SPANISH MOUNTAIN GOLD LTD.

Management Discussion & Analysis

For the Six Months Ended June 30, 2012

Dated: August 29, 2012

The following is the management's discussion and analysis ("MD&A") of the financial condition and results of operations of Spanish Mountain Gold Ltd. (the "Company"). This MD&A should be read in conjunction with the audited consolidated financial statements, including the notes thereto, of the Company for the years ended December 31, 2011 and December 31, 2010 as well as the unaudited condensed consolidated interim financial statements for the six months ended June 30, 2012.

The accompanying unaudited condensed consolidated interim financial statements and related notes are presented in accordance with International Financial Reporting Standards 34, Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain disclosures included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the IASB have been condensed or omitted. These condensed consolidated interim financial statements, together with the following MD&A dated August 29, 2012 ("Report Date"), are intended to provide investors with a reasonable basis for assessing the financial performance of the Company as well as potential future performance. Please refer to the cautionary notices at the end of this MD&A, especially in regard to forward looking statements. All dollar amounts are in Canadian dollars unless otherwise noted.

Additional information relating to the Company including the Company's consolidated financial statements may be found under the Company's profile on SEDAR at *www.sedar.com* or by visiting the Company's website at *www.spanishmountaingold.com.*

This MD&A was reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on August 29, 2012. The information contained within this MD&A is current to August 29, 2012.

Overview

The Company is an exploration stage company engaged in the acquisition, exploration and development of mineral properties. The Company's primary asset is the Spanish Mountain property located approximately 180 kilometres (km) north of Kamloops, British Columbia. The Spanish Mountain property refers to the contiguous mineral and placer claims the Company holds while the Spanish Mountain gold project refers to the mineral resource that Company has defined in an area within the property. The Company completed a Preliminary Economic Assessment on the Spanish Mountain gold project in December 2010. An updated resource estimate for the project was released in July 2012. Currently, the Company is evaluating certain changes in the project's production scenario and other technical parameters in conjunction with a timely update in the form of a Preliminary Economic Assessment, which is expected to be completed in October 2012. The Company's other gold properties comprise the Sediment Hosted Gold (SHG) property group, which is both on trend and with similar geological setting as the Spanish Mountain property.

The Company's June 30, 2012 condensed consolidated interim financial statements reflect the financial position and results for the six months then ended including those for its wholly-owned subsidiary, Wildrose Resources Ltd. ("Wildrose"). All material inter-company transactions have been eliminated.

On March 27, 2012, the Company announced the signing of a Protocol Agreement with Soda Creek Indian Band ("Xat'sūll"). The agreement addresses the involvement of Xat'sūll during the environmental assessment and permitting review process in relation to the development of the Spanish Mountain gold project; and reflects a commitment by both the Company and Xat'sūll for continued engagement in a respectful and collaborative manner. The Company separately signed a Protocol Agreement with Williams Lake Indian Band in March 2011.

On April 17, 2012, the Company announced the appointment of Mr. Jim Rogers to the Board of Directors. Mr. Rogers is a critically acclaimed author, financial commentator and successful international investor. He is frequently featured in such publications as *Time, The New York Times, Barron's, Forbes, The Wall Street Journal, and Financial Times* and is a regular guest on television shows around the world. In connection with the appointment, the Company granted 1,000,000 stock options with an exercise price of $0.44 expiring April 11, 2017.

On April 23, 2012, the Company's Board of Directors authorized granting of incentive stock options to employees and directors to acquire an aggregate of 2,350,000 common shares of the Company. The options have an exercise price of $0.55 per share, exercisable until April 23, 2017.

On July 24, 2012, the Company announced an update resource estimate for the Main Zone of the Spanish Mountain gold project. The updated resource was based on all drill data, including data from the 24,000 metre (142 drill holes) in-fill drilling program completed by the Company during the first half of 2012. When compared to the previous resource estimate dated November 15, 2011, there had been a 46% increase in contained gold ounces within the Measured and Indicated categories bringing the combined total to 3,180,000 ounces.

On August 27, 2012, the Company provided a project update for the Spanish Mountain gold project following a review of its conceptual development plans. It was determined the project's mineral resources may benefit from certain changes to the possible production scenario, proposed mine plan, waste storage alternatives, infrastructure and power line alternatives. The Company will be evaluating these changes in conjunction with a timely update in the form of a Preliminary Economic Assessment, which is expected to be completed in October 2012.

Mineral Assets

Spanish Mountain Gold Project, B.C.

Spanish Mountain gold project is located in south-central British Columbia, Canada, near the historic placer mining town of Likely, approximately 15 km northeast of the Mount Polley mine and 30 km north of Cariboo Rose Resource's Woodjam project. The property comprises approximately 40 contiguous mineral claims and 13 placer claims and covers an area of approximately 80 square kilometres (or 31 square miles).

