



MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended October 31, 2010

TOREX GOLD RESOURCES INC.
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This management’s discussion and analysis of the financial condition and results of operations (“MD&A”) for Torex Gold Resources Inc. (previously Gleichen Resources Ltd.) (“Torex” or the “Company”) was prepared as at January 26, 2011 and is intended to supplement and complement the Company’s audited annual consolidated financial statements and related notes for the years ended October 31, 2010 and 2009. The audited 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. Additional information, including the Annual Information Form and other Company filings can be viewed on SEDAR at www.sedar.com.

2010 HIGHLIGHTS

- Acquired 100% of the Morelos Gold Project through two separate purchase transactions
- Raised gross proceeds of \$291.5 million through two separate financing transactions
- Appointed a new board, management, exploration and operations teams
- Commenced trading on the Toronto Stock Exchange
- Reactivated and renewed two key land access agreements with the Rio Balsas *Ejido* and the Puente Sur Balsas *Ejido*
- Began exploration and drilling programs in April 2010
- Negotiated and signed a land access agreement with the Real del Limon *Ejido*
- Mobilized six drills to site by the end of October 2010
- Advanced pre-feasibility work for Morelos Gold Project development on a number of fronts
- Completed a resource estimate on the El Limon deposit indicating the potential for an underground mining operation for the El Limon deposit

HIGHLIGHTS SUBSEQUENT TO YEAR-END

- Mobilized five additional drills to site
- Approved a \$43.5 million budget for fiscal 2011 (\$37.0 million related to exploration and development activities including 125,000 metres of drilling by fiscal 2011 year-end)
- Extended the El Limon and Guajes East deposits through step-out drilling

COMPANY OVERVIEW

The Company is a Canadian-based gold exploration company engaged in the exploration and development of the Morelos Gold Project. The Company's principal asset is its 100% owned Morelos Gold Project, which it acquired during the year ended October 31, 2010. The Morelos Gold Project is an advanced-stage gold exploration property. The project includes a large land package of approximately 29,000 hectares intersected by the Balsas River. To date, three separate deposits have been defined for which mineral resource estimates have been prepared.

The Company's main goals are to significantly add to the resources of the Morelos Gold Project, while developing existing resources and transitioning the Company into a mid-tier gold producer in the near term.

OUTLOOK AND STRATEGY

The Company transformed itself from a shell company to a company with an advanced-stage gold exploration property in 2010. During 2010, Torex focused its activities on the advancement of the Morelos Gold Project. As outlined in the 2010 highlights above, a number of critical milestones and accomplishments were achieved. The Company fulfilled its objectives for 2010 as outlined in the MD&A for the fiscal year ended October 31, 2009. Management has developed its strategy to significantly add ounces to the Morelos Gold Project and to bring those resources into production by early 2014.

Objectives for 2011

- 1. Expand the resource base through exploration by:**
 - a. identifying new deposits south of the Balsas River; and
 - b. expanding the existing deposits north of the Balsas River.

- 2. Develop the Morelos Gold Project by:**
 - a. completing infill, step-out and geo-tech drilling on existing deposits;
 - b. finalizing National Instrument 43-101 resource estimates for existing deposits incorporating additional drilling results;
 - c. obtaining long-term leases for the land required to build the project;
 - d. completing an environmental impact study;
 - e. obtaining required permits and licenses to enable construction and mining;
 - f. completing a pre-feasibility study; and
 - g. selecting the Feasibility Study leader and team.

OVERVIEW OF 2010 FINANCIAL RESULTS

The net loss for the year ended October 31, 2010 increased to \$16.4 million compared with a loss of \$1.0 million for the year ended October 31, 2009. This increase in loss is due to increased exploration, development and corporate activity related to the transformation of the Company. Proceeds received from the two completed financing transactions were partially offset by the purchase of the Morelos Gold Project and the incurrence of exploration, project development, corporate and equipment expenditures. As a result, the Company had \$62.7 million of cash on hand at October 31, 2010 and a working capital balance of \$61.9 million.

MORELOS GOLD PROJECT SUMMARY AND REVIEW

Overview

The Morelos Gold Project is an advanced-stage gold exploration property located in the Guerrero Gold Belt in southern Mexico approximately 180 kilometres to the southwest of Mexico City and approximately 50 kilometres southwest of Iguala. It consists of seven mineral concessions covering a total area of approximately 29,000 hectares. The 29,000 hectare land package is bisected by the Balsas River and the drilling areas that the Company has defined are generally referenced as 'North' or 'South' of the Balsas River. Drilling areas located north of the Balsas River include, El Limon, Los Guajes East and West, Los Mangos, La Amarilla, Limon Sur and Guajes North. Drilling areas located south of the Balsas River include El Naranjo, La Fe, El Cristo and Media Luna. To date, three separate deposits have been defined for which mineral resource estimates have been prepared. The deposits are El Limon, Los Guajes East and Los Guajes West, all of which are north of the Balsas River.

The property was first acquired by a joint venture between the Miranda Mining Development Company and certain subsidiaries of Teck Resources Ltd ("Teck") in 1998. 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 holes (10,453 m). Of this total, 535 drill holes (83,067 m) support independent mineral resource estimates commissioned by the Company, as outlined below.

