costs.

In January 2010, the Company was granted its third three year renewal of the Bomboré permit and in the process the permit surface area was reduced to 104.5 km<sup>2</sup>. The Company will be required to apply for a mining permit within three years or apply for a new mining exploration permit in order to be guaranteed the first right for such an application.

### **Sega Project**

Sega is being evaluated as a possible Heap Leach operation. The Company completed an NI 43-101 compliant resource update in 2009, the results of which were released on January 5, 2010. The update incorporated the results of an additional 8,050 m RC and 4,421 m core drilling completed in 2007 and 2008 and resulted in an increase from 446,000 to 450,000 ounces in the Indicated category and from 64,000 to 147,000 ounces in the Inferred category. In 2010, the Company initiated

metallurgical testing and other critical activities necessary to advance the project towards a pre-feasibility stage. The Company expects to release detailed metallurgical results early in Q2 2011 and be in a position to evaluate the economics of the project prior to proceeding with a pre-feasibility study. The expected 2011 expenditures for exploration and feasibility-type programs may amount to \$2 million.

The Company acquired the original Seguenega permit from IAMGOLD Corporation (formerly Repadre Corporation) in 2001. Upon transfer, Repadre retained a 3% NSR of which 2% can be bought back for \$2 million. In April 2010, the Company was granted its second three year renewal of the Tiba permit.

Exploration expenditures for the Segá project in the year ended December 31, 2010 increased over the comparative prior year period as a result of undertaking a detailed metallurgical study in 2010. Work during the previous year was limited to a resource update.

### ***Bondi Project***

Bondi is a shallow, structurally controlled, 4 km long shear zone hosted gold deposit that contains 282,000 ounces of Measured and Indicated gold resources at a grade of 2.12 g/t and 149,700 ounces of Inferred at a grade of 1.84 g/t. During 2009, the Company undertook an air core drilling program to test an additional 4 km strike extension south along the Bondi structure. The program was successful and intercepted geochemical anomalies 50 times the background level of gold, along the trend on widely-spaced ( $\geq 1,000$  m) drill fences. The Company is currently evaluating the potential for a northern extension and thereby a means to increase the resource to a level necessary to support a mining operation. The Company hopes to undertake a \$1 million program of drilling and detailed metallurgical work in 2011 to follow up high priority targets and to better evaluate the economic potential of the project. Since all resources and finances are focused on Bomboré and Segá, some of this program may not be completed until 2012.

Limited external work was completed during the year ended December 31, 2010 and the comparative prior year period and as a result overall expenditures were relatively low. Expenditures for the year ended December 31, 2010 decreased from the comparative prior year period as the Company's activities were limited to Niton XRF analyses, the trenching program and a review of the geological model while in the comparative prior year period work included compilation to identify potential extensions, field mapping and validation of the current resource model. The Company's 2010 expenditures of \$65,899 did not meet the minimum annual expenditure requirement for the permit however it is able to carry-forward excess amounts from previous years in order to satisfy the annual minimum. As the Company has spent well-above the minimum requirements in earlier years it has sufficient expenditures to satisfy all requirements under the permit.

### ***Niger Projects***

The exploration activities in Niger are operated by Brighton, a 67%-owned subsidiary holding five Niger uranium permits. In the year ended December 31, 2010, activities included the mobilization and establishment of base field camps at Arlit and Agadez and continued interpretation/compilation work in order to prioritize future work programs on the uranium exploration permits. The Company also began a drilling program on its Zéline 1 permit during Q4 2010. This accounted for higher exploration expenses over the comparative prior year period during which work was limited as a result of the force majeure. The Company announced on September 15, 2010 the intention to commence an airborne geophysical survey on all five of its uranium permits however the program was subsequently halted due to security risks. The airborne geophysical contractor has not returned and this work is not expected to resume until the security risks have lessened to the satisfaction of the contractor. Brighton however, has been very active drilling the permits (Zéline 1 and Assaouas 1) that are accessible and not remote. The drilling program budgets typically include approximately \$30,000 per month in additional security costs that it would normally not incur.

The Company acquired three of the five uranium exploration permits during Q1 2010. The uranium permits were under force majeure due to the security risks in the region until November 27, 2009. Brighton received permit extensions to account for the period of force majeure and has budgeted \$3 million towards completing various exploration activities on the permits. Related work began in Q3 2010. Activities to be continued in 2011 will include drilling of high priority targets and eventually an airborne geophysical survey and follow-up ground mapping, prospecting and sampling.