The following highlights the key recent development in respect of the Spanish Mountain gold project which is located in the northern part of the property area:

Metallurgy

Under the direction of Dr. Morris Beattie, extensive metallurgical testwork has been completed by G&T Metallurgical and SGS Lakefield and a flowsheet for the recovery of gold from the deposit has been developed. This flowsheet incorporates gravity concentration followed by flotation to produce concentrates that are subsequently leached by cyanidation. The gravity concentrate is leached by means of intensive cyanidation followed by regrinding and combination with the flotation concentrate for CIL leaching. Testwork on the Main Zone has demonstrated a gold recovery of 97% or better using this procedure for the gravity concentrate. The gold extraction from the Main Zone flotation concentrate by CIL leaching has been indicated to be 95 - 97%. Metallurgical testwork to date on the Main Zone supports an overall gold recovery of approximately 90%.

Drilling and Other Field Activities

The Company completed an infill drilling program in May 2012 totalling approximately 24,000 m at the Main Zone, the results of which were incorporated in an updated resource estimate being released in July 2012.

In July 2012, the Company announced the deferral of exploration drilling activities associated with the Phoenix Zone located in the northern Cedar Creek area in order to focus on such other field activities as the collection of geotechnical, groundwater and infrastructure site testing data.

Tables containing all significant assay results are available on the Company's website and under the Company's profile on SEDAR.

Resource Estimate

On July 24, 2012, the Company released a National Instrument (NI) 43-101 compliant resource estimate for the Spanish Mountain gold project. This resource estimate is an update to the previous estimate disclosed by the Company in a news release dated November 15, 2011.

The updated resource at selected gold cut-off grades is as follows:

Resource Estimate at a 0.30 g/t gold cut-off

Classification	Tonnes	Gold grade (g/t)	Silver grade (g/t)	Gold (ounces)	Silver (ounces)
Measured	21,240,000	0.73	0.64	500,000	440,000
Indicated	113,230,000	0.56	0.69	2,040,000	2,510,000
Measured & Indicated	134,470,000	0.59	0.68	2,540,000	2,950,000
Inferred	147,830,000	0.49	0.67	2,320,000	3,180,000

The PEA dated December 2010 had established an economic cut-off of 0.2 g/t gold based on assumptions of operating costs for a potential open pit operation. These assumptions will be refined in future technical studies to reflect current cost environment. The following table presents the updated resource at a cut-off grade of 0.2 g/t gold.

Resource Estimate at a 0.20 g/t gold cut-off

Classification	Tonnes	Gold grade (g/t)	Silver grade (g/t)	Gold (ounces)	Silver (ounces)
Measured	29,360,000	0.60	0.67	560,000	630,000
Indicated	186,870,000	0.44	0.69	2,620,000	4,150,000
Measured & Indicated	216,220,000	0.46	0.68	3,180,000	4,780,000
Inferred	316,740,000	0.36	0.65	3,650,000	6,620,000

Tonnages and contained ounces presented above may not total as shown due to rounding. Readers are cautioned that mineral resources, which are not mineral reserves, do not have demonstrated economic viability.

When compared to the previous resource estimate dated November 15, 2011, there has been a significant increase in resource gold ounces in the Measured and Indicated categories, which are summarized as follows:

- An increase of 69% in contained gold ounces within the Measured category.
- An increase of 40% in contained gold ounces within the Indicated category.
- An increase of 46% in contained gold ounces within the Measured and Indicated categories.

All core samples were fire assayed at ALS Chemex Laboratory in Vancouver, BC.

The resource estimate was prepared by independent resource estimate consultant Gary Giroux MASc, P.Eng. (BC) of Giroux Consultants Ltd., who is a qualified person by virtue of education, experience and membership in a professional association. He is independent of both the Company and ALS Chemex, applying all of the tests pursuant to section 1.5 of NI 43-101.

The completed NI 43-101 compliant report will be filed under the profile of the Company on SEDAR in early September 2011.

Technical / Economic Studies

After a review of conceptual development plans for the project, the Company has determined that the potential viability of the mineral resources may benefit from certain changes in a possible production scenario and other parameters. As a result, the Company will be evaluating these changes in conjunction with a timely update in the form of a Preliminary Economic Assessment, which will be conducted by Tetra Tech (formerly Wardrop) as Project Manager and is expected to be completed in October 2012.

