

# **Energold Drilling Corp.**

## **Form 51-102F1 Management's Discussion and Analysis For the Three and Nine Months Ended September 30, 2011**

---

### **INTRODUCTION**

*This Management's Discussion and Analysis ("MD&A") is intended to help the reader understand the significant factors that have affected Energold Drilling Corp. and its subsidiaries' ("Energold" or the "Company") performance and such factors that may affect future performance. For a comprehensive understanding of Energold's financial condition and results of operations, this MD&A should be read in conjunction with the Company's consolidated financial statements for the Nine Months ended September 30, 2011 and the related notes contained therein, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") . All amounts referred to herein are in Canadian dollars unless otherwise specified. The Company's accounting policies have changed and the presentation, financial statement captions and the terminology used in this MD&A and the accompanying unaudited consolidated interim financial statements differ from those financial statements and quarterly and annual reports issued prior to 2011. 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**

The Energold group is a drilling contractor primarily historically serving the mining and mineral exploration industries in three geographic segments: Mexico, the Caribbean and Central America; South America; Africa, Asia and other. Energold specialized 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. These rigs are particularly successful in exploration in "frontier" areas, that for reasons of social and environmental impact are sensitive or where a lack of infrastructure makes it difficult to operate. In January of 2011, the Company acquired the shares and have taken over the business operations of Dando Drilling International Ltd. ("Dando"), headquartered in the United Kingdom ("UK"). Dando designs and manufactures specialty/customized drilling rigs and associated equipment for water well, mineral exploration and geotechnical drilling companies.

In the third quarter of 2011, Energold acquired 100% of Energold Energy Drilling Corp. operating as Bertram International Corp. ("Bertram") a specialty drilling company servicing the energy sector in Canada and United States. Bertram has a fleet of 119 rigs specially designed for oil sands coring, shot hole seismic and geothermal drilling services markets. Bertram also provides diamond and pipeline drilling services. The financial results of Energold include the consolidation of Bertram as of July 25, 2011.

Energold also holds mineral exploration properties in the Dominican Republic , which are currently under option to a third party, and Mexico through the 6.98 million shares that it holds in IMPACT Silver Corp. ("IMPACT"). The Company's interest in IMPACT, which has an operating silver mine in Mexico, 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. Over the last five 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 right through to include most of 2010. The Company has seen an increasing level of interest for its services since the latter part of 2010 and into 2011. Exploration for precious metals currently represents the largest demand; however, certain specialty commodities and base metals are also increasing the demand for drilling services. Energold believes that the mining industry in general in order to identify new and larger deposits is conducting exploration farther afield into frontier areas.

Senior and intermediate base metal and gold mining companies have been successful in raising substantial amounts of capital, and while exploration budgets were dramatically reduced in early 2009 the Company has seen 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 further increase the demand for drilling services through the balance of 2011 and into 2012. The junior explorers have also been able to raise substantial amounts of funding in the last year and have re-entered the market looking for drill rigs. As demand has continued to increase throughout 2011 Energold is beginning to see drilling price increases and expects this to continue through the balance of 2011. The industry is also starting to reach capacity and as a result the costs related to certain inputs are starting to inflate.

The Company has specialized in highly portable modular diamond drill rigs, which Energold believes are highly competitive in frontier markets due to their mobility and low environmental footprint. As its position in the market has increased over the last five years there has been a demand for complementary drill rigs from existing clients including underground drill rigs and more conventional diamond drill and reverse circulation rigs.

In Western Canada and the United States there has been a continuing program of exploration for energy sources. In Alberta Canada, oil sands provide the opportunity for North America to be self sufficient in oil and in fact, a net exporter. In a recent report by the Canadian Association of Petroleum Producers ("CAPP") oil sands are expected to become the largest source of petroleum in Canada, and with the potential of the Keystone Pipeline into United States this suggests perhaps the largest source of petroleum for North America. While gas inventories have traditionally been large, the technical developments related to shale gas has opened up a new market for further seismic exploration especially in United States. A recent acquisition of Petrohawk Energy and Chesapeake Energy for \$4.5 billion by BHP Billiton is but an indication of the increased interest in this resource.

In the longer term, as society looks for alternative sources of energy, geothermal programs are becoming an integral part of a number of development projects and are regarded as "clean" from an environmental point of view.

Worldwide there is an increased demand for drill operators and drilling equipment for mining, energy, water and geo-technical industries.

## **OVERALL PERFORMANCE**

### **Energold Group**

Group revenues exceeded \$47.0 million for the quarter and \$98.1 million for the year to date. For the comparative period in 2010 total revenues were \$16.4 million for quarter and \$37.3 million for the year to date. The Company had net earnings of \$8.2 million in the third quarter of 2011 (\$0.20 per share basic and diluted). Net earnings for the nine months ended September 30, 2011 were \$13.7 million (\$0.34 per share - basic and \$0.33 per share - diluted) compared to a net profit of \$1.1 million (\$0.03 per share - basic and diluted) for the third quarter in 2010 and 0.8 million (\$0.02 per share - basic and fully diluted) for the year to date in 2010.

