

# **OREZONE GOLD CORPORATION**

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

**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2010**

August 13, 2010

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

Management's Discussion and Analysis of Financial Condition and Results of Operations for the three and six months ended June 30, 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 unaudited interim consolidated financial statements and accompanying notes as at, and for, the three and six month periods ended June 30, 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 June 30, 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 position and results of operations for the three and six month periods ended June 30, 2010, in comparison to the corresponding prior-year period. This document should be read in conjunction with the Financial Statements.

The MD&A is also intended to supplement and complement the audited annual consolidated financial statements and accompanying notes for the fiscal year ended December 31, 2009 (collectively, the "Annual Financial Statements"). As a result, this MD&A should also be read in conjunction with the Annual Financial Statements and Annual Information Form ("AIF") on file with the Canadian provincial securities regulatory authorities, for the year ended December 31, 2009. 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, primarily 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 by 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.

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 gold projects. In 2010, the Company is focusing on advancing its Bomboré and Segá 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 by early 2011. The Company will also resume work on its 53%-owned uranium exploration permits in Niger, West Africa. Until recently, the permits were under *force majeure* as a result of political unrest in northern Niger. The Company expects to spin the projects out in an initial public offering during the second quarter of 2011. These projects represent significant unrealized value for the Company. The spin out of the uranium assets could provide significant capital that may be used towards the advancement of the Company's gold projects which are its main focus.

The Company is actively looking at potential synergies, mergers and acquisitions within the West African region. The Company is considering other strategic alternatives for some of its non-core assets in order to raise additional funds to advance the Bomboré Project with minimal dilution to its share capital.

Significant developments during, and subsequent to, the second quarter of 2010 included:

- 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 its 42,456 m RC infill and expansion drilling program at its Bomboré gold project and announced positive results for the 619-hole program;
- 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. The Company also entered into an agreement to purchase all outstanding shares of NIRES owned by North Atlantic Resources Ltd. ("NAC") for CAD \$1 million. The transaction is contingent on certain conditions and will result in a 67% interest in NIRES for the Company; and
- On July 8, 2010, the Board approved the issuance of 645,000 stock options to the Company's employees and consultants at a strike price of CAD \$0.85 per share. The options vest in two years, except for new participants in the Plan for whom one-third of the options vest immediately and the other two-thirds vest in equal amounts on the one and two year anniversary dates. All of the options granted on July 8, 2010 expire on July 8, 2020.

### **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**

All of the Company's properties in Burkina Faso are comprised of exploration permits, as defined by The Burkina Mining Act #031-2003/AN (the "Mining Act"), dated May 8, 2003. At June 30, 2010, the Company had four permits covering approximately 642 km<sup>2</sup> in Burkina Faso. Exploration permits in Burkina Faso give the holder the exclusive right to explore for minerals requested on the surface and subsurface within the boundaries of the permit. Exploration permits are generally valid for a period of 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. The Government of Burkina Faso has been amenable to issuing new permits after the expiration of nine years in certain circumstances. 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 has the right to a 10% carried interest in the corporation formed for the purpose of mining and a 3% royalty on gold produced. On March 3, 2010, the Government of Burkina Faso announced an amendment to its Mining Law whereby the government's royalty interest would be increased from 3% to 5% and the annual mining permit taxes would increase from XOF 500,000 (about USD \$1,040) per km<sup>2</sup> per annum to XOF 7,500,000 (about USD \$15,625) per km<sup>2</sup> per annum for the first five years, to XOF 10,000,000 (about USD \$20,830) per

km<sup>2</sup> per annum for the next five years and then to XOF 20,000,000 (about USD \$41,665) per km<sup>2</sup> per annum from the eleventh year. The implementation of this new amendment was subsequently delayed pending discussions between industry and government representatives from the Ministry of Mines and Energy and the Ministry of Finance. The Company expects that, should the amendment be adopted, the revised royalty rate will apply to all three of its gold exploration projects in Burkina Faso. The Government has yet to finalize the amendment.

