

# **Energold Drilling Corp.**

## **Form 51-102F1 Management's Discussion and Analysis For the Period Ended March 31, 2008**

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### **Forward-Looking Information**

This Management's Discussion and Analysis ("MD&A") contains certain forward-looking statements and information relating to Energold Drilling Corp. ("Energold" or "the Company") that are based on the beliefs of its management as well as assumptions made by and information currently available to Energold. When used in this document, the words "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. This MD&A contains forward-looking statements relating to, among other things, regulatory compliance, the sufficiency of current working capital, the estimated cost and availability of funding for the continued exploration and development of the Company's exploration properties. Such statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements.

### **Corporate**

The Company is a diamond drilling contractor operating directly and through its subsidiaries, including Energold Drilling Perú, S.A.C. ("EDP"), Kluane International Drilling Inc. and its subsidiaries ("KID"). It also holds mineral exploration properties in Latin America, primarily in the Dominican Republic and Mexico, both directly and through the 6.6 million shares that it holds in IMPACT Silver Corp. ("IMPACT"). The Company's consolidated operations include EDP and KID. The Company's interest in IMPACT is currently accounted for on an equity basis.

In the fourth quarter of 2007, the Company completed a Corporate Reorganization Agreement ("the Corporate Agreement") with the parties holding the other 50% of EDP and KID ("NCI"), whereby the Company obtained 100% ownership and control of its drilling operations in Peru, Brazil, the Dominican Republic, Nicaragua, Zambia and Vietnam. As a result of the transactions, the Company now also owns, directly and indirectly, 100% of both KID and EDP. NCI acquired a 100% interest in KID's subsidiary companies operating in Ecuador and Guatemala, which had seven drilling rigs.

Prior to entering into the Corporate Agreement, the Company shared a 50% interest in 17 drilling rigs with the NCI, effectively owning an equity income interest in 8.5 drilling rigs. Following the closing of the transaction, the Company had a 100% interest in all of its drilling rigs, which included 10 drill rigs in which it previously only had a 50% interest. Henceforth, all information and data will reflect our 100% ownership in all the drill rigs and comparative figures for prior years will be on a net equity basis.

The management believes that the Company's organic growth rate is amongst the fastest in the industry. Our strategic objective is to ultimately control our particular market segment. In order to accelerate the necessary growth it has looked at the possible acquisition of a number of strategic opportunities. This inevitably resulted in costs that are out of the ordinary and these are written off as incurred. We believe we have to continue to pursue these targets but recognizing that they must fit within our overall strategy and also be accretive. During the quarter the Company wrote off the costs related to the investigation and the conducting of due diligence on certain potential targets.

Subsequent to the end of the quarter, the Company announced the first acquisition for \$1.0 million, a smaller operation involving 6 drill rigs operating in Tanzania, Zambia and Namibia. This also included existing contracts and will involve a services and support agreement whereby the related entities would assist with logistical and administrative matters.

### **Summary of Results Related to Operations**

In spite of being traditionally one of the slowest quarters of the year the first quarter for 2008 was a record for production both in meters and gross revenues. Group gross drilling revenues for the first quarter were

\$8.6 million, compared to \$5.8 million in the first quarter of 2007, while margins (Gross revenue less direct costs) remained approximately 40%. The Company actually drilled 56,862 meters in the current quarter, compared to 31,306 meters for 2007.

The Company recorded net income of \$1.7 million for the quarter compared to net income for 2007 of \$.8 million (including \$.3million from discontinued operations) for the quarter.

Summary of Quarterly (Q) Meters Drilled on a Consolidated Basis:

	<b>March 31, 2008</b>	March 31, 2007*	% Change
Meters Drilled	<b>56,862</b>	31,306	82

\* Calculated on equitable meters drilled in 2007. Under the prior arrangement with the NCI's, the Company shared the operations in Peru, Ecuador, Guatemala, Brazil, the Dominican Republic, Nicaragua, Zambia and Vietnam. Equitable meters would include 50% of those meters and 100% of the meters drilled on its own account.

Energold is determined to establish itself as one of the premier socially and environmentally-sensitive drilling contractors in the world. In response to world-wide demand, especially with regard to our unique niche, the Company is continuing an aggressive program of expansion designed to access new markets for its drills and to increase its market share in current markets. The Company is now firmly established in a number of countries in Latin America, including Mexico, and is currently expanding into parts of Africa. This expansion is in direct response to continuing demand from clients. To help our product and our service, the Company is changing the names of its subsidiaries to create a clear identity for the group as the "Energold Drilling Group".

This expansion has resulted in higher-than-normal costs for the period as we continue to incur start-up costs in mobilizing our drills to new markets, but in turn, we are also now achieving record levels of production. The U.S. dollar decline impacted seriously on our margins during 2007 and the Company revised its contract rates to reflect the change. We would expect most of our contracts to be on new rates by the second quarter of this year.

The industry is enjoying a dramatic period of growth. Our Company's objective is to lead our segment, the fastest growing sector, in the next few years. Our growth to date has only been limited by the resources available to the Company. Personnel, rigs, logistics and supplies, all represent possible constraints. We have developed an approach and a technology that has put our Company on the leading edge of our industry, but to retain that leadership role we need to continue to expand our markets before they are occupied by our competitors. To achieve this, the Company determined that organic growth alone was not sufficient. As a result, the Company reviewed a number of alternatives and concluded, in early 2007, that additional equity funding was essential to maintain and grow our position.

On May 15, 2007, the Company completed an underwriting at a price of \$2.20 per unit for gross proceeds of \$15 million. The funds were to be used to accelerate construction of drill rigs, physical infrastructure, provide working capital and give the Company the capital to review new opportunities. With the elimination of the NCI and the additional funding, we have accelerated our growth and by December 31<sup>st</sup> we had 41 rigs either being mobilized or in the field with planned additions of approximately five each quarter thereafter, with a target of approximately 60 rigs by the end of 2008, all 100% owned. Rates of expansion like that could have strained the Company's cash flow and yet the total fleet is not significant in today's market. As a result, the funds are enabling the Company to not only achieve but exceed our previous targets and to reach new markets. Crews and logistics are also difficult to secure and there are opportunities where the Company may be able to acquire operating entities that can provide both as well as established activities in attractive markets; again, the recent funding will assist to identifying those opportunities.

The Company has a strong balance sheet with a fully-consolidated working capital position of \$36.1 million as at March 31, 2008 (2007 - \$19.6 million) and consolidated cash of about \$20.7 million (2007 - \$7.1 million). Non-current liabilities were not material as at March 31, 2008.

#### Exploration

The Company's principal exploration efforts, primarily focused on silver in Mexico, are indirect through its 6.6 million shares investment in IMPACT. During 2006, IMPACT raised in excess of \$10.5 million by private placement and acquired the Royal Mines of Zacualpan in the State of Mexico. This acquisition included two operating mines, a mill and plant with a capacity of 500 tonnes per day ("tpd") and control

over approximately 125 square kilometers of highly prospective ground. Zacualpan is rapidly demonstrating our belief that it represents a unique exploration opportunity for IMPACT. Programs are ongoing to increase the throughput of the current silver mines and mill; and an aggressive exploration program to establish the potential for new and larger deposits. IMPACT has a continuing exploration program at Zacualpan while current operations at the plant are now approximately 300 tpd throughput. Upon the recent exercise of outstanding warrants, and with continued positive cash flow from mining operations IMPACT now has over \$8.8 million to fund its ongoing activities.

In late 2006, IMPACT announced the optioning of a second silver mill, this one located in the prolific silver district of Zacatecas. The acquisition of the "Veta Grande Project" included an option on a 200 tpd mill and five mineral concessions. By March 2007, IMPACT has acquired or has an interest in 17 concessions in the Zacatecas district. We believe this position will be extremely useful in the consolidation of property interests that is bound to occur in that district.

Early in 2007, IMPACT acquired through public auction, the 200-square-kilometer "Mamatla" concession immediately southwest of the Zacualpan concession. This district has had in excess of \$10.0 million in exploration expenditures spent on it over the last eleven years and IMPACT will be consolidating that information and conducting an extensive exploration program for 2008 on this property package. In January of 2008 IMPACT announced the acquisition of a third mill, with a 200 tpd capacity to be relocated to the Zacualpan district. In a period of little over two years, IMPACT has demonstrated positive cash flows from operations in Mexico, and now controls almost two entire mineral districts and holds a substantial presence in a third. As at March 31, 2008, it has cash and cash equivalents in excess of \$8.8 million and with positive cash flows from current mining operations is capable of financing its immediate programs.

Both IMPACT and Energold enjoy certain synergies in working in Mexico, including sharing logistical, administrative and accounting support, as well as Energold providing diamond drilling for IMPACT's exploration program. In 2006, Energold drilled approximately 4,800 meters for IMPACT and drilled a further 9,600 meters for IMPACT for 2007. In the first quarter of 2008, Energold drilled a further 5,320 meters, as that program continues to accelerate.

Holding its mining assets through another public company like IMPACT provides Energold the maximum flexibility in asset management. Although IMPACT is currently carried on Energold's balance sheet at approximately \$3.3 million, its quoted market value at March 31, 2008 was \$9.8 million. More details about IMPACT's operations and outlook are discussed separately.

With the future of the Company focused on contract drilling, the Company has been marketing the balance of the Company's exploration projects in the Dominican Republic. We have already successfully optioned out a number of the projects to technically-competent partners that would allow us to continue to develop these assets while minimizing further dilution to Energold. In late June of 2007, the Company entered into a Letter Agreement selling the "San Antonio" Volcanogenic Massive Sulphide deposit ("VMS") Project, access to the Company's extensive exploration library on the Dominican Republic as well as providing its operational expertise to a Canadian-Controlled Private Corporation ("CCPC") for \$2.0 million. The funds are held in trust and the Company has undertaken to use those funds to participate in an initial public offering of the CCPC if it occurs before July 2008; otherwise, they will be released to Energold.