On July 21, 2011 the Company completed a \$10.0 million private placement of secured convertible debentures. The convertible debentures have a term of 3 years and bear an interest rate of 10% calculated and compounded annually, payable quarterly. The debentures are convertible into common shares of the Company at a conversion price of \$5.25 per share, subject to a minimum conversion of \$50,000 (if converted in part). At any time after July 21, 2012, the Company may, with 90 days written notice prepay the convertible debentures, in whole or in part, including all outstanding interest accumulated to the date of prepayment, with an additional payment of 1.5% of the amount prepaid.

The convertible debentures are generally secured against all the assets of the Company and specifically secured by a pledge of two million common shares of IMPACT Silver Corp. owned by the Company.

On December 23, 2010 the Company closed a bought deal private placement financing. A total of 4,662,162 units of the Company at a price of \$3.70 per unit, for aggregate gross proceeds of \$17.25 million were issued pursuant to an underwriting agreement between the Company and each of Jennings Capital Inc., as lead underwriter, Clarus Securities Inc., TD Securities Inc. and Beacon Securities Limited. Each unit consists of one common share and one half of one common share purchase warrant. Each unit warrant is exercisable to acquire one common share of the Company at \$4.50 per share at any time until the 23<sup>rd</sup> of March 2012.

The underwriters were paid a cash commission equal to 6.0% of the aggregate gross proceeds of the offering. The underwriters were also granted non-transferable compensation options to purchase 279,729 units, consisting of one share and one half share purchase warrant. Each compensation option entitles the holder to acquire one unit at an exercise price of \$3.70 at any time until the 23<sup>rd</sup> of March 2012. All securities issued under the offering were subject to a four-month hold period expiring on April 24, 2011.

On July 25, 2011 the Company acquired 100% of the outstanding shares of Bertram International Corporation Inc. ("BIC") and repaid the shareholder loans to the principal shareholders of BIC (the "BIC Vendors"). The total initial consideration of the transaction was \$15 million, paid \$8 million in cash and the balance in restricted shares of Energold Drilling Corp. (1,655,512 common shares @ \$4.23 per share).

In addition to the initial consideration, certain BIC Vendors active in managing the business shall be entitled to receive an earn-out bonus ("Earn-Out Bonus") tied to EBITDA performance of the acquired Bertram entities or their successors over the next 3 consecutive 12 month periods (Note: commencing May 1, 2011). The minimum threshold EBITDA that must be achieved prior to the calculation of any Earn-Out Bonus is \$5 million per annum. The formula for calculating the Earn-Out is based on a number of factors with a maximum Earn-Out Bonus of \$10.5 million in any consecutive 12 month period. Any Earn-Out Bonus deemed earned shall be paid by a minimum of 50% in cash with the balance paid in cash or shares of Energold (at its sole discretion) based on the weighted average trading price recorded on the TSX-V ("EGD:TSX-V") for the 30 consecutive trading day period immediately preceding July 31<sup>st</sup> in each relevant year.

The initial share consideration and any Earn-Out Bonus share consideration is subject to a 12 month hold period from the date of issue. Following the expiry of the 12 month hold period, if the BIC Vendors collectively own in excess of 5% of the outstanding common shares of Energold, any sale of shares is subject to a maximum number in any month equal to 1% of the outstanding common shares of Energold as of the end of the previous month end.

Energold has an extremely strong balance sheet with a working capital position of \$72.0 million and cash and cash equivalents of \$25.5 million at September 30, 2011. The majority of these funds are denominated in U.S. and Canadian dollars and held with Canadian Chartered Banks.

### **Mineral Division**

Energold's mineral division drilled 170,300 meters in the third quarter, up 66% from 102,500 meters in the third quarter of 2010 and 10% over the previous record of 155,300 meters in the second quarter of 2011. This brings the year to date meters to 451,400 meters, for the comparative period in 2010, 242,900 meters. This continues the current trend of growth in demand as the Company has drilled an increasing number of meters over the last ten quarters.

Revenues for the mineral division in the third quarter of 2011 were \$31.2 million, up 90% from \$16.4 million in the third quarter of 2010 and up 20% from \$26.1 million in the second quarter of 2011 and for a year to date total of \$78.7 million. This compares to \$37.3 million for the comparative period of 2010 or a 111% increase. Average revenue per meter increased to \$174 for the first nine months of 2011 from \$154 in the comparative period of 2010.