On June 30, 2010, a subsidiary of Brighton, Niger Resources Inc. ("NIRES"), completed a non-brokered private placement whereby it issued 5,000,000 common shares in exchange for gross proceeds of CAD \$5 million (US \$4.9 million). The funds will be used to finance the \$3 million exploration program as well as to follow-up any positive results thereafter in 2011. As a result of the transaction, the Company's interest in NIRES was reduced from 80% to 53.33%. On August 31, 2010, all of the participants in the private placement, as well as NAC, exchanged their 7,000,000 common shares of NIRES for equivalent common shares of Brighton, a parent of NIRES. Subsequent to this transaction, a wholly-owned subsidiary of the Company, Orezone Inc., purchased from NAC all of the outstanding shares of Brighton that it owned for CAD \$1 million. The transaction closed on September 8, 2010 and resulted in the Company's interest in Brighton increasing to 67%.

The Company abandoned its Kossa gold exploration permit during Q2 2010 and filed its final report with the government.

### Selected Annual Information

	2010	2009	2008
	\$	\$	\$
<b>Consolidated Statements of Operations and Changes in Deficit (Summary)</b>			
Revenue	-	-	-
Administrative expenses	<b>2,602,602</b>	2,003,067	3,228,992
Net income (loss)	<b>1,315,338</b>	(1,752,387)	(12,809,163)
Basic and diluted, net earnings (loss) per common share	<b>0.02</b>	(0.03)	(0.29)
<b>Consolidated Statements of Deferred Exploration Costs (Summary)</b>			
Deferred exploration costs – additions	<b>6,142,705</b>	3,420,567	6,837,728
Write-off of deferred exploration costs	-	387,541	10,095,457
<b>Consolidated Statements of Cash Flows (Summary)</b>			
Cash used in operating activities	<b>(1,216,997)</b>	(1,283,969)	(3,455,018)
Cash used in investing activities	<b>(7,774,432)</b>	(3,264,291)	(880,490)
Cash provided by financing activities	<b>64,478,189</b>	5,069,148	255,009
Effect of exchange rate changes on cash	<b>1,292,902</b>	646,297	(776,743)
Net increase (decrease) in cash	<b>56,779,662</b>	1,167,185	(4,857,242)
<b>Consolidated Balance Sheets (Summary)</b>			
Cash	<b>61,318,213</b>	4,538,551	3,371,366
Investments	-	-	24,744
Interest in exploration properties	<b>37,900,584</b>	31,215,118	28,046,452
Shareholders' equity	<b>97,584,290</b>	35,675,598	31,578,231
Total assets	<b>100,126,319</b>	36,157,651	32,050,491
Number of common shares outstanding (at December 31) <sup>1</sup>	<b>82,868,031</b>	53,955,531	1

<sup>1</sup> The Company issued 1 common share upon incorporation on December 1, 2008. Its shares were listed on the TSX on February 25, 2009 upon closing of the Transaction with IMG. Financial information prior to February 25, 2009 represents a carve-out of the non-Essakane exploration interests of Resources and is presented on a continuity of interest basis. See details in the Introduction.

### Results of Operations

In 2010, the Company was still in a development stage with no operating business segment nor revenue generating activities.

For the year ended December 31, 2010, the Company recorded a net income of \$1,315,338 compared to a net loss of \$1,752,387 for the year ended December 31, 2009. The earnings in the year ended December 31, 2010 as compared to the loss in the comparative prior year period was largely due to recognition of a dilution gain on the Company's investment in Niger Resources Inc. resulting from the CAD \$5 million private placement completed during the year as well as fewer write-offs of deferred exploration costs during the period.

The Company's financial performance is largely a function of the level of administrative expenses required to operate and carry out its exploration activities.

Administrative expenses increased by \$599,535 in 2010 compared to 2009, due to:

- a \$214,094 increase in stock-based compensation expense due to the higher fair value of stock options granted during the 2010 fiscal year as compared to 2009 as a result of the significant increase in the Company's share price;
- a \$204,782 increase in salaries, benefits, and consulting fees;

- a \$122,399 increase in public relations and travel due to an increase in management travel and attendance at conferences and trade shows;
- a \$106,779 increase in office, general and administrative expenditures due to expenses incurred in relation to the Company's decision to abandon its Kossa permit in Niger; and
- a \$15,731 increase in public company costs due to the printing and distribution of the Company's annual report, which was not undertaken in the prior year.

The above items were partially offset by a decrease in professional fees of \$63,145.

Net income (losses) consist of administrative expenses combined with other non-operating items, including dilution gains, write-offs of deferred exploration costs, foreign exchange gains, interest income, bad debt and other than temporary impairment of investments available-for-sale. On a net basis, other items contributed \$3,944,048 and \$250,680 to income/loss in 2010 and 2009, respectively.