## **CONTRACT DRILLING**

Global mineral exploration in 2007 is purported to have grown to over US\$10.0 billion, approximately 40% of that in the two markets of Africa and Latin America. 2008 appears to be as active. The contract drilling industry is highly cyclical with a low season in the months on either side of the Christmas holiday period and generally a high season in late summer. In certain areas of the world, seasonality is also a function of environmental issues, including cold weather, rainy seasons and even drought conditions. In the last year, activity in each quarter was a record for production for the respective quarter. The first quarter is generally one of the slowest periods of the year. The excellent performance in the quarter was in spite of the fact we experienced a slow down in drilling in Peru due to adverse weather conditions. We also had a serious supply failure where a specific critical downhole part from a reputable supplier failed. The Company lost an estimated 10 rig weeks until all the failed parts could be replaced. We were able to overcome those issues and meters drilled for the quarter were another record. Total meters for operations for the quarter were almost 57,000 meters, and is due to the Company's ongoing program of rapid expansion to meet the growing industry demand. The production mix during the quarter also varied, as more of the Company's drill contracts reflected the price increases driven by the declining US\$ and as a result the average revenue per meter exceeded \$150.00 compared to last years average of \$135.00. Margins remained about 40%, in spite of the number of rigs being mobilized.

By the beginning of 2008, the Company owned a total of 41 drill rigs with eight more rigs built in the first quarter with a further seven in the second quarter. The Company recently announced the acquisition of a further six drill rigs in southern Africa discussed in more detail below. By mid-summer, therefore, the Company expects to be mobilizing or have in the field more than 60 drill rigs, achieving our year end target of 60 rigs all 100% owned. It typically takes between two and four months for a rig to be mobilized into the field and we expect to see increased levels of production resulting from these additions later in the year.

Subsequent to the end of the quarter, the Company announced that it has entered into an agreement to acquire the sub-Saharan Africa drilling operations of Clarity Mineral Services Ltd. ("Clarity"), a member of the Clarity Capital Group. The drilling operations are in Zambia, Namibia and Tanzania. These businesses operate in regions where the Company either does not currently have a presence or is lacking infrastructure. Through this purchase, the Company will acquire six diamond and reverse circulation drill rigs, with related support equipment, together with inventory and contracts. All six rigs are currently contracted. It is anticipated that these assets will give the Company the immediate physical capacity to further expand its operation throughout other parts of southern Africa in a timelier manner than traditional organic growth. Africa is considered to be a significant area of growth in the drilling industry, and in central Africa with its lack of infrastructure and hard to access mining projects highly suitable for our style of drill rigs.

In addition to purchasing the drilling assets, the Company is retaining the drilling operations teams and anticipates entering into a Management Services Agreement with Clarity to allow the Company to utilize administrative and logistics personnel and existing facilities. The purchase price for the transaction is \$1 million, one-half of which will be in cash, the balance in 126,367 shares of the Company at a deemed price of \$3.96 per share. Energold believes that the ongoing relationship will also help accelerate our growth in Africa through the logistical support of the Clarity group with the Energold drilling technology and equipment.

The Company's rapid expansion of its drilling capacity is designed to respond to the very significant demand in our particular industry segment. As a Company, we intend to remain primarily focused on our highly-mobile and successful drills to service the frontier drilling as well as more conventional targets. Almost 50% of all the new rigs being built will have the capability of our new Series III rigs. Recent field tests with existing prototypes have provided upgrades that will continue to improve the Series III models overall performance well beyond the original design parameters of 700+ meters.

Increasing demand for commodities continues to put pressure on the industry for rigs and the mineral services industry as a whole is almost fully employed. Social and political issues are actively interfering with the industry throughout the world; however, our unique approach to diamond drilling has generated a positive response from the industry which is trying to address local concerns. As exploration continues with mixed results in established areas, more of the industry's interest is becoming focused on "frontier areas" where the lack of infrastructure has held back exploration in the past. As a direct result of all of the trends outlined above, we believe the demand for our style of drilling is even expanding faster than the industry as a whole. Overall, new contracts and requests for tenders suggest that the balance of 2008 will continue to be extremely busy. With the recent financing, new rigs in place and new equipment under construction we hope to capitalize on the continuing demand, especially drilling in frontier areas, into the immediate future.

Generally, the Company's revenues are denominated in U.S. dollars and the Company's margins remain sensitive to foreign exchange variations. During the last half of 2007, especially, because of the declining U.S. dollar, our revenue and hence our margins were impacted. This and rising industry costs, in turn, have prompted us to revise contract rates; however, there is a lag between the U.S. dollar declines and the revised contract rates, at the end of the first quarter the average revenue per meter had risen to \$150.00 per meter. We would expect to have most of our contracts on new rates by the second quarter of 2008. Further, some of our operating costs are U.S.-dollar-denominated, which provides a partial protection against such further fluctuations.

As we anticipated, start-up situations in new markets and rig mobilizations have contributed to increased operating costs, but have already generated very dramatic increases in production and firmly establishing ourselves in the market place. Although equipment suppliers are also increasing prices, with the increasing demand for drill rigs worldwide, margins have stabilized and have started to improve. Over the last two and one half years, the Company has had to address the ongoing shortage of quality crews and down-hole supplies. We are also experiencing increasing delays in shipping and customs which has led to excessive downtime. We recognize that in the course of such rapid growth we will incur certain inefficiencies however we intend to continue to push the envelope.

Our investment in drilling supplies inventories to support our continuing operations increased to \$11.1 million up from \$6.7 million at March 31, 2007. Part of this increase in the carrying values of inventory is attributable to higher supplier prices, part because of the additional new rigs that need to be supplied and part due to our decision to put more inventories into the field to have supplies closer on hand to service our client drilling needs. Because of the need to be self-sustaining in remote operating locations, we estimate that we require an investment in inventory of approximately \$250,000 for each new drill that we put into the field; however, as more of our drills are being located in multiple-drill situations and at mine sites where we can control inventories and services, the average inventory per drill actually declined in the latter part of the 2007. Because of delays in receiving goods from suppliers at any one time, the Company has a substantial back order for down hole supplies, etc.

Crews always remain a significant bottleneck in our industry, as it requires trained personnel with additional social skills to work in remote locations. The simple and common design of our drill rigs allows us the opportunity to train drillers faster than is normal in the industry and allows us to interchange the work force without additional training. The Company pays extremely well and offers the more talented drillers the opportunity to take on challenging programs in rather exotic locales. We also continue to train personnel from local communities to fill a number of positions, including some positions as drillers. Especially for smaller programs, these personnel can substantially reduce our mobilization costs and increase our operations' flexibility. This also provides an effective statement of our willingness to ensure there are social benefits to the local communities from our activities.

As we advised last year, the Company commenced expanding its physical and administrative infrastructure to catch up with the significant increase in volume generated over the last 15 to 18 months. This included improved communication systems and warehouse facilities, and increased inventories at a number of strategic locations. However, we are stretching our logistical support to the maximum as our growth continues to exceed even our more aggressive forecasts. Last year we also experienced the costs of establishing the Company in Mexico, this year we will be establishing ourselves in a number of new markets, including the necessary infrastructure and management.

The Company has set a number of objectives for the next two to three years. The Company will continue its research and development to ensure it remains ahead of the industry, as well as expanding product lines to better serve our clients. We will continue to train and develop our drillers and support staff to the maximum of our capability.

Recognizing that Energold is in a service industry, the Company is intent upon expanding its product lines to build on an already established clientele. Technical developments are continuing to improve the competitive position of the Company. The recent introduction of our prototype Series III model will provide enhanced depth capabilities well beyond 700 meters. In January of 2007, our Series III model was recognized by the prestigious London based Mining Magazine in the category of Exploration for Capital Equipment. Combined with a new program of redesign and retrofitting of older models, we anticipate improved performance capabilities from our rigs in the coming year. The recent acquisition announced included rigs that are more traditional and although not our focus will complement our current rig fleet.

In certain countries, we have a market niche that allows us to maintain good margins. Local competition is limited and new competitors from outside are generally unwilling to expose themselves to the risks and invest the time and energy to establish themselves in these markets.

Because our organic growth is limited to our available resources in people, we are also continuing to pursue possible acquisitions in areas where they will provide a market entry as well as the necessary personnel and infrastructure to support our activities.

#### Mexico

In 2005, the Company expanded into Mexico through its 100% subsidiary Energold de Mexico S.A. de C.V. Contract drilling in Mexico by Energold complements the exploration activities of IMPACT and enjoys a number of administrative synergies. The Company had eleven rigs in Mexico at the end of the quarter, with two more just being mobilized. This compares to six rigs at the end of March 2007. Because of the need to build infrastructure and train crews, etc., the Company incurred significant start-up costs in Mexico as well as mobilization costs on the new rigs. The year 2007, was an improvement over 2006, as productivity continued to improve. The size of the Company's operations is rapidly expanding and in the first quarter of 2008 the Company drilled over 21,000 meters compared to 7,400 meters in the first quarter of 2007. With additional crews and improved local logistics, the Company will continue to add additional rigs in response to the continuing demand for the balance of 2008.

## Africa

The Company has one Series II rig located in Madagascar working with two more rigs delivered in the beginning of May in response to new contracts. Recent demand indicates this country could represent an opportunity for further growth in the mineral sector.

In the area of Zambia and the Democratic Republic of Congo ("DRC"), demand has increased dramatically and in addition to one Series II rig already working in the DRC, the Company has added two more rigs one working in Zambia and a second in the DRC both working in the general area of the Zambian copper belt. Central Africa is a frontier area with very limited infrastructure and where our mobility and efficiency make us the leading competitor. With the recent acquisition we add additional rigs but more importantly logistical and marketing support in Tanzania and Namibia as well as Zambia. Africa is a significant market opportunity for the Company and we expect to add additional rigs working in the region by the end of the year.

