

# GLEICHEN RESOURCES LTD.

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED OCTOBER 31, 2009

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This management's discussion and analysis of the financial condition and results of operations ("MD&A") for Gleichen Resources Ltd. ("Gleichen" or the "Company") was prepared as at February 26, 2010 and is intended to supplement and complement the Company's audited consolidated financial statements and the related notes for the years ended October 31, 2009 and 2008. Those consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All dollar figures included therein and in the following MD&A are stated in Canadian dollars unless otherwise stated. This MD&A should also be read in conjunction with the Company's final long-form prospectus ("Prospectus") dated January 14, 2010. The Prospectus and other Company filings can be viewed on SEDAR at [www.sedar.com](http://www.sedar.com).

## **COMPANY OVERVIEW**

The Company was incorporated on November 13, 1980 under the Business Corporations Act of British Columbia and is a Canadian-based gold exploration company engaged in the acquisition, exploration and development of mineral properties. The Company's principal asset is the Morelos Gold Project. The Company recently acquired 100% of the Morelos Gold Project through two separate purchase transactions. The Company's principal subsidiary, TGRXM S.A. de C.V., (previously Oroteck Mexico, S.A. de C.V.), ("TGRXM"), is a Mexican-based holding company whose sole business is to hold shares of Mexican-based subsidiary Minera Media Luna, S.A. de C.V. ("MML"). MML's sole business is, and has historically been, the exploration and development of the Morelos Gold Project.

## **EXECUTIVE SUMMARY**

### ***Significant Events and Transactions***

On August 6, 2009, the Company entered into an agreement to acquire an indirect 78.8% interest in the Morelos Gold Project from certain subsidiaries of Teck Resources Ltd. ("Teck") and on October 14, 2009 the Company entered into an agreement to raise approximately US\$200,000,000 in a fully marketed private placement in connection with funding such acquisition. The Company closed these transactions subsequent to year-end as follows.

On November 12, 2009, the Company completed a private placement of 241,500,000 special warrants (the "Special Warrants") issued at a price of \$1.00 per Special Warrant for gross proceeds of \$241,500,000. Each Special Warrant was exercisable for no additional consideration to acquire one unit comprised of one common share (each, a "Unit Share") of the Company and one-quarter of one common share purchase warrant (each whole common share purchase warrant, a "Warrant"). The Special Warrants were issued pursuant to the terms of a Special Warrant Indenture dated November 12, 2009, between the Company and Computershare Trust Corporation of Canada as Special Warrant Agent. Each Warrant is transferrable and entitles the holder thereof to purchase one common share (each, a "Warrant Share") of the Company at a price of \$1.30 per Warrant Share at any time prior to the close of business on November 12, 2011. The Company was receipted by the applicable securities regulators for the Long Form Prospectus qualifying the Unit Shares and Warrants underlying the Special Warrants on January 15, 2010 and all outstanding Special Warrants were automatically exercised into Unit Shares and Warrants as of January 20, 2010. The Company received net proceeds of approximately \$228.2 million related to this transaction.

On November 16, 2009, the Company completed the acquisition of 78.8% of the Morelos Gold Project from Teck through the acquisition of 100% of TGRXM from Teck's subsidiaries Teck Metals Ltd. and Teck Exploration Ltd., for a purchase price of US\$150,000,000, the issuance of 1,560,857 common shares, and the issuance of 12,443,218 Special Warrants.

On February 24, 2010, the Corporation completed a second private placement of 50,000,000 common shares issued at a price of \$1.00 per common share for gross proceeds of \$50,000,000. After deducting the agents' fees and expenses of the offering, the Company received net proceeds of approximately \$47.2 million.

On February 24, 2010, the Company acquired the remaining 21.2% of the Morelos Gold Project, for \$52,000,000, through the exercise of a right of first refusal held by TGRXM, to acquire shares of MML, which shares were held indirectly by Goldcorp Inc. through Desarrollos Mineros San Luis, S.A. de C.V. As a result of the completion of the acquisition of the remaining 21.2% of the Morelos Gold Project, the Company now holds 100% of the Morelos Gold Project, subject to a net smelter royalty, through its wholly-owned subsidiary TGRXM.

On February 24, 2010, the Company began trading its common shares and the Warrants on the Toronto Stock Exchange (the "TSX") and delisted its common shares from the TSX Venture Exchange.

### ***Consolidated Financial Results***

The net loss for the year ended October 31, 2009 was \$1,029,286 or \$0.04 per common share compared with \$289,094 or \$0.01 per common share for the year ended October 31, 2008. Historically, the Company's activities were limited in nature and its material expenditures have been for costs to maintain a public company in good standing and costs relating to its review and consolidation of property acquisitions. The increased activity related to the acquisition of the Morelos Gold Project was the primary reason for the increase in the net loss year over year.

### ***Cash Position***

As at October 31, 2009, the Company had \$4,388,064 of cash on hand and a working capital position of \$3,920,995. Subsequent to year-end the Company completed two equity offerings as described above. These transactions were completed to fund the purchase of the Morelos Gold Project and to raise sufficient working capital to fund future exploration and development programs and corporate costs.

## **MORELOS GOLD PROJECT**

### ***Outlook***

Subsequent to the year-end the Company acquired 100% of the Morelos Gold Project as described above. The Morelos Gold Project is an advanced-stage gold exploration property with a defined mineral resource estimate of 28.821 million tonnes (“Mt”) grading 3.20 grams of gold per tonne (“g/t Au”) in the measured and inferred categories (2.968 million ounces of gold) and a further 8.671 million tonnes (“Mt”) grading 3.2 grams of gold per tonne (“g/t Au”) in the indicated category (0.890 million ounces of gold). The Company is committed to bringing the Morelos Gold Project into production, while building on the already defined mineral resource estimate. Immediate goals include reactivating existing land access agreements and commencing negotiations in areas that do not have existing land access agreements, building out the internal and contracted exploration team, beginning exploration programs on early-stage targets, continuing analysis of the exploration work performed by Teck and performing additional exploration programs which will focus on the defined ore bodies. Longer-term goals include negotiating and signing long-term land access agreements, completing an environmental impact study, obtaining permits and licenses to enable construction and mining of the Morelos Gold Project, and completing a feasibility study. The Company’s target for making a construction decision is the end of the third quarter of 2011 to enable construction to begin in early 2012.

### ***Location***

The Morelos Gold Project is located in Guerrero State, Mexico, approximately 200 kilometres to the southwest of Mexico City, approximately 50 kilometres southwest of Iguala and 18 kilometres northwest of Mezcala. The closest village, Nuevo Balsas, is a small agricultural-based community with a regional population of about 700 people. Nuevo Balsas is accessed by a two-lane paved road from Iguala. The deposits are accessed from Nuevo Balsas via a 5 kilometer single-lane gravel road. The nearest port to the Morelos Gold Project is at Acapulco, approximately 150 kilometres to the south. The project is located near established power and road infrastructure and near centres of supply for materials and workers, being Chilpancingo, Iguala and Cuernavaca.

