

# **Energold Drilling Corp.**

## **Form 51-102F1 Management's Discussion and Analysis For the Period Ended September 30, 2009**

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### **INTRODUCTION**

This Management's Discussion and Analysis (MD&A) of Energold Drilling Corp. ("Energold" or "the Company") is dated November 23, 2009. This MD&A should be read in conjunction with the unaudited interim consolidated financial statements of Energold Drilling Corp. and the notes thereto for the period ended September 30, 2009, which have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All amounts referred to herein are in Canadian dollars unless otherwise specified. Additional information relating to the Company including material change notices, certifications of annual and interim filings, and press releases are available on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com).

This document contains forward-looking statements. Please refer to "NOTE REGARDING FORWARD-LOOKING STATEMENTS."

### **CORPORATE OVERVIEW**

Energold is one of the world's fastest growing diamond drilling contractors primarily serving the mining and mineral exploration industries in three geographic segments: Mexico, the Caribbean and Central America; South America; and Africa, Asia and other. Energold specializes in operating highly-portable drilling rigs which have a smaller environmental impact than conventional rigs and which are adaptable to meet the varied needs of its customers. The Company also holds mineral exploration properties in the Dominican Republic and Mexico, both directly and through the 6.65 million shares that it holds in IMPACT Silver Corp. ("IMPACT"). The Company's interest in IMPACT is currently accounted for on an equity basis.

### **INDUSTRY OVERVIEW**

Energold has traditionally been engaged by and seen demand for its services from three groups of customers: gold mining companies, base metal mining companies, and junior exploration companies. Each of these groups is influenced by distinct market forces. In the last few years, historically high prices for many commodities drove the industry to record levels of activity. In the fourth quarter of 2008 demand for drilling services weakened significantly due to the global recession and demand weakness persisted through the first half of 2009. In the third quarter of 2009 and continuing into the fourth quarter we are seeing an increasing level of interest from our customers. Exploration for precious metals currently represents the largest demand; however, certain specialty commodities and base metals are also increasing the demand for drilling services.

Senior and intermediate base metal and gold mining companies have been successful in raising substantial amounts of capital in the late summer of 2009 and while exploration budgets have been reduced we are seeing an increase in activity each month from the beginning of 2009 to present. It is expected that with greater amounts of cash and financial flexibility, these companies will increase the level of demand for drilling services in 2010. In the drilling industry price tends to follow demand and thus as demand increases we expect to see drilling pricing increases once again in late 2010.

### **OUTLOOK AND BUSINESS STRATEGY**

As a result of the current economic uncertainty, there continues to be unpredictable demand for drilling services worldwide and accordingly the Company cautions that actual results may vary substantially from all forward-looking information in this MD&A. While the challenges posed by the current economic environment serve to limit the visibility in the short-term, it is clear that as and when drilling activities rebound, as it appears they are beginning to, Energold will be poised for growth once again.

The Company has seen drilling activity increase each month in 2009 and this trend has continued as October has been our strongest month in 2009. Lower levels of demand overall compared to 2008 have increased competitive pressures and thus pricing and margins are lower in 2009. As most of the Company's contracts are priced in U.S. dollars, a weak U.S. dollar impacts directly on our margins. The Company employs a variable cost structure and thus when revenues decrease so do a significant portion of the Company's costs. However, there are certain semi-variable

operating costs that the Company does not wish to reduce in the current period of lower demand. This is a strategic decision on the part of the Company to continue to grow and to improve quality of service in the longer term.

Despite the difficult environment, the Company expects to continue generating positive cash flow before changes in non-cash working capital. The Company's strategic goal is to continue to enhance cash reserves to fuel further growth when market conditions improve. While Energold remains open to exploring suitable acquisitions, the Company's primary focus continues to be on organic growth through new rig development and expansion into new markets. In spite of the economic downturn the Company is seeing renewed interest in its traditional markets as well as in areas of West Africa. Certain markets are already responding and in those markets rig utilization is approaching traditional levels. Other markets have not yet responded to the improving economic climate and thus the Company is redeploying a number of its rigs from these areas which will temporarily reduce availability.