The possible production scenario and other technical parameters that are expected to be evaluated in the PEA include the following:

- The Company has been evaluating a possible production scenario of 25,000 tonnes per day (tpd) of mill feed followed by an expansion after three years of operation to 40,000 tpd. The new production scenario under consideration is to operate at 40,000 tpd from the outset, similar to what was contemplated in the previous Preliminary Economic Assessment completed for the Project during 2010.
- A possible extension of the project life from 10 years to 14 years at 40,000 tpd through revision of the proposed mine plan.
- A review of waste storage alternatives to minimize waste storage around the site.
- A review of the location of project infrastructure, including the process plant, to minimize haulage distances from the open pit.
- More detailed consideration of power line alternatives to provide adequate power for the 40,000 tpd operation.

The previous Preliminary Economic Assessment for the Spanish Mountain project was conducted by AGP Mining Consultants of Barrie, Ontario. The study established realistic assumptions of operating and capital costs to develop a potential mine at the Spanish Mountain project. The key economic results of this assessment were released in November 2010. The NI 43-101 technical report was filed on December 23, 2010 under the Company's profile on SEDAR.

Using a long term constant gold price of US$1,100 per ounce and an exchange rate of US$1 to C$1.10, the key economic parameters are summarized as follows:

Average Annual Gold Production (Years 1 to 5) (ounces)	213,800
Average Annual Gold Production Life of Mine (ounces)	172,400
Total Cash Cost, Years 1 to 5 (US $ per ounce)	$570
Total Cash Cost , LOM (US$ per ounce)	$625
Operating Cost ($ per tonne plantfeed)	$10.14
Mine Life	10 Years
Overall Gold Recovery	90%
Average Gold Grade of Ore Processed	0.51 g/t
Initial Capital Cost ($ millions)	$447 M
Pre-tax Undiscounted Cumulative Net Cash Flow	$411 M
Pre-tax NPV @ 5%	$209 M
Pre-tax IRR	14.7%
Payback (from start of milling)	5 Years

The initial capital cost and operating costs for the Spanish Mountain Project are as follows:

Initial Capital Cost Details	
Mining (equipment to be leased)	$0 M
Processing	$213 M
Tailings storage	$47 M
Infrastructure	$42 M
Owner Costs	$8 M
Other indirect costs	$67 M
Contingency	$70 M
Total Initial Capital Cost	**$447 M**
Operating Cost Details	
Mining Cost (per tonne mined, including lease charges)	$1.54 M
Mining Cost (per tonne milled, including lease charges)	$4.64 M
Processing and Tailing Cost	$5.12 M
General and Administrative	$0.38 M
Total Operating Cost (per tonne milled)	**$10.14 M**

The sensitivity of Project economics to the price of gold is presented as follows:

Gold price ($US)	$1,000	$1,200	$1,300
Cumulative Net Cash Flow	$222 M	$600 M	$788 M
IRR	8.6 %	20.2 %	25.2 %
Payback(from start of milling)	8 Years	4 Years	3 Years

The Company cautions, in accordance with National Instrument 43-101 -- *Standards of Disclosure for Mineral Projects* as adopted by the Canadian Securities Regulators, that the PEA referred to herein is preliminary in nature, includes inferred mineral resources that are considered too speculative geologically to have the economic consideration applied to them that would enable them to be categorized as mineral reserves, and there is no certainty that the PEA will be realized. Mineral resources are not mineral reserves and do not have demonstrated economic viability. Mr. Michael Waldegger, P.Geo. and Mr. Gordon Zurowski, P.Eng of AGP Mining Consultants of Barrie, Ontario are Qualified Persons within the meaning of NI 43-101.

Agreement with First Nations

The Company executed a protocol agreement with the Williams Lake Indian Band in March 2011 and separately with the Soda Creek Indian Band in March 2012. The agreement addresses issues in relation to the development of the Spanish Mountain gold project.

Under the protocol agreement, the Company recognizes and respects the band's asserted aboriginal rights and title in the area of the Spanish Mountain gold project and the band recognizes and respects the Company's rights and interests in the exploration and development of the Company's properties. It also reflects a commitment by both the Company and the band for continued engagement in a respectful and collaborative manner.

The protocol agreement provides capacity support to the band for its ongoing involvement in the project as well as training, employment, and business opportunities. Additionally, the parties have committed to negotiate a more detailed agreement regarding the impacts and benefits associated with the construction, operation and reclamation of a large scale mine development.

Environmental Assessment and Permitting Process

On August 4, 2011, the Company announced that the Project Description for the Spanish Mountain gold project had been accepted by both the British Columbia Environmental Assessment Office and the Canadian Environmental Assessment Agency. The Project Description describes the technical, economic, social, environmental, heritage and health components of the construction and operation of the proposed gold mine on the Spanish Mountain property. The acceptance of the Project Description means that the project had now entered the 'Pre-Application' phase of the Environmental Assessment and Permitting process. As part of the process, public meetings will be scheduled although the Company has already held initial public meetings in the communities of Likely, Big Lake and Williams Lake and has held several meetings with both the Williams Lake Indian Band and Soda Creek Indian Band. As described above, the Company has separately signed a protocol agreement with each Indian band.