## Dominican Republic

In the first quarter of 2008, the Company had six rigs in the Dominican Republic and was conducting two drill programs one at the Pueblo Viejo Mine, which is jointly-owned by Barrick Gold Inc. ("Barrick") and Goldcorp Inc. ("Goldcorp"), as well as drilling for Goldfields. The Company completed in excess of 12,000 meters but we anticipate a substantial reduction in total meters drilled there for the balance of 2008. In January 2008, the Company replaced one of the Series II rigs with a Series III to provide an improved capacity for the Island. In the second quarter of 2008, the Company intends to move two or three rigs to higher margin markets. The Company has worked in the Dominican Republic for approximately ten years and the drilling was previously a natural complement to its exploration activities there.

## Brazil

Brazil especially is very suitable for the type of work we specialize in and represents a significant growth opportunity. The work there tends to be seasonal and reflects the issues of working in the Amazon basin. We are currently bidding additional contracts outside of this area as our infrastructure expands. To increase our service capabilities, we shipped a Series II drill rig to Brazil during the last part of 2007, bringing the total to three Series II rigs we have in-country, while a fourth Series I rig was assembled to train crews and handle less challenging assignments. Brazil has certain cost and bureaucratic issues which we hope to overcome with time; however, we will be adding further rigs to the Brazilian market in 2008, as demand warrants.

## Central America

Central America, excluding Guatemala, which was disposed of as part of the Corporate Agreement, continues to represent an excellent opportunity for Energold as it has experienced environmental and social issues that our drilling approach can help address. Currently, the Company has contracts for work in Nicaragua for 2008, which will require between three and four drill rigs for the majority of the year. There are a number of other opportunities in Central America which we hope to exploit over the next two years.

## Peru

Peru represents an excellent opportunity to develop new business as this mineral-rich country develops. Growing confidence in the stability of the Peruvian economy and increasing demand for commodities have made this country a prime market. This is a very large, but competitive market, where our clients and projects vary in size and nature. Many of the programs are conducted at altitudes over 3,500 meters and the Company is replacing the 32-hp turbo diesel engines on the majority of its Series II rigs with larger 42-hp turbo diesel engines to provide extra power and capacity. The first quarter was disappointing in part because of the late start on certain contracts as well as severe weather conditions which created extreme flooding in parts of the country. However, we expect to drill approximately 90,000 meters in this country alone in 2008. Our operation there is well established and represents excellent growth potential.

At the end of the quarter, the Company had ten drills in Peru, including our largest version of the modular rigs with the capability of running with 168-hp.

## Other markets

The Company mobilized a Series II portable rig to Argentina in the spring of 2007 which saw limited service; we are expecting it to be employed for a significant portion of 2008. It is also shipping two of the Dominican rigs to Guyana to service the increasing demand in that country.

One of the new Series III rigs was mobilized for an extended contract in Albania for 2008 and a second Series III rig is scheduled for delivery to the same site in the second quarter of 2008.

The Company also conducted a limited program in Vietnam with a Series I rig in 2007. During the first quarter of 2008, the work increased in volume and a Series III rig is being mobilized for that market to increase our capacity and complement the current rig's services. Southeast Asia remains a prospective area for us in the future, where our standard rigs will outperform most of the local competition.

## PROJECT AND EQUITY HOLDINGS

### IMPACT Silver Corp. (IPT: TSX.V)

The Company owns 6.6 million shares or 13.96% of the issued and outstanding shares at March 31, 2008. The Company, through mutual management at the executive level and its shareholding and directorships in IMPACT, exercises significant influence over IMPACT and, as a result, the investment is accounted for using the equity method of accounting. This investment is carried on the Company's balance sheet at \$3.3 million.

IMPACT owns assets covering most of the Royal Mines of Zacualpan Silver District in central Mexico, including a 124.5 square kilometers land position, three operating mines and a mill rated at 500 tpd. The project is located 100 kilometers southwest of Mexico City and 25 kilometers northwest of the well-known Taxco Silver Mine. Access is by paved highway that runs through the middle of the district. Infrastructure is good throughout the district with gravel road networks, electric power, ample water supplies and a trained work force.

After its acquisition in 2006, extensive exploration was planned for the district with the aim to increase volume and the number of sources for production. This work includes surface and underground drill programs. The first surface core drilling program commenced on the property in the beginning of May of 2006 and during the year, completed over 4,800 meters of drilling. A second phase program commenced early in 2007 was designed to follow up the first priority targets identified and exceeded 9,600 meters. Drilling will continue on an aggressive basis in 2008 with in excess of 12,000 meters planned. This work is being carried out by the Company's Mexican division.

In July 2006, IMPACT acquired an option on a second processing plant (200 tpd capacity), the Veta Grande Project, and holds an interest in seventeen mineral concessions in the Zacatecas mining district. Four of the concessions have been optioned to Yale Resources Ltd.

In 2007, IMPACT acquired, through a Mexican government auction, mineral exploration rights to the Mamatla district covering an area of approximately 200 square kilometers for a cost of US\$200,000 and a 1% Net Profit Interest ("NPI"). The district, which is directly south and west of Zacualpan, includes a number of established VMS and epithermal exploration targets. This acquisition is a major step forward as IMPACT now controls two mineral districts and is involved in a third.

In the first quarter of 2008, IMPACT acquired an additional 200 tpd, semi-portable mill for use in the Zacualpan/Mamatla mineral districts to give IMPACT additional capacity and flexibility in developing its numerous mines. It also received confirmation of title to an additional 200 sq. kilometres of mineral concessions located adjacent to the west of its current Zacualpan holdings.

Results of IMPACT to March 31<sup>st</sup>:

	<b>2008</b>	2007
	<b>Canadian \$</b>	Canadian \$
Revenue	<b>2,686,721</b>	1,858,831
Mine Operating Earnings*	<b>1,273,823</b>	500,373
Income before Taxes	<b>1,148,038</b>	266,555
Net Income & comprehensive income	<b>845,457</b>	266,555
Earnings per Share – basic	<b>0.02</b>	<b>0.01</b>
– diluted	<b>0.02</b>	<b>0.01</b>

\* Includes amortization and depletion of \$185,250 in 2008 and \$193,965 in 2007.

Results for the first quarter reflect the trend established in the last quarter of 2007 as the high grade San Ramon and the Chivo mines came on stream. Throughput remains lower than forecast due to the abandonment of one production stope prematurely in the Guadalupe mine due to ground conditions and

downtime on certain mining equipment. The 2008 budget has approved the acquisition of additional underground scoops and ore trucks to alleviate this, temporary production restriction.

Ore production from the Chivo mine to date has been primarily development muck and as the mine now commenced production from its first stope, grades and tonnage are expected to continue to rise as part of the program to bring production up to the current mill's capacity of approximately 500 tpd.

Average mill throughput during the quarter was marginally increased (6%) over the prior year's first quarter however silver production increased by 54%. On site operating costs were \$50.63 per tonne, slightly lower than the comparative quarter 2007. Production of metals was a record for almost all categories and mill throughput represents an 89% increase over production levels of 145 tpd when the Company acquired the mine 27 months ago.

IMPACT Production and Development for the Three Months ended March 31:

	<b>Three Months Ended March 31, 2008</b>	Three Months Ended March 31, 2007
Total tonnes (t) Produced	<b>24,247</b>	22,843
Tonnes Produced per Day	<b>266</b>	253
Silver Production (Oz)	<b>131,859</b>	85,606
Lead (t)	<b>161.65</b>	135.68
Zinc (t)	<b>275.02</b>	243.58
CAD\$ direct costs per tonne	<b>50.63</b>	50.97

Note: All measurements are subject to smelter settlements and (other than silver) are in metric.

IMPACT operates in Mexico with a highly qualified management team of Mexican professionals directing operations. The IMPACT team has come together very quickly and successfully over the last 27 months giving IMPACT a competitive edge in seeking out further opportunities in Mexico. IMPACT has demonstrated continuing positive cash flows since the acquisition of the Zacualpan project and plans to grow into a significant producer of silver by escalating and upgrading the Royal Mines of Zacualpan operations, developing the Veta Grande Project, expanding on the recent acquisition of the Mamatla concession and through continuing acquisitions.

### **Dominican Republic**

Initially, the Dominican Republic was the principal objective of the Company's exploration and business activities. The country continues to attract considerable interest from the industry, with the ongoing success of Barrick and Goldcorp at Pueblo Viejo, and Xstrada plc (formerly Falconbridge Limited) as well as a number of juniors including GoldQuest Mining Corp. ("GoldQuest"), Unigold Inc. ("Unigold"), Globestar Mining Corporation ("Globestar"), Linear Gold Corp. ("Linear"), IMPACT and Everton Resources Inc. ("Everton"). The Company, as part of its overall strategy, has optioned or sold some of its projects and is currently reviewing how best to enhance the shareholders value in its property holdings there.

### **Centenario**

After completing a National Instrument 43-101 resource estimate on the original discovery zone at Centenario, GoldQuest, in the first quarter, completed a drill program on a new target approximately seven kilometers east, part of which is on the Centenario concession and has now completed a second program run by its partner, Goldfields. GoldQuest, for a total expenditure of US\$1.0 million, has the right to earn 60% of the project over three years, and shall have the right to earn up to 80% by taking the project to a bankable feasibility study. Upon receipt of a bankable feasibility study, Energold may elect to be carried to production or convert its interest to a 2% NSR.

### **San Antonio Project**

Composed of a number of concessions in the Maimon formation, the San Antonio Project is oriented to discovering and developing a VMS. Globestar is currently building a plant capable of processing VMS-style ores and with previous drill results on La Parcela concession, there is reason to believe that the target may be able to provide feed for that mill. Globestar has already entered into an option to acquire an interest in any lateritic nickel deposit that it finds on four of the western Maimon concessions, and on June 29, 2007, the Company entered into a Letter Agreement selling the San Antonio VMS Project, access to the Company's extensive exploration library on the Dominican Republic, as well as providing its operational expertise to a CCPC for \$2.0 million. The funds are held in trust and the Company has undertaken to use those funds to

participate in an initial public offering of the CCPC, in the summer of 2008, otherwise they may be released to Energold.