With a modern fleet of drilling rigs and continued expansion into new operating regions, we have laid the seeds for future growth in five continents. The Company currently has drilling rigs deployed in 17 countries around the world and thus has the ability to react immediately to stronger demand for drilling services.

With its strong balance sheet and financial flexibility, Energold is also looking at strengthening its position in certain current and new markets through acquisition. The Company recognizes that this is difficult to accomplish on an accretive basis and thus during the quarter the Company engaged Mr. Craig Geier as Vice President, Corporate Development to survey the market for specific targets.

The Company is also developing additional technical ability in complementary activities including underground drilling. The expansion into underground drilling is in response to certain clients' requests that we provide full service to their operations. Energold took delivery of one new surface drilling rig and four new underground drilling rigs in the first nine months of 2009, bringing the total number of rigs to 79. One more underground rig was delivered early in the fourth quarter. The underground rigs are similar to our existing surface rigs, using approximately 90% of the same equipment and supplies as our surface rigs use. This substantially reduces crew training time and inventory requirements. A prototype surface rig is currently being designed to access depths beyond 1,000 meters and a modification to increase the capability of our standard Series II rigs is currently underway. Additional surface rigs will be added when utilization rates reach historic percentages or to service specific demand.

## **OVERALL PERFORMANCE**

Despite the slowdown in drilling activity in the first nine months of 2009, the Company's operations remained cash flow positive. Revenues for the third quarter were \$6.4 million, up 66% over the first quarter of 2009 and 2% over the second quarter of 2009 and are demonstrating the general recovery we are starting to see in the industry as a whole. Pricing pressure and a strengthening Canadian dollar has pushed average revenue per meter down to \$147 in the third quarter from \$168 in the second quarter of 2009.

Energold drilled 43,484 meters in the third quarter, up 112% from 20,490 meters in the first quarter of 2009 and up 17% from 37,200 in the second quarter of 2009. While the total meters drilled were less than targeted the trend appears to be strengthening as the Company drilled in excess of 21,000 meters in the month of October 2009, more than in the entire first quarter of 2009. Drilling activity in the second quarter was primarily in Mexico and Brazil. In the third quarter we have seen continued activity in Mexico and Brazil as well as improvements in activity in the Dominican Republic, Peru and Africa.

Gross margin percentage<sup>1</sup> decreased to 21.4% in the third quarter as compared to 36.7% in the second quarter of 2009. Competitive pricing for drilling at mine sites reduced overall prices as the Company experienced a higher proportion of its activities at mine sites and less frontier exploration drilling than anticipated. A further impact was felt from a declining U.S. dollar, with the average exchange rate to the Canadian dollar down 6% in the third quarter compared to the second quarter.

The Company incurred a foreign exchange loss of \$1.3 million and non-cash future income tax expense of \$1.0 million which generated a net loss for the quarter of \$1.6 million (\$0.05 per share – basic and diluted) compared to net income of \$3.4 million (\$0.10 per share – basic and diluted) in the third quarter of 2008.

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<sup>1</sup> Gross margin and gross margin percentage are non-GAAP measures. See "NON-GAAP MEASURES."

Cash flows from operations before changes in non-cash working capital<sup>2</sup> in the third quarter were \$0.24 million, down from \$4.35 million in the third quarter of 2008.

Energold has a strong balance sheet with a working capital position of \$47.9 million and cash and cash equivalents of \$19.4 million at September 30, 2009. The majority of these funds are denominated in U.S. and Canadian dollars and held with Canadian Chartered Banks.