For further details on the Environmental Assessment and Permitting processes, please refer to the websites listed below:

- British Columbia Environmental Assessment Office: http://www.eao.gov.bc.ca
- Canadian Environmental Assessment Agency: http://www.ceaa.gc.ca
- Government of Canada Major Projects Management Office: http://www.mpmo-bggp.gc.ca

SHG Property Group, B.C.

The Company holds a 100% interest in 129 claims, the SHG property group, comprising of four separate properties with a combined area of more than 569 square kilometres (219 square miles) in central British Columbia. These individual properties are: Prince George, Manson Creek, Thunder Ridge (Spanish Creek) and Dunkley. All of the properties are on trend and cover ground with a similar geological setting to the Spanish Mountain property.

The Thunder Ridge property is located approximately 100 km south of Spanish Mountain and the Company has completed 30 holes to date. Assay results from the 2010 drill program were published in October 2010. Seven NQ diamond holes with depths between 203 and 268 m and a total length of 1,797 m were completed. Three of the drill holes defined and further explored the eastward extent of the vein systems on the northern portion of the property while the remaining four holes tested the continuity of the veins previously drilled on the southern limits of the explored ground. The gold mineralization, as defined by a large surface soil geochemical gold anomaly, is associated with quartz veins. The soil anomaly trends southwest to northeast over 1.5 km and is 500 to 600 m wide. The quartz veins dip to the northeast. The vein system remains open to the north, south and at depth to the east. Drill results to date appear to confirm that the gold system extends east beyond the defined soil geochemical gold anomaly. A table containing significant assay results is available on the Company's website and under the Company's profile on SEDAR. Highlights of assay results include:

- Hole 10-SC-31 intersected 0.77 g/t gold over 54.0 m with an interval of 19.15 g/t gold and 83.80 g/t silver over 1.0m.
- Hole 10-SC-27 intersected 0.77 g/t gold over 20.0 m with an interval of 1.97 g/t gold and 100.00 g/t silver over 1.0m.
- Hole 10-SC-25 intersected 0.77 g/t gold over 6.6 m.

Given the Company's current focus on the Spanish Mountain gold project, the work on Thunder Ridge, in the near term, will be limited to performing additional analysis on drilling results to date along with a re-interpretation of the soil geochemistry of the area to delineate potential drill targets.

Manson Creek and Prince George projects are located to the north of the Spanish Mountain property and are at an earlier stage of exploration. Additional mapping and soil geochemistry work will be conducted.

Cedar Creek Area, B.C.

The Company acquired a 100% interest in the Cedar Creek property in June 2010. The property occupies an area of approximately 14 square km (or 5 square miles) and is contiguous to the western boundary of the Company's Spanish Mountain gold project. The property is referred to as the Cedar Creek area of the Spanish Mountain property.

Exploration drilling on the Cedar Creek area has been deferred in order to focus on other field activities associated with advancing the Spanish Mountain gold project.

Results of Operations

Three Months Ended June 30, 2012 Compared to Three Months Ended June 30, 2011

General and administrative (G&A) expenses for the three months ended June 30, 2012 total $1,182,821, compared to which $667,994 for the three months ended June 30, 2011, an increase of $514,827. The increase is primarily due to an increase in share-based payments of $443,229 (2012--$627,191 vs. 2011--$183,962) over the same quarter in the prior year. The amount recorded for share-based payments reflects granting of 3,350,000 stock options during the current quarter. Share-based payments recognize the portion of the fair values of granted options attributable to the periods using the Black-Scholes valuation model. The fair values of options are influenced by such parameters as stock price volatility and current interest rates incorporated in the valuation model. Share-based payments are non-cash expenditures.

For the three months ended June 30, 2012, the Company earned an interest income of $25,425 (2011--$408) on its cash balance, which on average was higher than the amount during the same period in the prior year as a result of fund raising occurring in July of 2011.

For the three months ended June 30, 2012, the Company recorded a deferred income tax recovery of $436,899 compared to a recovery of $347,019 for the same period in the prior year. The current quarter includes a provision of $103,000 for investment tax credit generated on its exploration expenditures whereas in prior year most of the expenditures were renounced under its flow-through financing program and hence did not generate an investment tax credit. The remaining balance of the Company's deferred tax recovery primarily reflects the income tax benefit computed on the net loss for the periods.

