



(an exploration stage company)  
(formerly Victoria Resource Corporation)

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

**For the three and six months ended August 31, 2008**

**DATED: October 30, 2008**

## **VICTORIA GOLD CORP.**

(an exploration company)

### **Management's Discussion and Analysis**

*This Management's Discussion and Analysis ("MD&A") has been prepared as at October 30, 2008, and contains certain "Forward-Looking Statements" within the meaning of the Canadian Securities laws. All statements, other than statements of historical fact, included herein, including, without limitation, statements regarding potential mineralization and reserves, exploration results and future plans and objectives of Victoria Gold Corp. ("the Company" or "Victoria") are forward-looking statements that involve various risks and uncertainties. There can be no assurance that such statements will prove to be accurate and actual results and future events could differ materially from those anticipated in such statements.*

The following management's discussion and analysis of the operating results and financial position of the Company should be read in conjunction with the accompanying unaudited consolidated financial statements and the notes thereto of the Company for the three and six months ended August 31, 2008, and the audited consolidated financial statements of the Company and the notes thereto for the year ended February 29, 2008. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and all amounts are expressed in Canadian dollars, unless otherwise stated.

On July 18, 2008, the Company changed its name from Victoria Resource Corporation to Victoria Gold Corp. Victoria continues to be a Canadian company incorporated in the Province of British Columbia.

### **FORWARD LOOKING STATEMENTS**

These consolidated financial statements and management's discussion and analysis contain certain forward-looking statements relating to, 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 and the timing thereof and costs and timing of drilling campaigns, 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, exploration and drilling success or failure, 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.

## **OVERVIEW**

Victoria is an exploration stage company with interests in eight gold projects located in Nevada covering an area of approximately 99,000 acres (40,000 hectares). The Company's strategy is to add value per share through efficient exploration, accretive acquisitions and effective marketing. Victoria's management team endeavors to mitigate risk through vigilance, project diversification, sound financial management and exploring in relatively secure jurisdictions.

Bema Gold Corporation ("Bema"), the Company's former principal shareholder, provided management, administrative and technical services, including all geological assessments, to the Company. Accordingly, the Company was dependent on Bema to render such services (see "Related Party Transactions" herein). However, on November 6, 2006, Bema and Kinross Gold Corporation ("Kinross") announced that their boards of directors had unanimously approved Kinross' acquisition of Bema. The acquisition of Bema by Kinross was completed on February 27, 2007 by way of a shareholder-approved plan of arrangement whereby Kinross acquired all of the issued and outstanding common shares of Bema. As part of the plan of arrangement, Bema amalgamated with a subsidiary of Kinross and is now a wholly-owned subsidiary of Kinross named EastWest Gold Corporation ("EastWest Gold"). From February 27, 2007 to July 31, 2007, B2Gold Corp. ("B2Gold"), a private company formed by the former executives of Bema and which had common directors with Victoria, provided management services to the Company. On August 3, 2007, Victoria's shareholders elected new members to its board of directors, effectively ending the relationship with the common directors of B2Gold.

## **EXPLORATION ACTIVITIES**

During the quarter ended August 31, 2008, the Company incurred resource property expenditures (on a cash basis) totaling \$2,542,620 (previous year, \$1,045,269) relating to its Nevada properties.

The Company either holds or can earn a 100% interest in each of its properties. Five of Victoria's eight properties are potential joint ventures with Newmont Mining Corporation ("Newmont") who hold back-in rights for 50% or 51% on each of the properties. All of the Company's properties are subject to royalties upon certain conditions. For more information on the joint venture agreements, royalties, property locations and other property details please see the Company's website at [www.vitgoldcorp.com](http://www.vitgoldcorp.com) and the Financial Statements for the year-ended February 29, 2008, and Management's Discussion and Analysis related thereto, which are posted on [www.sedar.com](http://www.sedar.com).