The Guerrero Gold Belt contains a number of gold deposits and showings, including the Los Filos Mine, located approximately 12-14 kilometres southeast of the known mineral deposits of the Morelos Gold Project. Commercial production at Los Filos commenced on January 1, 2008.

Exploration - 2010

As noted above the Company transformed itself from a shell company to a company with an advanced stage gold exploration property in 2010. As a result, a great deal of effort was spent establishing an operational team, systems and procedures, and an exploration program strategy and drill targets in order to effectively search for new deposits while expanding existing resources. On the ground exploration activities began during the quarter ended April 30, 2010. Drilling, soil sampling and mapping programs were conducted during the year along with continued analysis of new and existing exploration data.

Drilling

The Company mobilized a total of six drills by the end of the year through the use of two drilling contractors, being Major Drilling De Mexico S.A. de C.V. and Energold Drilling Corp. Early drilling was

limited to certain areas of the property as the Company negotiated land access agreements, environmental permits and expanded road access. This drilling focused on what were primarily condemnation targets while the new team was getting organized and familiar with the geology in the area. Condemnation drilling was essential to provide information to support the plant location decisions that are a part of the pre-feasibility study. Subsequent drilling focused on exploring for new resources and upgrading and expanding existing deposits.

Drilling to the end of October 31, 2010 totalled approximately 16,600 metres. The majority of this drilling occurred in the El Limon and Los Guajes resource areas north of the Balsas River with the balance in the El Naranjo area south of the Balsa River. A three-pronged drill program strategy was developed in order to accomplish the Company's objectives. Infill drilling on known deposits is completed to upgrade the resources from inferred to measured or indicated. Step-out and extension drilling are designed to extend the known mineralization beyond a deposit's existing boundaries and thereby increase the number of contained gold ounces. Finally, discovery drilling is conducted to establish new gold deposits.

Infill drilling at El Limon and Los Guajes has intersected gold mineralization that is consistent with the existing geological interpretations and the existing resource estimates and therefore should result in the upgrading of a number of gold ounces from inferred to measured and indicated. Step-out and extension drilling at El Limon and Los Guajes has been very encouraging with several high grade gold intercepts over mineable widths having been intercepted. These early results should result in additional gold ounces being added to the existing gold deposits. Discovery drilling on the Los Mangos target area, located 150-600 metres NW of Los Guajes West, revealed the presence of a porphyry-related alteration and mineralization that encountered gold grades that were typically in the 0.2 g/t to 0.5 g/t range but did include intervals of significantly higher grades. Evaluation of this target is continuing. Discovery drilling south of the Balsas River was limited during the period ending October 31, 2010 as road access and logistical support systems were being developed. Drilling in the El Naranjo target area indicated the presence of Ag-rich Au mineralization. Additional drilling and evaluation in this target area is continuing.

Sampling and other Exploration

The Company began collecting soil samples during the second quarter of 2010 in the La Fe area located south of the Balsas River. In total, 217 soil samples were collected at 50 metre intervals along 200 metre spaced lines over an 800 x 3,200 metre area. The purpose of this work was to extend and verify the soil sampling conducted by Teck in 2008.

Results received from the soil sampling confirmed the Au in soil anomalies that the previous Teck soil sampling had indicated. Field work to verify the anomalies is currently underway. As well, the soil grid in this area is being extended to the south to determine the southern limit of the known Au in soil anomaly and to the east to cover an area of favourable geology extending from the La Fe area to the Media Luna area. This additional area will use the same sample intervals (50 metre spaced samples

along 200 meter spaced lines) and will cover an additional 200 to 1,000 metres N-S by 1,000 to 2,000 metres E-W.

The Company began geological mapping, rock chip and channel sampling in the El Naranjo and Media Luna areas during 2010. Much of this work focused on channel samples from road cuts that were not previously sampled by Teck. Rock chip samples are taken in conjunction with routine geological mapping. To date, results from 285 rock chip and channel samples have been received with an additional 80 samples being processed. The work to date has confirmed the importance of the lithological contact between the underlying Morelos Formation limestone and overlying Mezcala Formation shales, siltstones and sandstones as a control on hydrothermal alteration and gold mineralization. The results of this work will be used in conjunction with soil anomalies, geophysical anomalies and interpretation of the local geology as a predictive tool for drill hole targeting.

During the second quarter of 2010 the Company engaged SGS de Mexico S.A. de C.V. ("SGS") to establish a Sample Preparation Laboratory ("Prep. Lab") in the town of Nuevo Balsas, where the Company's base camp is centred, to prepare both soil and rock samples at the Prep. Lab and to analyze samples at the SGS Durango laboratory. The Prep. Lab has been operational since the end of June 2010 and most of the sample preparation has been done at this facility. During the period ending October 31, 2010, the Company sent an average of 87 samples per day to the Prep. Lab. This average increased to 244 samples per day, for November and December, with the arrival of additional drills to the project. The prepared pulps are retained by SGS at the Prep. Lab until a complete drill hole has been prepared whereupon it is shipped to SGS Durango for analysis. Through October 31, 2010, the samples for drill holes T10-001C through T10-040C had been prepared at the Prep. Lab and received by the analytical facility in Durango.