## **OTHER**

### **Investor Relations**

Over the quarter, the Company's officers and employees attended a number of industry and investor conferences in Europe, Canada and Latin America on behalf of Energold, its subsidiaries and IMPACT. Energold management on a regular basis conducts a number of meetings with Fund and Money managers. The Company conducts the subsidiaries and its own public relations and communications and also assists IMPACT with its day-to-day investor relations.

Where previously Energold retained a consulting firm to assist in its investor relations program, this contract was terminated in early 2008 and the Company is now conducting all of its Investor Relations activities internally.

With the change in name to Energold Drilling Corp., the drilling group plans to establish itself as the name plate world wide for its innovative approach to drilling.

### **Safety, Social and Environmental Policy**

Exploration and drilling create a physical change within the area of work. The Company believes in its responsibility to ensure that it minimizes the environmental impact of its efforts. The development of our drills is a direct successful offshoot of the need to explore with a light footprint using a drill pad size of very limited size, which does not require the construction of roads and complex access.

The equipment, however, is only a part of the equation. Our employees and contract personnel are aware and continually reminded that environmental issues and safety cannot be compromised. The Company has published social, environmental and other policies related to its field programs.

We work as part of the community, whose members must be kept informed of our activities and their concerns addressed. Wherever possible, the local community should participate in the benefits that may flow from the Company's activities. The use of local personnel as drillers, driller's helpers and workers fosters direct involvement in the programs conducted by the Company.

The Company has published specific policies and regulations to address the above, as well as our ongoing concern for safety. Work being conducted by or on behalf of the Company should be well planned, safe and with a concern for the environment and communities surrounding us. The Company developed and published a driller's safety manual for its staff and has commenced a provisional safety audit program.

## **FINANCIAL DISCUSSION AND ANALYSIS**

### **Contract Drilling Risk Factors**

The Company is faced with a number of risks with respect to its contract drilling operations as well as its property exploration activities. Contract drilling is a highly competitive industry, where numerous competitors may tender bids for contracts. The Company's ongoing ability to continue to secure profitable contracts on a go-forward basis is not assured. Like every business operating internationally, the Company faces numerous risks in its day-to-day business operations which are highlighted in the headings below and briefly summarized.

#### **Cyclical Industry Risks**

The contract drilling industry is reliant on demand from two primary categories of commodities, gold and base metals, while certain industrial minerals may also be tested. Under favourable market conditions, rising commodity prices normally spur an increased demand for drilling services; however, cyclical downturns in commodity prices can have the opposite effect and the Company could be exposed to an investment in drilling equipment and supplies which might not be able to be utilized to their full capacity.

#### **Reliance on Key Accounts**

From time to time, the Company may be dependent on a small number of customers for a significant portion of its overall drilling revenues and net income.

### Workforce Availability

The Company, like all drilling companies, has been impacted by the shortage of qualified skilled drillers as the industry adjusts from a period of many years of low mining exploration activity to a new cyclical upturn. Drilling is as much an art as a science and it takes considerable time and experience for an individual to become a well-qualified driller. The Company is addressing this issue in a number of ways. In certain countries it is developing and training a local work force. It also is hiring overseas and developing incentive programs to retain its driller work force. If the Company cannot hire or train the drillers, it will result in lower rig utilization and loss of revenues.

### Extreme Weather Conditions

The Company operates in a variety of locations and areas in the world, some of which are subject to extreme weather conditions which can have a significant impact on operations.

### Foreign Countries and Regulatory Requirements

Contract drilling, mineral exploration and mining activities may be affected in varying degrees by political instability and government regulations relating to the mining industry and foreign investors therein. Any changes in regulations or shifts in political conditions are beyond the control of the Company and may adversely affect its own, or its clients business outlook. Operations may be affected in varying degrees by government regulations with respect to restrictions on production, price controls, export controls, income taxes, and expropriation of property, environmental legislation and mine safety.

### Environmental and Other Regulatory Requirements

The current or future operations of the Company and its clients involving contract drilling, exploration, development activities and commencement of production on their properties require permits from various federal, state, and local governmental authorities. Such operations are and will be governed by laws and regulations governing prospecting, development, mining, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. Regulatory requirements and environmental standards are subject to constant evaluation and may be significantly increased, which could significantly adversely affect the business of the Company and its clients in any jurisdiction in which the Company operates.

### Permits and Licences

The operations of the Company and its clients may require licences and permits from various governmental authorities. There can be no assurance that the Company or its clients will be able to obtain all necessary licences and permits that they may require to carry out contract drilling or exploration, development and mining operations on their mineral properties.

### Repatriation of Earnings and Foreign Exchange

There is no assurance that any of the countries in which the Company operates or may operate in the future will not impose restrictions on the repatriation of earnings to foreign entities. The Company may be subject from time to time to foreign exchange controls in countries outside of Canada.

### Currency Fluctuations and Foreign Exchange

The operations of the Company in countries other than Canada are subject to currency fluctuations and such fluctuations may materially affect the financial position and results of the Company. The Company does not currently take any steps to hedge against currency fluctuations although it may elect to hedge against the risk of currency fluctuations in the future. There can be no assurance that steps taken by the Company to address foreign currency fluctuations will eliminate all adverse effects and, accordingly, the Company may suffer losses due to adverse foreign currency fluctuations.

### Mineral Exploration and Development Risks

In addition to these risks with respect to its contract drilling operations, the Company could face certain additional risks to those already identified above, with respect to its mineral exploration activities, if it were to resume such activities on an active basis. While the Company retains a core legacy of mineral concession exploration properties in the Dominican Republic, from its historic roots as a mineral exploration company, it does not currently have any plans to resume exploration activities on these mineral property concessions for its own account. Rather, the Company intends to realize value with respect to these mineral property concessions by various means, including the possible sale or optioning of such property concessions to

others, as the Company deems advisable, as demonstrated by its recent sale of La Parcela concession earlier this year. The Company believes that current exploration efforts by other mineral exploration companies in the Dominican Republic are enhancing the future value of these mineral exploration concessions and that further opportunities to realize value for these concessions will come available to the Company over the next year.

Because the Company's management has had considerable prior experience in mining operations, it understands that the exploration for and development of mineral deposits is a speculative venture necessarily involving substantial risks. Management understands that very few properties which are explored will result in the discoveries of commercially viable mineral deposits which will ultimately be developed into a profitable commercial mining operation. It is for this reason that the Company has chosen to reduce its business risk to its shareholders by using its mining knowledge and know how to provide contract drilling services to the mining mineral exploration sector, thus providing an essential service available to all mineral exploration companies with a contract drilling service offered in a cost effective and environmentally friendly manner.

#### **Selected Annual Information (Canadian \$000's except per share amounts)**

<b>Description</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Total Revenues	26,181	16,479	14,863
Total revenues (net of direct costs)	10,641	4,708	5,359
Indirect & administrative expenses	3,210	2,341	2,760
Other income (expenses)	688	1,871	(1,302)
Non controlling interest	(914)	(856)	(1,144)
Net income from continuing operations	4,749	2,294	Note 1
Gain on corporate reorganization	2,527	n/a	n/a
Discontinued operations, net of income tax	1,198	1,403	Note 1
Net income for year	8,475	3,697	1,087
Earnings per share – basic-continuing operations	0.17	0.11	0.05
Earnings per share – basic-discontinued operations	0.14	0.06	Note 1
Total assets	50,328	31,093	20,739
Total long-term financial liabilities	159	7,989	5,448
Cash dividends declared	nil	nil	nil

Note 1:

The 2007 and 2006 information has been presented to show the impact of the discontinued operations. No attempt has been made to retroactively readjust the 2005 annual information to reflect the split of income between continuing and discontinued operations.

This past year was a major transformational milestone in the Company's history in which several key events occurred that will shape the future growth and development of the Company. These events included a major equity issue and a reorganization of the Company's operations to consolidate control.

Two major developments of significance took place in 2007 which have helped to transform the Company's operations. In May of 2007, the Company successfully completed a private placement offering for 6,830,000 units of Energold for aggregate gross proceeds of \$15.0 million, including 1.37 million units that were issued pursuant to the exercise in full by Clarus of an underwriter's option.

Each unit consists of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant will entitle the holder thereof to acquire an additional common share at a price of \$2.85 per common share for a period of 12 months following the closing of the offering. All securities issued under the offering were subject to a four-month hold period.

#### **Allocation Between Shares and Warrants**

As required under current Canadian accounting policies, the proceeds from the issue of units were allocated between common shares and common share purchase warrants on a prorated basis on relative fair values as follows: the fair value of common shares is based on the market close on the date the units are issued; and the fair value of the common share purchase warrants is determined using the Black-Scholes option pricing model.

Clarus was paid a cash commission equal to 7% of the gross proceeds of the offering. Clarus was also granted 478,100 compensation options, equal to 7% of the units sold pursuant to the offering. Each

compensation option entitles Clarus to acquire one unit at an exercise price of \$2.20 during the 12-month period following the closing of the offering. These funds allowed the Company to greatly accelerate its drill fleet expansion program which, up until that time, had been financed entirely by the Company's retained cash flow and contributions from NCI.

The second major transformational development for Energold was realized on September 30, 2007, when Energold and NCI agreed upon and entered into a corporate reorganization agreement so as to result in a division of their interests between the Parties. Under terms of the agreement, Energold acquired, through its subsidiary, KID, the NCI's interest in the Peruvian drilling operations, as well as full ownership and control over the drilling operations in Brazil, the Dominican Republic, Nicaragua, Zambia, and Vietnam. KID sold to NCI all of its interest in its former wholly-owned Guatemalan and Ecuadorian subsidiaries and in return purchased from NCI all of its shares in KID, such that KID became a wholly-owned subsidiary of the Company. The Company and NCI, and their respective subsidiaries, agreed to enter into a non-competition agreement for three years from the date of closing not to compete with one another in the diamond drilling business in those countries in which they had previously conducted operations together.