## Niger

In the Republic of Niger, exploration permits are also granted for an initial three year period and are renewable twice with 50% permit size reductions. For exploitation licenses, the government has the right to a 10% carried interest in any Nigerian corporation formed for the purpose of mining, can increase its interest to 40% by participating in development for the permits granted under the 2006-026 *Décret* dated 9 August 2006, and receives a 5.5% royalty on gold produced and a 5.5% to 12% royalty on uranium produced. During the three months ended June 30, 2010, the Company informed the Government of the Republic of Niger of its intention to abandon its only gold exploration permit (Kossa) covering 999 km<sup>2</sup> in Niger and filed its final report with the government.

The Company, through a 53%-owned subsidiary, also holds five uranium exploration permits covering 3,958 km<sup>2</sup>. Two of the permits (Zeline 1 and Zeline 4), covering 982 km<sup>2</sup>, were granted in the fourth quarter of 2007 by the Government of the Republic of Niger. 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 the first quarter of 2010. The three permits acquired from NAC are currently expired however the Company filed the necessary renewal applications prior to their expiry and has received verbal approval from the Government of the Republic of Niger for a 27-month extension on all permits issued prior to August 1, 2007. Permits issued subsequent to August 1, 2007 would be subject to the same extension however the length of the extension would be reduced by the time elapsed between August 1, 2007 and the permit issuance date. This extension is expected to benefit all three of the newly acquired permits, as well as the Company's two existing uranium exploration permits. No formal documentation has been received to date regarding the extension.

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 operation. It provides guarantees of exclusivity and fiscal and legal policy. These Conventions have a term of 30 years for the Abelajouad permit and 20 years for each of Zeline 1, Zeline 4, Assaouas 1 and Assaouas 2. If the mining 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:

Category	Tonnes (millions)	Grade (Au g/tonne)*	Contained Gold (ozs)*
<b>Bomboré</b>			
Indicated resources	49.4	0.59	927,000
Inferred resources	91.8	0.61	1,781,000
<b>Sega</b>			
Indicated resources	8.3	1.69	450,000
Inferred resources	2.9	1.58	147,000
<b>Bondi</b>			
Measured and indicated resources	4.1	2.12	282,000
Inferred resources	2.5	1.84	150,000

\* - using a 0.5 g/tonne cut-off except for Bomboré which uses a cut-off of 0.24 g/tonne for the oxide material, 0.25 g/tonne for the transition material and 0.52 g/tonne for the fresh material

### Exploration activity

Exploration expenditures and drilling activity on the Company's properties for the three and six month periods ended June 30 were as follows:

	Three months ended June 30, 2010		Three months ended June 30, 2009		Six months ended June 30, 2010		Six months ended June 30, 2009	
	\$	Drilling (m)	\$	Drilling (m)	\$	Drilling (m)	\$	Drilling (m)
Bomboré	1,185,299	11,184	1,041,759	4,502	2,961,048	45,511	1,272,312	4,502
Sega	52,299	-	58,764	-	105,721	-	149,472	-
Bondi	18,478	-	9,072	-	37,890	-	65,536	-
Niger	139,287	-	56,653	-	226,863	-	103,483	-
	<b>1,395,363</b>	<b>11,184</b>	1,166,248	4,502	<b>3,331,522</b>	<b>45,511</b>	1,590,803	4,502

### Bomboré Property

The Company is evaluating the potential of the Bomboré property to host a large-tonnage, low-grade, heap leachable oxide resource that has the benefits of a low strip ratio and favorable infrastructure. Resources remain open at depth and for the most part on strike. In the third quarter of 2010, the Company plans to release a resource update and geological model, based on the results of the drilling program completed during the first and second quarters of 2010, along with a preliminary assessment study for a heap leach operation. The Company expects to be in a position to evaluate the economics of the project and make a decision as to whether to proceed with a feasibility study in early 2011.

The current resource model is based on drilling completed to an average depth of 55 m and shows continuity and consistency to marginally improving grades at depth. The Company completed a 6-hole, 3,000 m DD drilling program in the fourth quarter of 2009 to test the continuity of the deposit to depths of up to 300 m and reported on January 28, 2010, that although the gold mineralization continues to these depths, its grade does not improve.