A Quality Assurance/Quality Control ("QA/QC") program developed by AMEC E&C Service Inc. is in place and part of normal analytical procedure. The Company currently includes 5% each of certified standard materials, blanks, preparation duplicates and field duplicates with all drill hole samples submitted to SGS for preparation and analysis. The Company will continue to use 5% standard reference materials for the 2011 drilling program.

Logistics

Part of the challenge faced by the Company during 2010 was the ability to house and support the team of employees and contractors carrying out its exploration and development activities. The Company's team grew from a skeleton staff of 6 persons to a fully operational staff of 76 full-time and hourly employees at October 31, 2010. The Company rents houses in the local communities for staff accommodation and office space. Sufficient housing has been available as required and this is not expected to change as the Company continues to grow in size. The amount of drill core produced has grown dramatically during the year commensurate with the increase in the number of operating drills. Facilities have grown to accommodate the increase and as well the Company is planning to purchase and construct a core handling facility to help automate the process while improving efficiency. In

addition, the Company has mobilized three fleets of heavy-equipment, each consisting of a bull-dozer and backhoe with hammer, to construct and maintain roads on the property. An additional fleet was mobilized in December 2010. Approximately 5.0 kilometres of roads were reopened or constructed to October 31, 2010. Each drill may require up to 40,000 litres of water per day and as a result storage pools (piscinas) are constructed to meet this demand. Two water piscinas each with a capacity of approximately 90,000 litres were constructed by October 31, 2010 with additional piscinas being built south of the Balsas River.

Personnel

A strong exploration team has been assembled during the year ended October 31, 2010. In total, 76 personnel have been hired including 54 employees in the geology group and 22 employees in the logistics and administration functional areas. Additional staff was hired during the first few months of fiscal 2011, reflective of the increase in drilling activity, and as a result the Company feels it is well staffed to carry out its operations during the coming year. In particular, the Company added two key members at the site during 2010. Mr. Jeff Brooks, MS, BA, Geo PhD, was appointed Chief Geologist for the Morelos Gold Project. Mr. Brooks is an economic geologist and skarn specialist with over 25 years experience in planning and execution of drilling programs. He joined the team in May of 2010 and brings a proven record of utilizing model construction as a basis for finding mineral resources. Mr. Gene Snider, BSc Mining Engineer, MBA was appointed Project Manager for the Morelos Gold Project. Mr. Snider has over 25 years experience with surface and underground mines, coordinating the development of new mining operations, including supervision of operations improvements and technical services. Both gentlemen have extensive mining experience in Latin America and are fluent in Spanish.

Exploration - 2011

Management has adopted an aggressive timeline to achieve its stated goals of significantly expanding the resource and beginning production by early 2014. Exploration activities are pivotal to achieving both of those goals. The 'south of the river' discovery team has been formed and is currently mapping and identifying drill targets. There is currently enough target information to support the four drills assigned to the area. As more targets and access roads are developed additional drill rigs will be deployed to take advantage of those opportunities. In the meantime, the remaining drill rigs are assigned to the deposits north of the Balsas River. They will perform step-out drilling to expand the resources, infill drilling to upgrade the resources, and geo-technical drilling to support mine development decisions. The timing of the completion of this north of the Balsas River drilling work will coordinate well with the identification of new targets south of the Balsas River. This will facilitate a seamless shift of these resources from expansion drilling to discovery drilling. The Company has budgeted \$31.5 million for operating expenditures and \$2.0 million for capital expenditures related to exploration activities for the fiscal year ended October 31, 2011.

Resource Estimates

Two mineral resource estimates have been completed to date. The initial estimate dated October 6, 2009 was completed based on an open-pit mining scenario, and included estimates for the El Limon, Los Guajes East and Los Guajes West deposits. Torex engaged AMEC E&C Services Inc. during 2010 to produce a resource estimate for the El Limon deposit assuming an underground mining scenario. The results of this resource estimate indicate that the El Limon deposit may be amenable to exploitation by underground mining operations.

There are pros and cons to both the underground and open pit mining options for El Limon. Which option delivers the higher net benefit to shareholders cannot be determined until the underground mining option is further advanced to provide a better understanding of costs and mining recoveries. As such, the pre-feasibility study was expanded and extended to include this work.

While this work is being completed, the drilling on the known deposits will be carried out to update both the open pit and underground resource estimates. These updated resource estimates, coupled with the current engineering work on mine and mill design will provide the information required to facilitate the next stage of development decisions. The recently completed mineral resource estimate is presented in table 1.