As a result of the closure of these transactions which were completed on October 2, 2007, Energold surrendered its interest in seven drill rigs to the NCI and acquired from them full interest in the remaining ten rigs that had previously been tied up in the original arrangements. At the time of writing this MD&A, the Company has expanded its fleet to more than 49 drills in service or being commissioned with another seven drills under construction. Moreover, as discussed in the subsequent events section, the Company is in the process of acquiring an additional six rigs in Africa such that the Company now anticipates that it will have in excess of 60 rigs either in the field or being mobilized by mid summer of this year. The Company continues to add new man-portable drills to its operations at the rate of one new drill approximately every two weeks all of which are allocated to waiting customers.

### **Consolidation of Control over Jointly Owned Operations**

Our entry into contract mining drilling operations began in 1999, as a process of diversification and business risk reduction from our mining exploration roots, when we formed a 50/50 venture with a privately held company, which had been successfully providing diamond drilling services, to develop diamond drilling operations in certain countries in the Caribbean, Central and South America. These operations were conducted through KID, which was incorporated with nominal capitalization and was funded initially by shareholders' loans from NCI. At a later date, Energold entered into a second similar arrangement (51/49) in Peru through the operations of EDP.

As time progressed, the interests of Energold and the NCI diverged and it became apparent that it was appropriate to part ways. Under the wind-up Agreement, NCI acquired 100% of the Company's activities in Ecuador and Guatemala including liquid assets, seven rigs and their related inventories through the purchase acquisition from KID of all of the issued shares of the two subsidiaries that operated in those countries. In return, NCI surrendered by way of sale and share redemption their remaining interest in all of the other assets of KID and EDP and their 50% net profit interest in two of the drilling rigs being operated by Energold Drilling Dominicana S.A. ("EDD") in the Dominican Republic.

### **Overview of the Corporate Agreement**

The Corporate Agreement, entered into on September 30, 2007 documented the transaction agreement that the Energold and NCI had reached for the effective exchange of their interests. During negotiations, both Parties recognized that the time required to complete new audited financial statements for the entities and their wholly-owned subsidiaries and to carry out a goodwill valuation of certain of the businesses involved in the proposed purchase and sale agreements would unduly delay closing an agreement. Time was also required to carry out a detailed tax planning review, to develop a corporate reorganization model of the proposed transaction and to plan for the capital reorganization of KID to affect the transaction. Effectively, the Parties agreed to solve that problem by adjusting the formula such that NCI received the results of operations for the Ecuadorian and Guatemalan operations from January 1, 2007 to September 30, 2007 and Energold received the benefit of the operating results from all other markets retained or acquired by it from the NCI from January 1, 2007, onward. Energold's management believe that the growth opportunities in the remaining markets, particularly in Peru, Brazil, Zambia, and elsewhere were superior to what it believed was a mature market in Ecuador and a limited market in Guatemala.

## Net Result of the Transactions

The net result of the overall transaction was to accomplish the intent of the Parties to arrive at a fair division of their interests, in a tax effective manner. The Company was able to settle in full, all obligations previously shown on its financial statements as amounts due to related parties and NCI. Following closure of all of the transactions contemplated in the Master Agreement, the Company acquired full ownership of KID and indirectly, through KID, complete ownership of all of the issued and outstanding shares of EDP.

Part of the acquisition included goodwill of \$1,710,000 as at September 30, 2007 related to KID's share of the net incremental goodwill realized from the improved business outlook for the assets and business opportunities acquired in this transaction, particularly the enhanced value of the Peruvian drilling operations. This goodwill adjustment amount was determined by an independent valuation study conducted by a major accounting firm. The Company also acquired a benefit in the form of in-place, uncompleted drilling contracts valued at \$252,000 and working capital and other assets acquired in excess of the proportion of working capital investment surrendered in the sale by KID of its former Ecuadorian and Guatemalan subsidiaries. Together, these various interests acquired net of the consideration paid and the transaction costs and net income taxes paid make up the constituents of the overall gain on the corporate reorganization as shown in the table below:

Net Consideration (paid)	\$ (1,424,471)
Fair value of the 50% of the net assets acquired:	
Working capital	\$ 4,528,734
Other assets	540,684
Drilling contracts	252,000
Goodwill	1,710,000
Fair value of net assets acquired	<u>7,031,418</u>
Net book value of the 50% of the net assets disposed of:	
Working capital	\$ 2,233,962
Other assets	<u>207,462</u>
	2,441,424
Income taxes	<u>638,479</u>
Gain on corporate reorganization	<u>\$ 2,527,044</u>

The accounting for the transaction was subject to post-closing adjustments. The results of these post closing adjustments are recorded in the year-end financial statements.

## Reclassification of Discontinued Operations

Canadian generally accepted accounting principles ("GAAP") requires that the Company report and record separately its results from continuing and discontinued operations. Effective September 30, 2007, the Company's wholly-owned subsidiary KID no longer had any ongoing equity interest in Ecuador and Guatemala. Under Canadian GAAP, the disposal of KID's interest in its subsidiaries in Ecuador and Guatemala meets the criteria of discontinued operations. As a result, operations for these formerly-owned subsidiaries have been classified as discontinued operations for both the 2007 year-end and the comparative 2006 year.

Prior to the transaction, the Company consolidated 100% of KID and EDP, and reflected NCI's 50% interest. Upon completion of this transaction, the Company owns 100% of KID and EDP, directly and indirectly. Thus, the non-controlling interest has been adjusted to reflect the full ownership of the Company.

The result of this reclassification on the Company's year-end consolidated statement of income is to remove the related revenue and direct costs of the discontinued operations from the reported 2007 and 2006 comparative income statement to show only the ongoing revenues and direct costs related to continuing drilling operations of the Company. Other appropriate adjustments are made to remove the related comparative indirect and administrative expenses, non-controlling interest expense and provision for income taxes related to discontinued operations from above the line on the income statement. The comparative financial information shown in our 2007 annual consolidated income statement now shows

only detailed line information with respect to our ongoing wholly-owned drilling operations. These results show the significant gains that we achieved both in revenues for the year and net income from continuing operations despite facing significant headwinds from foreign exchange losses, as a result of the significant decline in value of the U.S. dollar on foreign-based assets and revenues.

### Summary of Quarterly Results (Canadian \$000's except per share amounts)

Quarter	Continuing Operations			Discontinued Operations		
	Net Income	Net Income per Share (Basic) (Note 1)	Diluted Net Income Per Share (Note 1)	Net Income	Net Income per Share (Basic) (Note 1)	Diluted Net Income Per Share (Note 1)
1 <sup>st</sup> 2008	1,769	0.06	0.05	n/a	n/a	n/a
4 <sup>th</sup> 2007	1,994	0.07	0.07	1,069	0.05	0.04
3 <sup>rd</sup> 2007	699	0.03	0.03	2,057	0.07	0.07
2 <sup>nd</sup> 2007	1,541	0.05	0.05	295	0.01	0.01
1 <sup>st</sup> 2007	515	0.02	0.02	304	0.01	0.01
4 <sup>th</sup> 2006	698	0.03	0.03	(156)	(0.01)	(0.00)
3 <sup>rd</sup> 2006	658	0.03	0.03	566	0.02	0.02
2 <sup>nd</sup> 2006 (Note 3)	1,100	0.05	0.04	410	0.02	0.02

### Summary of Quarterly Analysis of Revenue, Assets and Liabilities (Canadian \$000's)

Quarter	Revenues	Total Assets	Total Long-term Liabilities (Note 2)
1 <sup>st</sup> 2008	8,625	54,447	139
4 <sup>th</sup> 2007	7,144	50,328	159
3 <sup>rd</sup> 2007	6,891	45,310	310
2 <sup>nd</sup> 2007	5,968	48,591	8,223
1 <sup>st</sup> 2007	5,844	33,003	8,519
4 <sup>th</sup> 2006	4,832	31,093	7,989
3 <sup>rd</sup> 2006	5,551	27,892	7,569
2 <sup>nd</sup> (Note 3)	4,241	24,508	6,472

Notes:

- 1: These numbers have been rounded to two decimal places.
- 2: Long-term liabilities include non-controlling interest, the long-term portion due to a related party, deferred revenue and future and deferred income taxes.
- 3: Restated per Note 14 on the March 31, 2007 and Note 13 on the June 30, 2007 financial statements.

### Results of Operations – First Quarter 2008 Highlights Overview

The first quarter continued to be another very busy quarter for the Company, as management continued to spend considerable time negotiating and acquiring new drilling contracts and planning the Company's drilling fleet expansion. Management also spent considerable time and effort in the later part of the quarter assessing the possible acquisition of a significant entity that would allow the Company to more rapidly achieve its growth objectives. While the Company incurred significant due diligence legal, accounting, and advisory investigation costs of approximately \$500,000 in examining this prospective acquisition a determination was made as a result of these due diligence investigations that the purchase of this entity, on the terms proposed, would not be accretive to earnings per share in the near future. Accordingly, management and the Company's Board of Directors determined that we should not proceed with this acquisition and the costs associated with the due diligence investigations have been recognized as an expense in the first quarter. Subsequent to the quarter end, the Company was able to announce the acquisition of the sub-Saharan African drilling operations of Clarity Mineral Services Ltd., including six diamond and reverse circulation drill rigs for a purchase consideration of \$1.0 million. Half of this amount will be paid in cash and half will be paid through the issuance of 126,367 shares of the Company at a price of \$3.96 per share. The acquisition of these rigs will assist us in our plans for a more significant expansion of the Company's presence in the African drilling marketplace.

The Company recorded net earnings of \$1.769 million in the first quarter of 2008, (\$0.06 per share basic) after due diligence investigation costs related to a prospective significant acquisition of \$0.5 million. This represents a very significant increase over the \$0.515 million of earnings for the comparative first quarter of 2007 (\$0.02 per share basic) of income from continuing operations and does not include the \$0.304 million of income from discontinued operations, net of tax (\$0.01 per share basic) earned in that quarter.