**Property Summary**

<b>PROPERTY</b>	<b>RECENT ACTIVITIES (June 1, 2008 – Oct. 30, 2008)</b>	<b>OUTLOOK (three to six months forward)</b>
Cove McCoy	Helen Zone core drilling continued with holes NW-9 (completed and released), NW-11 (completed and released) and NW-12 (completed and awaiting assays).  Preliminary assessment of Cove open pit to allow possible future underground exploration is ongoing.	Helen Zone core drilling will continue with holes NW-13, NW-14 and NW-15.
Mill Canyon	Repaired and performed maintenance on all access roads and prepared sites for possible drilling.	Continued mapping for assessment of drill targets.
Hilltop-Slaven	Core-drilled hole HT-7 to 930 m.	Further review of results of HT-7 and other previous drill holes to determine if future drilling is warranted.
Black Canyon	Assessment of the previous hole completed, mapping reassessed.	Structural mapping: plan to drill during favourable weather (possibly late next spring).
Fourth of July	Assessed targets	Structural mapping.
Relief Canyon	Claim staking, assessment of previous drilling.	Possible sale of portions of this property. Drilling will be contemplated given adequate resources.
Seven Troughs	On-site structural mapping and grab sampling.	Structural mapping and grab sampling.
Summit	On-site structural mapping and grab sampling, on-going permitting activity.	Drilling can commence once permits are received.

**RECENT ACTIVITIES**

**Cove-McCoy Property**

During the second quarter, June 1, 2008 through August 31, 2008, and through the date of this document, Oct. 30, 2008, the Company continued drilling the Helen Zone.

Since the year-ended February 29, 2008, the Company has released assays from holes NW6A, NW8, NW-9, NW10, and NW-11. On April 10, 2008, the Company released results from NW6A, which intersected 39.6 m grading 11.8 g/t. Results from NW8 were released on June 20, 2008 and included 9.1 m of 13.9 g/t. On July 14, 2008, the results from NW10 were released and included 6.1 m of 6.3 g/t. NW-11 was released on September 8, and included 13.7 m grading 6.20 g/t. NW-9 was released on October 2, 2008 and hit 33.5 m grading 11.48 g/t including 9.1 m of 20.68 g/t and 9.1 m of 15.22 g/t. These five holes substantially increase the knowledge of the geometry of the Helen Zone and provide added information that the zone is growing in size with every hole drilled. Hole NW6A demonstrates that thick sections of gold mineralization continue to characterize, as well as expand, the center of the SSE plunging structural intersection system within the Helen zone. Like NW6A and NW-9, NW1 and NW5 are also within this central area. NW8 better defines the western wing of the intersection zone and shows that gold mineralization continues more than 90 m below NW7 and NW5. NW8 thereby demonstrates that the gold system has a drilled continuity of a minimum of 150 m down plunge using gold intercepts from holes drilled to date. Adding 30 m above NW1 and 30 m below NW8 therefore provides a possible current plunge length of about 210 m for the growing intersection zone. Likewise, the width of the Helen zone,

especially to the SE along the NW striking structural system, has expanded to about 150 m as a result of drilling NW10. Adding similar limits (ie. 30 m in each direction) to the current width indicates that the Helen zone has a possible width of just over 210 m. Exploration continues to probe down plunge and across this large, but still expanding gold system. Post mineral faulting in NW-10 and NW-11 indicates that the eastern wing of the intersection zone is more geologically complex. NW-9 and NW-12 (where drilling has been completed but results have not yet been released) also indicate that difficulties associated with deeper drilling persist where the host rocks are severely altered. However, NW-9 did end in 10 g/t material and the hole may be re-entered in the future.

### **Mill Canyon**

Prioritization for mapping and exploration at the Mill Canyon property, continued during spring through early fall of this year.

Additional intersection zones around and within the Higher Open Cut (“HOC”) target area have been assessed and number more than 11 within the area.