Gross margin<sup>1</sup> percentage remains sensitive to the character of the projects the Company drills and to the utilization of its drilling rigs. Gross margin percentage from mineral drilling was 31.3% in the first nine months of 2011, compared to 22.4% in the first nine months of 2010 however by the third quarter it had risen to 36%. In 2010 pricing remained under pressure during the year and the Company's overall mix of drilling included a greater portion of highly competitive mine site drilling. In 2011 margins are starting to reflect increasing demand and additional rigs being committed to "frontier" projects. As expected, as demand for drilling increases, especially in the frontier areas, the Company expects to see further increasing average prices and improving margins.

### **Manufacturing Division**

The Company also included \$9.8 million in sales for the year to date from its manufacturing arm Dando in the UK. Margins for manufacturing activities were approximately 22.8% in the quarter and 18% year to date. Dando is experiencing increased demand for its large multipurpose drilling rigs primarily in West Africa. During the quarter, Dando shipped 9 drilling rig units and year to date, 20 rigs in total were built and shipped to organizations in the mining and water well sectors. A total of 8 rigs are on order and procurement of which 3 rigs will be completed and delivered by year end. Production and sales from the Company's Chihuahua Mexico plant are all accounted for as intercompany sales.

### **Energy Division**

As reported on July 25, 2011, the Company completed the acquisition of 100% of the outstanding shares of Bertram now amalgamated with Energold Energy Drilling Corp. located in Carbon, Alberta. Bertram was very active during the traditionally slower summer/fall season, completing over 19,000 holes and a total of 229,730 meters from the date of acquisition to September 30, 2011. The majority of drilling programs completed by the company were shot-hole seismic projects spread across 5 states in the U.S. The summer and fall drilling levels experienced by Bertram were back to levels not experienced since 2006. Preparations are well underway to undertake contracted coring services with a number of international oil and gas clients scheduled for the traditional winter season. Bertram had total revenues of \$9.7 million and margins of 19.3% during the quarter.

---

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

## SELECT FINANCIAL AND OPERATING INFORMATION

	Three months ended			Three months ended			Nine months ended		
	Sept. 30 2011	Sept. 30 2010	% Change	Sept. 30 2011	June 30 2011	% Change	Sept 30 2011	Sept 30 2010	% Change
Revenue (\$000s)	<b>47,033</b>	16,359	+188	<b>47,033</b>	28,417	+66	<b>98,181</b>	37,340	+163
Gross margin <sup>2</sup> (\$000s)	<b>14,517</b>	4,107	+253	<b>14,517</b>	7,324	+98	<b>28,263</b>	8,372	+238
Gross margin percentage	<b>30.9%</b>	25.1%	+23	<b>30.9%</b>	25.8%	+20	<b>28.8%</b>	22.4%	+28
Net earnings (loss) (\$000s)	<b>8,190</b>	1,084	+656	<b>8,190</b>	3,657	+124	<b>13,702</b>	793	+1,628
Earnings (loss) per share – basic (\$)	<b>0.20</b>	0.03	+567	<b>0.20</b>	0.09	+122	<b>0.34</b>	0.02	+1,600
Earnings (loss) per share – diluted (\$)	<b>0.20</b>	0.03	+567	<b>0.20</b>	0.09	+122	<b>0.33</b>	0.02	+1,550
	<b>Sept. 30 2011</b>	June 30 2011	Mar 31 2011	Dec 31 2010	Sept 30 2010	June 30 2010	Mar 31 2010	Dec 31 2009	Sept 30 2009
Minerals									
Drill rig fleet	<b>122</b>	115	110	103	100	94	91	80	79
Meters drilled	<b>170,300</b>	155,300	125,800	103,400	102,500	86,000	54,300	50,100	43,500
Energy									
Drill rig fleet	<b>119</b>	-	-	-	-	-	-	-	-
Meters drilled	<b>229,700</b>	-	-	-	-	-	-	-	-

## OUTLOOK AND BUSINESS STRATEGY

### Mineral Drilling

Demand for drilling services worldwide is continuing to increase. However the Company cautions that actual results may vary substantially from all forward-looking information in this MD&A. The Company has seen drilling activity and revenues increase each quarter in 2010 and this trend continued into 2011. In spite of high volatility in the stock and bond market, the Company has not yet seen a significant impact upon demand for its services. The positive trend is expected to continue as prices for gold and other precious metals maintain relatively high. Lower levels of demand in 2009 compared to 2008 increased competitive pressures. Consequently pricing and margins were lower in 2009 and the lower pricing environment has carried forward into 2010 and early 2011. However by the third quarter of 2011 the Company experienced heavy demand for its diamond drill rigs combined with an increase in pricing. The Company's mix, or types of drilling programs also changed in both the current and prior years. In 2008 a significant portion of the drilling was completed in frontier areas and these programs typically command higher margins. In 2010 frontier drilling represented only a small portion of the Company's contracts. As demand strengthened throughout 2010 an increased portion of the Company's work returned to frontier drilling and as a result the Company is experiencing a small increase in drilling rates in 2011. The Company's client mix also changed substantially during the same period, as major and intermediate producers dominated the drilling market during 2010. During that year a favourable investment market, especially for those companies involved in commodities, enabled a number of "juniors" to complete financings and once again initiate exploration programs. The Company expects that as a result a percentage of its drilling in 2011 is anticipated as being for juniors with lower sensitivity to pricing and more focus on performance.