### SELECT FINANCIAL AND OPERATING INFORMATION

	Three months ended September 30			Nine months ended September 30		
	2009	2008	% Change	2009	2008	% Change
Revenue (\$000s)	<b>6,408</b>	14,264	- 55%	<b>16,521</b>	34,288	- 52%
Gross margin (\$000s)	<b>1,372</b>	5,958	- 77%	<b>4,528</b>	14,145	- 68%
Gross margin percentage	<b>21.4%</b>	41.8%		<b>27.4%</b>	41.3%	
Net income (loss) (\$000s)	<b>(1,580)</b>	3,410	- 146%	<b>(1,392)</b>	7,549	- 118%
Earnings per share – basic (\$)	<b>(0.05)</b>	0.10	- 146%	<b>(0.04)</b>	\$0.23	- 118%
Earnings per share – diluted (\$)	<b>(0.05)</b>	0.10	- 147%	<b>(0.04)</b>	\$0.23	- 118%
Meters drilled	<b>43,484</b>	73,420	- 41%	<b>101,174</b>	193,860	- 48%

	Sept 30 2009	June 30 2009	Mar 31 2009	Dec 31 2008	Sept 30 2008	June 30 2008	Mar 31 2008	Dec 31 2007
Drill rig fleet	<b>79</b>	78	78	75	72	69	49	41
Cash and cash equivalents (\$000s)	<b>19,436</b>	19,917	22,867	22,574	17,361	20,421	20,673	20,705
Total assets (\$000s)	<b>69,225</b>	71,122	70,386	70,441	71,429	64,908	54,447	50,328
Total liabilities (\$000s)	<b>7,281</b>	6,962	6,873	7,465	11,578	8,450	7,025	6,180
Shareholders' equity (\$000s)	<b>61,944</b>	64,159	63,512	62,976	59,851	56,458	47,422	44,148

<sup>2</sup> Cash flows from operations before changes in non-cash working capital is a non-GAAP measure which the Company believes provides a better indicator of the Company's ability to generate cash flows from its drilling operations. See "NON-GAAP MEASURES."

## RESULTS OF OPERATIONS

### Three Months Ended September 30, 2009 Compared to the Three Months Ended September 30, 2008

Net loss for the three months ended September 30, 2009 was \$1.6 million (\$0.05 per share – basic and diluted), down from net income of \$3.4 million (\$0.10 per share – basic and diluted) in the same period of 2008.

Net loss for the three months ended September 30, 2009 was impacted by the following factors:

- Revenues decreased to \$6.4 million in the third quarter, down 55% from \$14.3 million in the third quarter of 2008. The decrease in revenues is attributed to the delays and cancellations of drilling programs this year as a result of global economic uncertainty. Average revenue per meter decreased to \$147 in the third quarter as compared to \$194 in the third quarter of 2008. Contract rates have decreased in 2009 and a greater proportion of the Company's drilling has been at mine sites in 2009 which is typically charged at lower rates than frontier exploration drilling. The revenue per meter was also affected by the fact that approximately 13% of the Company's drilling in the quarter was reverse circulation drilling ("RC") which is generally priced at rates of less than one half that of diamond drilling.
- Gross margin decreased to \$1.4 million in the third quarter, down 77% from \$6.0 million in the third quarter of 2008. Gross margin percentage was 21.4% in the third quarter of 2009 compared to 41.8% in the same period of 2008. The decrease in gross margin percentage was a result of a number of factors. Pricing pressure and a change in the project mix from frontier exploration drilling to mine site drilling pushed margins down. The Company records inventories on a first-in first-out basis and thus inventories and consumables expensed in the third quarter of 2009 would have been purchased in 2008 when prices for these items were at their highest. The Company continued to invest in emerging markets where little or no revenue was earned in the third quarter of 2009 in order to capitalize on opportunities when drilling demand increases. These increases as well as certain semi-variable operating costs which were not eliminated contributed to softer operating margins.
- Indirect and administrative expenses decreased to \$1.5 million in the third quarter, down from \$2.0 million in the third quarter of 2008. The decrease was primarily the result of bad debt recoveries of \$0.03 million in the third quarter of 2009 as compared to bad debt expense of \$0.5 million in the third quarter of 2008. The Company was able to realize recoveries on a number of previously written down accounts receivable by working closely with customers to ensure a positive result for both parties.
- A foreign exchange loss of \$1.3 million was recognized in the third quarter as compared to a foreign exchange gain of \$0.6 million in the third quarter of 2008. The Canadian dollar strengthened against the U.S. dollar in the third quarter of 2009 which gave rise to the foreign exchange loss on U.S. dollar denominated cash and accounts receivable. Future foreign exchange fluctuations will result in gains or losses as the Company translates its non-Canadian dollar denominated assets and liabilities into Canadian dollars and may have a significant impact on future net income.
- Current and future income taxes decreased to \$0.4 million in the third quarter, down from \$1.2 million in the third quarter of 2008. The decrease is a result of the loss before taxes in the third quarter of 2009 as compared to income before taxes in the third quarter of 2008.