The Range Front Skarn (“RFS”) target at Mill Canyon has been evaluated. Several properly positioned angle core holes must be drilled so that the geometry of this high-grade gold-copper bismuth system is properly defined. The top of the RFS system is about 135 m below the surface. The gold grades appear high enough to justify a more comprehensive exploration effort.

Work on the Ralph J. Roberts (“RJR”) gold system to date indicates that several post-mineral fault zones have offset this large gold system approximately 200 m to 350 m to the east. Therefore, mapping has been undertaken to establish the best place for further exploratory drilling.

### **Summit Property**

Surface sampling work at the Summit property continues to expand a large zone of outcrops of hydrothermal dolomite, which appears to be the main host to gold bearing zones drilled by previous companies. This historical drilling occurs as a small area (~200 m X 100 m) within the 700 m by 600 m zone currently being expanded by Victoria geologists.

### **Hilltop Property**

A drill rig arrived on the Hilltop property on July 10, 2008. Set-up and collaring was completed and drilling commenced on July 14, 2008 and ended on September 6<sup>th</sup>, 2008. A targeted intersection zone was successfully intersected at about 315 m down hole and continued to the bottom of the hole at 930 m. This strongly altered and mineralized intersection zone occurs in the siliclastic rocks of the Roberts Mountains Allochthon (“RMA”). The RMA is the upper plate thrust system below which the lower plate carbonate rock are the main target. The hole was cased and abandoned so that it can be re-entered at a later date. Although no significant gold grades were intercepted, the target is still viable in the lower plate carbonate rocks.

### **Relief Canyon**

The Relief Canyon property continues to be evaluated with respect to the possibility of mining in conjunction with a company that controls the rest of the old Relief Canyon mine. This mine has been reported to have an inventory of approximately 400,000 ounces of which about 100,000 ounces occur on Victoria-optioned ground. Meetings have been held to assess the situation. Victoria hopes to have a positive solution in the near future.

### **Seven Troughs**

Victoria has started its mapping program on the Seven Troughs property and found that several structural systems are present that indicate the potential for either underground or surface exploration.

**Black Canyon**

No work has been done recently on the property.

**Fourth of July**

No work has been done on the property recently.

**OUTLOOK****Cove-McCoy Property**

Drilling on holes NW-13 to NW-15 will continue. This drilling is intended to improve the understanding of the potential size, grade and geometry of this system. Once the current 15 hole program has been completed, management will determine if construction of an adit from the open pit (approximately 600 m away) to the Helen Zone is warranted. This access would facilitate underground exploratory drilling of the Helen Zone. It is anticipated that development of a resource will be done more cost-effectively using underground access. The company recently reached an agreement with the property's underlying owner for limited surface access to the Cove open pit.

The Helen Zone is one of eight postulated structural intersection zones located within the "NW-Cove" target. In turn, the NW-Cove target is just the first of fourteen target areas on the Cove-McCoy Property that are planned to be drilled by the Company.

**Mill Canyon Property**

Dependent upon drilling success at the Company's other projects and availability of resources, a rig may be moved to the Mill Canyon property to drill the RJR, RFS and the HOC zones in the fall. Mill Canyon is one of Victoria's highest priority properties for advancement.

**Summit Property**

Structural mapping along with grab sampling will continue and should provide data for the development of initial drill targets. Permits to drill are expected to be favourably resolved shortly. The timing of future drilling is dependent upon drill success at other properties and resource availability. The Summit property is also a high-priority target for Victoria.

**Relief Canyon Property**

Further structural mapping and drilling is required at Relief Canyon; timing will be dependent on availability of the Company's resources.

**Hilltop Property**

Drilling on the property has proven that strongly altered and mineralized intersection zones occur within the upper plate Roberts Mountains Allochthon. Hole HT-7 has demonstrated that the Company's structural mapping is successful in predicting the presence of these intersection zones. However, economically significant gold concentrations were not been demonstrated in HT-7. Anomalous gold indicates the continued potential of higher concentrations of gold in lower plate carbonate rocks. Further review of the results of HT-7 and other previous drill holes will be undertaken to determine if future drilling is warranted.