In the first quarter of 2008, the Company recorded revenues from drilling contracts, exclusive of discontinued operations, of \$8.625 million an increase of \$2.781 million from the comparative first quarter of 2007 and an increase of \$1.481 million from the fourth quarter of 2007. Because gross revenues are expressed in Canadian dollars, the actual rate of growth of the Company's drilling activities is understated when U.S. dollar-based revenues are converted to Canadian dollars. Because the value of one U.S. dollar expressed in Canadian currency terms declined by about 17% during the past year from \$1.16 to \$0.99, the growth rate in our reported revenues from drilling contracts was less than it would have been had the exchange rates not moved against us. Our gross margins improved significantly in the first quarter of 2008 compared to the first quarter of 2007, increasing by over 200 bases points. Indirect administrative and amortization expenses have continued to grow with the growth of our business but these costs have been well managed and contained. Excluding the special one time due diligence investigation costs, these expenses, as a percentage of billable revenues, declined to 11.2% of revenue in the first quarter of 2008, compared to 12.1% of gross billings in 2007.

Amortization costs were \$201,758 in the first quarter of 2008 (\$105,293 in the first quarter of 2007), due to the higher number of drill rigs in the field. Amortization costs will increase in future in line with the growth of our drilling fleet.

### **Indirect and Administrative Expenses**

Consolidated indirect and administrative expenses for the most recent quarter were \$1,461,767 including an amount of \$497,353 related to due diligence investigation costs related to a prospective acquisition, which the Company decided not to proceed with after completing its due diligence investigations since the proposed terms of purchase would not have been accretive to shareholders earnings-per-share in the near term. Excluding the one time costs associated with these due diligence investigations, the total indirect and administrative costs for the first quarter of 2008 were \$964,414. This is approximately \$258,000 more than the total indirect and administrative costs incurred in the first quarter of 2007. The overall increase in these costs can largely be explained by factors related to the overall growth of our business, in particular amortization expenses which have doubled in line with our increase in drilling rigs and our office rents and staffing costs which have increased in support of our drill fleet expansion.

Some of the more significant items comprising indirect and administrative expenses for the quarter are discussed individually below.

Accounting, audit and legal fees, excluding special one time due diligence costs were \$85,000 in 2008 about half of the costs that we incurred in the first quarter of 2007. Our costs in the first quarter of 2007 were also higher than we would normally expect because of costs associated with our review of our investment in our operating subsidiaries in various foreign jurisdictions as we prepared for and carried out our recent corporate reorganization.

Investor Relations, promotion and travel costs were \$67,000 in the first quarter of 2008 (\$62,000 in 2007). These costs now run at approximately \$70,000 per quarter and relate to costs incurred to attend industry conferences, and marketing efforts on behalf of the Company's drilling activities. The Company's growth has brought increased investor attention and requests for more presentations and information on the Company's overall drilling activities. We are now attending and making presentations at investor conferences in Europe and the United States as well as across Canada, on an ongoing basis. Going forward, we will continue to increase the Company's commitment to expending resources on servicing its customer and investor base.

Reported management fees and consulting expenses were \$47,000 in the first quarter of 2008 compared to \$29,000 in the first quarter of 2007.

Our office, rent, insurance and sundry costs were \$199,000 in the first quarter of 2008, compared to \$117,000 in the first quarter of 2007. Our basic head office lease renewal rate jumped in May 2007 by 70% from a base rent of \$65,000 to \$112,000 annually. Taxes, utilities, and other operating costs are not included in this base cost and have also increased significantly. Insurance expense increased modestly and reflects pressure on premiums in general and the increased size of the Company's activities. As part of its efforts to avoid the impact of some of the more extreme insurance premium increases, the Company has a

policy of insuring its drilling rigs and drilling supplies for physical loss, only while being physically transported.

Our office salaries and services costs were \$364,000 in the first quarter of 2008 compared to \$233,000 in the first quarter of 2007. The Company has found it necessary to continue to add accounting, logistics, payroll and field services staff to support the growth of its drilling operations and the increased complexity of financial and regulatory reporting requirements. Cost increases also reflect salary increases granted during the year. Administrative support costs will continue to increase in future as the Company increases the size and scope of its drill fleet operations; however the Company's objective is to keep such costs well contained as a percentage of billable revenue.

With the Company's continuing growth, senior management foresees the need to further enhance its client service capabilities through additional middle management hires. While there is currently a world wide shortage of drillers and people who understand the drilling industry, there is a great opportunity for the Company to continue to expand its operations if it can provide superior service and drilling performance to its clients. During 2007 we hired several field service operations managers to develop and improve the Company's drilling services capacity and capabilities. As a result of these recent hires and the need to hire other support staff we expect that the Company's staff support costs in 2008 will be somewhat greater than the costs incurred in 2007. Further increases are expected as a result of additional staff requirements to service drill contracts, and to conduct project reviews for Energold. Overall, these staff cost increases are fully supported by the growth of our business.

### **Other Income (Expenses)**

Other income and expenses is comprised of a number of items that contribute to or reduce the Company's overall reported earnings results but which do not reflect directly on the drilling operations of the Company. There are a number of items included in the category of other income (expenses) that have had a significant impact on the Company's operations and on the comparison of results for both the first quarter of 2008 and 2007 years. These include the following items which are presented here in the order that they are presented in the Company's consolidated income statement.

1. Dilution gains on investments. \$8,623– 2008 (\$38,539 – 2007)

The 2008 operating results continue to be influenced by the inclusion of a dilution gain on its investment in IMPACT Silver Corp. At both March 31, 2008 and 2007, the Company owned 6,610,001 shares of IMPACT Silver Corp. During the 2006 calendar year, the Company's interest in IMPACT declined from 31.44% to 16.74% as the result of share issuances by IMPACT from private placements and exercises of stock options and warrants. During the 2007 year, the Company's share interest in IMPACT declined to 13.99%, principally as a result of the exercise of share purchase warrants issued in connection with the two private placements by IMPACT that took place in 2006, as well as the exercise of employee and director's share purchase options. During the first quarter of 2008, the Company's interest in IMPACT declined further from 13.99% to 13.96%. The Canadian Institute of Chartered Accountants ("CICA") handbook 1506.42 requires a Company to record a dilution gain when the fair value of the Company's share of the consideration paid by the new investors in IMPACT is in excess of the carrying value of the Company's investment in IMPACT. As a result of this requirement, the Company recorded a dilution gain of \$8,623 in the current quarter compared to a dilution gain of \$38,539 in the first quarter of 2007.

2. Foreign exchange. \$535,020 gain – 2008; (\$120,835 loss– 2007)

The 2008 first quarter operating results were affected by the strengthening value of the U.S. dollar and other foreign currency assets against the Canadian dollar during the first quarter. This resulted in an increase in the recorded value of the Company's U.S. and other foreign currency denominated assets on the Company's March 31, 2008 balance sheet. At March 31, 2008 the Company was exposed to currency risk through the holding of cash, cash equivalent and other foreign currency denominated assets net of foreign currency accounts payable in the amount of \$16.3 million compared to \$10.9 million at March 31, 2007. The international drilling service industry operates principally in U.S. dollars and the Company derives most of its contract revenue earnings in U.S. funds. In addition, the Company also invoices and receives revenues in other currencies including Brazilian Reales, and British pounds. The Company holds some of its earnings in its foreign subsidiaries pending the determination of the most tax effective way of repatriating those earnings. After recording an overall provision for a foreign exchange loss of \$2,037,000 for its 2007 fiscal year, the Company saw a recovery of a portion of this previously recognized foreign exchange loss in the first quarter of 2008

from a strengthening US dollar. The 2007 loss occurred principally because of the very rapid appreciation in the value of the Canadian dollar relative to the U.S. dollar and certain other foreign currencies from March 31, 2007 to September 30, 2007. During this six-month period, the mid-point exchange value of a U.S. dollar relative to Canadian currency declined from \$1U.S. = \$1.1546 Canadian to \$1U.S. = \$0.99 Canadian, an unprecedented rapid decrease in value of more than 16%. Since September 30, 2007, foreign exchange rates have become more stabilized and the translation losses in the fourth quarter were modest. In the first quarter of 2008, the US dollar strengthened against the Canadian dollar rising from \$0.9927 at January 2, 2008 to \$1.0279 Canadian at March 31, 2008 based on closing bank of Canada exchange rates. This led to a partial recovery of some of the previously recognized foreign exchange losses. Like many companies, we were taken by surprise last year by the very rapid increase in the value of the Canadian dollar against the U.S. currency since March 31, 2007. In an effort to maintain our margins, we have been working with our clients to notify them of the impact that foreign exchange is having on our operations. We have also taken measures to renegotiate contract rates where possible to maintain our desired margins. Because of our large net foreign asset position we expect that even modest fluctuations in exchange rates will have a significant impact on our reported quarterly operating results.

3. Gain on disposal of assets. \$nil - 2008; \$974 - 2007

The Company did not realize any significant gains in the first quarter of 2008 or 2007 from the disposal of assets.

4. Interest Income. \$123,563 – 2008; \$70,732 – 2007

During the first quarter of 2008, the Company earned \$125,563 in investment income on monies invested in bank investment certificates compared to \$70,732 earned in the first quarter of 2007. Interest earned in the first quarter declined from the fourth quarter as a result of roll over of short term investments at lower interest rates. The greater interest income on its cash accounts reflects increasing interest rates and higher cash balances held by the Company and its foreign subsidiaries. These balances have been enhanced by the net proceeds received by the Company from its private placement completed in May 2007, and by the subsequent exercise of share purchase warrants. The Company is keeping its funds well invested until such time as they can be redeployed into higher earning drilling related assets. All cash balances are conservatively managed and invested with investments placed through a Canadian chartered bank. Our enhanced liquidity position gives us flexibility to rapidly expand our drilling fleet and to seize upon other specific opportunities should they arise. The Company currently has seven new drills on order and is adding one new drill to its fleet approximately every two weeks. We expect to have over 60 drills in service or being mobilized by mid summer. We are also looking into other opportunities to expand our drilling operations and are considering various opportunities as they arise. Subsequent to the quarter end, warrant holders exercised, prior to their May 15<sup>th</sup> expiry, 2,127,700 outstanding purchase share warrants which had a strike exercise price of \$2.85 per share contributing an additional \$6,063,945 in funds to the Company's cash position.