The most significant changes in other items in 2010 compared to 2009 were:

- a \$2,563,535 dilution gain on the Company's investment in Niger Resources Inc. as a result of the private placement undertaken by Niger Resources in June 2010;
- a \$691,592 increase in foreign exchange gains due to the appreciation of the Canadian dollar, the currency in which the Company holds the majority of its cash;
- a \$387,541 decrease in write-offs of deferred exploration costs; and
- a \$71,522 increase in net interest income as a result of higher average cash balances held throughout 2010.

**Summary of Quarterly Results and Fourth Quarter Results**

	2010				2009			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<i>Revenue</i>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<i>Net income (loss) (in thousands)</i>	33.5	(336.7)	1,936.3	(317.8)	(520.1)	(193.9)	(438.5)	(599.8)
<i>Net income (loss) per share, basic and diluted</i>	(0.00)	(0.00)	0.03	(0.01)	(0.01)	(0.00)	(0.01)	(0.01)

Variations in net income (losses) over the eight quarters presented above resulted mainly from quarterly fluctuations in the level of write-offs of deferred exploration costs, financial instrument fair value adjustments and administrative expenses.

Given that the Company capitalizes exploration costs, its quarterly financial performance is a function of the level of administrative expenses required to operate a public company. In certain quarters, these expenses have been offset by dilution gains, exchange gains, interest income and gains on the sale of financial instruments.

The Company recorded earnings of \$33,519 in the three months ended December 31, 2010 compared to a loss of \$336,733 in the three months ended September 30, 2010. The earnings in the three months ending December 31, 2010 compared to the loss in the prior quarter is mainly due to:

- a \$375,751 increase in salaries, benefits and consulting fees;
- a \$274,295 increase in stock-based compensation expense due to the higher fair values of options granted during the fourth quarter resulting from significant increases in the market value of the Company's common shares at the grant date;

- a \$56,696 increase in public relations and travel as a result of the attendance by management at more conferences and trade shows during the fourth quarter;
- a \$32,880 decrease in office, general and administrative expenses mainly due to expenses incurred during the third quarter in relation to the Company's decision to abandon its Kossa permit;
- a \$1,029,426 increase in foreign exchange gains as a result of the appreciation of the Canadian dollar against the US dollar as compared to the third quarter;
- a \$33,930 increase in net interest income resulting from the increase in the cash balance following the completion of an equity financing on December 21, 2010 for net proceeds of US \$50.3 million; and
- a \$34,777 increase in capital tax expense.

### **Liquidity and Capital Resources**

The Company had cash of approximately \$61.3 million as at December 31, 2010, an increase of \$56.8 million compared to the \$4.5 million cash position at December 31, 2009. On January 26, 2010, the Company completed an equity financing which resulted in the issuance of 13,340,000 common shares at a price of CAD \$0.75 per share for net proceeds of CAD \$9,155,779 (US \$8,666,640). Subsequently, the Company completed an equity financing on December 21, 2010, for which it issued 14,375,000 common shares at a price of CAD \$3.75 per share for net proceeds of CAD \$50,934,774 (US\$ 50,308,350). \$4.1 million of the cash held at December 31, 2010 was raised in NIRES to be used only to advance its uranium exploration projects in Niger.

The Company has no cash flow generating operations and its long-term financial success is highly dependent on management's ability to discover economically viable mineral deposits. The Company has sufficient capital resources to pursue its exploration program on its projects in 2011 based on its working capital balance of \$61.3 million. Additional financing will be required in the future should the Company decide to bring one of its properties into production. There can be no assurance that the Company will be able to obtain adequate financing in the future to fund such activities or that the terms of such financing will be favorable.

### **Share Capital Information**

At March 31, 2011, the Company had 82,905,031 common shares outstanding (fully diluted – 88,850,531).

### **Contractual Obligations**

At December 31, 2010, the Company's contractual obligations consisted of purchase obligations in the amount of \$3,802,687 relating to drilling contracts, metallurgical testing, airborne geophysical surveys, in-hole geophysics and camp construction costs all of which are due within one year. Purchase obligations represent agreements to purchase goods or services that are enforceable and legally binding on the Company. Subsequent to year-end, the Company entered into further purchase obligations in the amount of \$3,111,516 relating to the preliminary economic assessment on its Bomboré and Segá projects which are also due within one year.

### **Off Balance Sheet Agreements**

The Company does not have any off balance sheet agreements.

### **Transactions with Related Parties**

In the year ended December 31, 2010, the Company charged \$34,055 (December 31, 2009 – \$15,103) in administrative fees to Northern Graphite ("Northern") for rent, expenses incurred on its behalf and administrative and geological services that were provided by the Company to Northern during the period. During these periods, the Company's former Senior Vice President ("SVP") was a director and President of Northern as well as a director of Northern's parent company, Industrial Minerals Inc. The Company's former SVP continues to act in the capacity of director for three of the Company's subsidiaries. The Company's President and CEO is a director of Northern.