**Black Canyon Property**

Additional systematic structural mapping will take place to further optimize the sites to drill the highest potential targets. The timing of future drilling is dependent upon drill success at other properties, weather conditions and high-calibre rig availability. However, advancing Black Canyon remains a priority for Victoria.

#### **Fourth of July Property**

Further structural mapping is required on this property. Timing of future work will depend on availability of the Company's resources.

#### **Seven Troughs Property**

Further structural mapping and collection of grab samples will continue.

### **SELECTED ANNUAL INFORMATION**

The following information has been extracted from the Company's consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), for each of the years ended February 28 or 29.

#### ***Selected Annual Information ended:***

	<b>2008</b>	<b>2007</b>	<b>2006</b>
Total revenues	\$ -	\$ -	\$ -
Net loss	\$ 1,514,582	\$ 3,548,684	\$ 342,595
Net loss per share – basic and diluted	\$ 0.020	\$ 0.056	\$ 0.007
Total assets	\$ 36,876,770	\$ 23,050,974	\$ 15,611,538
Total long-term liabilities	\$ 212,669	\$ 220,323	\$ 1,466,634

### **RESULTS OF OPERATIONS**

#### **Three months ended August 31, 2008 and 2007**

The Company reported a loss of \$545,621 (\$0.006 per share) for the three months ended August 31, 2008, compared to a loss of \$344,890 (\$0.005 per share) in the equivalent period during the previous year. The increase in the current year loss resulted from higher salaries and increased general and administrative expenses due to the implementation of a full-time dedicated management team and the opening of the corporate office in Toronto. The increases were offset by higher gains on foreign exchange and lower stock-based compensation. During the three months ended August 31, 2008, the Company recorded a gain due to foreign exchange of \$98,727 compared to a gain of \$18,156 during the three months ended August 31, 2007. For the three months ended August 31, 2008, the Company reported stock-based compensation expense of \$120,363 versus \$252,997 for the three months ended August 31, 2007. The decrease in stock-based compensation expense is due to less options being granted in 2008 than 2007.

Other expenses, exclusive of foreign exchange gains, stock-based compensation and interest income, were \$529,808 for the quarter ended August, 2008, compared to \$126,356 for the same period in the previous year. Year over year increases in salary (\$176,049), office and administrative (\$118,771), marketing (\$40,612) and legal (\$86,919) are all related to the implementation of a full-time management team. Interest and bank charges decreased to \$210 in the quarter ended August 31, 2008, compared to \$35,559 in the comparable previous period due to repayment of the note payable to EastWest Gold Corporation in November 2007.

Total assets increased stayed constant at about \$37.7 million during the period from May 31, 2008 to August 31, 2008, as current assets decreased by \$2.6 million (see "Liquidity and Capital Resources" herein) and resource properties increased by \$2.5 million due to continued exploration expenditures relating to the Company's properties. Total liabilities increased by approximately \$0.4 million due to the timing of payments associated with regular operating activities.

**Summary of Unaudited Quarterly Results:**

	<u>31 Aug 08</u>	<u>31 May 08</u>	<u>29 Feb 08</u>	<u>30 Nov 07</u>
Total revenues	\$ -	\$ -	\$ -	\$ -
Loss	\$ 545,621	\$ 423,635	\$ 453,156	\$ 697,047
Loss per share – basic and diluted	\$ 0.006	\$ 0.005	\$ 0.005	\$ 0.009

	<u>31 Aug 07</u>	<u>31 May 07</u>	<u>28 Feb 07</u>	<u>30 Nov 06</u>
Total revenues	\$ -	\$ -	\$ -	\$ -
Loss	\$ 344,890	\$ 19,489	\$ 2,819,179	\$ 271,745
Loss per share – basic and Diluted	\$ 0.005	\$ 0.000	\$ 0.045	\$ 0.004

The Company reported a loss of \$2,819,179 (\$0.045 per share) for the fourth quarter ended February 28, 2007 due to the write-off of the Pinson-Preble property in the amount of \$2,636,238. The losses incurred in each of the remaining quarters related primarily to general and administrative expenses, including stock-based compensation.