For the three months ended June 30, 2012, the Company incurred expenditures on its mineral properties, before recoverable tax credits, totaling $5,821,693 (2011--$2,734,428), which have been capitalized in accordance with its accounting policies.

Six Months Ended June 30, 2012 Compared to Six Months Ended June 30, 2011

General and administrative expenses for the six months ended June 30, 2012 total $1,832,788, compared to $1,303,927 for the six months ended June 30, 2011, an increase of $528,861. Share-based payments increase by $380,320 (2012--$821,806 vs. 2011--$441,486) attributable largely to the granting of 3,350,000 stock options during the second quarter of the current year. Consulting fees increase by $105,595 (2012--$141,635 vs. 2011--$36,040) reflecting additional cost associated with retaining a UK-based firm to facilitate the Company's activities in Europe commencing the end of the first quarter in 2011 and the change in compensation arrangement for an executive position.

For the six months ended June 30, 2012, the Company recorded a deferred income tax recovery of $810,520 compared to a recovery of $500,849 for the prior year. The current period includes a provision of $305,000 for investment tax credit generated on its exploration expenditures whereas in prior year most of the expenditures were renounced under its flow-through financing program and hence did not generate an investment tax credit. The remaining balance of the Company's deferred tax recovery primarily reflects the income tax benefit computed on the net loss for the periods.

For the six months ended June 30, 2012, the Company incurred expenditures on its mineral properties, before recoverable tax credits, totaling $9,614,106 (2010 - $3,817,279), which have been capitalized in accordance with its accounting policies. The higher 2012 expenditures reflect the higher intensity of current year's program as the Company advances its project through various technical and engineering studies.

Summary of Quarterly Results

The selected quarterly consolidated information set out below has been derived from and should be read in conjunction with the previous eight quarterly consolidated financial statements for each respective financial period.

	Revenue $	Income (Loss) $	Income (Loss) per share $
June 30, 2012	Nil	(721,954)	(0.00)
March 31, 2012	Nil	(233,770)	(0.00)
December 31, 2011	Nil	(250,401)	(0.00)
September 30, 2011	Nil	(681,193)	(0.01)
June 30, 2011	Nil	(320,566)	(0.00)
March 31, 2011	Nil	(482,424)	(0.00)
December 31, 2010	Nil	(123,969)	(0.00)
September 30, 2010	Nil	(643,471)	(0.00)
June 30, 2010	Nil	(775,972)	(0.00)

While the Company's G&A expenses tend to be incurred evenly throughout the year, fluctuations in expenditures occur reflecting the seasonal variations of exploration and the Company's ability to defer certain expenditures without hindering its projects' progress. The Company's ability to raise capital to fund its project activities may also influence the timing of certain expenditures. For example, most exploration activities occur during the non-winter months with an attendant increase in G&A expenses over the period. Furthermore, periods ending in December typically have year-end adjustments such as deferred income tax recoveries or share based payments for incentive stock options.

Liquidity and Capital Resources

At June 30, 2012, the Company has working capital of $7,304,153 (December 2011 - $15,602,496), which includes $7,104,166 (December 2011 - $17,290,967) in cash and cash equivalents and $3,651,176 (December 2011 - $1,474,091) in BC Mining Exploration Tax Credit (BCMETC) receivable. The decrease in cash balance during the period ended June 30, 2012 primarily reflects significant cash expenditures incurred for the Company's operations. The BCMETC balance represents the expected refund from the Company's outstanding BCMETC claims for prior years' qualified exploration expenditures as well as an accrual for the eligible expenditures incurred during the current period . Generally, the BCMETC refund amounts to 30% of qualified exploration expenditures on the Company's properties. The filed claim is subject to Canada Revenue Agency's formal assessment process, which may include a field audit by its auditors. The actual refund may be different from what the Company has accrued and any adjustment will be recorded when the CRA issues its Notice of Assessment for the claim.

The current working capital balance described above is expected to sufficiently meet the Company's planned exploration expenditures and other development activities. The Company is at a development/ exploration stage and has no revenue from its business operations. The Company's ability to meet its future obligations and maintain operations for the foreseeable future is contingent upon successful completion of additional financing arrangements. Although the Company has been successful in raising funds in the equity markets to date, there can be no assurance that additional funding will be available in the future at reasonable terms.

At Report Date, the Company had 48,794,690 warrants outstanding with exercise price ranging from $0.23 to $0.70 and 10,845,000 options outstanding (7,252,500 of which are vested and exercisable) with exercise price ranging from $0.25 to $1.59. If these instruments are exercised by their holders, they will provide additional funding for the Company. However, there is no assurance that the holders of these instruments will choose to exercise prior to their expiry dates. The decision to exercise is dependent largely on the prevailing share price of the Company's common stock relative to the exercise prices of these instruments.