**Proposed Transactions**

The Company continually reviews potential merger, acquisition, investment and other joint venture transactions that could enhance shareholder value, however, at the current time, there are no reportable proposed transactions.

**Risks and Uncertainties**

The Company is in the business of exploring for minerals and if successful, ultimately mining them. The natural resource industry is by its nature, both cyclical and risky. Even though management has been successful in the past in developing economic deposits there is no assurance that economic deposits will be found and in fact, most companies are unsuccessful due to the very low odds of finding an economic deposit. Once a potentially economic deposit is identified, the Company's ability to establish a profitable mining operation is subject to a host of variables including technical considerations, economic factors and regulatory issues. Many of these are beyond the control of the Company.

The principal factor which will affect the Company's ability to successfully execute its business plan is the price of gold. The price of gold in US dollars has increased from approximately US \$260 per ounce early in 2001 to over US \$1,423 at March 30, 2011. This increase is widely attributed to a weakness in the US dollar. However, the future trend of both the price of gold and the US dollar cannot be predicted with any degree of certainty. The higher gold price improves the economics of any potential development project and just as important, has a favorable impact on the perceptions of investors with respect to gold equities and therefore, the ability of the Company to raise capital.

Investment in the natural resource industry in general, and the exploration sector in particular, involves a great deal of risk and uncertainty and the Company's common shares should be considered as a highly speculative investment. Current and potential investors should give special consideration to the risk factors involved.

***Political Risk***

The Company's principal assets are located in Burkina Faso and Niger, West Africa. While the governments of Burkina Faso and Niger have modernized their mining codes and are considered to be pro mining, no assurances can be provided that this will continue in the future. The Company's ability to carry on its business in the normal course may be adversely affected by political and economic considerations such as civil and tribal unrest, political instability, changing government regulations with respect to mining including environmental requirements, taxation, land tenure, income repatriation and capital recovery, fluctuations in currency exchange and inflation rates, import and export restrictions, challenges to the Company's title to properties, problems renewing licenses and permits, and the expropriation of property interests. Any of these events could result in conditions that delay or in fact prevent the Company from exploring or ultimately developing its properties if economic quantities of minerals are found. The Company does not currently maintain "Political Risk" insurance.

***Currency Risk***

In the normal course of operations, the Company is exposed to currency risk because of business transactions in foreign countries. The Company mainly transacts in United States dollars (USD), Canadian dollars (CAD), Euros (EUR), and Communauté Financière Africaine francs (CFA). Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Note 8 to the Financial Statements describes the Company's exposure to currency risk, including the currencies in which the Company's financial instruments were denominated as at December 31, 2010.

***Exploration Risk***

Mineral exploration is a highly subjective process that requires a very high degree of education, experience, expertise and luck. Furthermore, the Company will be subject to many risk factors that knowledge, expertise and perseverance are insufficient to overcome. The Company is also competing against a large number of companies that have substantially greater financial and technical resources. The probability of finding mineralization in economic quantities that can be profitably mined are very small and no assurances can be given that the Company will be successful.

### ***Development Risk***

The successful development of a mineral deposit is dependent upon a large number of technical factors and significant capital expenditures must be made before the effect of many of these factors can be fully quantified. Major assumptions with respect to reserves, production, costs, grades and recoveries for example, can vary significantly from those projected in a feasibility study.

### ***Economic Risk***

External factors such as commodity prices, interest and exchange rates and inflation rates all have fluctuated widely in the past and will continue to do so. It is impossible to predict the future direction of these factors, and the impact that they will have on the Company's operations, with any degree of certainty. In particular, the price of gold is a major factor in determining whether or not a project is economic and whether or not capital can be raised to develop it. While the price of gold is currently at relatively high levels, its future direction will be determined by a large number of factors including investor demand, industrial demand, worldwide production levels, forward selling, purchases and sales by central banks, political and financial instability, inflation, interest and currency exchange rates, etc.

### ***Financing Risk***

At the present time the Company does not have any producing projects and no sources of revenue. The Company's ability to explore for and find potentially economic properties, and then bring them into production, is highly dependent upon its ability to raise equity and debt capital in the financial markets. There is no assurance that the Company will be able to raise the funds required to continue its exploration programs and finance the development of any potentially economic deposit that is identified.

### ***Title Risks***

Title to mineral properties and exploration rights involves certain inherent risks due to the potential for problems arising from the ambiguous conveyancing history characteristic of many mining properties and from political risk associated with the countries in which the Company carries out its exploration activities. The Company has taken all reasonable steps to ensure it has proper title to its properties. However, no guarantees can be provided that there are no unregistered agreements, claims or defects which may result in the Company's title to its properties being challenged. Furthermore, the Company requires a number of different permits and licenses in order to carry on its business and there can be no assurance that they will be renewed upon expiry.