Other comprehensive loss in the third quarter was \$0.7 million, an increase from other comprehensive loss of \$0.02 million in the third quarter of 2008. Other comprehensive loss in the third quarter related to unrealized losses on short-term investments net of taxes.

## **Nine Months Ended September 30, 2009 Compared to the Nine Months Ended September 30, 2008**

Net loss for the nine months ended September 30, 2009 was \$1.4 million (\$0.04 per share – basic and diluted), down 118% from net income of \$7.5 million (\$0.23 per share – basic and diluted) in the same period of 2008.

Net loss for the nine months ended September 30, 2009 was impacted by the following factors:

- Revenues decreased to \$16.5 million in the first nine months of 2009, down 52% from \$34.3 million in the same period in 2008. The decrease in revenues is attributed to the delays and cancellations of drilling programs this year as a result of global economic uncertainty. Average revenue per meter decreased to \$163 in the nine months ended September 30 as compared to \$177 in the same period in 2008. Contract rates have decreased in 2009 and a greater proportion of the Company's drilling has been at mine sites in 2009 which is typically charged at lower rates than frontier exploration drilling.
- Gross margin decreased to \$4.5 million in the first nine months of 2009, down 68% from \$14.1 million in the same period in 2008. Gross margin percentage was 27.4% in the first nine months of 2009 compared to 41.3% in the same period in 2008. The decrease in gross margin percentage was a result of a number of factors. Pricing pressure and a change in the project mix from frontier exploration drilling to mine site drilling pushed margins down. The Company records inventories on a first-in first-out basis and thus inventories and consumables expensed in the first nine months of 2009 would have been purchased in 2008 when prices for these items were at their highest. The Company continued to invest in emerging markets where little or no revenue was earned in the first nine months of 2009 in order to capitalize on opportunities when drilling demand increases. These increases as well as certain semi-variable operating costs which were not eliminated more than offset the positive foreign exchange translation on revenues.
- Indirect and administrative expenses decreased to \$3.7 million in the first nine months of 2009, down from \$5.3 million in the same period in 2008. The decrease was primarily the result of bad debt recoveries of \$0.9 million in the first nine months of 2009 as compared to bad debt expense of \$0.8 million in the same period of 2008. Also, in the first nine months of 2008 the Company spent \$0.7 million on business development investigations for which there was no comparable expense in the same period of 2009.
- A foreign exchange loss of \$2.0 million was recognized in the first nine months of 2009 as compared to a foreign exchange gain of \$1.2 million in the same period of 2008. The Canadian dollar strengthened against the U.S. dollar in the first nine months of 2009 which gave rise to the foreign exchange loss on U.S. dollar denominated cash and accounts receivable.
- Current and future income taxes decreased to \$0.5 million in the first nine months of 2009, down from \$3.0 million in the same period of 2008. The decrease is a result of the loss before taxes in the first nine months of 2009 as compared to income before taxes in the first nine months of 2008.