## ***Geology***

The Morelos Gold Project is located within the Guerrero Gold Belt ("GGB") in southern Mexico. The GGB contains a number of gold deposits and showings, including the Los Filos Mine, located approximately 12-14 kilometers southeast of the known mineral deposits of the Morelos Gold Project. Commercial production at Los Filos commenced on January 1, 2008.

The GGB is underlain by sedimentary strata of the Morelos Platform which have been cut by Paleocene intrusives. Platform sediments consist of basal limestone and dolomite of the Morelos Formation, overlain sandstone, siltstone and minor shale of the Mezcala Formation. The transition zone between these two formations has been referred to as the Cautla Formation. Paleocene intrusive rocks consist primarily of granodiorite, with lesser quartz monzonite, monzonite and diorite and form a broad northwest trend at the regional scale.

Skarn-hosted gold mineralization on the Morelos Gold Project is developed in proximity to the contact between granodioritic intrusive rocks and sediments of the Morelos Platform. Three gold deposits have been discovered to date on the Morelos Gold Project, these are the El Limon, Guajes East and Guajes West deposits. Mineralization in these deposits is typically focused around the transition zone between the Morelos and Mezcala Formations and the contact of a large granodioritic intrusive body located in the central part of the project area.

## ***Exploration - History***

Exploration activities on the Morelos Gold Project have included regional and detail mapping, rock, silt and soil sampling, trenching, reverse circulation and diamond drilling, ground induced polarization geophysical surveys, mineralization characterization studies and metallurgical testing of samples. Petrographic studies and density measurements on the different lithologies have also been carried out. Small-scale mining activity, mainly in the form of 5-15 meter long adits, has been conducted by artisanal miners throughout the property; there is no production recorded from these old workings and the Company is not aware of any current artisanal mining in the Morelos Gold Project area. Activities since 1998 were conducted either by Teck personnel, or by consultants and contractors appointed by Teck.

Between 1999 and 2008, Teck personnel collected 10,747 rock chip samples, 111 whole-rock geochemistry samples, 185 stream sediment samples, and 2,022 soil samples. The sampling programs identified gold, arsenic and silver anomalies that could be tested using drill methods. Drilling completed between 1998 and 2008 comprised 608 drill holes (98,357 m), including 545 core holes (87,904 m) and 63 reverse circulation ("RC") holes (10,453 m). Of this total, 535 drill

holes (83,067 m) support an independent mineral resource estimate commissioned by the Company.

Exploration work to date has defined three separate ore bodies for which mineral resource estimates have been prepared. The ore bodies are the El Limon, Los Guajes East and Los Guajes West and were discovered in 2000, 2001, and 2002, respectively. Delineation drilling was carried out subsequent to discovery and formed the basis for the mineral resource estimates which are presented in the table below.

**Table 1: 43-101 Mineral Resource Estimate (conducted by AMEC: effective date October 6, 2009)**

<b>Morelos Project 43-101 Compliant Mineral Resource Estimate (October 2009) <sup>(1)(2)(3)(4)(5)(6)</sup></b>				
<b>Deposit</b>	<b>Resource Category</b>	<b>Tonnes (000)</b>	<b>AU Grade (g/t)</b>	<b>Contained AU (000 ounces)</b>
El Limon	Measured	1,724	3.47	193
	Indicated	16,547	3.30	1,754
Sub-Total	M&I	18,271	3.31	1,947
	Inferred	6,584	3.2	669
Los Guajes (E & W)	Measured	279	2.69	24
	Indicated	10,271	3.02	997
Sub-Total	M&I	10,550	3.01	1,021
	Inferred	2,087	3.3	221
<b>Morelos Total</b>	<b>M&amp;I</b>	<b>28,821</b>	<b>3.20</b>	<b>2,968</b>
	<b>Inferred</b>	<b>8,671</b>	<b>3.2</b>	<b>890</b>
<sup>1</sup> Mineral resources are not mineral reserves and have not demonstrated economic viability.				
<sup>2</sup> Mineral resources are reported above a 0.9 grams-per-tonne of gold cut-off grade.				
<sup>3</sup> Mineral resources are reported as undiluted.				
<sup>4</sup> Mineral resources are reported within a conceptual pit shell				
<sup>5</sup> Mineral resources are reported using a long-term gold price of US\$865 per ounce, mining costs at US\$1.30 per tonne, with an incremental bench cost of US\$0.01 per bench per tonne and processing costs at US\$11.68 per tonne with recoveries ranging from 60% to 91% and averaging approximately 88%. General and administrative costs were estimated at US\$3.19 per tonne.				
<sup>6</sup> The El Limon mineral resource estimate was prepared by Edward J. C. Orbock III, MAusIMM, Principal Geologist, the Los Guajes mineral resource estimate was prepared by Mark Hertel, P.Geo., Principal Geologist, each of whom are independent within the meaning of National Instrument 43-101.				

The table above was extracted from the technical report entitled “Gleichen Resources Ltd.-Morelos Gold Project, Guerrero, Mexico — NI 43-101 Technical Report”, effective October 6, 2009 (the “Technical Report”) prepared by (the “Qualified Persons”) Edward J.C. Orbock III, M.AusIMM, Principal Geologist, Scott Long, M.AusIMM, Chief Geochemist, Mark Hertel, P.Geo., Principal Geologist and Alexandra Kozak, P.Eng., Manager, Process Engineer, and each of AMEC E&C Services Inc. (“AMEC”). Reference should be made to the full text of the Technical Report which has been filed with certain Canadian securities regulatory authorities pursuant to NI 43-101 and is available for review on SEDAR at [www.sedar.com](http://www.sedar.com).

### ***Exploration – Planned Work***

The Company is planning exploration programs, which are currently scheduled to commence in the second calendar quarter of 2010. The focus of these programs will be split between property-wide target areas, which are outside of the existing resource areas, potential extensions to the existing resource areas and in-fill drilling of the El Limon mineral resource. Exploration activities will include soil and rock sampling, geological mapping, data review and interpretation and diamond drilling.

### ***Mineral Tenure and Mining Concessions***

Mexican law provides that only the Mexican Nation has direct ownership of mineral deposits within the national territory, which cannot be transferred. The use and exploitation of such national resources by private parties is only permitted if concessions are granted by the Federal Executive Branch, through its corresponding government agencies. Mining concessions give the holder the right to mine within the concession boundary, sell the mining product, dispose of waste material generated by mining activities within the lease boundary, and have access easements.