Table 1:

Morelos Open Pit and Underground Mineral Resource Statement, Effective Date for El Limon is the 22nd of October, 2010, and Effective Date for Guajes is the 6th of October 2009 by E. Orbock, MAusIMM. ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾

Deposit	Cut-off Grade (Au g/t)	Resource Category	Tonnes (000)	Grade (Au g/t)	Contained AU (000 ounces)
El Limon	1.5	Indicated	7,450	6.79	1,626
Los Guajes East & West	0.9	Measured	279	2.69	24
	0.9	Indicated	10,271	3.02	997
Subtotal	0.9	M&I	10,550	3.01	1,021
Total	Various	M&I	18,000	4.57	2,647
El Limon	1.5	Inferred	2,350	5.9	446
Los Guajes East & West	0.9	Inferred	2,087	3.3	221
Total	Various	Inferred	4,437	4.7	667

¹ Mineral resources are not Mineral Reserves and have not demonstrated economic viability.

² Mineral resources are reported above as Guajes 0.9 g/t Au cut-off grade and El Limon 1.5 g/t AU cut-off grade.

³ Mineral resources are reported as undiluted.

⁴ Mineral resources are reported within a conceptual pit shell and a conceptual underground mine design.

⁵ Mineral Resources at El Limon are reported using a long-term gold price of US\$1,035 per ounce and at Los Guajes US\$865 per ounce, recoveries ranging from 60% to 91% and averaging approximately 89%, and appropriate mill, general and administrative, and mining costs appropriate to the mining method selected.

The table above was extracted from the technical report (the “Technical Report”) entitled “Torex Gold Resources Inc. Morelos Gold Project Guerrero, Mexico, NI 43-101 Technical Report –Underground and Open Pit Resources”, dated January 26, 2011 and effective October 22, 2010. The El Limon mineral resource estimate and lithology model was prepared by Edward J. C. Orbock III, MAusIMM, Principal Geologist (AMEC, Reno). The Guajes mineral resource estimate was prepared by Mark Hertel, P.Geo., Principal Geologist (AMEC Phoenix) and the lithology model for the Guajes deposit was constructed by Ken Brisebois, P.Eng., Principal Geostatistician (AMEC Reno), both under the supervision of Mr. Orbock. Reference should be made to the full text of the Technical Report, which has been filed with certain Canadian securities regulatory authorities pursuant to National Instrument 43-101 and is available for review on SEDAR at www.sedar.com.

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 the permitting process for the Morelos Gold Project, since secure tenure must be demonstrated at the time permit applications are made. The Morelos Gold Project area encompasses a number of *Ejidors* (a communal form of agrarian land ownership) and communities. *Ejidors* in the area include Real del Limon, Rio Balsas, Puente Balsas Sur, Mezcala and Atzcala.

The Los Guajes East and West and a portion of the El Limon resource areas are located on the Rio Balsas *Ejido* area. The remaining portion of the El Limon resource area is located on the adjacent Real del Limon *Ejido* area. Grass roots exploration work has been completed on the Puente Balsas Sur *Ejido* area with a number of drill targets having been identified.

During the year ended October 31, 2010, the Company signed three key one-year surface access agreements. The first agreement with the Rio Balsas *Ejido* was signed in May, the second agreement with the Puente Balsas Sur *Ejido* was signed in July and the third agreement was signed with the Real Del Limon *Ejido* in August. The signing of these agreements provided the Company with full access to the highly prospective exploration areas of the Morelos Gold Project and was a critical step to allow the Company to execute on its planned exploration programs, while removing an important risk factor which had been associated with the Morelos Gold Project for some time.

The Company is currently in negotiations with the Rio Balsas and Real Del Limon *Ejidors* to secure permanent land access to all of the Morelos Gold Project lands required for mining and processing activities. These permanent land purchase or lease agreements will also include access rights for future exploration activities.

Project Development

An internal pre-feasibility study on the Morelos Gold Project was completed by Teck in July 2008. In the Technical Report it was suggested that a detailed independent and comprehensive review of Teck's internal studies should be completed prior to undertaking a feasibility study. The Company engaged AMEC Americas Limited to review Teck's internal studies and provide guidance in completing a new pre-feasibility study.

M3 Engineering & Technology Corporation ("M3") has been retained as the lead consultant for completion of the pre-feasibility study. M3 is directly responsible for the design of the process plant, related infrastructure and for project economics. M3 is supported by a number of other consultants in various capacities. SRK Consulting (Canada) Inc. has been selected to complete the mine design for the deposits. Both underground and open pit mining methods are being investigated. AMEC Earth & Environmental has been engaged to carryout design for waste and water management. AMEC E&C Services Inc. is responsible for the geology, resources and reserves portion of the study. G&T Metallurgical Services Ltd. is responsible for the preliminary testing of the amenability of the ore to heap leaching. Heuristica ambiental Connsultoria has been selected to provide continuity to existing

environmental baseline work and prepare additional studies to be used in the planning and permitting phases. The Company has budgeted \$4.9 million for project development activities in fiscal 2011.

The pre-feasibility study has progressed well during the year with a number of areas being completed. A resource estimate assuming an underground mining operation for the El Limon deposit was completed during the year, which indicated that the El Limon deposit may be amenable to exploitation by underground mining operations. As described above, the pre-feasibility study will be expanded and extended to include an evaluation of the pros and cons of both underground and open pit mining options. As a result the pre-feasibility study completion date has been moved to the fourth calendar quarter of 2011.