Other comprehensive income in the first nine months of 2009 was \$0.3 million, up from other comprehensive loss of \$0.045 million in the first nine months of 2008. Other comprehensive income in the first nine months of 2009 related to unrealized gains on short-term investments net of taxes.

## OTHER FINANCIAL INFORMATION

### Summary of Quarterly Results

The following table presents our unaudited quarterly results of operations for each of the last eight quarters. All figures are in thousands of Canadian dollars except earnings per share:

	<b>For the three months ended</b>							
	<b>(\$000's except per share amounts)</b>							
	Sept 30 2009	Jun 30 2009	Mar 31 2009	Dec 31 2008	Sept 30 2008	Jun 30 2008	Mar 31 2008	Dec 31 2007
Revenue	6,408	6,262	3,851	7,974	14,264	11,399	8,625	7,144
Net income (loss) from continuing operations	(1,580)	(215)	403	3,135	3,410	2,370	1,769	1,994
Earnings per share from continuing operations – Basic*	(0.05)	(0.01)	0.01	0.09	0.10	0.07	0.06	0.06
Earnings per share from continuing operations – Diluted*	(0.05)	(0.01)	0.01	0.09	0.10	0.07	0.05	0.06
Net income	(1,580)	(215)	403	3,135	3,410	2,370	1,769	3,063
Earnings per share - Basic*	(0.05)	(0.01)	0.01	0.09	0.10	0.07	0.06	0.10
Earnings per share - Diluted*	(0.05)	(0.01)	0.01	0.09	0.10	0.07	0.05	0.09
Cash and cash equivalents	19,436	19,917	22,867	22,574	17,361	20,421	20,673	20,705
Total assets	69,225	71,122	70,386	70,441	71,429	64,908	54,447	50,328
Total liabilities	7,281	6,962	6,873	7,465	11,578	8,450	7,025	6,180

\* Per share numbers have been rounded to two decimal places

### Liquidity and Capital Resources

The Company's financial position at September 30, 2009 remains strong with \$19.4 million in cash and cash equivalents (December 31, 2008 - \$22.6 million) and net working capital of \$47.9 million (December 31, 2008 - \$49.4 million).

Cash flows from operations before changes in non-cash working capital in the third quarter were \$0.24 million, down from \$4.35 million in the third quarter of 2008. During the third quarter the Company used \$0.7 million in cash for investing activities, primarily for the purchase of drilling rigs and short-term investments. The Company received \$0.02 million from stock options exercised in the third quarter.

In the opinion of management, the working capital at September 30, 2009, together with the future cash flows from operations, is sufficient to support the Company's normal operating requirements on an ongoing basis. Capital expenditures for the remainder of 2009 are estimated to be approximately \$0.5 million for continued drill fleet expansion.

### Outstanding Share Data

The following common shares and stock options of the Company were outstanding at November 23, 2009:

	# of Shares	Exercise Price	Expiry Date
Issued and outstanding common shares at November 23, 2009	34,143,048		
Stock options outstanding	678,500	\$1.20	May 3, 2010
Stock options outstanding	1,155,000	\$2.01	October 1, 2014
Fully Diluted at November 23, 2009	35,976,548		

Of the 1,833,500 stock options outstanding, 967,250 have vested at November 23, 2009.

## **EQUITY HOLDINGS**

### **IMPACT Silver Corp. (IPT: TSX.V) (“IMPACT”)**

Energold owns 6.65 million shares or 13.77% of the issued and outstanding shares of IMPACT at September 30, 2009. Energold, 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 \$3.5 million.

Since inception in 2004, IMPACT has grown from an exploration company into a significant silver producer with production levels increasing year-over-year. IMPACT has acquired control of almost two entire mineral districts in central Mexico; the 272 kilometer<sup>2</sup> Royal Mines of Zacualpan Silver District and the 200 kilometer<sup>2</sup> Mamatla Mineral District immediately southwest of Zacualpan. IMPACT also controls the Veta Grande Silver Project in the Zacatecas Silver District, Mexico. IMPACT currently produces concentrates containing silver, lead, zinc and gold at the 500 tonnes per day (“tpd”) Guadalupe Processing Plant and also owns a 200 tpd semi-portable processing plant presently stored at Zacualpan, enabling milling capacity to be expanded to 700 tpd.