The Morelos Gold Project consists of seven mineral concessions issued to MML, covering a total area of approximately 29,006 hectares. All concessions were granted for a duration of 50 years. Concession details of the Morelos Gold Project are summarized in the table below.

**Table 2: Morelos Gold Project Mining Concessions**

<b>Mining Concession Name</b>	<b>Issuance Date</b>	<b>Expiration Date</b>	<b>Area (ha)</b>
Red Morelos Norte	May 17, 2005	May 1, 2055	26,201.5
La Fe	Nov. 29, 1990	Nov. 28, 2040	20
El Cristo	Sept. 6, 2001	Sept. 5, 2051	20
El Palmar	Sept. 6, 2001	Sept. 5, 2051	429.5
El Anono	Sept. 6, 2001	Sept. 5, 2051	25
San Francisco	Sept. 6, 2001	Sept. 5, 2051	27
Apaxtla 2	July 31, 2002	July 30, 2052	2,283.2

***Surface Rights and Land Use Agreements***

The Company holds no surface rights in the Morelos Gold Project area. The right to use the surface is a key milestone in any permitting stage for the Morelos Gold Project since secure tenure must be demonstrated at the time permit applications are made. The Project area encompasses a number of *Ejid*os (a communal form of agrarian land ownership) and communities. *Ejid*os in the area include Real del Limon, Rio Balsas, Puente Balsas Sur, Mezcala and Atzcala.

The Guajes East and West and a portion of the El Limon resource areas are located on the Rio Balas *Ejid*o. The remaining portion of the El Limon resource area is located on the adjacent Real Del Limon *Ejid*o.

Two access agreements currently exist with *Ejid*os but are inactive. The first agreement, with the Rio Balas *Ejid*o, expires on May 24, 2010 and the second agreement, with the Puente Balas Sur *Ejid*o, expires on July 8, 2010. Since taking control of the Morelos Gold Project the Company has met with the three *Ejid*os which hold surface rights to the majority of the Morelos Gold Project lands. These lands will be the focus of upcoming exploration work. The Company

has scheduled further meetings with the Rio Balas and Puente Balas Sur *Ejidos* at the end of February and early March 2010, with the intention of reactivating two existing access agreements in order to enable the start of the Company's 2010 exploration program. In addition, the Company has scheduled meetings with the Real De Limon *Ejido*, in early March 2010, to begin negotiations for the establishment of an access agreement.

### ***Royalties***

MML is obliged to pay Servicio Geológico Mexicano (part of the Mexican Government) a royalty equivalent to 2.5% of the invoice value or the smelter return value derived from the products of the Reducción Morelos Norte mining lot referenced in the table below. In addition, pursuant to the terms of the master agreement that was entered into on September 14, 1999 among MML, Minera Nafta, S.A. de C.V. (now called Minas de San Luis), Tenedora Teck Mexico, S.A. de C.V., Miranda Mining Developments Corporation and Teck Resources Limited in connection with the transfer to MML of the mining concession titles El Anono, El Cristo, San Francisco, El Palmar and Apaxtla 2 referenced in the table below, MML has a contractual obligation to pay a royalty of 2.5% of the gross income derived from any production from such mining concessions to Minas de San Luis (previously Minera Nafta, S.A. de C.V.). The Company does not consider the concessions that are subject to the contractual 2.5% production royalty payable to Minas de San Luis as material based on the relatively small size of the concessions and their proximity to the prospective ground on the Morelos Gold Project.

### ***Permits / Environmental / Socio-Economic***

A number of permits will be required for the development of mining activities. As well, environmental and socio-economic studies and agreements will need to be completed and negotiated. During the course of the upcoming year the Company will begin to address these issues as appropriate.

***Unless otherwise stated, Fiona Childe, Ph.D., P.Geo., Vice President, Exploration and Corporate Development of Gleichen, has reviewed and approved the technical and scientific information contained in the MD&A as a qualified person for the purposes of National Instrument 43-101.***

## SELECTED ANNUAL INFORMATION AND RESULTS OF OPERATIONS

**Table 3: Selected Annual Information for the Years Ended October 31, 2007 - 2009**

	Fiscal year ended October 31,		
	2009 \$	2008 \$	2007 \$
Operating Revenues	-	-	-
Operating Expenses	1,108,765	294,899	227,242
Net Loss	(1,029,286)	(289,094)	(194,233)
Loss per Share	(0.04)	(0.01)	(0.01)
Total Assets	4,644,369	4,205,939	4,416,977
Long Term Liabilities	-	-	-
Dividends	-	-	-

The Company has been identifying and evaluating potential investment opportunities for the past three years. On August 6, 2009, the Company announced it had entered into an agreement with Teck to purchase a 78.8% interest in the Morelos Gold Project as more fully explained above. The Company completed the purchase transaction subsequent to year-end and as a result future operating results and balance sheet items will change dramatically. As well, the purchase transaction impacted the three year trend ending October 31, 2009 as follows:

The Company's only source of revenue over the past three years has been interest income earned from funds on deposit.

Operating expenses, net loss and net loss per share for the years ended October 31, 2007 and 2008 were relatively flat. The Company's activities were limited in nature and its material expenditures have been for costs to maintain a public company in good standing and costs relating to its review and consolidation of property acquisitions.

Operating expenses, net loss and net loss per share for the year ended October 31, 2009 increased substantially when compared to the previous two fiscal years. The Company expenses all expenditures related to the evaluation of a potential property acquisition. Costs associated with the Morelos Gold Project evaluation were the primary reason for the increase in operating expenses, net loss and net loss per share when compared to previous years. These expenses totalled \$765,213 for the year ended October 31, 2009. No similar costs were incurred during the previous two fiscal years.

Total assets decreased slightly from October 31, 2007 to October 31, 2008 due to normal operating costs incurred through the year. Total assets increased at October 31, 2009 compared with October 31, 2008 as proceeds received from warrant and option exercises (\$903,000) and an increase in accounts payable and accrued liabilities (\$522,716) enabled total assets to increase even though a higher net loss was experienced during the year ended October 31, 2009 compared with the two previous years.

No dividends were paid during any of the three years ending October 31, 2009.

#### **SUMMARY OF QUARTERLY RESULTS**

**Table 4: Quarterly Results for the Two Years Ending October 31, 2009**

	Fourth Quarter 2009	Third Quarter 2009	Second Quarter 2009	First Quarter 2009
Operating Revenues	-	-	-	-
Net Loss	682,029	144,359	167,597	35,301
Loss per Share	0.02	0.01	0.01	0.00
	Fourth Quarter 2008	Third Quarter 2008	Second Quarter 2008	First Quarter 2008
Operating Revenues	-	-	-	-
Net Loss (Income)	95,805	75,764	136,265	(18,740)
Loss per Share	0.00	0.00	0.00	0.00

As discussed above, the Company has been identifying and evaluating potential investment opportunities and in the second quarter of 2009 management initiated discussions and review

regarding the Morelos Gold Project. Initially this led to slightly higher quarterly costs than what had been experienced during 2008 and the first quarter of 2009. On August 6, 2009, the Company announced it had entered into an agreement with Teck to purchase a 78.8% interest in the Morelos Gold Project, and as a result costs during the fourth quarter of 2009 were substantially higher than all previous quarters for the two years ended October 31, 2009.