Energold remains open to exploring opportunistic acquisitions. However the Company's primary focus continues to be on organic growth through new rig development and expansion into new markets. The

<sup>2</sup> Gross margin and gross margin percentage are non-IFRS measures. See "NON-IFRS MEASURES."

Company is seeing renewed interest in its traditional markets as well as in new markets such as West Africa. Certain markets rebounded quickly in 2010 and in those markets rig utilization approached traditional levels. Other markets are responding more slowly to the improving economic climate and thus in 2011 the Company is redeploying a number of its rigs from these areas to service the more active markets.

The Company specializes in highly portable drills allowing it to take on the less competitively bid frontier drilling. Building on those contracts the Company has been adding more conventional rigs as demand requires. Energold has determined to continue to expand at an aggressive rate identifying what it believes are markets which it can dominate both geographically and technically. With a modern fleet of drilling rigs and continued expansion into new operating regions, Energold has laid the seeds for future growth in five continents. The Company currently has drilling rigs deployed in over 20 countries around the world and is reacting to the stronger demand for drilling services.

#### Mexico, the Caribbean and Central America

This is currently the strongest market for the Company with 42 rigs located in the region. Originally pioneered with its "S" style rigs, which still constitute the majority of the fleet, the Company is introducing underground rigs and larger conventional rigs to meet our clients' demands. The market is especially strong in Mexico where the Company has a regional office in Mexico City with a major depot in Chihuahua to service field operations. Further growth is occurring in Central America. Total meters drilled in this market have increased quarter over quarter by approximately 10%. Approximately 50% of the meters drilled in the quarter were in this market area. The Company expects to add an additional 3 to 4 rigs in this market in the fourth quarter of 2011.

#### South America

The Company is operating in Brazil, Colombia, Peru, Chile and Argentina with approximately 37 drill rigs and an additional 3 rigs under construction. Meters drilled were approximately one-third of the total meters. While one of our busiest markets in South America in 2008 was Peru, it suffered one of the most dramatic declines in 2009 and 2010. This market is once again starting to grow and 2012 looks extremely positive. Demand in Brazil remains strong, although operating costs there are high, and regulations complex. As a result rates per meter tend to be higher and margins are fairly tight. Argentina, our most successful new market in the region, experienced very rapid growth in 2010 and into the second half of 2011. In each of these markets our primary rig is the "S" style rig servicing some of the more difficult and remote programs.

#### Africa/Other

On March 8, 2010 Energold announced the strategic acquisition of the assets and drilling operations of Envirodrill Ltd. of the United Kingdom. Envirodrill has a proven track record of successfully completing complex drilling programs in West Africa and Madagascar and brought strong technical and operational expertise to the Energold team. Through this purchase, the Company acquired nine diamond and reverse circulation drill rigs, related support equipment, inventories and existing contracts. In addition to purchasing the drilling assets, Energold retained the drilling operational team and entered into a management services agreement to allow the Company to utilize administrative and logistics personnel and existing facilities.

The addition of these new managers, drilling crews and equipment to the Energold team has gone very well to date. The acquisition allowed Energold to set up quickly with an excellent team on the ground and drilling contracts in place in West Africa and Madagascar which are strong, growing markets with great opportunity. The Company has added additional rigs and combined with other rigs in Southern Africa and currently has over 36 rigs on the continent and has 3 additional rigs on order. Utilization in this market was relatively low for the year to date as a number of older rigs had to be relocated to new markets and the newly built rigs delivered to their new projects. While most of the latest additions are "S" style rigs the Company has a mix of rigs from reverse circulation to conventional rigs as well as multi-purpose

rigs in the market. In West Africa the Company expects to add a mixture of rig types that are necessary to service the local markets including our standard S rigs, as well as RC and conventional diamond drill rigs.

In addition to the nine rigs acquired via the Envirodrill transaction, Energold took delivery of thirteen new surface drilling rigs in 2010, and one new underground rig bringing the rig count to 103 at December 31, 2010. As of November 24, 2011 the Company had a mineral drilling fleet of 126, with 3 more rigs currently on order. The Company anticipates adding between 20 and 30 drill rigs next year with priority given to markets where utilization rates are highest and in areas with service specific demand. The Company has also continued programs with certain clients that require bigger rigs in addition to our traditional man portable units and is working to develop more traditional rigs that still retain a high degree of mobility. The Company is continuing a modification program to increase the capability of its standard Series II and Series III rigs.