### ***Environmental Risk***

Both exploration programs and potential future mining operations are subject to a number of environment related regulations. It is the Company's intention to fully comply with all such legislation in the countries in which it operates, and to fully comply with generally accepted international standards in countries where environmental regulations are not as stringent as international standards. Compliance with these regulations may significantly delay or prevent the Company from carrying on its business in the normal course, or may substantially increase the cost of doing so. Furthermore, exploration and mining activities may cause accidental or unintended negative consequences for the environment that result in fines, penalties or sanctions that represent a significant cost to the Company or prevent it from continuing operations.

### ***Management Dependence***

The Company's activities are managed by a very small number of key individuals who are intimately familiar with its operations. At present, the Company does not maintain any key man life insurance.

### **Critical Accounting Estimates**

The preparation of consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the amounts recorded in the Financial Statements and relevant notes. These estimates

are based on management's best knowledge of current events, and actions that the Company may undertake in the future. Significant estimates include those related to the fair value of financial instruments, stock-based compensation and warrants, the recoverability of the carrying value of mineral exploration properties and deferred exploration costs, the useful life of fixed assets and the impairment of long-lived assets and inventory. Management has also made estimates of the fair value of stock-based compensation that would have been granted to employees if the Company were operated as a stand-alone public entity prior to the close of the Transaction. Actual results may differ from those estimates.

The Consolidated Statements of Operations include all costs that have been estimated to be attributable to the Company, including allocations of Orezone's administrative expenses. The Company allocates administrative costs to specific projects when there is a direct relationship between the activity giving rise to the expense and the project. Unallocated costs remain as administrative expenses on the Consolidated Statements of Operations. Administrative expenses are primarily comprised of head office salaries and stock-based compensation, legal, accounting, tax, insurance, public relations, advertising, human resources, IT services and public company costs.

In preparing the Financial Statements, management allocated a portion of Resources' administrative expenses incurred prior to February 25, 2009 to the Company. Management believed the allocation was a reasonable representation of the costs that would have been incurred if the Company had performed these functions on a stand-alone basis. Following the completion of the Transaction, the Company performed these functions using its own resources or through purchased services.

All administrative expenses recorded in the Consolidated Statements of Operations which were performed by Resources for the Company have been deemed to have been paid by the Company to Resources in cash, with the exception of stock-based compensation costs which are non-cash, and were reflected as part of Shareholders' Equity.

The Company assesses its mineral projects on a quarterly basis to determine whether indications of impairment exist. The carrying amount of mineral properties are reviewed when events or changes in circumstances indicate that these amounts may not be recoverable. Estimated future cash flows from a property are calculated on an undiscounted basis and compared to the carrying amount of the mineral property. When the carrying amount exceeds the estimated undiscounted cash flows from the property an impairment exists and the carrying amount is written down to its fair value. When assessing impairment, the fair value of a mineral property should be estimated using a discounted cash flow analysis. When estimating cash flows, assumptions are made regarding reserves and resources, future commodity prices, as well as capital, operating and reclamation costs. Depending on the stage of exploration of a mineral property and whether the Company has completed any economic feasibility work, it may be difficult to estimate future cash flows reliably.

Where reliable estimates of future cash flows are not available, management assesses whether the carrying amount can be recovered based on quantifiable geological resources, empirical evidence such as geochemical analysis, drilling results, assays, mapping and field observation in relation to factors such as commodity markets, equity markets, exchange rates, political risk and proximity to other known operations, or the Company's assessment of its ability to sell the property for an amount greater than the carrying amount. An impairment is also recorded when management determines that it will discontinue exploration or development on a property or when exploration rights or permits expire.

Prior to the creation of the Company's stock option plan on March 25, 2009, the Company estimated stock compensation expense and cash proceeds from stock option exercises using the share price, volatility and grant dates of options granted to its employees under Resources' stock option plan, under the assumption that the Company's stock would have similar characteristics if it were publicly traded and stock options existed. Compensation costs were measured at the grant date based on the fair value of the award using the Black-Scholes option pricing model, and were recognized over the related service period as an expense or deferred exploration cost, depending on the responsibilities of the employee, with a corresponding increase to contributed surplus.

## **Changes in Accounting Policies and Recently Issued Accounting Pronouncements**

### ***Changes in Accounting Policies***

During the year ended December 31, 2010, the Company adopted the amendments to EIC-89 and EIC-94 issued by the Canadian Institute of Chartered Accountants (CICA). The accounting policy changes are as follows:

#### *Exchanges of Ownership Interests Between Enterprises Under Common Control and Accounting for Corporate Transaction Costs*

In February 2010, the CICA issued amendments to EIC-89, Exchanges of Ownership Interests Between Enterprises Under Common Control – Wholly and Partially-Owned Subsidiaries, and EIC-94, Accounting for Corporate Transaction Costs, to exclude companies who have adopted Handbook Section 1582, Business Combinations, from the application of these EICs. The Company has not yet adopted Section 1582 therefore it continues to apply these EICs to its financial statements for the year ended December 31, 2010.