**LIQUIDITY AND CAPITAL RESOURCES**

At August 31, 2008, the Company had cash and cash equivalents of \$6,239,938 (February 29, 2008 - \$9,922,962) and a working capital surplus of \$5,973,663 (February 29, 2008 – \$9,178,519). The decrease in cash and cash equivalents of \$3.7 million over the six months ended August 31, 2008 was due to the ongoing exploration of the Company's resource properties (\$3.9 million use of cash), operating expenses and changes in working capital (\$1.5 million use of cash) net of issuance of common shares for cash and on the exercise of warrants and options (\$1.7 million increase in cash).

The Company's ability to meet its obligations and maintain operations is contingent upon successful completion of additional financing arrangements. The Company periodically seeks financing to continue the exploration of its mineral properties and to meet its ongoing administrative requirements. Although the Company has been successful in raising funds to date, there can be no assurances that additional funding will be available in the future. In the event that additional funding is not obtained, there is significant doubt about the Company's ability to continue as a going concern.

The Company holds the predominant amount of its cash in chequing accounts at a major Canadian bank and treasury management funds ("the Funds"), which are managed by a wholly-owned subsidiary of a major Canadian bank. The Funds predominantly invest in Government of Canada treasury bills.

During the quarter ended August 31, 2008 and up to the date of this report, the Company had no off-balance sheet transactions.

**OPERATING ACTIVITIES**

During the quarter ended August 31, 2008, operating activities, including non-cash working capital changes, required funding of \$332,391 (as compared with the same period during the previous year that required funding of \$831,211). The year over year decrease in cash required for operating activities is due

to lower usage of cash for working capital purposes offset by higher salary, general and administrative expenses, legal expenses and marketing expenses.

## RELATED PARTY TRANSACTIONS

On May 20, 2008, Raul Madrid, an officer of the Company, exercised options to purchase 200,000 common shares of the Company at 0.91 per share. The total funds for this purchase, of \$182,000, were received from Mr. Madrid on June 13, 2008 and were included in accounts receivable during the intervening period.

During the six months ended August 31, 2007, EastWest Gold provided administrative services while B2Gold Corporation ("B2Gold"), a company which had common directors with Victoria, provided management services to the Company.

For the six months ended August 31, 2008 and 2007, the Company had the following transactions (recorded at exchange value) with EastWest Gold:

	2008	2007
<b>Consolidated Statements of Loss</b>		
Interest expense on notes payable	\$ -	\$ 66,945
Accounting	-	40,875
	<u>\$ -</u>	<u>\$ 107,820</u>

Notes payable represent advances from EastWest Gold during fiscal 2006 and 2007, bearing interest at the US prime lending rate plus 2%. There is no interest expense for the six months ended August 31, 2008, as the note payable, including accrued interest, was repaid in full on November 28, 2007 in the amount of \$1,280,303.

For the six months ended August 31, 2008 and 2007, the Company had the following transactions (recorded at exchange value) with B2Gold:

	2008	2007
<b>Consolidated Statements of Loss</b>		
Office and administration	\$ -	\$ 15,200
Accounting	-	8,800
Rent and utilities	-	9,600
Management fees	-	6,000
	<u>\$ -</u>	<u>\$ 39,600</u>

## FINANCING ACTIVITIES

On November 28, 2007 the Company repaid \$1,280,303 as payment in full of the note payable, including accrued interest to EastWest Gold Corporation. The amount outstanding at February 28, 2007 was \$1,406,859.