Silver production for the third quarter exceeded 215,000 oz and for the nine months ended September 30, 2009 silver production was 663,000 oz, which was greater than the entire 2008 silver production. IMPACT recorded revenues of \$5.0 million and net earnings of \$0.79 million in the third quarter and revenues of \$9.8 million and net earnings of \$1.04 million for the nine months ended September 30, 2009.

IMPACT is currently undertaking a three-part process of exploration, development and mine production at the Royal Mines of Zacualpan Silver District and adjacent Mamatla Mineral District. IMPACT has three specific objectives aligned to each activity area. The first objective is to enhance immediate economically recoverable throughput until the current maximum rated capacity of 500 tpd is achieved. In the third quarter of 2009 the Guadalupe mill processed an average of 307 tpd, up 2% from the third quarter of 2008. With the addition of development muck from the new Noche Buena Mine the Guadalupe mill is expected to be processing in excess of 400 tpd in early 2010. The second objective is to continue exploration and prepare for development of the new sources of ore which will justify expansion of our current facility or the construction of new processing plants. The third objective is to continue the reconnaissance exploration program designed to evaluate the longer term potential of this 500-year-old mining district. In the third quarter of 2009 IMPACT continued to make progress towards each of these three objectives.

During the third quarter, IMPACT announced a positive production decision for development of the Noche Buena Mine located 4 kilometers west of the Guadalupe processing plant. The decision is based on a zone defined over 300 meters long by 100 meters deep and with a 3 meter average width. The zone remains open for expansion. The mine is now under construction with development muck scheduled to go to the processing plant in December 2009 and production from stopes scheduled for the first quarter of 2010.

The Noche Buena Mine will be the third new mine that has been taken from discovery to production by the IMPACT team since 2004. The Noche Buena was discovered with a drill hole in January 2009 and with projected production in the first quarter of 2010 the IMPACT team has delivered this project in approximately twelve months. This ability to fast track new mines into production is a cornerstone of IMPACT's plan to rapidly grow silver production in the Zacualpan and Mamatla Districts.

In the first quarter of 2009, IMPACT announced extensive drill assays from the Capire and Aurora 1 Zones in the Mamatla Mineral District. During the third quarter, resource calculations, mine planning and metallurgical test work continued on the Capire and Aurora 1 Zones to determine the feasibility of future mining in these areas. Subsequent to quarter end, IMPACT announced NI 43-101 compliant mineral resources for the Capire and Aurora 1 Zones totalling 7.2 million oz silver, 94.3 million lbs zinc and 38.8 million lbs lead.

Energold provides surface and underground diamond drilling exploration services for IMPACT.

## IMPACT Silver Corp. Production for the three and nine months ended September 30, 2009

	Three months ended			Nine months ended		
	Sept 30 2009	Sept 30 2008	% Change	Sept 30 2009	Sept 30 2008	% Change
Total tonnes (t) produced	<b>28,232</b>	27,746	+2%	<b>85,419</b>	76,083	+12%
Tonnes produced per day	<b>307</b>	302	+2%	<b>313</b>	278	+12%
Silver production (oz)	<b>215,558</b>	169,273	+27%	<b>662,958</b>	421,792	+57%
Lead production (t)	<b>229</b>	262	-13%	<b>764</b>	556	+37%
Zinc production (t)	<b>183</b>	312	-41%	<b>819</b>	753	+9%
Revenue per production tonne sold	<b>\$121.60</b>	\$78.51	+55%	<b>\$115.02</b>	\$91.25	+26%
Direct costs per tonne produced	<b>\$62.05</b>	\$59.27	+5%	<b>\$58.83</b>	\$54.10	+9%