### **Financial Instruments**

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The Company's financial instruments include cash, other receivables, deposits, accounts payable and accrued liabilities. The fair value of these instruments is equivalent to the carrying value, given the short maturity period.

### **Conversion to International Financial Reporting Standards**

In February 2008, the Canadian Accounting Standards Board confirmed that the use of International Financial Reporting Standards ("IFRS") will be required in 2011 for publicly accountable profit-oriented enterprises. The Company must report its consolidated financial statements in accordance with IFRS no later than for Q1 2011, with restatement of the 2010 comparative information presented. Although IFRS employs a conceptual framework that is similar to Canadian GAAP, there are significant differences in recognition, measurement, and disclosure. The Company has developed and implemented a project plan to ensure full compliance with this requirement by 2011. The Company's project plan consists of three phases:

#### ***Phase 1 – Scoping and Planning***

This phase includes performing a high-level assessment to determine key areas of focus that will likely be impacted by the adoption of IFRS. The information obtained through this phase will be used to prepare a detailed plan for IFRS convergence. An assessment will also be performed as to whether information technology systems require modification in order to provide relevant and timely data required to meet the new reporting requirements under IFRS.

#### ***Phase 2 – Detailed Evaluation***

This phase includes a detailed analysis of the impact of IFRS implementation on accounting determinations and disclosures. The detailed analysis will facilitate the selection of accounting policies under IFRS as well as the development of a detailed conversion strategy. A detailed determination of the impact of implementation on current internal control procedures and information technology will also be completed during this phase.

As part of its implementation of IFRS, the Company will be required to comply with "IFRS 1 – First-Time Adoption of IFRS" which sets out the rules for first-time adoption. In general, IFRS 1 requires an entity to comply with each IFRS statement effective at the reporting date for the entity's first IFRS financial statements. This requires that an entity apply IFRS to its opening IFRS balance sheet as at January 1, 2010 (i.e. the balance sheet prepared at the beginning of the earliest comparative period presented in the entity's first IFRS financial statements). Within IFRS 1 there are exemptions and exceptions, some of which are mandatory and some of which are elective. These provide relief for companies from certain

requirements in specified areas when the cost of complying with the requirements is likely to exceed the resulting benefit to users of financial statements. IFRS 1 generally requires retrospective application of IFRS statements on first-time adoptions, but prohibits such application in some areas, particularly when retrospective application would require judgments by management about past conditions after the outcome of a particular transaction is already known.

### ***Phase 3 – Implementation and Reporting***

This phase includes formally implementing necessary changes to internal control procedures in order to comply with IFRS. In this phase, the final selection of accounting policies, reconciliation of financial statement balances as at January 1, 2010 to IFRS, and ultimately the preparation of financial statements and related disclosures required under IFRS as at and for the year ended December 31, 2011.

### ***Progress to Date***

Management has completed the scoping and planning phase as well as a detailed diagnostic identifying the key areas of expected impact on conversion. The detailed diagnostic included the identification of accounting differences related to the Company's critical accounting policies, an examination of the impact of mandatory exceptions under IFRS 1, *First-Time Adoption*, and the selection of policies where alternatives exist under optional exemptions outlined in IFRS 1. Management has also determined the impact of conversion on the presentation and disclosure of its Financial Statements. The Company has quantified the impact of expected differences identified and developed the IFRS opening balance sheet as at January 1, 2010. As this process was completed, appropriate changes to ensure the integrity of internal control over financial reporting and disclosure controls and procedures have been made, including changes in controls or procedures to address reporting of first-time adoption and opening balances under IFRS. Management continues to monitor the potential impacts of conversion on business processes and information systems. There are a number of IFRS standards in the process of being amended by the International Accounting Standards Board and are expected to continue until the transition date of January 1, 2011. The Company is actively monitoring proposed changes. The Company continues to provide access to necessary external technical IFRS training for key employees involved in the financial reporting process.

The following areas have been identified as having the highest impact on the Company's financial reporting: functional currency determination, continuity of interest, accounting for exploration costs, accounting for stock-based compensation, methodology for impairment testing, property, plant and equipment, disclosure and presentation, and the provisions related to the initial adoption of IFRS under IFRS 1, *First-Time Adoption* ("IFRS 1"). Below is a summary of the expected impact in each area:

### ***Functional Currency***

Both Canadian GAAP and IFRS are broadly consistent in their methodologies for determining the functional and reporting currencies of an entity. IFRS, however, differs in that it assigns more weight to certain factors in making the determination. As well, the concepts of integrated and self-sustaining operations no longer exist under IFRS therefore, entities formerly considered to be integrated, and therefore assigned the same functional currency as their parent under Canadian GAAP, are now assessed as stand-alone entities for IFRS purposes.