During the quarter ended August 31, 2008, 25,000 share purchase warrants with an exercise price of \$0.85 were exercised for total proceeds of \$21,250.

On November 7, 2007, the Company closed a brokered private placement of 19,500,000 Units (the "Units") priced at \$0.70 per Unit, for gross proceeds of \$13.65 million (the "Offering"). Each Unit is comprised of one common share and one-half of one common share purchase warrant. Each whole warrant is exercisable to purchase one common share at an exercise price of \$0.85 for an eighteen month period until May 7, 2009. EastWest Gold participated in the offering and, as at November 30, 2007, held a 27% interest in the Company. EastWest Gold continued to hold a 27% interest in the Company at February 29, 2008. Chad Williams, President, CEO and Director of the Company purchased 793,300 Units of the Offering. Blackmont Capital Inc. and CIBC World Markets Inc. acted as co-lead agents in connection with the offering, together with Orion Securities Inc. (collectively the "Agents"). As compensation for services rendered in connection with the Offering, the Agents were paid an aggregate cash commission of \$810,264 and were issued broker warrants to purchase an aggregate of 1,007,520 common shares of the Company at a price of \$0.74 per common share until November 7, 2008. For accounting purposes, the Company has determined a value of \$4,146,798 (\$3,772,343 for the purchase warrants and \$374,454 for the Agents' warrants) for the warrants. The fair values of the warrants were calculated using the Black-Scholes option-pricing model. All securities issued pursuant to the Offering were subject to a four month hold period that expired on March 8, 2008. Victoria is using the proceeds from this Offering for exploration of its Nevada properties and for general corporate purposes.

On July 31, 2007, the Company closed a non-brokered private placement of 3,333,333 units priced at \$0.60 per unit, for gross proceeds of \$2 million (the "Offering"). Each unit is comprised of one common share and one-half of one common share purchase warrant. Each whole warrant is exercisable to purchase one common share at an exercise price of \$0.75 for a two year period until July 31, 2009. The Company paid a cash finder's fee in the amount of \$5,880. EastWest Gold purchased 850,000 of the Units at \$0.60 and as at August 31, 2007 held a 28.3% interest in the Company. Chad Williams, President, CEO and Director of the Company, purchased 792,333 units of the Offering. The Company used the proceeds from this Offering for exploration of its Nevada properties and for general corporate purposes.

#### **OUTSTANDING SHARE DATA**

The authorized capital of the Company consists of an unlimited number of common shares without par value. As of October 30, 2008, the number of issued common shares was 93,570,152 (108,526,213 on a fully diluted basis).

As at October 30, 2008, there were 4,161,875 director, employee and consultant stock options outstanding with an exercise price ranging from \$0.60 to \$1.00 per share and expiring between February 27, 2009 and January 22, 2013. As at October 30, 2008, there were 10,794,186 warrants outstanding with exercise prices ranging from \$0.74 to \$0.85 per share and with expiration dates ranging between November 7, 2008 and July 31, 2009.

#### **RISK AND UNCERTAINTIES**

##### ***Exploration and mining risks***

The business of exploration for minerals and mining involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. At present, the Company does not have any resource or reserves, as defined by National Instrument 43-101, *Standards of Disclosure for Mineral Projects of the Canadian Securities Administrators*, and any exploration programs are an exploratory search for ore.

##### ***Financial capability and additional financing***

The Company has limited financial resources, has no source of operating cash flow and has no assurance that additional funding will be available to it for further exploration and development of its projects. Although the Company has been successful in the past in financing its activities through the sale of equity

securities, there can be no assurance that it will be able to obtain sufficient financing in the future to execute its business plan.

***Dependence on key personnel***

Many of Victoria's personnel are specialized, highly skilled and experienced. The Company's future exploration success will depend to a significant extent on its ability to attract and retain qualified personnel. While Victoria has not experienced any significant difficulties to date in attracting and retaining personnel, there can be no assurance that this will continue. The loss of key personnel could have a material adverse effect on the Company's operations and business prospects.