Based on the positive results of the metallurgical test program undertaken in 2009, the Company began a 42,456 m, 619-hole RC drilling program in the first quarter of 2010 to infill and expand the oxide resource at Bomboré. The drilling was completed in the second quarter of 2010 and results received for the program indicate that the depth of oxidation is about 15% greater than expected within the Maga deposit area and about 10% greater within the P8P9 deposit area. The results also suggest that the width and grade of mineralization is broadly in line with the model. The infill drilling has also indicated that there are discrete zones of higher grade material within the low grade envelope. This material could selectively be mined first, which would lead to better project economics and a quicker payback period. The Company also undertook and completed a 3,055 m, 489-hole auger drilling program to investigate the gold-in-soil anomalies occurring along the trend of the qualified resource and, as a result, identified 2.5 km of potential deposit extensions south of the Siga deposit and within the gap between the P8P9 and P11 deposits. Based on these potential extensions, the Company modified the existing RC drilling program to include additional drilling within these deposits.

The current Bomboré resource model was audited by SRK Consulting (Toronto) and the estimation procedures and results were released in the fourth quarter of 2008. The resource estimate consists of an Indicated resource of 926,600 ounces of gold contained in 49.4Mt at a grade of 0.59g/t along with Inferred resources of 1,781,000 ounces of gold contained within 91.8Mt at a grade of 0.61g/t (Table 1). This resource estimate is based on RC and core drilling data completed up to May 2008, using a lower cut off of 0.24g/t in oxide material, 0.25g/t in transition material and 0.52g/t in fresh material, and a 5.0g/t top cut applied to individual samples (on average 1 m length). The resources occur at surface to a depth of up to 100 m in five zones contained within the Bomboré geochemical anomaly. This gold-in-soil anomaly overlying the resources extends virtually uninterrupted at a level of +0.1g/t for more than 14 km and represents the largest gold anomaly in Burkina Faso.

Table 1

**2008 Audited Mineral Resource Statement\* for the Bomboré deposit, Burkina Faso, West Africa,  
SRK Consulting**

Weathering Profile	Indicated Mineral Resource			Inferred 1 Mineral Resource			Inferred 2 Mineral Resource		
	Tonnage	Grade	Gold	Tonnage	Grade	Gold	Tonnage	Grade	Gold
	(Mt)	(g/t)	(Moz)	(Mt)	(g/t)	(Moz)	(Mt)	(g/t)	(Moz)
Oxide <sup>1</sup>	30.65	0.53	0.52	32.04	0.46	0.48	2.34	0.33	0.02
Transition <sup>2</sup>	13.05	0.56	0.23	15.30	0.50	0.25	5.08	0.34	0.05
Fresh <sup>3</sup>	5.74	0.93	0.17	16.80	0.96	0.52	20.26	0.71	0.46
<b>Total</b>	<b>49.44</b>	<b>0.59</b>	<b>0.93</b>	<b>64.14</b>	<b>0.61</b>	<b>1.24</b>	<b>27.68</b>	<b>0.61</b>	<b>0.54</b>

\* The cut-off grades are based on a gold price of US \$800 per ounce with heap leach processing recoveries of 85% for oxide, 81% for transitional and 65% for fresh material. Indicated and Inferred 1 Mineral Resources are reported within conceptual optimized open pit shells, while Inferred 2 Mineral Resources are all remaining resource blocks located outside the pit shell. Weathering profiles (Mt= million metric tonnes; Moz= million troy ounces; g/t= grams gold per tonne):  
<sup>1</sup> reported at a cut-off of 0.24g/t.  
<sup>2</sup> reported at a cut-off of 0.25g/t.  
<sup>3</sup> reported at a cut-off of 0.52g/t.

Exploration expenditures on the Bomboré project in the three months ended June 30, 2010 were similar to the prior year comparative period as the Company undertook drilling programs in both periods. In the three months ended June 30, 2010 expenditures included 11,184 m of RC drilling as well as expenditures relating to the analysis of samples drilled during the first quarter of 2010 as part of the same drilling program while in the comparative prior year period expenditures related to the 4,502 m of DD drilling undertaken as well as a metallurgical sampling drilling program and the commencement of related metallurgical test work. Drilling program expenditures during the two periods were similar even though drilling meterage was two and a half times greater in the three months ended June 30, 2010 as the per unit cost of RC drilling is substantially less (\$56/m) than DD drilling (\$137/m) which was undertaken in the same period of 2009.