## **LIQUIDITY**

Historically, the Company's sole source of funding has been through the issuance of equity for cash. The Company has engaged in limited activity during the past two fiscal years. During the year-ended October 31, 2009 the Company received proceeds from the exercise of stock options and warrants of \$903,000 (2008 - \$nil). On June 19, 2009, the Company extended the term of 10,000,000 outstanding common share purchase warrants from July 5, 2009 to July 5, 2010. All other terms of the warrants remained the same. As at October 31, 2009, the Company had \$4,388,064 of cash on hand and a working capital position of \$3,920,995.

Subsequent to year-end the Company completed two equity offerings to fund two separate asset purchase transactions and to raise sufficient working capital to fund future exploration and development programs and corporate costs.

On November 12, 2009, the Company completed a private placement of 241,500,000 special warrants (the "Special Warrants") issued at a price of \$1.00 per Special Warrant for gross proceeds of \$241,500,000. Each Special Warrant was exercisable for no additional consideration to acquire one unit comprised of one common share (each, a "Unit Share") of the Company and one-quarter of one common share purchase warrant (each whole common share purchase warrant, a "Warrant"). The Special Warrants were issued pursuant to the terms of a Special Warrant Indenture dated November 12, 2009, between the Company and Computershare Trust Corporation of Canada as Special Warrant Agent. Each Warrant is transferrable and entitles the holder thereof to purchase one common share (each, a "Warrant Share") of the Company at a price of \$1.30 per Warrant Share at any time prior to the close of business on November 12, 2011. The Company was receipted by the applicable securities regulators for the Long Form Prospectus qualifying the Unit Shares and Warrants underlying the Special Warrants on January 15, 2010 and all outstanding Special Warrants were automatically exercised into Unit Shares and Warrants as of January 20, 2010. The Company received net proceeds of approximately \$228.2 million related to this transaction.

On November 16, 2009, following completion of the above financing, the Company completed the acquisition of the initial investment in the Morelos Gold Project for a purchase price of

US\$150,000,000 in cash, the issuance of 1,560,857 Common Shares and the issuance of 12,443,218 Special Warrants. The Company acquired an indirect 78.8% interest in the Morelos Gold Project through this first acquisition.

On February 24, 2010, the Company completed a second private placement of 50,000,000 common shares issued at a price of \$1.00 per common share for gross proceeds of \$50,000,000. After deducting the agents' fees and expenses of the offering, the Company received net proceeds of approximately \$47.2 million.

On February 24, 2010, the Company completed the acquisition of an additional 21.2% interest in the Morelos Gold Project for \$52,000,000. Upon completion of the acquisition of this interest, the Company owns 100% of the Morelos Gold Project. The Morelos Gold Project is subject to certain royalties as described above.

As a result of the above transactions the Company is well-funded to carry out exploration and development programs and normal corporate activities. Future expenditures will increase greatly when compared to previous fiscal years as the Company transitions from the exploration stage through development and into commercial production.

## **CAPITAL RESOURCES**

As a result of the purchase of the 100% interest in the Morelos Gold Project the Company's need for capital has changed dramatically from the two years ended October 31, 2009. The Company has sufficient cash on hand to fund anticipated exploration and development programs and normal corporate activities. The Company's target for making a construction decision on the Morelos Gold Project is the end of the third quarter of 2011 to enable construction to begin in early 2012. If the Morelos Gold Project advances to this stage additional capital would need to be raised to fund construction activities.

## **OFF-BALANCE SHEET ARRANGEMENTS**

The Company does not have any off-balance sheet arrangements.

## **TRANSACTIONS WITH RELATED PARTIES**

During the year ended October 31, 2009, the Company paid \$60,000 (2008 - \$60,000) for office facilities and administrative services to a company related by virtue of one director and two officers in common and also paid \$14,000 (2008 - \$nil) for consulting fees relating to the

acquisition of the Morelos Gold Project. At the year ended October 31, 2009, \$18,240 (2008 - \$5,301) was due to this related company and included in accounts payable and accrued liabilities. The limited activity of the Company during the two years ended October 31, 2009 did not warrant the Company having its own office and full time staff and as a result these costs were incurred. Subsequent to year-end the Company moved its offices to Toronto and hired a permanent staff and as a result, the above relationships have been terminated.

In addition, during the year ended October 31, 2009, the Company paid \$nil (2008- \$20,000) for consulting fees and \$80,000 (2008 - \$10,000) for salaries to one director and officer of the Company. Included in accounts payable and accrued liabilities at October 31, 2009 is \$70,400 (2008 - \$nil) owing to this director and officer. As a result of the increased activity related to entering into a potential purchase transaction for the Morelos Gold Project, the director and officer transitioned from a consulting arrangement to a salaried employee. Subsequent to the year end the Company hired a new Chief Executive Officer and as a result, the above director and officer resigned as Chief Executive officer but remained as a director and consultant of the Company.

The above transactions were in the normal course of business and were measured at the exchange amount which is the amount agreed to by the related parties.

#### **FOURTH QUARTER**

The Company's loss for the three-months ended October 31, 2009 increased to \$682,029 compared with \$95,805 for the same period in 2008. As previously discussed, the increase relates to the increased activity associated with the Morelos Gold Project acquisition. Cash flow for the fourth quarter was positive as the Company received proceeds from the exercise of stock options and warrants.

The work performed and costs incurred during the fourth quarter led to the successful completion, subsequent to year-end, of the initial \$241,500,000 equity financing and purchase of the 78.8% interest in the Morelos Gold Project as described above.

#### **MANAGEMENT AND BOARD**

Effective November 16, 2009, upon the completion of the Morelos Gold Project Acquisition, the Board was increased by one to five members, Mr. Donn Burchill resigned from the Board and each of Messrs. Fred Stanford and A. Terrance MacGibbon were appointed to the Board. Mr. Stanford was also appointed as the new President and Chief Executive Officer of the

Company effective November 16, 2009, replacing former President Michael Murphy. Michael Murphy remains as a director only of the Company. At the special meeting of shareholders of the Company held on November 26, 2009 (the "Special Meeting"), two (2) directors, namely, Brian Bayley and Richard Graham, resigned from the Board effective at the close of the Special Meeting and the following individuals were nominated and elected as directors of the Company: Messrs. David Fennell, Frank Davis and Andrew Adams.