The change in cash flow activities can be summarized as follows:

	Increase (Decrease) in Cash & Cash Equivalents for the Six Months Ended June 30	
	2012	**2011**
Operating Activities	$(640,151)	$(322,107)
Financing Activities	$ 137,500	$5,030,241
Investing Activities	$(9,684,150)	$(3,846,174)
Total Change in Cash	$(10,186,801)	$861,960
Cash and Cash Equivalents, Beginning of the Year	$17,290,967	$2,660,484
Cash and Cash Equivalents, End of the Period	$7,104,166	$3,522,443

Cash used in operating activities primarily comprise general and administrative expenditures as the Company is at an exploration/ project development stage and has no significant source of revenue. The increase in the use of cash for operating activities for the six months ended June 30, 2012 is due to an increase in outlay for G&A expenses by $85,443 and an increase in prepaid expense of $456,687 primarily related to an advanced payment to a drilling contractor.

The Company is dependent on equity financing to fund its operations. For the six months ended June 30, 2012, the Company did not complete any financing transactions whereas the Company received net proceeds of $4,921,241 during the same period in 2011 primarily from the issuance of shares pursuant to a private placement.

The Company's expenditures of $9,585,454 on mineral properties account for most its cash used in investing activities for the six months ended June 30, 2012. During the same period in the prior year, the Company incurred expenditures of $3,788,601 on mineral properties reflecting the lower level of planned activities.

Transactions with Related Parties

The Company has engaged Beattie Consulting Ltd., on an ongoing basis, to provide technical and strategic advice since 2010. Following the appointment of Dr. Morris Beattie to the Company's Board of Directors in March 2011, Beattie Consulting Ltd., of which Dr. Beattie is major shareholder, has been classified as a related party. For the six months ended June 31, 2012, the Company paid a total of $108,000 (2011 --$34,560) to the consulting firm.

Due to the significant increase in investor and shareholder activities in Europe during the last two years, the Board of Directors has authorized the Company to retain Lancelot Gold Limited, a London-based firm, to provide marketing, administrative support and, if required, office facility. A director of the Company is a director and major shareholder of this firm. For the six months ended June 30, 2012, the Company was charged $119,535 (2011 --$81,105) for such services.

Compensation of key management personnel, including directors, for the six months ended June 30, 2012 is $1,171,760 (2011 -- $957,483) which includes $592,421 (2011 -- $418,378) in non-cash share based payments. Certain executive officers are entitled to termination benefits equivalent up to two years' gross salary totalling approximately $740,000 in the event of a change of control in the Company's ownership. No termination benefits were paid to any key management personnel during the six months ended June 31, 2012 and June 31, 2011.

Financial Instruments and Other Instruments

The Company has classified its financial instruments as follows:

- Cash and cash equivalents as fair value through profit or loss ("FVTPL")
- Accounts receivable (excluding taxes receivable) as loans and receivables
- Deposits for reclamation as held-to-maturity
- Accounts payable, accrued liabilities and flow-through share premium as other financial liabilities.

The carrying values of cash and cash equivalents, accounts receivable and accounts payable, approximate their fair values due to the short-term maturity of these financial instruments. The carrying value of reclamation deposits approximates fair value since amounts held earn interest at market rates.

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

(a) Credit risk

Credit risk refers to the potential that counterparty to a financial instrument will fail to discharge its contractual obligations and arises principally from the Company's holdings of cash and cash equivalents. The Company manages credit risk, in respect of cash and cash equivalents by holding these at a major Canadian financial institution. In regards to accounts receivable, the Company is not exposed to significant credit risk as majority of the accounts receivable is due from the government.

Concentration of credit risk exists with respect to the Company's cash and cash equivalents as all amounts are held at a single major Canadian financial institution.

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. The Company maintains sufficient cash and cash equivalents at June 30, 2012 in the amount of $7,104,166 and receivables of $771,352 in order to meet short-term liabilities. At June 30, 2012, the Company had accounts payable and accrued liabilities of $4,850,922, which have contractual maturities of 90 days or less.

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Company is exposed to interest rate, foreign currency risk, and other price risk as follows:

I. Interest rate risk

   The Company's cash and cash equivalents are held in bank accounts earning interest at variable interest rates. Due to the short-term nature of these financial instruments and the prevailing interest rate environment, fluctuations in market rates do not have a significant impact on estimated fair values as of March 31, 2012.

II. Foreign currency risk

   The Company's operations are located in Canada with substantially all transactions denominated in Canadian dollars and, accordingly, the Company is not exposed to significant foreign currency risk.