Expenditures were significantly higher in the six months ended June 30, 2010 as compared to the prior year comparative period mainly due to the Company increasing its drilling meterage tenfold (42,456 m RC and 3,055 m Auger vs. 4,502 m DD). Drilling program expenditures were not ten times the comparative prior year period's as DD drilling is more costly to undertake, on a per unit basis than RC drilling, as described above.

In January 2010, the Company was granted its final three year renewal of the Bomboré permit and in the process the permit surface area was reduced to 104.5 km<sup>2</sup>.

### **Sega Property**

The Sega property is being advanced toward potential production as a heap leach operation. The Company completed an NI 43-101 compliant internal resource update in 2009, the results of which were released on January 5, 2010. The update incorporated the results of the 8,050 m RC drilling and 4,421 m core drilling programs completed in 2007 and 2008 and resulted in an increase in the gold resource estimate from 446,000 to 450,000 ounces in the Indicated category and 64,000 to 147,000 ounces in the Inferred category. In 2010, the Company is focusing on completing metallurgical testing and other critical activities necessary in order to advance the project towards a pre-feasibility stage. The Company expects to be in a position to evaluate the economics of the project and make a decision as to whether to proceed with a feasibility study in early 2011. Strategic options are also being reviewed including combining with other deposits in the area to achieve the critical mass necessary to support a producing operation.

The Company originally acquired the project from IMG (formerly Repadre Corporation) in 2001. Upon transfer, Repadre retained a 3% NSR in the project of which 2% can be bought back for US \$2 million.

Exploration expenditures for the Sega project in the three and six months ended June 30, 2010 decreased over the comparative prior year periods as the Company's work on the project in the first six months of 2010 was limited to a metallurgical sampling program as opposed to the comparative prior year period where work included an internal resource update.

In April 2010, the Company was granted its second three year renewal of the Tiba permit.

### ***Bondi Property***

The Bondi deposit is a shallow, structurally controlled shear zone hosted gold deposit that contains 282,000 ounces of gold at a grade of 2.12 g/t in the Measured and Indicated category and 149,600 ounces of gold at a grade of 1.84 g/t in the Inferred category. During 2009, the Company undertook an air core drilling program to test a 4 km strike of the interpreted southern extension of the Bondi structure. The program successfully intercepted the interpreted structure on widely-spaced ( $\geq 1,000$  m) drill fences although only geochemical levels of gold anomalism were encountered. The Company is currently evaluating opportunities to increase resources to a level necessary to support a mining operation as well as other strategic alternatives. The Company expects to undertake a drilling program in the fourth quarter of 2010 to follow up on targets generated by the air core drilling program.

No external work was completed during the first six months of 2010 or 2009 and as a result overall expenditures were relatively low. Expenditures were higher for the three months ended June 30, 2010, as the Company's activities included a trenching program to identify geochemical anomalies while in the comparative prior year period the Company's activities were limited to field mapping and validation of the current resource models. The Company's expenditures on the project in the six months ended June 30, 2010 were lower than the comparative prior year period as 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 models.

### ***Niger Properties***

The Company did not undertake any exploration activities on its Niger permits in the three and six months ended June 30, 2010 however it did incur higher exploration expenses over the comparative prior year period as a result of increased administrative costs as the Company prepared for the exploration program on its uranium permits that will begin in the third quarter of 2010. The Company officially abandoned its Kossa gold exploration permit during the second quarter.

The Company acquired three additional uranium exploration permits during the first quarter of 2010. The uranium permits were under *force majeure* due to political instability in Niger until November 27, 2009. The Company, through its 53%-owned subsidiary, will spend approximately \$2 million towards completing various exploration activities on the properties beginning in the third quarter of 2010. Activities will include the establishment of two base camps in the region, airborne geophysical survey, and follow up ground mapping, prospecting and sampling in order to identify drilling targets for a more extensive exploration program to be carried out in 2011. On June 30, 2010, a subsidiary of the Company, NIRES, completed a non-brokered private placement whereby it issued 5,000,000 common shares in exchange for CAD \$5 million (US \$4.8 million). The funds will be used to finance 2010 exploration activities as well as complete follow up drilling in 2011 on exploration targets identified in 2010. As a result of the transaction, the Company's interest in NIRES was reduced from 80% to 53.33%. The Company has entered into an agreement with NAC to purchase all of the outstanding shares of NIRES that it owns for CAD \$1 million. The transaction is contingent on certain conditions and is expected to close in the third quarter of 2010. Subsequent to closing, the Company will have a 67% interest in NIRES.