SELECTED ANNUAL INFORMATION

Table 2: Selected Annual Information for the Years Ended October 31, 2008 - 2010

	Fiscal year ended October 31,		
	2010	2009	2008
	\$	\$	\$
Operating Revenues	-	-	-
Operating Expenses	18,125,510	1,108,765	294,899
Net Loss	(16,403,685)	(1,029,286)	(289,094)
Loss per Share	(0.06)	(0.04)	(0.01)
Total Assets	366,364,136	4,644,369	4,205,939
Long Term Liabilities	-	-	-
Dividends	-	-	-

The Company identified and evaluated potential investment opportunities during 2008 and 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. The Company completed a \$241.5 million financing and the above purchase transaction in November 2010. These transactions were followed by a further equity issuance of \$50.0 million and the purchase of the remaining 21.2% interest in the Morelos Gold Project. Operating expenses, net loss, net loss per share and total assets all increased from year to year as a result of these transactions. Operating expenses and net losses will increase in 2011 as the Company continues to expand its exploration and development activities.

RESULTS OF OPERATIONS

The Company's sole property, the Morelos Gold Project, is in the exploration and development stage and as a result has not generated operating revenue. As described above, exploration and project development programs are underway. Management has budgeted expenditures for fiscal 2011 totalling \$43.5 million (including \$3.7 million of non-cash items such as stock-based compensation expense and depreciation) compared with actual expenditures of \$18.1 million during fiscal 2010 (\$8.8 for non-cash items).

The net losses for the three months and year ended October 31, 2010 increased to \$4.9 million and \$16.4 million, respectively, compared with losses of \$0.7 million and \$1.0 million, respectively, for the same periods in 2009. The year over year increases are the result of the following: the Company purchased its initial interest in the Morelos Gold Project in November 2009. During 2010, the Company transformed itself from a shell company to a fully functioning exploration and development company. On the ground exploration activities began during the quarter ended April 30, 2010. Operations have grown tremendously since then, including mobilizing six drills by October 31, 2010, with five additional drills being mobilized subsequent to year end, growth of the operational team from six employees to 76 employees by year end, and the hiring of a number of on-site and project development contractors.

One of the Company's goals is to bring the existing Morelos gold deposits into production by early 2014. In order to do so, the Company will need to complete a bankable feasibility study and financing, among others items, followed by construction of infrastructure and mining development. The Company's objectives for fiscal 2011 have been outlined above. A substantial amount of project development expenditures will continue to be incurred as the Company advances these goals and objectives.

FOURTH QUARTER REVIEW

The Company's net loss from continuing operations for the fourth quarter of 2010 was \$4.9 million compared with \$0.7 million for the same period of the prior year. The increase is the result of the change in activities carried out during these periods. Costs incurred in the fourth quarter of 2009 relate to the acquisition of the Morelos Gold Project, which was completed in the first quarter of 2010. Expenditures in the fourth quarter of 2010 relate to fully functioning exploration and development programs and a fully staffed corporate office, none of which existed in 2009.

SUMMARY OF QUARTERLY RESULTS

Table 3: Quarterly Results for the Eight Quarters Ending October 31, 2010

	Fourth Quarter 2010 \$	Third Quarter 2010 \$	Second Quarter 2010 \$	First Quarter 2010 \$
Operating Revenues	-	-	-	-
Net Loss	4,881,485	4,107,029	3,262,909	4,151,511
Basic and Diluted Loss per	0.02	0.01	0.01	0.07
	Fourth Quarter 2009 \$	Third Quarter 2009 \$	Second Quarter 2009 \$	First Quarter 2009 \$
Operating Revenues	-	-	-	-
Net Loss	682,029	144,359	167,597	35,301
Basic and Diluted Loss per	0.02	0.01	0.01	0.00

The Company's principal business is the exploration and development of its mineral property interest. It has not commenced mining operations and as a result has not generated any operating revenues to date.

The net loss for the current quarter increased when compared to all previous quarters. This increase was driven primarily by an increase in exploration expenditures. Total exploration expenses in the fourth quarter of 2010 were \$2.3 million compared with \$1.3 million and \$0.7 million in the third and second quarters of 2010, respectively. No exploration expenditures were incurred in 2009. On the ground exploration expenditures began in earnest late in the second quarter of 2010. The Company mobilized its first drill in April 2010 and ended the year with six drills on site. Drilling expenditures, corresponding sample processing, road maintenance, water consumption and other related expenditures, personnel costs to manage the programs and analyze the results all increased during the year.

Total project development expenses in the fourth quarter of 2010 were \$0.6 million compared with \$0.9 million and \$0.1 million in the third and second quarters of 2010, respectively. No project development expenditures were incurred in 2009. The Company engaged a number of third party consultants to complete various aspects of a pre-feasibility study including mine and mill design, mineral resource estimation, waste and water management and environmental baseline work. The third quarter of 2010 represented the first full quarter of having all project development consultants working towards completion of a pre-feasibility study. Late in the fourth quarter the Company announced it was extending work on its pre-feasibility study until it fully evaluated the underground mining potential of the EL Limon deposit and additional drill results of its expanded drill program.