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

## IMPACT Silver Corp. Financial Results for the three and nine months ended September 30, 2009

	Three months ended (\$000s except per share amounts)			Nine months ended (\$000s except per share amounts)		
	Sept 30 2009	Sept 30 2008	% Change	Sept 30 2009	Sept 30 2008	% Change
Revenue	4,983	2,244	+122%	9,843	6,687	+47%
Mine operating earnings*	1,882	201	+834%	3,745	1,920	+95%
Net income	785	(233)	n/a	1,044	918	+14%
Earnings per share – basic	0.02	(0.00)	n/a	0.02	0.02	+12%
Earnings per share – diluted	0.02	(0.00)	n/a	0.02	0.02	+12%

\* Includes amortization and depletion for the three months ended September 30, 2009 of \$566,000 (2008 - \$376,000) and for the nine months ended September 30, 2009 of \$1,081,000 (2008 - \$817,000).

## 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 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 operations and is currently implementing an ISO 14001 program throughout the Company.

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. During 2009, as part of its overall community programs in Mexico the Company has drilled and equipped three water wells for remote communities without adequate clean water. In Haiti the Company participated in the construction of the almost 50 meter long Elizabeth foot bridge in Limbe Municipality.

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 maintains a safety and environmental audit program.

## **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 ability to continue to secure profitable contracts on an ongoing 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**

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. As the drilling industry transitions to a cyclical upturn there may be a shortage of qualified drillers. The Company is addressing this issue in a number of ways. In certain countries, it is developing and training a local work force. It is also hiring overseas and developing incentive programs to retain drillers. If the Company cannot hire or train a sufficient quantity of drillers, it may 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 licenses and permits from various governmental authorities. There can be no assurance that the Company or its clients will be able to obtain all necessary licenses and permits that they may require to carry out contract drilling or exploration, development and mining operations on their mineral properties.

### **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. 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 and mineral exploration sectors, thus providing an essential service available to mining and mineral exploration companies with a contract drilling service offered in a cost effective and environmentally friendly manner.

## **FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISK**

### **Financial Assets and Liabilities**

The Company's financial instruments consist of cash and cash equivalents, restricted cash, accounts receivable, short-term investments and accounts payable and accrued liabilities. For cash and cash equivalents, restricted cash, accounts receivable, and accounts payable and accrued liabilities, carrying value is considered to be fair value due to the short-term nature of these instruments. The fair value of short-term investments represents the market value of quoted investments.

### **Financial Instrument Risk Exposure**

The Company's financial instruments are exposed to a number of financial and market risks including credit, liquidity, currency, and interest rate 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 is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk include cash and cash equivalents, restricted cash, accounts receivable and short-term investments. The Company deposits its cash and cash equivalents with high credit quality financial institutions as determined by ratings agencies, with the majority deposited with a Canadian Tier 1 Bank. The Company provides credit to its customers in the normal course of its operations. The Company diversifies its credit risk by dealing with a large number of customers in various countries.

The Company's maximum exposure to credit risk at the reporting date is the carrying value of its cash and cash equivalents, restricted cash, accounts receivable and short-term investments.

#### **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 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. The Company has in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its growth plans. At September 30, 2009 the Company's accounts payable and accrued liabilities were \$3.2 million, all of which fall due for payment within twelve months of the balance sheet date. The Company has minimal long-term commitments.

#### **Currency risk**

The Company operates on an international basis on five continents and therefore, currency risk exposures arise from transactions denominated in foreign currencies. The majority of its international contracts are denominated in U.S. dollars. Thus its currency risk arises primarily with respect to the U.S. dollar. However, the Company also incurs operating costs in local currencies in various countries in which it carries on active business operations. The Company has elected not to actively manage our currency risk at this time.