III. Other price risk

   Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk. The Company is not exposed to significant other price risk with respect to its financial instrument as their fair values and future cash flows are not impacted by fluctuations in market prices.

Outstanding Share Data

The Company had the following common shares, stock options and warrants outstanding as at Report Date:

	At Report Date
Common shares	168,435,438
Stock options	10,845,000
Warrants	48,794,690
Fully Diluted shares outstanding	228,075,128

Off-balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Proposed Transactions

The Company does not currently have any proposed transactions. All current transactions are fully disclosed in the consolidated interim financial statements for the six months ended June 30, 2012.

Critical Accounting Estimates

Significant areas requiring the use of management estimates include the collectability of amounts receivable, recovery of British Columbia Mining Exploration Tax Credit receivable, balances of accrued liabilities, the fair value of financial instruments, the rates for amortization of property and equipment, the recoverability of mineral property interests, determination of asset retirement and environmental obligations, estimates of deferred income tax assets and liabilities, valuation allowances for deferred income tax assets and the determination of variables used in the calculations of share-based payment. While management believes that these estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

Commitments

The Company's minimum combined lease payments for office premises and equipment for the next five years are as follows:

2012 (remainder)	$	102,243
2013		204,486
2014		189,976
2015		175,764
2016		171,971
	$	844,439

Commitments related to mineral properties are as follows:

Spanish Mountain Property, British Columbia

Pursuant to the purchase agreement, the Company's discharged the remaining obligation of $51,000 with a cash payment on January 20, 2012. The wholly-owned property is subject to various net smelter returns ("NSR") at 2.5%. The Company may, at its option, reduce the NSR to 1% or 1.5% dependent on the underlying mineral claims with a maximum aggregate payment of $1,000,000 to the vendors.

SHG, Cariboo Mining Division, British Columbia

The Company purchased 100% of five mineral properties to the northwest of the Spanish Mountain property. The vendor retains a 2% NSR, 1% of which may be purchased by the Company for $1,000,000.

Cedar Creek Property, British Columbia

The wholly-owned property is subject to a 2.5% NSR in favour of a third party. The NSR may be purchased by the Company for $500,000 per 1% NSR. On May 23, 2011 the Company acquired two additional mineral claims that are adjacent to the Cedar Creek Property for $110,000 cash. The claims are subject to a 3% NSR, 2.5% of which may be purchased for $1,000,000.

New Standards and Interpretations Not Yet Adopted

All of the new and revised standards described below may be applicable to the Company and may be early-adopted. The Company has not yet assessed the impact of these standards.

(a) IFRS 9 *Financial Instruments* (2010)

A revised version of IFRS 9 incorporating revised requirements for the classification and measurement of financial liabilities, and carrying over the existing de-recognition requirements from IAS 39 *Financial Instruments: Recognition and Measurement*.

The revised financial liability provisions maintain the existing amortized cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at FVTPL; in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss.

Applicable to annual periods beginning on or after January 1, 2015; this standard supersedes IFRS 9 (2009). However, for annual reporting periods beginning before January 1, 2015, an entity may early-adopt IFRS 9 (2009) instead of applying this standard.

(b) IFRS 11 Joint Arrangements

Replaces IAS 31 Interests in Joint Ventures. Requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement.

Joint arrangements are either joint operations or joint ventures:

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint operators recognize their assets, liabilities, revenue and expenses in relation to its interest in a joint operation (including their share of any such items arising jointly).

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (joint venturers) have rights to the net assets of the arrangement. A joint venturer applies the equity method of accounting for its investment in a joint venture in accordance with IAS 28 Investments in Associates and Joint Ventures (2011). Unlike IAS 31, the use of "proportionate consolidation" to account for joint ventures is not permitted.

Applicable to annual reporting periods beginning on or after January 1, 2013. If early-adopted, must be adopted together with IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

(c) IFRS 12 Disclosure of Interests in Other Entities

Requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

In high-level terms, the required disclosures are grouped into the following broad categories:

- Significant judgments and assumptions - such as how control, joint control, significant influence has been determined;
- Interests in subsidiaries - including details of the structure of the group, risks associated with structured entities, changes in control and so on;
- Interests in joint arrangements and associates - the nature, extent and financial effects of interests in joint arrangements and associates (including names, details and summarized financial information); and
- Interests in unconsolidated structured entities - information to allow an understanding of the nature and extent of interests in unconsolidated structured entities and to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities.

IFRS 12 lists specific examples and additional disclosures, which further expand upon each of these disclosure objectives, and includes other guidance on the extensive disclosures required.

Applicable to annual reporting periods beginning on or after January 1, 2013; if early-adopted, must be adopted together with IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011).