**Results of Operations - Summary of Quarterly Results and Second Quarter Results**

	2010		2009				2008	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
<i>Revenue</i>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<i>Net income (loss) (in thousands)</i>	<b>1,936.3</b>	(317.8)	(520.1)	(193.9)	(438.5)	(599.8)	(7,196.2)	(2,805.8)
<i>Net income (loss) per share, basic and diluted</i>	<b>0.03</b>	(0.01)	(0.01)	(0.00)	(0.01)	(0.01)	(0.16)	(0.06)

During the second quarter of 2010, the Company was still in a development stage with no revenue generating activities. 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.

The Company's 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 listed shares.

The Company reported earnings of \$1,936,339 and \$1,618,552 in the three and six months ended June 30, 2010, compared to losses of (\$438,532) and (\$1,038,323) in the comparative prior year periods. The earnings in the three and six months ending June 30, 2010 compared to the losses in the comparative prior year periods is due entirely to a dilution gain of \$2,563,535 resulting from the issuance of common shares by the Company's subsidiary NIRES during the period. This transaction resulted in a gain as the shares were issued at a value that was significantly higher than the book value of the Company's interest in NIRES.

Administrative expenses decreased by \$214,920 and \$207,261 in the three and six months ended June 30, 2010, compared to the comparative prior year periods, mainly due to:

- \$52,480 and \$111,868 decreases in salaries, benefits and consulting fees;
- \$233,510 and \$132,520 decreases in stock-based compensation expense due to the timing of vesting of options granted in the second quarter of 2009; and
- \$8,497 and \$48,361 decreases in professional fees due to a reduction in the complexity of the Company's regulatory environment as it is no longer publicly listed in the United States and is no longer subject to the requirements of the Sarbanes-Oxley Act of 2002.

The above items were partially offset by increases of \$47,356 and \$65,731 in public relations and travel due to management's attendance at previously unattended conferences and increased interest in corporate materials by potential investors and increases in public company costs of \$14,631 and \$21,535 due to expenses incurred in printing and distributing the Company's annual report, which was not undertaken in the prior year.

Net income (losses) consist of administrative expenses combined with other non-operating items, including dilution gains, interest income, foreign exchange gains and losses, gains on disposal of capital assets, bad debt and other than temporary impairment of investments available-for-sale. On a net basis, other items contributed \$2,411,829 and \$2,603,510 of income in the three and six months ended June 30, 2010 due mostly to the dilution gain arising from the NIRES private placement. On a net basis, other items contributed \$251,878 and \$153,896 of income in the three and six months ended June 30, 2009 due mostly to foreign exchange gains on the appreciation of the Canadian dollar, the currency in which the majority of the Company's cash is held, relative to the US dollar.

### **Liquidity and Capital Resources**

The Company had cash of approximately \$13.8 million as at June 30, 2010, an increase of \$9.3 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 CAD \$0.75 per share for net proceeds of CAD \$9.2 million (US \$8.7 million). \$4.8 million of the cash held at June 30, 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 2010 based on its working capital balance of \$13.8 million. Additional financing will be required in the future should the Company decide to bring one of its properties into production. Although the Company has been successful in the past in obtaining such financing, there can be no assurance that it will be able to obtain adequate financing in the future or that the terms of such financing will be favorable.

### **Share Capital Information**

At August 13, 2010, the Company had 67,775,531 common shares outstanding.

### **Commitments and Contingencies**

The Company does not have any significant commitments or contingencies.

### **Off Balance Sheet Agreements**

The Company does not have any off balance sheet agreements.

### **Transactions with Related Parties**

In the six months ended June 30, 2010, the Company charged \$13,194 (June 30, 2009 – \$nil) in administrative fees to Northern Graphite ("Northern") for rent, expenses incurred on its behalf and administrative 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 \$1,213 at August 12, 2010. 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 7 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 June 30, 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.

Currently, three of the Company's 53.33%-owned uranium exploration permits in Niger have expired. All required applications for renewal were submitted prior to the expiry of each permit however permit renewals in Niger were put on hold during the *force majeure* between August 2007 and November 2009. The Company has obtained verbal confirmation from the Government of the Republic of Niger that these permits will be extended for a period of 27 months. Although the Company expects that formal confirmation of the extensions is forthcoming, there can be no assurance that such approvals will be obtained.