***Fair value of financial instruments***

The carrying values for primary financial instruments, including cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities, approximate fair values due to their short-term maturities. Reclamation bonds reflect non-interest bearing cash on deposits and their discounted carrying value approximates their fair value.

Risk exposure is summarized as follows:

a) Credit risk

Certain of the Company's financial assets are exposed to a degree of credit risk. The Company endeavours to mitigate credit risk by holding its cash and cash equivalents as cash deposits and short-term government treasury funds with major commercial banks.

Credit risk relating to accounts receivable and reclamation bonds arises from the possibility that any counterparty to an instrument fails to perform. The Company's receivables relate to recoveries of GST and a receivable from one of the Company's officers, which was subsequently repaid in full, while the reclamation bonds relate to deposits held with governmental agencies representing the state of Nevada and joint venture partners. The Company does not feel there is significant counterparty risk that could have an impact on the fair value of such receivables and reclamation bonds.

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined in note 14 herein. Accounts payables and accrued liabilities are due within the current operating period, from June 1, 2008 through August 31, 2008.

c) Market risk

I. Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of the short-term investments included in cash and cash equivalents is limited as these investments, although available for sale, renew daily. The short-term investments included in cash and cash equivalents earn interest at prevailing rates.

II. Foreign currency risk

The Company's incurs exploration expenditures in the United States and holds a portion of its cash and cash equivalents in US dollars. This gives rise to a risk that its US dollar expenditures and US dollar cash holdings may be adversely impacted by fluctuations in foreign exchange. The Company does not undertake currency hedging activities.

### III. Price risk

The Company financial assets and liabilities are not exposed to price risk with respect to commodity prices. The Company's exploration drill programs are exposed to price risk, of which the Company has no control. The Company's exploration drill programs are carried out by outside contractors. Cost increases for consumables such as fuel and drill bits are indirectly passed on to the Company through its contracted drill programs.

There has been no significant change in the risk factors affecting the Company on a period over period basis.

#### ***Sensitivity Analysis***

The following table summarizes the sensitivity of the Company's cash and cash equivalents to projected changes in interest rates and the foreign exchange rate over the next three month reporting period using balances as at August 31, 2008.

	Carrying amount	Interest rate change (1)		Foreign currency change (2)	
		+ 1%	- 1%	+ 10%	- 10%
Cash and cash equivalents (Cdn \$)					
Cash - Canadian denominated	133,594	334	(334)	-	-
Cash - US denominated	182,959	457	(457)	18,296	(18,296)
Treasury funds - Canadian denominated	5,923,385	14,809	(14,809)	-	-
Total cash and cash equivalents	6,239,938	15,600	(15,600)	18,296	(18,296)
Reclamation bonds - US denominated	433,798	-	-	43,380	(43,380)
Total amount or impact - cash and bonds	6,673,736	15,600	(15,600)	61,676	(61,676)

1) Interest earned on the Company's interest bearing cash accounts and treasury funds is at prevailing rates that fluctuate with changes in banking interest rates and Government t-bill rates. Management believes that a plus or minus 1% annual change in rates is a reasonable estimate of variability for the next three months.

2) The Company's US dollar cash balance and US dollar reclamation bonds are subject to foreign exchange risk. Management has shown a sensitivity analysis of a plus or minus change of 10%.

#### **ACCOUNTING CHANGES**

Effective March 1, 2008, the Company adopted new accounting recommendations from the CICA, Handbook, Section 1535 – "Capital Disclosures," Section 3862 – "Financial Instruments – Disclosure," Section 3863 – "Financial Instruments - Presentation," and Section 3031 – "Inventories." The changes are applied prospectively with no restatement of prior periods.