5. Income (loss) in IMPACT Silver Corp. (\$48,371– 2008); \$43,742 – 2007

The Company recorded its investment in IMPACT on a fully-consolidated basis until June 30, 2005. Thereafter, the Company's investment in IMPACT was determined by management to have converted from a controlled entity to an equity investment. At both March 31, 2008 and 2007, the Company owned 6,610,001 shares of IMPACT Silver Corp. The Company's interest in IMPACT declined from 16.41% to 13.96% during the year as a result of share issuances of common shares by IMPACT and from the exercise of stock options and warrants. The Company, through mutual management at the executive level and its shareholding and directorship in IMPACT, exercises significant influence over that company. As a result, the investment in IMPACT is accounted for using the equity method. The equity income pickup, together with the dilution gain discussed earlier in item 1 above is shown in the continuity schedule below for both the 2007 and 2008 first quarters. This adjustment resulted in the Company's picking up an equity loss of \$48,371 in the first quarter of 2008, net of its profits on its intercompany drilling revenues. In the comparative first quarter of 2007 the Company recorded an equity income of \$43,742. The dilution gain represents the fair value of the Company's share of the consideration paid by the new investors in IMPACT in excess of the carrying value of the Company's investment in IMPACT. Details of the investment in IMPACT are as follows:

Balance – March 31, 2007	\$ 2,845,386
Equity (loss) from April 1, 2007-December 31,2007	(76,188)
Dilution gain from April 1,2007- December 31,2007	<u>598,142</u>
Balance – December 31, 2007	3,367,340
Equity (loss) for the quarter ended March 31, 2008 net of profits on intercompany drilling revenues	(48,371)
Dilution gain	<u>8,623</u>
Balance – March 31, 2008	<u>\$ 3,327,592</u>

Based upon TSX.V closing market prices of \$1.48 and \$1.82 per share, this investment has a quoted market value of \$9,783,000 at March 31, 2008 and \$12,030,000 at March 31, 2007. This aggregate quoted market value is well in excess of the book carrying value of this asset, which is carried on our balance sheet at \$3.327 million at March 31, 2008.

Under generally accepted accounting theory we are required to eliminate 100 percent of our profits earned in providing drilling services to IMPACT Silver Corp. because of our ability to exercise significant influence over that Company despite the fact that we have less than a 14.00% share ownership position in the Company. During the first quarter we provided drilling services to IMPACT at competitive market rates, similar to those that we charged to other Mexican drilling clients, for which we billed IMPACT fees totalling \$579,520 in the quarter, on which we earned a significant profit margin contribution. The reason for our equity loss in IMPACT in the first quarter of 2008 is that while we were able to pick up only our proportionate 13.96 percent share of IMPACT's net income for the quarter, we were required under Canadian GAAP to charge against this income 100 percent of our net profit contribution from providing drilling services to IMPACT. We believe that the required application of this accounting principle to our financial statement preparation and presentation is distorting the readers' ability to understand our business operations and the fact that we are actually benefiting from our drilling operations services that we are providing to IMPACT. Had we not been required to eliminate our drilling profit contribution from our equity pickup of earnings in IMPACT we would have recorded an equity pickup of approximately \$118,000 for the quarter rather than recording an equity loss of \$48,371.

**Income from Continuing Operations before Taxes and Non-Controlling Interest.  
\$2,630,116 – 1<sup>st</sup> quarter 2008; \$1,541,111 -1<sup>st</sup> quarter 2007**

The Company's margin from continuing operations before taxes and non-controlling interests increased to 30.49 percent in the first quarter of 2008 on revenues of \$8.6 million compared with a 26.37 percent margin on revenues of \$5.8 million in the first quarter of 2007.

**Income Taxes. \$860,856 – 2008; \$410,933 – 2007**

The Company has recorded a provision for current income and other tax expense of \$860,856 for the first quarter of 2008 compared to an income tax expense of \$410,933 for the comparative period in 2007. Higher taxes payable are a result of our increased business earnings. A significant portion of these higher taxes relate to taxes paid or payable by our offshore subsidiaries. The Company also has now fully utilized tax losses which it had in place in certain jurisdictions in prior years. The amounts for taxes incurred may also vary significantly from quarter to quarter depending upon decisions made by management to repatriate earnings as well as the timing of local tax payments imposed by foreign jurisdictions. Final calculations of taxes and allocations between current and future income taxes payable can only be determined at year end.

**Non-controlling interests**

Under Canadian GAAP, the treatment for the non-controlling interest expense is separated between continuing operations and discontinued operations. Therefore, as a result, the non-controlling interest expense relating to the acquisitions is included in continuing operations, and the non-controlling interest expense on the disposal of the subsidiaries is recorded within discontinued operations. The non-controlling interest expense of \$609,069 for the first quarter of 2007 relates to the operations acquired on January 1, 2007 to March 31, 2007. A further non-controlling interest expense of \$304,372 was netted against the income from discontinued operations during the period. No such expenses were recorded in the first quarter of 2008 as the Company now has full ownership and control over its entire business operations and all of its subsidiaries.

## Liquidity and Capital Resources

During 2007, the Company significantly enhanced its overall liquidity and capital resources by a private placement issuance on May 15, 2007 of 6.830 million units at a price of \$2.20 per unit. Each unit consisted of one common share and one-half share purchase warrant. One full warrant entitled the holder to purchase an additional share in the Company at a price of \$2.85 per share until May 15, 2008. The Company paid an underwriter's commission in the amount of \$1,051,820 and also granted to the underwriter 478,100 "compensation options" entitling the underwriter to acquire up to 478,100 units at a price of \$2.20 per unit for a period of 12 months under the same terms and conditions as the private placement. The net cash received on this private placement underwriting of \$13.9 million has been added to working capital to be redeployed in growing and expanding our business activities. To March 31, 2008 all of the compensation options and their respective warrants had been exercised together with 1,046,450 share purchase warrants. Subsequent to the end of the quarter, an additional 2,127,700 warrants were exercised, and 240,850 warrants expired. The exercise of these 2,127,700 warrants raised an additional \$6.063 million for the Company, which was added to its cash resources subsequent to the March 31, 2008 balance sheet date.

Consolidated cash and cash equivalents at March 31, 2008 was \$20.7 million the same as at December 31, 2007, but significantly greater than the \$7.1 million at March 31, 2007 prior to the private placement. With the additional cash received from the exercise of the outstanding purchase warrants our unrestricted cash resources are currently in excess of \$26.0 million. During the first quarter, we added to our drill fleet and increased our investment in inventories and accounts receivable. We invested the net funds received from the Company's recent private placement in short term bank term deposits pending its redeployment into longer term uses. Some of this newly-raised capital continues to be allocated to the construction and deployment of new drill rigs. We have now more than doubled our interests in drill rigs in the past twelve months, with our recent drill additions and consolidation of the operations with NCI. We also have \$2.0 million of restricted cash at the quarter end representing funds held in trust pending investment in a third party initial public offering. Accounts receivable and prepaid expenses at March 31, 2008 related to continuing operations was \$8,943,000. This is approximately \$891,000 greater than the amount outstanding at December 31, 2007 and \$2,736,000 more than the amount outstanding at March 31, 2007. This build up in accounts receivable reflects the very significant increase in our drilling activity compared to the same period last year. Similarly, our investment in our drilling inventories has increased by almost \$2.4 million in the past quarter from \$8.7 million at December 31, 2007 to \$11.1 million at March 31, 2008. This represents an increase in our investment in inventories by over \$4.4 million compared to March 31, 2007. Our investment in drill inventories is a result of our recent drill fleet additions and our anticipatory ordering of additional inventory supplies to keep pace with the rapid planned expansion of our drill fleet.

Working capital at March 31, 2008 exceeds \$36.1 million compared to working capital of \$33.8 million at December 31, 2007 and \$19.6 million at March 31, 2007. With the recent exercise of the outstanding share purchase warrants, the Company's working capital position as at the date of this MD&A should be well in excess of \$40.0 million. The Company is thus in an extremely strong position to selectively expand its operations and to capitalize on other investment opportunities that it may identify. Management intends to take the time necessary to investigate such opportunities in order to make a wise redeployment of the Company's excess liquidity, resulting from the recent private placement and share purchase warrant exercises.

Under the Corporate Agreement dated September 30, 2007, the Company acquired, as part of a corporate reorganization, full ownership of KID and EDP previously held by NCI. As part of the transaction settlement process, all amounts previously shown as being due to related parties and NCI have been shown as being settled in full and netted out against other considerations paid in calculating the net gain on reorganization. As a consequence of these settlements, the Company no longer has any significant long term indebtedness, other than a \$98,000 provision for future income taxes, on its balance sheet as at March 31, 2008.

## Outstanding Share Data

The following common shares and convertible securities of the Company were outstanding at May 15, 2008:

	# of Shares	Exercise Price	Expiry Date
Issued and outstanding common shares at May 15, 2008	33,973,152		
Warrants	nil	\$2.85	May 15, 2008
Employee and consultant stock options	718,500	\$1.20	May 3, 2010
Fully Diluted at May 15, 2008	<u>34,691,652</u>		

## Transactions with Related Parties

Related party balances are recorded at the exchange amount which is the amount of consideration paid or received as agreed by the parties. Related party transactions not disclosed elsewhere are as follows:

- During the quarter the Company had an employment contract with one director and officer for fees of \$17,500 per month. During the period ended March 31, 2008, fees, salary and cash bonus in the amount of \$52,500 (2007- \$45,750) were accrued or paid to this director and officer. In addition, fees of \$43,781 (2007- \$31,164) were also paid to another officer of the Company. Salary of \$32,500 (2007 - \$26,000) was accrued or paid to an individual related to a director.
- During the quarter, legal fees in the amount of \$247,578 (2007 - \$100,192) were accrued or paid to a firm related to a director.
- During the quarter, fees in the amount of \$579,520 (2007 - \$157,018) were charged to IMPACT for contract drilling services performed in Mexico.