Stock-based compensation expense for 2010 increased to \$8.6 million compared with \$0.05 million in 2009, as the Company issued 14.7 million stock options and 3.5 million restricted share units in 2010 and had no issuances in 2009. The options vest over a two-year term with one-third of the options vesting immediately and one-third vesting on each of the two subsequent anniversary dates. Stock-based compensation expense is based on the vesting dates. Almost all of the options were granted in the first quarter of 2010 and as a result the corresponding quarterly expense of \$3.7 million was the greatest during the year. The comparable expense was \$1.5 million, \$1.7 million and \$1.7 million for the second, third and fourth quarters, respectively.

General and administrative costs increased to \$1.1 million and \$3.4 million for the three months and year ended October 31, 2010, respectively, compared with \$0.7 and \$1.0 million for the same periods in 2009, respectively. The increases were generally related to the transition to a company with its own corporate office and employees including increases in salaries, director fees, IT, audit and legal costs. In addition, the Company listed its common shares on the Toronto Stock Exchange (the "TSX") and increased shareholder relations activity. Expenditures remained reasonably consistent on a quarter to quarter basis through the year.

Management expects that quarterly costs during 2011 will continue to increase when compared with the quarters of 2010 as the Company continues to expand its exploration and project development activities.

LIQUIDITY AND CAPITAL RESOURCES

The Company is an exploration and development stage company and as a result does not generate cash from operations. The Company's sole source of funding has been through the issuance of equity for cash. The total assets of the Company at October 31, 2010 were \$366.4 million, compared with a balance of \$4.6 million at October 31, 2009, which includes \$62.7 million (October 31, 2009 – \$4.4 million) in cash.

Cash used in operating activities during the year ended October 31, 2010 increased to \$8.6 million compared with \$0.7 million for the same period in 2009. As described above, the growth of the Company and corresponding activity resulting from the purchase of the Morelos Gold Project was the primary reason for the increase in cash used for operating activities.

Financing activities resulted in net cash inflows of \$279.7 million for the year ended October 31, 2010 compared with \$0.9 million for the same period in 2009. The Company completed two financings during the year as follows:

On November 12, 2009, the Company completed a private placement of 241,500,000 special warrants issued at a price of \$1.00 per special warrant for gross proceeds of \$241.5 million. Each special warrant was exercised on January 20, 2010 for no additional consideration for one unit comprised of one

common share and one-quarter of one warrant. The Company received net proceeds of approximately \$227.0 million related to this transaction.

On February 24, 2010, the Company completed a public offering of 50 million common shares issued at a price of \$1.00 per common share for gross proceeds of \$50.0 million. After deducting the underwriter's fees and expenses of the offering, the Company received net proceeds of approximately \$47.0 million.

Also during the year ended October 31, 2010, the Company received proceeds from the exercise of stock options and warrants totalling \$5.7 million (2009 - \$0.9 million).

Investing activities resulted in net cash outflows of \$212.8 million during the year ended October 31, 2010. There were no investing activities during 2009. The Company purchased 100% of the Morelos Gold Project through two separate purchase transaction during 2010 as follows:

On November 16, 2009, the Company completed the acquisition of the initial investment in the Morelos Gold Project for a purchase price of \$157.3 million (US\$150.0 million) in cash, the issuance of 1,560,857 common shares and the issuance of 12,443,218 special warrants. The special warrants were exercised on January 20, 2010 for no additional consideration for one unit comprised of one common share and one-quarter of one warrant. The Company acquired an indirect 78.8% interest in the Morelos Gold Project through this acquisition.

On February 24, 2010, the Company completed the acquisition of an additional 21.2% interest in the Morelos Gold Project for \$52.0 million plus transaction costs of \$0.05 million. Upon completion of the acquisition of this interest, the Company owned 100% of the Morelos Gold Project through one of its wholly-owned subsidiaries.

Also, the Company made purchases of equipment for \$0.7 million during the year ended October 31, 2010. No similar purchases were made in 2009.

The Company's working capital position improved to \$61.9 million at October 31, 2010, compared to \$3.9 million at October 31, 2009, primarily as a result of the financings completed during the first and second quarters of 2010 and warrant exercises during the year. The Company is well-funded to carry out exploration and development programs and normal corporate activities, which are budgeted at \$43.5 million for fiscal 2011. The Company has warrants outstanding that expire in November 2011, which if exercised would provide proceeds of approximately \$82.5 million. Future expenditures will increase greatly when compared to previous periods as the Company transitions from the exploration stage through development and into commercial production.

The Company's contractual obligations and committed expenditures are limited as at October 31, 2010. The Company has not entered into any debt or lease arrangements other than entering into a head office lease agreement with Quadra FNX Mining Ltd. Two directors of the Company are also directors of

Quadra FNX Mining Ltd. In addition, the Company has entered into several exploration related agreements, none of which is expected to extend beyond a one-year term. The Company's contractual commitments are outlined in table 4 below:

Table 4: Contractual Commitments

	Total	Less than 1 year	1-3 years	3-4 years	4-5 years	Greater than 5 years
Long-term leases	\$761,000	\$203,842	\$434,646	\$122,512	-	-
Total	\$761,000	\$203,842	\$434,646	\$122,512	-	-

OFF-BALANCE SHEET ARRANGEMENTS

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

FINANCIAL RISK MANAGEMENT

The Company examines the various financial risks to which it is exposed and assesses the impact and likelihood of those risks. These risks include credit risk, liquidity risk, foreign currency risk and interest rate risk.