The Company is developing additional technical ability in complementary activities including underground drilling. Included in the 2011 total rig count are 7 underground rigs. The expansion into underground drilling was in response to certain clients' requests that we provide full service to their operations. The underground rigs are similar to our existing surface rigs, using approximately 90% of the same equipment and supplies as our surface rigs. This substantially reduces crew training time and inventory requirements.

### Manufacturing

On January 14, 2011, the Company acquired the shares and the business operations of Dando headquartered in the UK. The Dando team has a long and proven history of profitably designing and manufacturing specialty/customized drilling rigs and associated equipment for water well, mineral exploration and geotechnical drilling companies operating throughout the world. In the past, Dando has also supplied water well drilling services to many international institutions.

Through this purchase, Energold has acquired all the outstanding shares of Dando for Pound Sterling ("GBP") 50,000 (CDN\$79,000) and assumed certain creditor debt and transaction costs.

Energold retained the key employees and provided stock and/or stock options incentive compensation in Energold that collectively consists of restricted shares (CDN\$160,000) and 150,000 share options priced at market (CDN\$4.19 per share). With the acquisition of Dando, the Energold Group has added a staff of 30 comprised of senior management, engineers, administrative and hourly production employees.

Energold's strategic objective is to profitably expand Dando's core business; source additional rigs to broaden Energold's scope of services to selected customers in appropriate geographic regions; work with Dando's team of engineers to develop and supply next generation drilling rigs for Energold, and capitalize on Dando's extensive experience and expertise to build a separate water well drilling services division for Energold.

The Dando team will provide Energold with an expanded core nucleus of operations and experience that will enable the Energold Group to broaden its scope of services offered to customers and expand its geographic coverage to take advantage of the growing global opportunities in the drilling industry.

As expected, in the first half of 2011 Dando experienced limited operating losses while old contracts were completed and new orders for new equipment were just starting to be met. By the third quarter increased sales and new contracts resulted in total sales year to date of \$9.8 million which although lower than forecast due in part to late delivery of a number of subcomponents generated a small profit.

Work in progress at the end of the quarter has risen substantially in part due to the delay in certain sales as mentioned and in part in response to growing demand. Operating margins were approximately 18% or \$1.8 million. After general and administrative costs Dando experienced a small profit year to date of \$.14

million, which included a number of non-reoccurring expenses. Revenues, operating costs and administrative costs were fully consolidated in the Company's results.

In the last quarter the Company also acquired a small manufacturing facility in Chihuahua, Mexico that produces specific parts for the Company's Mexican operations and will provide ongoing maintenance for our rig fleet in Mexico. This will facilitate producing quality supplies more economically for the group on a global basis.

## Energy

The Company has always regarded most energy drilling as a simple extension of its core business, i.e. uranium and coal. In the third quarter of 2011, Energold acquired 100% of Bertram a specialty drilling company servicing the energy sector in Canada and United States. Bertram has a fleet of 119 rigs specially designed for oil sands coring, shot hole seismic and geothermal drilling services markets. Bertram also provides some diamond and pipeline drilling services.

Over the past seven years, Bertram has generated an increasing portion of its revenues from its strong presence in the oil sands coring market with a fleet of up to 15 rigs operating during the peak winter season. During the third quarter seasonally one of the slowest for the energy drilling Bertram was primarily focused on seismic shot drilling and geotechnical drilling in the United States. Gross revenue for Bertram for the quarter was \$9.7 million and margins were 19.3%.

Bertram provides Energold a unique opportunity to acquire, on a very accretive basis, a proven leader of specialty drilling services in a niche, high growth area of the energy sector that will diversify Energold's revenue sources and build the solid organization framework to dramatically scale up operations of the Energold Group in pursuit of its overall strategic goal to become a leading international specialty drilling services company delivering above average returns in comparison to its peer group.

## RESULTS OF OPERATIONS

### Three Months Ended Sept. 30, 2011 Compared to the Three Months Ended Sept. 30, 2010

Net earnings for the third quarter ended September 30, 2011 were \$8.2 million (\$0.20 per share – basic and diluted), compared to a net income of \$1.1 million (\$0.03 per share – basic and diluted) in the third quarter of 2010.

Net earnings for the third quarter ended September 30, 2011 were impacted by the following factors:

- Revenues increased to \$47.0 million in the quarter of 2011, up from \$16.4 million in the third quarter of 2010, a 188% increase. The increase in revenues is a result of the significant increase in drilling activity in 2011 as compared to 2010. Average revenue per meter of mineral drilling increased to \$183 in the third quarter of 2011 as compared to \$160 in the third quarter of 2010. The increase in revenue per meter is a result of general price increases as well as an increase in higher priced frontier drilling. The U.S. dollar strengthened against the Canadian dollar by 1.3% on average in the third quarter of 2011 as compared to the third quarter of 2010 which contributed higher revenue per meter. Consolidated revenue for the third quarter in 2011 included \$31.2 million from minerals, \$6.1 million from manufacturing, and \$9.7 million in revenues from the energy sector. There were no comparable activities of the manufacturing or energy sector in 2010.
- Gross margin increased to \$14.5 million in the third quarter of 2011, up 253% from \$4.1 million in the third quarter of 2010. Gross margin percentage from mineral drilling was 36% in the third quarter of 2011 compared to 25.1% in the third quarter of 2010. Gross margin percentage increased in the third quarter of 2011 as compared to the third quarter of 2010 primarily due to a 20% increase in revenue per meter compared to a nominal decrease in costs per meter. Gross margins remain below those of pre 2009. Dando's third quarter margins were approximately 22.8% whereas the energy sector experienced margins of 19%. Prices per meter in the third quarter of 2011 improved as the Company

experienced a change in the industry mix with the addition of higher margin frontier drilling. Operating costs were experiencing upward pressure but a portion of these costs were passed to the clients. As worldwide drilling demand increases through 2011 it is expected that prices for drilling services will continue to rise.

- Indirect and administrative expenses increased to \$6.4 million in the third quarter of 2011, up from \$2.2 million in the third quarter of 2010. As a percentage of revenue, indirect and administrative expenses increased to 13.6% in 2011 from 13.2% in 2010. Office salaries and services increased by \$0.8 million in the third quarter of 2011 as compared to the third quarter of 2010 as a result of the significantly higher level of business activity and the inclusion of the Dando and Bertram operations. Non-cash share-based payments were \$0.2 million in the third quarter of 2011 up from \$0.1 million in 2010.
- The Company also recognized a foreign exchange gain of \$2.6 million in the third quarter of 2011, compared to loss of \$0.2 million in 2010. In 2011 the U.S dollar strengthened almost 9% on the closing rate over the Canadian dollar, giving rise to the foreign exchange gain on U.S dollar denominated cash and accounts receivable. In 2010 the U.S. dollar weakened against the Canadian dollar during the period. 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 earnings.
- During the third quarter of 2011 the Company recognized a gain of \$0.2 million for its proportion share of earnings from IMPACT Silver Corp. and a further \$0.04 million as the result of a dilution gain in IMPACT Silver Corp. on the exercise by third parties of warrants in IMPACT .
- Current and deferred income taxes were \$1.9 million in the third quarter of 2011 compared to \$0.7 million in the same period in 2010.
- The Company also recorded a gain on disposal of assets – primarily investments - during the quarter of \$0.08 million compared to a minor loss in 2010.
- In January 2011, the Company acquired 100% of the shares of Dando. Dando was fully consolidated in the Company's results and represented net earnings of \$0.1 million for the year to date which included a number of non-reoccurring expenses included in indirect and administrative expenses. The net earnings for the third quarter were \$0.8 million.
- In July 2011, the Company acquired 100% of the shares of Bertram. Bertram was fully consolidated in the Company's results and represented a net loss of \$0.3 million for the year to date which included a number of non-reoccurring expenses included in indirect and administrative expenses.

Other comprehensive income in the third quarter of 2011 was a loss of \$0.07 million, down from other comprehensive gain of \$0.05 million in the third quarter of 2010. Other comprehensive income and loss is related to unrealized gains or losses on short-term investments held net of taxes and cumulative translation adjustments on foreign currency translations.

### **Three Months Ended September 30, 2011 Compared to the Three Months Ended June 30, 2011**

Net earnings for the third quarter ended September 30, 2011 were \$8.2 million (\$0.20 per share – basic and diluted), compared to net earnings of \$3.7 million (\$0.09 per share – basic and diluted) in the second quarter of 2011.

Net earnings for the third quarter ended September 30, 2011 were impacted by the following factors:

- Revenues increased to \$47 million in the third quarter of 2011, up 66% from \$28.4 million in the second quarter of 2011 due to increased drilling activity and higher drilling rates. Average revenue

per meter increased marginally in the third quarter of 2011 at \$183 as compared to \$168 in the second quarter of 2011. This is in part due to the changes in the U.S.\$ exchange rate in the quarter. In addition a number of the contracts during the period were negotiated on a basis where the client paid a lower meter rate but absorbed some of the direct costs associated with the drill program. Consolidated revenue for the third quarter of 2011 included \$6.1 million from manufacturing, whereas it was \$2.4 million in the second quarter of 2011 and \$9.7 revenue from Bertram. There was no comparable revenue from Bertram in the prior quarter.