The above transactions, occurring in the normal course of operations, are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

## Subsequent Events

- On May 5, 2008 the Company announced the acquisition of the sub-Saharan drilling operations of Clarity Mineral Services Ltd. including six diamond and reverse circulation drill rigs for a total purchase consideration of \$1.0 million, half to be paid in the form of cash and half through the issuance of 126,367 shares of the Company at a price of \$3.96 per share. This acquisition will assist the Company in building its infrastructure support network to expand its African drilling rig operations to service the rapidly growing demand in this area.
- In mid-May, because of attractive share prices, the Company increased its investment in IMPACT Silver Corp. through the purchase of 40,000 shares in the open market. The Company now holds 6,650,001 shares of IMPACT or just slightly over 14.0 percent of the issued and outstanding shares of IMPACT.

## New Accounting Policies

Effective January 1, 2007, the Company adopted the guidelines governed by Sections 1530, 3855 and 1506 of the CICA Handbook, "Comprehensive Income", "Financial Instruments - Recognition and Measurement" and "Accounting Changes".

## Other Comprehensive Income

Other Comprehensive Income (Section 1530) is the change in a company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in net earnings such as unrealized gains or losses on available-for-sale investments. Other comprehensive income includes the holding gains and losses from available-for-sale securities that are not included in net income (loss) until realized.

Investments classified as available for sale are reported at fair market value (or marked to market) based on quoted market prices with unrealized gains or losses excluded from earnings and reported as other comprehensive income or loss. Investments subject to significant influence are accounted for using the equity method and not adjusted to fair market value. At December 31, 2007, the Company has \$60,078 in investments designated as available for sale on which it recorded an unrealized gain of \$41,948 during the

year in Other Comprehensive Income. The adoption of Section 1530, Comprehensive Income, did not impact the consolidated balance sheet of the Company as at January 1, 2007.

#### Financial Instruments – Recognition and Measurement

The Company's financial assets consist of cash and term deposits, accounts receivable and prepaid expenses, accounts payable and amounts due to a significant shareholder.

Under Section 3855, all financial instruments are classified into one of these five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured on the balance sheet date at fair value upon initial recognition. Subsequent measurement depends on the initial classification of the instrument. Held-for-trading financial assets are measured at fair value, with changes in fair value recognised in the net earnings (loss). Available-for-sale financial instruments are measured at fair value, with changes in fair value recorded in OCI until the instrument is derecognized or impaired. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost. All derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the normal sales and purchases exemption. Changes in the fair value of derivatives that are not exempt are recorded in earnings (loss).

Upon adoption of these new standards, the Company has designated its cash and cash equivalents as held-for-trading, which are measured at fair value. Receivables are designated as loans and receivables, which are measured at amortized cost. Short-term investments are designated as available-for-sale. Accounts payable and accrued liabilities are designated as other liabilities, which are measured at amortized cost. At December 31, 2007, the Company did not have any held-to-maturity financial instruments. The adoption of this policy had no material impact on opening deficit.

Section 3861 identifies and details information to be disclosed in the financial statements.

#### Accounting Changes

Accounting Changes (Section 1506), establishes standards and new disclosure requirements for the selection and reporting of changes in accounting policies and estimates and the reporting of error corrections. It clarifies that a change in accounting policy can be made only if it is a requirement under Canadian GAAP or if it provides reliable and more relevant financial statement information. Voluntary changes in accounting policies require retrospective application to prior period financial statements, unless the retrospective effects of the changes are impracticable to determine, in which case the retrospective application may be limited to the assets and liabilities of the earliest period practicable with a corresponding adjustment made to opening retained earnings. This Section is effective for fiscal years beginning on or after January 1, 2007.

#### Recently Adopted Accounting Policies

On January 1, 2008, the Company adopted three new presentation and disclosure standards issued by CICA: Handbook Sections 3862, *Financial Instruments – Disclosure*, and 3863, *Financial Instruments – Presentation*, have replaced Section 3861, *Financial Instruments - Disclosure and Presentation*. These new sections incorporate many of the disclosure requirements of Section 3861, but place an emphasis on disclosure about risk, including both qualitative and quantitative information about the risk exposures arising from financial instruments. Section 1535, *Capital Disclosures*, establishes disclosure requirements about the Company's objectives, policies and processes for managing capital, quantitative data about what the Company regards as capital, whether the Company has complied with capital requirements and, if the entity has not complied, the consequences of such non-compliance.

Section 3031, *Inventories*, which replaces Section 3030, establishes standards for the measurement and disclosure of inventories. The new standard provides more extensive guidance on the determination of cost, including allocation of overhead and requires impairment testing. The adoption of this new accounting policy did not have any impact on the Company's consolidated financial statements.

The following outlines the Company's Capital Management and Management of Financial and Market Risk Policies in accordance with the Company's adoption of the Handbook Sections 1535 and 3862 and 3863 guidelines.

## Capital Management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, to provide an adequate return to shareholders, and to meet external capital requirements on our debt and credit facilities.

In the management of its capital, the Company includes its cash and cash equivalent balances. The Company monitors capital based on the debt to debt-plus-equity ratio. Debt is total debt shown on the balance sheet, less free cash and cash equivalents. Debt-plus-equity is calculated as debt shown on the balance sheet, plus total shareholders' equity which includes accumulated other comprehensive income, share capital, warrants, contributed surplus and retained earnings or deficit.

The Company's policy is to keep its debt to debt-plus-equity ratio at a manageable level consistent with the current business cycle, and the business opportunities outlook foreseen by the Company. As a general guideline, the Company's policy will be to keep its debt to debt-plus-equity ratio below 50%, except in unusual circumstances such as a major acquisition. Currently the Company has no debt and is in full compliance with its capital risk management policies. The Company's Board of Directors approves management's annual capital expenditures plans and reviews and approves any material debt borrowing plans proposed by the Company's management.

## Management of Financial Risk

The Company's financial instruments are exposed to a number of financial and market risks including credit, liquidity, foreign exchange, interest rate and price risks. The Company may, or may not, establish from time to time active policies to manage these risks. The Company does not currently have in place any active hedging or derivative trading policies to manage these risks since the Company's management does not believe that the current size, scale and pattern of cash flow of its operations would warrant such hedging activities.

## Credit Risk

Credit risk arises from the non-performance by counterparties of contractual financial obligations. The Company's credit risk is primarily attributable to short term deposits and accounts receivable. The Company's primary counterparties related to its money market investments carry investment grade ratings. The Company manages credit risk for trade and other receivables through established credit monitoring activities. The Company concentrates cash management of some of its offshore subsidiaries principally through its Canadian banking relationships for cash investment management purposes. The Company does not have any significant concentration of credit risk exposure to any single counterparty or group of counterparties other than with its principal Canadian banker. The Company's maximum exposure to credit risk at the reporting date is the carrying value of its receivables and short term deposits.

## Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company manages liquidity by maintaining cash and cash equivalent balances available to meet its anticipated operational needs. The Company has not been required to establish available or committed credit facilities but will do so as necessary. Liquidity requirements are managed based on expected cash flow to ensure that there is adequate capital to meet short term and long term obligations.

## Market Risks

The significant market risks to which the Company is exposed are foreign exchange risk, interest rate risk and commodity price risk.

## Foreign Exchange Risks

The Company operates on an international basis on five continents and therefore, foreign exchange risk exposures arise from transactions denominated in foreign currencies. The majority of its international business is conducted in US dollars. Thus its foreign exchange risk arises primarily with respect to the US dollar, although the Company also incurs operating costs in local currencies in various countries in which it carries on active business operations.

At March 31, 2008, the Company is exposed to currency risk through the following assets and liabilities held in US and other foreign currencies:

	March 31, 2008	March 31, 2007
Cash and cash equivalents	\$ 10,522,079	\$ 6,593,319
Other assets	7,533,524	5,661,918
Accounts payable	(1,738,766)	(1,302,594)
	<u>\$ 16,316,837</u>	<u>\$ 10,952,643</u>

The Company elected not to actively manage our foreign exchange risk at this time.

#### Interest Rate Risk

The Company's interest rate risk arises primarily from the interest received on cash and short-term deposits. The floating rate deposits expose the Company to cash flow interest rate risk. The Company does not currently have any short or long term interest borrowings.

The deposits are invested on a short term basis to enable liquidity for payment of operational and capital expenditures. As a result of rapid rollover of short term investments there is little risk of capital loss as a result of changes in interest rates.

#### Commodity Price Risk

The Company is subject to price risk for certain input costs involved in its business operations such as fuel for its drilling operations. The Company has a policy of contractually transferring the responsibility of fuel supply costs to its clients, where possible, so as to reduce its business risk.

Effective January 1, 2009, for the Company, Section 3064 replaces Handbook Section 3062, "Goodwill and Intangible Assets" and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred.

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

### **DISCLOSURE CONTROLS AND INTERNAL CONTROL OVER FINANCIAL REPORTING**

#### Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to permit timely decisions regarding public disclosure.

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined by the Canadian Securities Administrators (CSA), as of March 31, 2008. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed in reports filed or submitted by the Company under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified in those rules.

#### Management's Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations and may not prevent or detect misstatements. Therefore even those systems determined to be effective can only provide reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

After reviewing our overall Company's internal controls and financial reporting and disclosure systems, management is satisfied that as at March 31, 2008 the Company has designed overall controls and systems to meet the needs of the Company, its shareholders, and other stakeholders who rely on the Company's financial information and reporting systems.

#### Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the three- and twelve-month periods ended March 31, 2008 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

#### Approval

The Board of Directors oversees management's responsibility for financial reporting and internal control systems through an Audit Committee. This Committee meets periodically with management and the independent auditors to review the scope and results of the annual audit and to review the financial statements and related financial reporting and internal control matters before the financial statements are approved by the Board of Directors and submitted to the shareholders of the Company. The Board of Directors of Energold has approved the year-end financial statements and the disclosure contained in this MD&A. A copy of this MD&A will be provided to anyone who requests it.

#### **Additional Information**

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

On behalf of the board of directors,

"Frederick W. Davidson",  
President, Chief Executive Officer

May 15, 2008