##### **(i) Capital Disclosures, Section 1535**

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and, (iv) if it has not complied, the consequences of such non-compliance.

##### **(ii) Financial Instruments, Sections 3862 and 3863**

The new Sections 3862 and 3863 replace Handbook Section 3861, "Financial Instruments – Disclosure and

Presentation,” revising and enhancing its disclosure requirements and carrying forward, unchanged, its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

**(iii) Inventories, Section 3031**

Section 3031 relates to the accounting for inventories and revises and enhances the requirements for assigning costs to inventories. As at March 1, 2008, the adoption of this standard has had no effect on the Company’s results of operation, cash flows or financial position.

**FUTURE ACCOUNTING CHANGES**

**Goodwill and Intangible Assets, Section 3064**

Section 3064 replaces Section 3062, Goodwill and Intangible Assets, and Section 3450, Research and Development Costs. Section 3064 establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This standard is effective for interim and annual consolidated financial statements for the Company’s fiscal year beginning on or after October 1, 2008, specifically March 1, 2009.

**INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)**

In January 2006, the CICA’s Accounting Standards Board (“AcSB”) formally adopted the strategy of replacing Canadian GAAP with IFRS for Canadian enterprises with public accountability (“PAE’s”). The current conversion timetable calls for financial reporting under IFRS for accounting periods commencing on or after January 1, 2011. The Company will be required to have prepared in time for its first quarter 2012 filing, comparative financial statements in accordance with IFRS for the three months ended May 31, 2011.

The Company is currently assessing the impact of these new accounting standards on its consolidated financial statements.

**OFF-BALANCE SHEET TRANSACTIONS**

During the most recent three months ended August 31, 2008 and up to the date of this report, the Company had no off-balance sheet transactions.

**FINANCIAL INSTRUMENTS**

The Company’s financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and reclamation bonds. Unless otherwise noted, it is management’s opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The reclamation bonds are held with a state of Nevada governmental institution and a joint venture partner and represent restricted cash that will be returned to the Company upon the satisfactory completion of reclamation obligations. The reclamation bonds and certain of the Company’s cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities are denominated in US currency leading to currency risk arising from fluctuations in the Canadian and US exchange rate. The fair value of these financial instruments approximates their carrying values due to the short-term nature of these instruments.

**EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES, AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company’s Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), on a timely basis so that appropriate decisions can be made regarding public disclosure. As at the end of the period covered by this MD&A, management of

the Company, with the participation of the CEO and the CFO, evaluated the effectiveness of the Company's disclosure controls and procedures as required by Canadian securities laws. Based on that evaluation, CEO and the CFO have concluded that, as of the end of the period covered by this MD&A, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 – *Certification of Disclosure in Issuer's Annual and Interim Filings* of the Canadian Securities Administrators) and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws and that material information is accumulated and communicated to management of the Company, including the CEO and the CFO, as appropriate in order to allow timely decisions regarding required disclosure.

There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal controls may vary over time. The Company has assessed the design of its internal controls over financial reporting and management believes that its internal controls provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP as at, and for the period ended, August 31, 2008. There were no changes in the Company's internal controls over financial reporting during the second quarter ended August 31, 2008 that have materially affected or are reasonably likely to affect its internal controls over financial reporting.

#### **RECENT EVENT**

On August 19, 2008 the Company announced that it had signed a letter of agreement to acquire all of the outstanding common shares of Gateway Gold Corp. ("Gateway"). Further to the letter of agreement, the Company announced on September 23, 2008 that it had entered into an arrangement agreement to complete this friendly transaction. A special meeting of Gateway shareholders is scheduled to be held on November 28, 2008. The Transaction is expected to close by mid-December, 2008.

#### **ADDITIONAL INFORMATION**

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).

**"Chad Williams"**

Chad Williams  
Chief Executive Officer & President

**"Marty Rendall"**

Marty Rendall  
Chief Financial Officer