- Gross margin<sup>3</sup> increased to \$14.5 million in the third quarter of 2011, up from \$7.3 million in the second quarter of 2011. The gross margin percentage was 30.9% in the third quarter of 2011 compared to 25.8% in the second quarter. The margins are expected to improve as more frontier rigs become engaged. While margins in mineral exploration increased to 36.02%, overall margins were impacted by Bertram drillings' results and Dando's manufacturing results.
- Indirect and administrative expenses were \$6.4 million in the third quarter of 2011, up from \$3.7 million in the second quarter of 2011. Office salaries and services increased to \$1.8 million compared to \$1.2 million in the second quarter. Share-based payments decreased to \$0.2 million compared with \$0.3 million in the second quarter. Management fees and consulting was \$0.7 million compared to \$0.3 million in the prior quarter which was due to an increase in compliance, acquisition activities and changes for international financial reporting requirements, as well a bonus paid to a director in the amount of \$0.4 million. A further charge of \$0.06 million, related to acquisition investigations was incurred in the third quarter of 2011. Other individual categories of indirect and administrative expenses increased between the quarters due to the acquisition of Bertram. In addition amortization increased approximately \$1.3 million between the quarters and included \$0.7 million of amortization on the increase in the fair value of the Bertram property plant and equipment.
- A foreign exchange gain of \$2.6 million was recognized in the third quarter of 2011, compared to a small gain in the second quarter of 2011. The Canadian dollar weakened against the U.S. dollar in the second quarter and again in the third quarter of 2011 which gave rise to the foreign exchange gain 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 earnings.
- Current and deferred income tax expense was \$1.9 million in the third quarter of 2011, compared to \$1.0 million in the second quarter of 2011.
- In January 2011, the Company acquired 100% of the shares of Dando. Dando was fully consolidated in the Company's results. In the third quarter net earnings were \$0.1 million compared to a loss of \$0.2 million in the second quarter.
- In July 2011 the Company acquired 100% of the shares of Bertram. Bertram was fully consolidated in the Company's results and represented a net loss of \$0.3 million for the year to date which included a number of non-reoccurring expenses included in indirect and administrative expenses.

Other comprehensive income in the third quarter of 2011 was a loss of \$0.07 million, down from a loss of \$0.6 million in the second quarter of 2011. Other comprehensive income and loss relate to unrealized gains and losses on short-term investments net of taxes and cumulative translation adjustments on foreign currency translations.

---

<sup>3</sup> Gross margin and gross margin percentage are non-IFRS measures. See "NON-IFRS MEASURES."

## 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>Sept 30 2011</b>	June 30 2011	Mar 31 2011	Dec 31 2010	Sept 30 2010	June 30 2010	Mar 31 2010	Dec 31 2009	Sept 30 2009
Revenue	<b>47,033</b>	28,417	22,731	17,252	16,359	12,909	8,072	7,199	6,408
Net earnings (loss)	<b>8,190</b>	3,657	1,856	793	1,083	962	(1,252)	(559)	(1,580)
Earnings per share - Basic*	<b>0.20</b>	0.09	0.05	0.02	0.03	0.03	(0.04)	(0.02)	(0.05)
Earnings per share - Diluted*	<b>0.20</b>	0.09	0.05	0.02	0.03	0.03	(0.04)	(0.02)	(0.05)
Cash and cash equivalents	<b>25,508</b>	16,841	22,398	28,225	9,298	11,093	12,825	18,460	19,436
Total assets	<b>160,946</b>	104,708	98,932	91,020	71,712	69,064	66,395	68,913	69,225
Total liabilities	<b>59,963</b>	20,337	18,313	12,697	10,811	9,432	8,957	7,463	7,281

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

\* The financial results from January 1, 2010 have been restated in accordance with IFRS.

### Liquidity and Capital Resources

The Company's financial position at September 30, 2011 remains strong with \$25.5 million in cash and cash equivalents (September 30, 2010 - \$9.3 million) and net working capital of \$72 million (September 30, 2010 - \$46.8 million).

Cash flows from operations before changes in non-cash working capital<sup>4</sup> were \$10.5 million during the three months ended September 30, 2011, an increase from \$2.0 million during the three months ended September 30, 2010. During the three months ended September 30, 2011, the Company used \$10.1 million in cash for investing activities of which \$1.9 was used to purchase drill rigs and \$7.8 million was used to purchase Bertram.

On July 21, 2011, the Company closed a private placement with a group of private Canadian investors subscribing for secured convertible debentures for aggregate gross proceeds of \$10,000,000.

In the opinion of management, the working capital at September 30, 2011, together with the expected future cash flows from operations, is sufficient to support the Company's normal operating requirements on an ongoing basis.

<sup>4</sup> Cash flows from operations before changes in non-cash working capital is a non-IFRS measure which the Company believes provides a better indicator of the Company's ability to generate cash flows from its drilling operations. See "NON-IFRS MEASURES."