Also subsequent to year-end, the Company expanded its management team. Mrs. Fiona Childe joined the Company as Vice President Exploration and Corporate Development, Mrs. Gabriela Sanchez joined as Vice President Investor Relations, Mr. Andrew Gottwald joined as the Chief Financial Officer and Mr. Jay Goldman was appointed as Corporate Secretary of the Company.

With the addition of the above directors and officers the Company is well-position to successfully transition the Morelos Gold Project into its development stage.

## **ACCOUNTING POLICIES AND ESTIMATES**

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Significant areas requiring the use of management estimates include the estimation of the carrying value of mineral property interests, the valuation of future income taxes assets and liabilities and the fair value of warrants, stock-based compensation and other stock-based payments.

### ***Mineral Property Interests***

The Company capitalizes the acquisition cost of mineral properties until the properties are placed into production, sold or abandoned. These costs will be amortized over the estimated productive lives of the properties upon commencement of commercial production using the unit of production method. Costs relating to mineral properties that are sold or abandoned are written off when such events occur or are written down to a nominal amount when management decides not to commit any further exploration or development of the property.

### ***Future Income Tax Assets and Liabilities***

The Company uses the asset and liability method of accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying amounts of existing assets and liabilities

and their corresponding tax values. Future income tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to be in effect in the years in which those temporary differences are expected to be recovered or settled.

### ***Stock-Based Compensation***

The stock-based compensation expense is based on an estimate of the fair value on the grant date of stock options issued. This accounting requires estimates of interest rates, life of options, stock price volatility and the application of the Black-Scholes option pricing model. The Black-Scholes option pricing model requires the input of highly subjective assumptions that can materially affect the fair value estimate.

### **ADOPTION OF NEW ACCOUNTING STANDARDS**

Management monitors recently issued Canadian Institute of Chartered Accountants (“CICA”) accounting pronouncements to assess the applicability and impact, if any, of these pronouncements on the Company’s consolidated financial statements and note disclosures.

#### ***Newly adopted accounting policies***

Effective January 1, 2008, the Company adopted CICA Handbook Section 1400, which requires management to assess and disclose an entity’s ability to continue as a going concern.

Effective November 1, 2008, the Company adopted CICA Handbook Section 3064, which establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. The Company has determined that the adoption of this new section did not have a material impact on the financial statements of the Company or its business.

#### ***New accounting policies not yet adopted***

In February 2008, the Canadian Accounting Standards Board (“AcSB”) confirmed that accounting standards in Canada are to converge with IFRS. The AcSB has indicated that Canadian entities will need to begin reporting under IFRS by the first quarter of 2011, for companies with a December 31 year-end, with appropriate comparative data from the prior year. The Company’s year-end is October 31 and as a result the Company will begin reporting under IFRS for the first quarter ending January 31, 2012. The Company is assessing the potential impact of this changeover and is developing its IFRS changeover plan. The Company’s

IFRS conversion project consists of three phases – i) plan development, ii) evaluation and design, and iii) implementation and review. The Company is currently in the plan development phase which consists of project initiation, identification of differences between Canadian GAAP and IFRS and project planning and resourcing. The plan will address the impact that IFRS has on:

- Accounting policies and implementation decisions;
- Information technology and data systems;
- Financial statement presentation and disclosure options available upon initial changeover to IFRS;
- Internal control over financial reporting;
- Disclosure controls and procedures; and
- Business activities.

Section 1582, Business Combinations, is replacing Section 1581, Business Combinations and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to the IFRS standard, IFRS 3 (revised), Business Combinations. The Section applies prospectively to business combinations for which the acquisition date is on or after November 1, 2011. Earlier application is permitted. The Company is currently evaluating the impact of this new Section.

Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling Interests, together replace Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS standard, IAS27 (revised), Consolidated and Separate Financial Statements. The sections apply to interim and annual consolidated financial statements relating to the Company's fiscal year beginning on November 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. The Company is currently evaluating the impact of these new Sections.

## **CHANGEOVER PLAN TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**

In February 2008, the AcSB confirmed that Canadian GAAP for publicly accountable enterprises will be converged with IFRS effective in calendar year 2011, with early adoption allowed starting in calendar year 2009. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. In the period

leading up to the changeover, the AcSB will continue to issue accounting standards that are converged with IFRS, thus mitigating the impact of adopting IFRS at the changeover date. The International Accounting Standard Board (IASB) will also continue to issue new accounting standards during the conversion period, and as a result, the final impact of IFRS on the Company's consolidated financial statements will only be measured once all the IFRS applicable at the conversion date are known.

For the Company, the changeover to IFRS will be required for interim and annual financial statements beginning on November 1, 2011. As a result, the Company will begin to develop a plan to convert its financial statements to IFRS. The Company will provide training to key employees and will be monitoring the impact of the transition on its business practices, systems and internal controls over financial reporting.

## FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company does not have, and has not used, any hedging or other financial derivatives.

## OUTSTANDING SHARE DATA

**Table 5: Outstanding Share Data at February 26, 2010**

		Number
Common shares		337,647,455
Common share purchase options		17,465,000
Common share purchase warrants		70,645,803
Restricted Share Units		3,500,000

Subsequent to October 31, 2009, 1,410,000 warrants and 440,000 options were exercised.

Subsequent to October 31, 2009, the Company approved the grant of 14,300,000 stock options to directors and officers. The options are exercisable at an exercise price of \$1.18 until January 21, 2015. Of the total number of options granted, 13,800,000 options vest as follows: one-third on the date of grant and one-third on each of the following two anniversary dates. The remaining options vest when the Company's market capitalization reaches \$750,000,000.

Also subsequent to October 31, 2009, the Company issued 3,000,000 restricted share units to certain directors of the Company and 500,000 RSUs to a director and officer of the Company.

## **RISK AND UNCERTAINTIES**

### ***Reliance on Limited Number of Properties***

The only current material property in which the Company has an interest is its indirectly held 100% interest in the Morelos Gold Project. As a result, unless the Company acquires additional property interests, any adverse developments affecting the Morelos Gold Project could have a material adverse effect upon the Company and would materially adversely affect the potential consolidated profitability, financial performance and results of operations of the Company.

### ***Negative Operating Cash Flow***

The Company has negative cash flow from operations to-date, reporting a loss for the year ended October 31, 2009 of \$1,029,286 compared to a loss of \$289,094 reported for the year ended October 31, 2008 as set forth in the audited consolidated financial statements of the Company. The Company is not currently generating cash flow from operations and there can be no assurance that it will generate positive cash flow from operations in the future.