Credit risk

Credit risk is the risk of a loss associated with a counterparty's inability to fulfill its contractual payment obligations. The Company's financial assets are primarily composed of cash and cash equivalents. To mitigate exposure to credit risk, the Company has adopted strict investment policies, which prohibit any equity or money market investments. The vast majority of the Company's cash and cash equivalents are held with major Canadian financial institutions.

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 has a history of operating losses and has traditionally obtained cash from its financing activities and as a result the Company's liquidity may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. In the opinion of management, the Company's working capital balance of \$61.9 million at October 31, 2010 is sufficient to support the Company's normal operating requirements for the upcoming year. In addition, the Company has warrants outstanding that expire in November 2011, which if exercised would provide proceeds of approximately \$82.5 million. The Company regularly evaluates its cash position to ensure preservation and security of capital as well as maintenance of liquidity.

Foreign Currency risk

The Company operates in Canada and Mexico and has foreign currency exposure with respect to items not denominated in Canadian dollars. Management expects the majority of exploration and project development expenditures associated with the Morelos Gold Project to be paid in Mexican pesos and U.S. dollars. A significant change in the currency exchange rates between the Canadian dollar and the peso or U.S. dollar is expected to have an effect on the Company's results of operations in the future periods.

At October 31, 2010, the Company has net monetary assets denominated in USD of US\$1.0 million. Any fluctuation in the foreign exchange rates in U.S. dollar against Canadian dollar will not have a material impact on the Company's operating result as at October 31, 2010. The Company has not hedged its exposure to foreign currency exchange fluctuations.

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company deposits cash in fully liquid Schedule A bank business investment savings accounts. Interest is calculated based on an annual interest rate of 1.05% compounded monthly. As at October 31, 2010, the Company had \$60.2 million in such accounts. The Company does not have any interest bearing liabilities as at October 31, 2010.

TRANSACTIONS WITH RELATED PARTIES

During the year ended October 31, 2010, the Company incurred costs of \$73,334 (2009 – nil), for consulting fees to one director of the Company. The director, also the former Chief Executive Officer of the Company, provided consulting services to the Company to assist with the transition of new management and continued corporate development activities. The agreement relating to these services was terminated in April 2010.

During the year ended October 31, 2010, the Company incurred expenses totalling \$201,131 (2009 - nil), for general legal services. Also during the same period, \$447,964 (2009 - \$233,513) was incurred for legal services related to the acquisition of the Morelos Gold Project and for services related to the closing of the November 2009 private placement and the February 2010 public offering. The Company's corporate secretary is a partner in the legal firm which provided these services. As at October 31, 2010, \$22,801 (2009 - \$128,200) was due to this related party and included in accounts payable and accrued liabilities.

During the year ended October 31, 2010, the Company incurred costs of \$14,256 (2009 - \$60,000) for office facilities and administrative services payable to a company related by virtue of one director and two officers in common. In addition, \$100,000 (2009 - \$14,000) was incurred for services related to the completion of the acquisition of the Morelos Gold Project and for services related to the closing of the November 2009 private placement. As at October 31, 2010, nil (2009 - \$18,240) was due to this related party. The limited activity of the Company prior to the acquisition of the Morelos Gold Project did not

warrant the Company having its own office and full-time staff and, as a result, the office and administrative service costs were incurred. The Company moved its offices to Toronto and hired permanent staff during the first quarter of 2010 and, as a result, the above relationships were terminated during the same period.

During the year ended October 31, 2010, the Company incurred costs of \$98,597 (2009 - nil), for the rental of its head office space in Toronto from a company related by virtue of two directors in common.

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.

OUTSTANDING SHARE DATA

Table 5: Outstanding Share Data at January 26, 2011

		Number
Common shares		345,084,127
Common share purchase options		19,616,167
Common share purchase warrants		63,209,131
Restricted Share Units		3,500,000

The Company completed two equity offerings during the fiscal year ended October 31, 2010, which resulted in the issuance of 291,500,000 common shares, 60,374,999 common share purchase warrants, and 2,415,000 compensation options. Also during the same period, the Company completed the acquisition of the Morelos Gold Project, which resulted in the issuance of 1,560,857 common shares and 3,110,804 common share purchase warrants.

During the year ended October 31, 2010, 8,746,672 warrants and 473,333 options were exercised, 100,000 warrants expired and 133,333 options were forfeited. As well, the Company approved the grant of 14,691,500 options and 3,500,000 restricted share units to directors, officers, employees and consultants. Subsequent to year end, the Company approved the grant of 1,993,000 stock options to directors, officers and employees. In addition, 66,667 options were exercised.