**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 accounting policies used in preparing the Financial Statements are consistent with those used in preparing the Company's annual audited consolidated financial statements. The Financial Statements have been prepared in accordance with Generally Accepted Accounting Principles in Canada. However, they do not include all of the information and notes required for annual financial statements. The Financial Statements should be read in conjunction with the Company's audited consolidated financial statements and notes as at and for the year ended December 31, 2009. The Financial Statements contain comparative amounts that were estimated based on a carve-out of the historical financial results of the non-Essakane exploration interests of Resources prior to February 25, 2009, as well as the Company's independent operating results from February 25, 2009 to June 30, 2010. Certain Resources' expenses, assets, and liabilities for the period prior to February 25, 2009 have been allocated to the Company in the Financial Statements based on assumptions that management believes are reasonable under the circumstances. However, these allocations and estimates are not necessarily indicative of the costs and expenses that would have resulted if the Company had been operated as a separate entity.

## **Recently Issued Accounting Pronouncements**

### *Business Combinations and Consolidated Financial Statements*

In January 2009, the CICA issued three new accounting standards, Handbook Section 1582, *Business Combinations*, Handbook Section 1601, *Consolidated Financial Statements*, and Handbook Section 1602, *Non-Controlling Interests*. These standards are effective for business combinations entered into on or after January 1, 2011, however early adoption is permitted.

Handbook Section 1581, *Business Combinations* was replaced with Handbook Section 1582. This standard adopts relevant parts of International Financial Reporting Standard IFRS 3, *Business Combinations*. The adoption of this standard will impact the accounting for business combinations entered into on or after the January 1, 2011 effective date. The Company has chosen not to early adopt this standard and continues to assess the impact of adoption upon transition to IFRS.

Handbook Section 1600, *Consolidated Financial Statements*, was replaced with Handbook Sections 1601 and 1602 which adopt relevant parts of the International Financial Reporting Standard IAS 27 – *Consolidated and Separate Financial Statements*. Section 1601 establishes standards for the preparation of consolidated financial statements while Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Company has chosen not to early adopt this standard and continues to assess the impact of adoption upon transition to IFRS.

## **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 the first quarter of 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, some of which are mandatory and some of which are elective. The exemptions 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 substantially determined the impact of conversion on the presentation and disclosure of its Financial Statements. The Company is now in the process of quantifying the impact of expected differences identified and developing the IFRS opening balance sheet as at January 1, 2010. The Company expects to include quantitative disclosure of the impact of differences identified later in 2010. As this process is completed, appropriate changes to ensure the integrity of internal control over financial reporting and disclosure controls and procedures will be 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 potential impact on the Company's financial reporting: 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*. Below is a summary of the expected impact in each area:

#### ***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 plans to continue to follow the same accounting policy under IFRS. IFRS does however differ from Canadian GAAP in that it does not allow the capitalization of costs incurred prior to obtaining an exploration permit. The Company is in the process of identifying any such costs capitalized. Costs identified will be recorded in the opening deficit upon transition.

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

The guidance provided by IFRS 2, "Share-Based Payments", 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. The Company will need to account for its awards using the attribution method.

Currently the Company records forfeitures as they occur, however upon transition to IFRS, the Company will be required to make an estimate of the forfeiture rates for use in the determination of the total share-based compensation expense. These changes will 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 plans to 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 on March 25, 2009, May 26, 2009, July 23, 2009 and July 8, 2010.

### ***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.

### ***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. It is not expected that the application of this requirement will significantly 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 must 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, it is expected that 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 the property, plant and equipment ("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.

Under IAS 21 – "The Effects of Changes in Foreign Exchange Rates", 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. The exemption in IFRS 1 allows the cumulative translation difference to be removed upon transition to IFRS. The Company has chosen to exercise this exemption on conversion. As a result, the cumulative translation adjustment that currently appears on the balance sheet as part of accumulated other comprehensive income will be removed and shown as part of the opening deficit on conversion.

## **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 June 30, 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 three and six months ended June 30, 2010.

## **Other MD&A Requirements**

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