### ***Government Regulation and Political and Social Risks***

The mining, processing, development and mineral exploration activities of the Company are subject to various laws, rules and regulations governing prospecting, development, production, taxes, employment and labour standards and occupational health, mine safety, toxic substances, land use, water use, land claims of local people, and other matters. Although the Company believes its exploration and development activities are currently carried out in accordance with all applicable material rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing laws, rules and regulations will not be applied in a manner which could limit or curtail exploration, production or development. Amendments to current laws, rules and regulations governing operations and activities of mining and milling or more stringent implementation thereof could have a substantial adverse impact on the Company.

Most of the operations of the Company are conducted in Mexico at the Morelos Gold Project and the Company may acquire or invest in additional properties located in less stable jurisdictions in the future and, as such, the operations of the Company are and may increasingly

be exposed to various levels of political, economic and other risks and uncertainties. These risks and uncertainties include, but are not limited to: terrorism; hostage taking; military repression; fluctuations in currency exchange rates; high rates of inflation; labour unrest; the risks of war or civil unrest; expropriation and nationalization; renegotiation or nullification of existing concessions, licenses, permits and contracts; illegal mining; changes in taxation policies; and changing political conditions and governmental regulations, including changing environmental, mining and property rights legislation.

The Morelos Gold Project is located in the state of Guerrero, approximately 200 kilometres to the southwest of Mexico City. The Company's mineral exploration, development and mining activities may be affected in varying degrees by political stability and governmental regulations. Any changes in regulations or shifts in political attitudes in Mexico, or in the state of Guerrero, are beyond the control of the Company and may adversely affect its business. Mexico currently encourages foreign investment in mining. However, it is possible that a deterioration in economic conditions or other factors could result in a change in government policies.

The Company understands that the Morelos Gold Project activities, associated with the currently identified resources, directly affect three *Ejidos*, namely Rio Balsas *Ejido*, Puente Balsas Sur *Ejido* and Real de Limon *Ejido*. Future exploration activities on the claims may involve several additional *Ejidos*. MML has generally maintained reasonable relations with the *Ejidos* with the exception of a period of time when they were compromised with the Real de Limon *Ejido*. During this time a blockade was established on the property. As discussed above, two access agreements currently exist with *Ejidos* but are inactive. Since taking control of the Morelos Gold Project the Company has met with the three *Ejidos* which hold surface rights to the majority of the Morelos Gold Project lands. The Company has scheduled further meetings with the Rio Balas and Puente Balas Sur *Ejidos* at the end of February and early March 2010, with the intention of reactivating two existing access agreements in order to enable the start of the Company's 2010 exploration program. In addition, the Company has scheduled meetings with the Real De Limon *Ejido*, in early March 2010, to begin negotiations for the establishment of an access agreement. There is no assurance that social tensions with the *Ejidos* will not arise in the future which could have a material adverse impact on the Company and its ability to carry out its planned exploration and development programs.

### ***Permits and Licenses***

The Company will require a number of permits and licenses in connection with its proposed development program in connection with the Morelos Gold Project, including surface rights, environmental impact authorization, forestry land use change authorization, concession for the

use of national waters, concession for the occupation of national assets, discharge permit, hazardous waste register, land use license, and a permit for the use of explosives. Currently, the Company does not have long-term access agreements with the *Ejidors* comprising the Morelos Gold Project. See also “Government Regulation and Political and Social Risks” above. The Company cannot be certain that it will receive the necessary permits and licenses or on acceptable terms required to conduct exploration and to develop any properties that it may acquire from time to time. The failure to obtain such permits or licenses, or delays in obtaining such permits or licenses, could increase the Company’s costs and delay its activities, and could adversely affect the business or operations of the Company. Government approvals, approval of members of surrounding communities and permits and licenses are currently and will in the future be required in connection with the operations of the Company. To the extent such approvals are required and not obtained, the Company may be curtailed or prohibited from continuing mining operations or from proceeding with planned exploration or development of mineral properties.

### ***Land Title***

Although the Company has received a title opinion from Mexico local counsel in connection with the Morelos Gold Project, title insurance generally is not available, and the ability of the Company to ensure that it has obtained secure claim to individual mineral properties or mining concessions may be severely constrained. Furthermore, the Company has not conducted surveys of the claims in which it holds interests and, therefore, the precise area and location of such claims may be in doubt or challenged. Accordingly, the Company’s properties may be subject to prior unregistered liens, agreements, transfers or claims, and title may be affected by, among other things, undetected defects which could have a material adverse impact on the Company’s business operations, condition and results of operations. In addition, the Company may be unable to operate its properties as permitted or to enforce its rights with respect to its properties.

### ***Exploration, Development and Operating Risks***

The exploration for and development of mineral deposits involves significant risks which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of precious metals and other minerals may result in substantial rewards, few properties which are explored are ultimately developed into producing mines. Major expenses may be required to locate and establish mineral resources and reserves, to develop metallurgical processes, and to construct mining and processing facilities at a particular site. It

is impossible to ensure that the exploration or development programs currently planned by the Company will result in a profitable commercial mining operation. Whether a mineral deposit will be commercially viable depends on a number of factors, some of which include: the particular attributes of the deposit, such as quantity and quality of the minerals and proximity to infrastructure; mineral prices, which are highly cyclical and subject to fluctuation; actual costs required to bring a deposit into production; and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, permitting, importing and exporting of minerals, and environmental protection and reclamation. The exact effect of these factors cannot be accurately predicted but could have a material adverse effect upon the Company's properties and operations. Mining operations generally involve a high degree of risk. The operations of the Company are subject to all the hazards and risks normally encountered in the exploration, development and production of precious metals and other minerals, including unusual and unexpected geologic formations, seismic activity, rock bursts, cave-ins, flooding and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although adequate precautions to minimize risk will be taken, milling operations are subject to hazards such as equipment failure or the failure of retaining dams around tailings disposal areas, which may result in environmental pollution and consequent liability.

There is no certainty that the expenditures made by the Company towards the search and evaluation of precious metals and other minerals will result in discoveries of mineral resources, mineral reserves or any other mineral occurrences.

### ***Reliability of Resource Estimates***

There is no certainty that any of the mineral resources identified on the Morelos Gold Project will be realized. Until a deposit is actually mined and processed the quantity of mineral resources and grades must be considered as estimates only. In addition, the quantity of mineral resources may vary depending on, among other things, precious metal prices. Any material change in quantity of mineral resources, grade, or stripping ratio may also affect the economic viability of any project undertaken by the Company. In addition, there can be no assurance that metal recoveries in small scale laboratory tests will be duplicated in a larger scale test under on-site conditions or during production. Fluctuations in gold and other precious metal prices, results of drilling, metallurgical testing and production and the evaluation of studies, reports and plans subsequent to the date of any estimate may require revision of such estimate. Any material reductions in estimates of mineral resources could have a material adverse effect on

the Company's properties, consolidated results of operations and consolidated financial condition.