At September 30, 2009 the Company is exposed to currency risk through cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities held in U.S. dollars, Mexican pesos and Brazilian reais. Based on these foreign currency exposures at September 30, 2009, a 5% depreciation or appreciation of all the above currencies against the Canadian dollar would result in an approximate \$0.6 million decrease or increase in the Company's net income.

#### Interest rate risk

Interest rate risk is the risk that the fair value and future cash flows of the Company will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on its cash and cash equivalents. The Company did not have any borrowings outstanding at September 30, 2009.

### **Changes in Accounting Policies – Adoption of New Accounting Policies**

Effective January 1, 2009, the Company adopted the new Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, *Goodwill and Intangible Assets*. This section replaces CICA 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 various pre-production and start-up costs and requires that these costs be expensed as incurred, with the concurrent withdrawal of CICA Emerging Issues Committee Abstract 27. The adoption of Section 3064 did not result in a material impact on the Company's consolidated financial statements.

In March 2009, the CICA issued EIC-174, "Mining Exploration Costs." The EIC provides guidance on the accounting and the impairment review of exploration costs. This standard is effective for our fiscal year beginning January 1, 2009. The adoption of EIC-174 did not result in a material impact on the Company's consolidated financial statements.

In June 2009, the CICA amended Handbook Section 3862 – *Financial Instruments – Disclosures* to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosure requirements for publicly accountable enterprises. The amendments are applicable for the Company's annual consolidated financial statements for its fiscal year ending December 31, 2009.

### **Recent Accounting Pronouncements Issued But Not Yet Implemented**

In January 2009, the CICA issued Sections 1582 – *Business Combinations*, 1601 – *Consolidated Financial Statements* and 1602 – *Non-controlling Interests* which replace CICA Sections 1581 – *Business Combinations* and 1600 – *Consolidated Financial Statements*. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards ("IFRS"). Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011. Early adoption of this Section is permitted. If the Company chooses to early adopt any one of these Sections, the other two Sections must also be adopted at the same time.

### **International Financial Reporting Standards ("IFRS")**

In February 2008, the Canadian Accounting Standards Board confirmed that IFRS will replace current Canadian GAAP for publicly-accountable, profit-oriented enterprises effective January 1, 2011. The transition date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported for the year ended December 31, 2010.

The Company is currently in the process of identifying the differences between Canadian GAAP and IFRS and identifying how these differences may affect the reporting of the Company's financial results. A project plan is being developed and resource and training requirements are being assessed. Over the next two years changes will be implemented and work performed to ensure the accuracy and effectiveness of the transition to IFRS. At this time it is not possible to determine how reporting according to IFRS will affect future 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 at September 30, 2009. 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 September 30, 2009 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 months ended September 30, 2009 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 financial statements and the disclosure contained in this MD&A. A copy of this MD&A will be provided to anyone who requests it.

## **NON-GAAP MEASURES**

The Company uses both GAAP and non-GAAP measures to assess performance and believes the non-GAAP measures provide useful information to investors to help in evaluating the Company's performance. Following are the non-GAAP measures the Company uses in assessing performance:

Gross margin: Calculated as Revenue from Drilling Contracts less Direct Drilling Costs.

Gross margin percentage: Calculated as (Gross margin divided by Revenue from Drilling Contracts) x 100.

Cash flows from operations before changes in non-cash working capital: Calculated as Cash flows from operations less the changes in non-cash working capital (accounts receivable and prepaid expenses, income taxes receivable, due from related party, inventories, accounts payable and accrued liabilities, income taxes payable, deferred revenue, and future income taxes).

The Company's method of calculating these non-GAAP measures may differ from other entities and, accordingly, may not be comparable to measures used by other entities. Investors are cautioned, however, that these measures should not be construed as an alternative to measures determined in accordance with GAAP as an indicator of the Company's performance.

## **NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This MD&A contains certain forward-looking statements and information relating to Energold 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.

### **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 and Chief Executive Officer

November 23, 2009