(d) IFRS 13 *Fair Value Measurement*

Replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard.

This IFRS defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

IFRS 13 applies when another IFRS requires or permits fair value and requires disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about hose measurements). With some exceptions, the standard requires entities to classify these measurements into a ”fair value hierarchy” based on the nature of the inputs:

Level 1 – Quoted prices in active markets for identical assets or liabilities that the entity can assess at the measurement date;

Level 2 – Inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 – Unobservable inputs for the asset or liability.

Entities are required to make various disclosures depending upon the nature of the fair value measurement (e.g., whether it is recognized in the financial statements or merely disclosed) and the level in which it is classified.

Applicable to annual reporting periods beginning on or after January 1, 2013.

(e) IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

Clarifies the requirements for accounting for stripping costs associated with waste removal in surface mining, including when production stripping costs should be recognized as an asset, how the asset is initially recognized, and subsequent measurement.

The Interpretation requires stripping activity costs, which provide improved access to ore, are recognized as a non-current “stripping activity asset” when certain criteria are met. The stripping activity asset is depreciated or amortized on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity, using the units-of-production method unless another method is more appropriate.

Applicable to annual periods beginning on or after January 1, 2013.

Subsequent Events

1) On August 21, 2012 the Company completed the acquisition of a 100% undivided interest in certain mineral claims for consideration of $500,000 in cash (before transaction costs) and 2,000,000 common shares. The property is subject to an underlying 4% NSR. The Company has the option to reduce the NSR to 2% by paying a onetime cash payment of $2,000,000 to the royalty holders.

2) During August 2012 the Company established a $2,000,000 temporary line of credit secured by a term deposit. The line of credit is to be paid out and closed upon the maturing of the term deposit on September 10, 2012.

Other Requirements

Additional disclosure of the Company's technical reports, material change reports, news releases, and other information can be obtained under the Company's profile on SEDAR.

Risks and Uncertainties

The Company's principal activity is mineral exploration and development. Companies in this industry are subject to many and varied kinds of risks, including but not limited to, environmental, metal prices, political and economical.

Although the Company has taken steps to verify the title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

The Company has no significant source of operating cash flow and no revenues from operations. None of the Company's mineral properties currently have reserves. The Company has limited financial resources. Substantial expenditures are required to be made by the Company to establish ore reserves.

The property interests owned by the Company, or in which it has an option to earn an interest are in the exploration stages only, are without known bodies of commercial mineralization and have no ongoing mining operations. Mineral exploration involves a high degree of risk and few properties, which are explored, are ultimately developed into producing mines. Exploration of the Company's mineral properties may not result in any discoveries of commercial bodies of mineralization. If the Company's efforts do not result in any discovery of commercial mineralization, the Company will be forced to look for other exploration projects or cease operations.

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously held an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

Cautionary Notices

The Company's consolidated financial statements for the three months ended March 31, 2012, and this accompanying MD&A contain statements that constitute "forward-looking statements" within the meaning of National Instrument 51-102, *Continuous Disclosure Obligations* of the Canadian Securities Administrators. Forward-looking statements often, but not always, are identified by the use of words such as "seek", "anticipate", "believe", "plan", "estimate", "expect", "targeting" and "intend" and statements that an event or result "may", "will", "should", "could", or "might" occur or be achieved and other similar expressions. Forward-looking statements in this MD&A include statements regarding the Company's future exploration plans and expenditures, the satisfaction of rights and performance of obligations under agreements to which the Company is a part, the ability of the Company to hire and retain employees and consultants and estimated administrative assessment and other expenses. The forward-looking statements that are contained in this MD&A involve a number of risks and uncertainties. As a consequence, actual results might differ materially from results forecast or suggested in these forward-looking statements. Some of these risks and uncertainties are identified under the heading "RISKS AND UNCERTAINTIES" in this MD&A. Additional information regarding these factors and other important factors that could cause results to differ materially may be referred to as part of particular forward-looking statements. The forward-looking statements are qualified in their entirety by reference to the important factors discussed under the heading "RISKS AND UNCERTAINTIES" and to those that may be discussed as part of particular forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Factors that could cause the actual results to differ include market prices, exploration success, continued availability of capital and financing, inability to obtain required regulatory approvals and general market conditions. These statements are based on a number of assumptions, including assumptions regarding general market conditions, the timing and receipt of regulatory approvals, the ability of the Company and other relevant parties to satisfy regulatory requirements, the availability of financing for proposed transactions and programs on reasonable terms and the ability of third-party service providers to deliver services in a timely manner. Forward-looking statements contained herein are made as of the date of this MD&A and the Company disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.