### ***Environmental Risks and Hazards***

All phases of the Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for noncompliance, more stringent environmental assessments of proposed projects, and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's business, condition or operations. Environmental hazards may exist on the properties on which the Company holds interests which are unknown to the Company at present and which have been caused by previous or existing owners or operators of the properties. Government approvals, approval of aboriginal people and other members of surrounding communities and licenses and permits are currently and will in the future be required in connection with the operations of the Company. To the extent such approvals are required and not obtained, the Company may be curtailed or prohibited from continuing its mining operations or from proceeding with planned exploration or development of mineral properties. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations or in the exploration or development of mineral properties may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Amendments to current laws, regulations and permits governing operations and activities of mining and exploration companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in exploration expenses, capital expenditures or production costs, or reduction in levels of production at producing properties, or require abandonment or delays in development of new mining properties.

### ***Additional Capital***

The development of the Morelos Gold Project will require substantial additional future financing. Failure to obtain sufficient financing could result in the delay or indefinite postponement of construction, development or production on any or all such property or even loss of property interest. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Company. In addition, any future financing may be dilutive to existing shareholders of the Company.

### ***No History of Mineral Production***

The Company has never had any interest in mineral producing properties. There is no assurance that commercial quantities of minerals will be discovered at the Morelos Gold Project or any future properties, nor is there any assurance that the exploration programs of the Company thereon will yield any positive results. Even if commercial quantities of minerals are discovered, there can be no assurance that any property of the Company will ever be brought to a stage where mineral resources can profitably be produced thereon. Factors which may limit the ability of the Company to produce mineral resources from its properties include, but are not limited to, the price of the mineral resources which are currently being explored for, availability of additional capital and financing, the actual costs of bringing properties into production, and the nature of any mineral deposits.

### ***Key Executives***

The Company is dependent upon the services of key executives, including the directors of the Company, and will be dependent on a small number of highly skilled and experienced executives and personnel as exploration and development plans progress at the Morelos Gold Project. Due to the relatively small size of the Company, the loss of these persons or the inability of the Company to attract and retain additional highly-skilled employees may adversely affect its business and future operations.

### ***Infrastructure***

Mining, processing, development and exploration activities depend, to one degree or another, on the availability of adequate infrastructure. Reliable roads, bridges, power sources, fuel and water supply and the availability of skilled labour and other infrastructure are important determinants, which affect capital and operating costs. Unusual or infrequent weather

phenomena, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect the consolidated business, operations, condition and results of operations of the Company.

### ***Costs of Land Reclamation***

It is difficult to determine the exact amounts which will be required to complete all land reclamation activities that may be necessary in connection with the Morelos Gold Project or any future properties in which the Company may hold an interest. Reclamation bonds and other forms of financial assurance represent only a portion of the total amount of money that will be spent on reclamation activities over the life of a mine. Accordingly, it may be necessary to revise planned expenditures and operating plans in order to fund reclamation activities. Such costs may have a material adverse impact upon the consolidated business, financial condition and results of operations of the Company.

### ***Competition***

The mining industry is competitive in all of its phases. The Company faces strong competition from other mining companies in connection with the acquisition of properties producing, or capable of producing, precious metals. Many of these companies have greater financial resources, operational experience and technical capabilities than the Company. As a result of this competition, the Company may be unable to maintain or acquire attractive mining properties on terms it considers acceptable or at all. Consequently, the consolidated operations and financial condition of the Company could be materially adversely affected.

### ***Fluctuations in Metal Prices***

There can be no assurance that metal prices received, if any, will be such that any property of the Company can be mined at a profit. The price of the common shares, and the financial results and exploration, development and mining activities of the Company may in the future be significantly and adversely affected by declines in the price of gold and other minerals. The price of gold and other minerals fluctuates widely and is affected by numerous factors beyond the control of the Company, including but not limited to, the sale or purchase of commodities by various central banks and financial institutions, interest rates, exchange rates, inflation or deflation, fluctuation in the value of the Canadian and United States dollars and foreign currencies, global and regional supply and demand, the political and economic conditions and production costs of major mineral-producing countries throughout the world, and the cost of substitutes, inventory levels and carrying charges. Future price declines in the market value of

gold and other minerals could cause development of and commercial production from the Morelos Gold Project or future any future properties to be impracticable. Depending on the price of gold and other minerals, cash flow from mining operations may not be sufficient and the Company could be forced to discontinue production and may lose its interest in, or may be forced to sell, some of its properties. Future production from the Company's mineral properties, if any, is dependent upon the prices of gold and other minerals being adequate to make these properties economic. In addition to adversely affecting any resource and reserve estimates of the Company and its financial condition, declining commodity prices can impact operations by requiring a reassessment of the feasibility of a particular project. Such a reassessment may be the result of a management decision or may be required under financing arrangements related to a particular project. Even if a project is ultimately determined to be economically viable, the need to conduct such a reassessment may cause substantial delays or may interrupt operations until the reassessment can be completed.

### ***Hedging***

The Company does not have any producing properties and, therefore, does not have a hedging policy and has no current intention of adopting such a policy. Accordingly, the Company has no protection from declines in mineral prices.

### ***Exchange Rate Fluctuations***

Exchange rate fluctuations may affect the costs that the Company incurs in its operations. Precious metals and other minerals are generally sold in U.S. dollars and the costs of the Company are incurred in Canadian dollars and may be incurred in Mexican pesos. The appreciation of non-U.S. dollar currencies against the U.S. dollar can increase the cost of exploration and production in U.S. dollar terms, which could materially and adversely affect the Company's profitability, results of operations and financial condition.

### ***Litigation***

Defense and settlement costs of legal claims can be substantial, even with respect to claims that have no merit. Like most companies, the Company is subject to the threat of litigation and may be involved in disputes with other parties in the future which may result in litigation or other proceedings. The results of litigation or any other proceedings cannot be predicted with certainty. If the Company is unable to resolve these disputes favourably, it could have a material adverse effect on our financial position, results of operations or the Company's property development.

### ***Insurance and Uninsured Risks***

The business of the Company is subject to a number of risks and hazards generally, including adverse environmental conditions, industrial accidents, labour disputes, unusual or unexpected geological conditions, ground or slope failures, cave-ins, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods and earthquakes. Such occurrences could result in damage to mineral properties or production facilities, personal injury or death, environmental damage to properties of the Company or others, delays in mining, monetary losses and possible legal liability. Although the Company may maintain insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance will not cover all the potential risks associated with a mining Company's operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration, development and production is not generally available to the Company or to other companies in the mining industry on acceptable terms. The Company might also become subject to liability for pollution or other hazards which it may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its business, consolidated financial performance and results of operations.