CRITICAL 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 properties, 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

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 or a binomial model. The Black-Scholes and other binomial option pricing models require 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

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

CICA Handbook 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. It requires the increased use of fair value measurements, recognition of additional assets and liabilities, and increased disclosure. Entities early adopting Section 1582 will also be required to early adopt CICA Handbook Sections 1601 Consolidated Financial Statements and 1602 Non-Controlling Interests. The changes resulting from

adopting Section 1582 will be applied prospectively while the changes from adopting Sections 1601 and 1602 will be applied retrospectively.

Effective November 1, 2009, the Company early adopted these sections to avoid restatement upon the transition to IFRS in the future. These standards require the measurement of the non-controlling interest at its fair value upon the acquisition and require the non-controlling interest to be presented as part of shareholders' equity on the balance sheet. In addition, the income statement of the Company includes 100 per cent of the subsidiary's results and presents the allocation between the controlling interest and non-controlling interest.

New Accounting Policies not yet Adopted

International Financial Reporting Standards ("IFRS")

In February 2008, the 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. Under IFRS, the primary audience is capital markets and as a result, there is significantly more disclosure required, specifically for quarterly reporting. Further, while IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policy which must be addressed.

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. IFRS uses a conceptual framework similar to Canadian GAAP, but there may be significant differences on recognition, measurement and disclosures that may materially impact the Company's financial statements. Several existing Canadian GAAP standards will converge with IFRS before the Company's transition date of November 1, 2011.

The Company's financial statements up to and including the October 31, 2011 financial statements will be reported in accordance with Canadian GAAP as it exists on each reporting date. Financial statements for the quarter ended January 31, 2012, including comparative amounts, will be prepared in accordance with IFRS.

The Company's IFRS conversion project consists of three phases: i) plan development, ii) evaluation and design, and iii) implementation and review. At this time, the Company is in phase ii) and has: prepared an IFRS conversion plan, compiled the project team and resources, and continues to monitor and will add resources as required; defined the governance structure including the definition of reporting requirements to, among others, the Audit Committee; and conducted a detailed evaluation of

accounting issues including drafting a portion of the proposed new policies in key areas and decisions on alternative accounting policies and/or treatments.

The project team has made an assessment of what the key areas of impact for the Company will be, and based on the preliminary study the anticipated areas of greatest impact are:

- IFRS 1 – first time adoption;
- property plant and equipment;
- foreign currency translation; and
- preparation of financial statements.

Detailed technical analyses are expected to be completed throughout the first three fiscal quarters of 2011. The final impact of the conversion on the Company's financial statements cannot be measured at this time. In addition, the Company anticipates a significant increase in disclosure requirements under IFRS and such requirements are also being evaluated together with the necessary system changes required to gather, process and review such disclosures. At this time, the Company does not anticipate any significant changes to its information technology systems, internal controls over financial reporting and disclosure controls and procedures as a result of the conversion to IFRS.

The International Accounting Standards Board continues to amend and add to current IFRS standards with several projects currently underway. The Company will continue to monitor results from the existing conversion plan, as well as ongoing and anticipated changes to IFRS, and adjust its transition and implementation plans accordingly. The Company's transition remains aligned to its implementation schedule and is on track to meet the timelines for the changeover.

RISK AND UNCERTAINTIES

The most significant risks and uncertainties the Company faces are: the Company's reliance on its principal asset, the Morelos Gold Project, key issues relating to the development of the Morelos Gold Project, including for example matters pertaining to volatility and fluctuations in gold prices which affect ongoing economic evaluations connected with project development and financing, and the volatility of global markets, the impact of which is to cause volatility in the Company's stock price and may have a resulting effect on the Company's ability to obtain and secure financing for project advancement. For a detailed description of Risks and Uncertainties refer to the Company's Annual Information Form for the year ended October 31, 2010.

CONTROLS AND PROCEDURES

The Company's management is responsible for establishing and maintaining adequate disclosure controls and internal control over financial reporting. The Company's internal control framework was designed based on the framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

In accordance with the requirements of National Instrument 52-109, management, under the supervision of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the design and tested the effectiveness of the Company's disclosure controls and procedures and internal control over financial reporting ("ICFR") at October 31, 2010.

The Company continually reviews and enhances its systems of controls and procedures. However, because of the inherent limitations in all control systems, management acknowledges that ICFR will not prevent or detect all misstatements due to error or fraud.

National Instrument 52-109 also requires the Company to disclose in this MD&A any change in internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting. At certain times during the year, the Company had limited administrative staffing and in certain instances, the implementation of internal controls relying on segregation of duties was not always possible. The Company relies on senior management review and approval to ensure that the controls are as effective as possible. During the year, in conjunction with the advancement of the development of the Company's Morelos Gold Project, the Company adopted certain new corporate and finance policies and designed and implemented controls and procedures at the Company's corporate office and in connection its activities in Mexico. Based on a review of its internal control procedures at the end of the year covered by the MD&A, management has concluded its internal controls and procedures were operating effectively.

QUALIFIED PERSON

Unless otherwise stated, Gene Snider, BSc Mining Engineer, MBA of Torex, has supervised the preparation of the technical and scientific information contained in the MD&A and is a Qualified Person within the meaning of National Instrument 43-101.

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, 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 completion of the proposed pre-feasibility study and 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.

January 26, 2011