The Company has determined that upon conversion to IFRS, the application of the criteria of IAS 21, *The Effects of Changes in Foreign Exchange Rates* ("IAS 21"), will result in a functional currency determination for each of its entities that is different from what was assessed under Canadian GAAP. The Company will continue to report its consolidated financial position and results of operations in US dollars. As a result, the translation of each entity in the corporate structure into US dollars will result in gains/losses being recognized in Accumulated Other Comprehensive Income ("AOCI"). The impact of this change on the January 1, 2010 IFRS compliant Balance Sheet will be as follows:

### ***Equity***

Under IAS 21 certain foreign currency translation differences, such as those on the opening net assets of a net investment in a foreign subsidiary, are recognized as reserves. However, there exists an exemption under IFRS 1 which allows the cumulative translation difference to be removed upon transition to IFRS. The Company has chosen to exercise this exemption on

conversion. Accordingly, the impact of the change in functional currencies on conversion to IFRS, although accounted for retrospectively, will be reflected as part of Retained Earnings/Deficit on January 1, 2010 with no amounts recorded to AOCI. The application of this exemption will also result in previously recorded cumulative translation adjustment under Canadian GAAP of \$483,211 being removed and shown as part of Retained Earnings/Deficit on conversion.

#### *Assets and Liabilities*

There will be no change in the reported value of the Company's monetary assets and liabilities in its opening balance sheets at January 1, 2010. However, non-monetary assets will increase by \$246,473 at January 1, 2010. This results from the re-translation of non-monetary assets and liabilities from the functional currency of the related entity to US dollars (the Company's presentation currency). Under Canadian GAAP, this level of translation was not necessary as each of the entities in the Company's organizational structure had a functional currency (US dollar) that was the same as the Company's presentation currency. The Company also expects its transition date Retained Earnings balance to increase by \$246,473 as a result of the change.

#### **Business Combinations**

The Company has determined that it will apply the election available under IFRS 1 enabling it to adopt IFRS 3(R), *Business Combinations* ("IFRS 3(R)"), prospectively. The Company will continue to prepare its financial statements under the continuity of interest principle on this basis. As a result, the Company does not anticipate any changes to its financial statements upon conversion to IFRS as a result of the prospective application of IFRS 3(R).

#### **Accounting for Exploration Costs**

Both Canadian GAAP and IFRS allow the choice of capitalizing or expensing exploration costs. The Company's policy under Canadian GAAP has been to capitalize all exploration costs. Management has determined that it will no longer continue to capitalize exploration costs incurred under IFRS. This change will be applied on a retrospective basis. Accordingly, \$28,834,896 of exploration costs previously capitalized under Canadian GAAP will be reclassified to Retained Earnings as at January 1, 2010 on conversion. As well, the exploration costs of \$6,142,705 incurred in the 2010 fiscal year will be reported on the Consolidated Statements of Operations under IFRS.

#### **Accounting for Stock-Based Compensation**

The guidance provided by IFRS 2, *Share-Based Payments* ("IFRS 2"), is largely consistent with Canadian GAAP and requires estimates of the fair value of stock options to be made at the date of the grant and recognition of the related expense in income as the options vest. The use of the Black-Scholes model is an acceptable method to estimate the fair value of the options at the date of grant, and is consistent with the Company's current practice. For share options that vest in installments, IFRS 2 requires the use of the attribution method, which requires that the Company treat each installment as a separate share option grant with a different fair value. Unlike Canadian GAAP, IFRS 2 does not include the straight line method as an alternative to the attribution method for awards with a service condition and graded-vesting features. Under IFRS, the Company has accounted for its awards using the attribution method.

Currently the Company estimates forfeitures based on the historical activity of its employees and executives and it will continue to do so under IFRS for use in the determination of the total share-based compensation expense. The division of option holders into more specific categories when estimating forfeiture history may result in a difference in valuation of the stock-based awards and timing differences for the recognition of compensation expenses.

IFRS 2 is applicable for stock-based compensation issued on or after January 1, 2005; earlier adoption is permitted. The Company will retrospectively apply the provisions of IFRS 2 on adoption which will require changes to the valuation and timing of compensation expense related to options granted prior to January 1, 2010. The quantitative impact of the adoption of IFRS 2 will be a decrease to January 1, 2010 Retained Earnings of \$135,495 and an equivalent increase to Contributed Surplus.