### ***Price and Volatility of Public Stock***

The market price of the Company's common shares has experienced fluctuations which may not necessarily be related to the financial condition, operating performance, underlying asset values or prospects of the Company. It may be anticipated that any market for the these common shares will be subject to market trends generally and the value of the these common Shares on the TSX, or such other stock exchange as the these common shares may be listed from time to time, may be affected by such volatility.

### ***Conflicts of Interest***

Certain of the directors and officers of the Company also serve as directors and/or officers of other companies involved in natural resource exploration and development and, consequently, there exists the possibility for such directors and officers to be in a position of conflict. Any decision made by any of such directors and officers involving the Company should be made in

accordance with their duties and obligations to deal fairly and in good faith with a view to the best interests of the Company and its shareholders. In addition, each of the directors is required to declare and refrain from voting on any matter in which such directors may have a conflict of interest in accordance with the procedures set forth in the applicable corporate laws and other applicable laws, as amended or supplemented from time to time.

### ***Dividend Policy***

No dividends on the Company's common shares have been paid by the Company to date. Payment of any future dividends, if any, will be at the discretion of the Company's Board after taking into account many factors, including the Company's consolidated operating results, financial condition, and current and anticipated cash needs.

### ***Global Financial Condition***

Current global financial conditions have been subject to volatility, with numerous financial institutions having either gone into bankruptcy or having to be rescued by government authorities. Access to financing has been negatively impacted by both sub-prime mortgages and the liquidity crisis affecting the asset-backed commercial paper market. As such, the Company is subject to counterparty risk and liquidity risk. The Company is exposed to various counterparty risks including through financial institutions that hold the Company's cash and through the Company's insurance providers. The Company is also exposed to liquidity risks in meeting its operating and capital expenditure requirements in instances where cash positions are unable to be maintained or appropriate financing is unavailable. These factors may impact the ability of the Company to obtain loans and other credit facilities in the future and, if obtained, on terms favourable to the Company. If volatility and market turmoil continues, the Company operations could be adversely impacted and the trading price of the Company's common shares could be adversely affected.

### ***Future Sales of Common Shares by Existing Shareholders and Future Issuances of Common Shares or Equity-Related Securities***

Sales of a large number of the Company's common shares in the public markets, or the potential for such sales, could decrease the trading price of such these common shares and could impair the ability of the Company to raise capital through future sales of additional common shares. The Company has previously issued common shares at an effective price per share which is lower than the current market price of its common shares. Accordingly, a

significant number of shareholders of the Company have an investment profit that they may seek to liquidate.

Any issuance of additional equity securities could dilute the interests of existing shareholders and could substantially decrease the trading price of the Company's common shares. The Company may issue equity securities in the future for a number of reasons, including to finance its operations and business strategy (including in connection with acquisitions, strategic collaborations or other transactions), to adjust the ratio of debt to equity and to satisfy the Company's obligations upon the exercise of outstanding warrants or options or for other reasons. Sales of a substantial number of common shares or other equity-related securities in the public market (or the perception that such sales may occur) could depress the market price of the Company's common shares, and impair the Company's ability to raise capital through the sale of additional equity securities. Except as described in the public disclosure record of the Company, there is no restriction on the Company's ability to issue securities or the ability of any of its shareholders to dispose of, encumber or pledge its common shares, and there can be no assurance that the Company will not issue securities or that such shareholder will not dispose of, encumber or pledge its common shares. The Company cannot predict the effect that future sales of the common shares or other equity-related securities would have on the market price of the Company's common shares.

#### **CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS**

This MD&A contains "forward-looking statements" and "forward-looking information" within the meaning of applicable Canadian securities legislation. Forward-looking information includes, but is not limited to, information with respect to the future exploration and development plans concerning the Morelos Gold Project, the adequacy of the Company's financial resources, business plans and strategy and other events or conditions that may occur in the future. Generally, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "expects", or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "does not anticipate", or "believes" or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might", or "will be taken", "occur", or "be achieved". Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking information, including risks associated with the exploration, development and mining industry generally such as economic factors as they effect exploration, future commodity prices, obtaining financing, market conditions, changes in interest rates, actual results of current

exploration activities, government regulation, political, social or economic developments, environmental risks, insurance risks, capital expenditures, operating or technical difficulties in connection with development activities, personnel relations, the speculative nature of gold exploration and development, including the risks of diminishing quantities of grades of resources and reserves, contests over property title, and changes in project parameters as plans for the Morelos Gold Project continue to be refined as well as those risk factors included herein and elsewhere in the Company's public disclosure. Forward-looking information is based on the reasonable assumptions, estimates, analysis and opinions of management made in light of its experience and its perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable in the circumstances at the date that such statements are made, but which may prove to be incorrect. Although the Company believes that the assumptions and expectations reflected in such forward-looking information are reasonable, undue reliance should not be placed on forward-looking information because the Company can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions which may be identified in this MD&A, assumptions have been made regarding, among other things: the Company's ability to carry on its exploration and development activities planned for the Morelos Gold Project, the timely receipt of any required approvals, the price of gold, the ability of the Company to obtain qualified personnel, equipment and services in a timely and cost-efficient manner, the ability of the Company to operate in a safe, efficient and effective manner, the ability of the Company to obtain financing on acceptable terms, the accuracy of the Company's resource estimates and geological, operational and price assumptions on which these are based and the regulatory framework regarding environmental matters. Readers are cautioned that the foregoing list is not exhaustive of all factors and assumptions which may have been used. Although the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information. The forward-looking information contained herein is presented for the purposes of assisting investors in understanding the Company's expected financial and operating performance and the Company's plans and objectives and may not be appropriate for other purposes. The Company does not undertake to update any forward-looking information, except in accordance with applicable securities laws.

**CAUTIONARY NOTE TO UNITED STATES INVESTORS CONCERNING ESTIMATES OF MEASURED, INDICATED AND INFERRED MINERAL RESOURCES**

This Management's Discussion and Analysis uses the terms "Measured", "Indicated" and "Inferred" Mineral Resources. United States investors are advised that while such terms are recognized and required by Canadian regulations, the United States Securities and Exchange Commission does not recognize them. "Inferred Mineral Resources" have a great amount of uncertainty as to their existence, and as to their economic and legal feasibility. It cannot be assumed that all or any part of an Inferred Mineral Resource will ever be upgraded to a higher category. Under Canadian rules, estimates of Inferred Mineral Resources may not form the basis of feasibility or other economic studies. United States investors are cautioned not to assume that all or any part of Measured or Indicated Mineral Resources will ever be converted into Mineral Reserves. United States investors are also cautioned not to assume that all or any part of an Inferred Mineral Resource exists, or is economically or legally mineable.

**February 26, 2010**