***Impairment of Long-Lived Assets***

Under Canadian GAAP, impairment testing of long-lived assets is based on a two-step approach. Estimated undiscounted cash flows arising from the use of the asset group are compared with the carrying amount of the assets to determine whether impairment exists. If impairment exists, the second step is to determine the amount of impairment to be recognized by comparing the carrying amount with the discounted cash flows and recording the excess as an impairment loss. Under IAS 36, *Impairment of Assets* ("IAS 36"), a one-step approach is applied whereby the carrying amount of the asset group is compared directly with the higher of fair value less costs to sell and value in use (which uses discounted future cash flows). This approach may produce an impairment loss where one would not have otherwise been recognized in cases where the undiscounted cash flows are higher than the carrying amount of the assets. Further, under IAS 36 there is a requirement to reverse previously recognized impairment losses in certain instances where circumstances have changed such that the impairments have been reduced. Canadian GAAP does not allow for the reversal of impairment losses under any circumstances. The Company will adopt IAS 36 upon conversion to IFRS however there will be no quantitative impact of the adoption on the opening balance sheet or the consolidated balance sheets for the year ended December 31, 2010.

***Property, Plant and Equipment***

IAS 16 *Property, Plant and Equipment* ("IAS 16") reinforces the requirement under Canadian GAAP that requires each part of property, plant and equipment ("PP&E") that has a cost that is significant in relation to the overall cost of the item to be depreciated separately. IAS 16 also provides guidance that would require major overhauls to be treated as separate components of plant and equipment, with the overhaul cost capitalized and depreciated over the period to the next major overhaul. The application of this requirement does not affect the measurement or presentation of the Company's current PP&E. It is important to note that this could change if at some point the Company transitions from being an explorer to a producer.

IAS 16 permits the periodic revaluation of PP&E and leasehold improvements to fair value and, under IFRS, interest on funds borrowed to purchase PP&E must be capitalized. The cost method, as used by the Company under Canadian GAAP, is also acceptable under IFRS (other than the aforementioned requirement to capitalize borrowing costs). Upon adoption of IFRS, the Company had to make an accounting policy choice as to how to account for PP&E (a) upon transition to IFRS; and (b) on a continuing basis. The Company's capital asset base is not significant given that the Company is still in the exploration phase. The Company has decided not to adjust PP&E to fair value on transition and to use the cost method on a continuing basis. On this basis, the retroactive adoption of the requirements of IAS 16 will not have a significant impact on the Company's Financial Statements.

***IFRS 1: First-Time Adoption of IFRS***

IFRS 1 provides the framework for the first-time adoption of IFRS and specifies that an entity shall apply the principles under IFRS retrospectively. Certain optional exemptions and mandatory exceptions to retrospective application are provided under IFRS. For the Company, the material exemptions relate primarily to the deemed cost for PP&E, stock-based compensation expense, and cumulative translation differences. As discussed above, the Company has decided not to revalue its PP&E upon conversion to IFRS. The Company will retrospectively adjust compensation expense related to all stock option grants that fall within the scope of IFRS 2 and will reclassify the cumulative translation adjustment arising under Canadian GAAP to opening Retained Earnings.

## **Controls and Procedures**

### *Disclosure Controls*

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to management as appropriate to allow timely decision making regarding required disclosures. The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have concluded, based on their evaluation of the effectiveness of the Company's disclosure controls and procedures, that these controls and procedures provide reasonable assurance that material information is made known to them by others within the Company. However, a control system, no matter how well conceived, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

### *Internal Control Over Financial Reporting*

Management is responsible for certifying the design of the Company's internal control over financial reporting ("ICFR") as required by Multilateral Instrument 52-109 – "Certification of Disclosure in Issuers' Annual and Interim Filings." The Company's ICFR is intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with applicable Canadian generally accepted accounting principles ("GAAP"). ICFR should include those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the Company's Board of Directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of assets that could have a material effect on the financial statements.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives due to its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to error, collusion, or improper override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis. It is possible to design into the financial reporting process safeguards to reduce, though not eliminate, this risk.

Management, including the CEO and CFO, has assessed the effectiveness of internal controls over financial reporting as of December 31, 2010 and concluded, subject to the limitations noted above, that the Company has sufficient controls to meet the requirements as stated above. The assessment was completed using the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

### *Changes in Internal Controls*

There have been no significant changes to internal controls in the year ended December 31, 2010. On September 29, 2010, the Company's CFO, Mr. Sean Homuth, resigned, however he subsequently resumed his position with the Company on January 12, 2011. As the Company had an interim CFO during Mr. Homuth's absence, and the Company's system of internal controls continued to be applied consistently, management has determined that the impact on internal controls was not significant.

## **Other MD&A Requirements**

All relevant information related to the Company is filed electronically at [www.sedar.com](http://www.sedar.com).