## Outstanding Share Data

The following common shares and stock options of the Company were outstanding at November 24, 2011:

	# of Shares	Exercise Price	Expiry Date
Issued and outstanding common shares at			
November 24, 2011	41,706,767		
Stock options outstanding	762,625	\$2.01	October 1, 2014
Stock options outstanding	118,750	\$2.30	May 7, 2015
Stock options outstanding	1,210,625	\$3.45	October 20, 2015
Stock options outstanding	150,000	\$4.19	January 12, 2016
Stock options outstanding	1,400,000	\$3.80	October 13, 2016
Warrants outstanding	2,337,324	\$4.50	December 23, 2012
Agent units outstanding <i>(Note 1)</i>	265,743	\$3.70	December 23, 2012
Fully diluted at November 24, 2011	47,951,834		

Of the 3,642,000 stock options outstanding, 2,224,500 have vested at November 24, 2011.

*(Note 1) Each unit is comprised of one common share and one-half of a non-transferrable common share purchase warrant. Each whole warrant is exercisable at \$4.50 to purchase one common share of the Company.*

## EQUITY HOLDINGS

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

Energold owns 6.98 million shares or 10.26% of the issued and outstanding shares of IMPACT at September 30, 2011. 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. At September 30, 2011 this investment is carried on the Company’s balance sheet at \$6.8 million. However the market value (based on quoted trading price) of the IMPACT shares held by Energold at September 30, 2011 was \$11 million. Energold provides surface and underground diamond drilling exploration services for IMPACT.

IMPACT is a natural resource mining and development company, primarily engaged in the acquisition, exploration, development and mining of mineral properties located in Mexico and the Dominican Republic. IMPACT currently produces concentrates containing silver, lead, zinc and gold at the Royal Mines of Zacualpan in the State of Mexico with the Guadalupe mill, a processing plant rated at 500 tonnes per day (“tpd”). IMPACT also owns a semi-portable 200 tpd processing plant for use at its Capire project in the Mamatla Mineral District. In the third quarter of 2010 IMPACT completed the purchase of a third processing plant with a capacity of 200 tpd at the “Veta Grande Silver Project” in Zacatecas, Mexico, along with a small number of mineral concessions in the district comprising the “Veta Grande Silver Project”. In the third quarter of 2011, the Veta Grande Project was optioned to Defiance Silver Corp. (“Defiance”), subject to regulatory approvals.

IMPACT has grown from an exploration company into a significant silver producer with production levels increasing year-over-year. IMPACT has acquired control of two entire mineral districts in central Mexico; the 423 km<sup>2</sup> Royal Mines of Zacualpan Silver District and the 200 km<sup>2</sup> Mamatla Mineral District immediately southwest of Zacualpan.

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 third objective is to enhance immediate economically recoverable throughput until the current maximum rated capacity of 500 tpd at the

Guadalupe Mill is achieved. In the third quarter of 2011, the Guadalupe mill processed an average of 416 tpd. The Guadalupe Mill is expected to be processing near capacity in late 2011. The third objective is to continue exploration and prepare new sources of ore for mine development which will justify expansion of our current facility or the construction of new processing plants within the Zacualpan and Mamatla Districts. The third objective is to continue the reconnaissance exploration program designed to evaluate the longer term potential of these 500-year-old mining districts. IMPACT continued to make progress towards each of these three objectives in 2011.

Due to dramatically increasing prices for silver and record mill throughput over the last nine months, the IMPACT had record sales and earnings. With the completion of a \$15.0 million financing late last year and the subsequent exercise of the related warrants for a further \$10.5 million in the second quarter this year, IMPACT is now able to rapidly accelerate its exploration and development programs to respond to the improved market conditions for silver.

#### Key events for the Quarter

- In spite of a stoppage of shipments of the silver lead concentrate to the smelter for September revenues for the third quarter ended September 30, 2011 were \$4.2 million, up from \$3.2 million in the comparable period of 2010. Year to date revenues were \$19.4 million up 97% from \$9.9 million for the nine months of 2010.
- Mine operating earnings for the quarter ended September 30, 2011 were \$2.5 million, up 99% from \$1.3 million in the comparable period of 2010. For the nine months ended September 30, 2011 mine operating earnings were \$11.6 million up 199% from \$3.9 million in the same period in 2010
- Net earnings for the quarter ended September 30, 2011 were \$2.0 million, including a \$1.2 million foreign exchange gain, up from a loss of \$0.05 million in the comparable period of 2010. Net earnings year to date were \$6.9 million in 2011 up from \$1.3 million in 2010, and earnings per share for three months ended September 30, 2011 were \$0.03 compared to \$0.01 in the comparative period. For the year to date earnings per share were \$0.11 compared to \$0.03 in 2010.
- Cash flows from operations before changes in non-cash working capital<sup>5</sup> in the three months ended September 30, 2011 were \$3.1 million, up from \$1.0 million in the comparable period of 2010. At the end of the quarter IMPACT had cash and cash equivalents of \$33.7 million.
- During the quarter IMPACT announced the signing of an option agreement with Defiance under which Defiance may acquire IMPACT's Zacatecas assets for payment of 1,787,000 Defiance shares and \$1,955,200 over two years. The Zacatecas assets consist of a 200 tonne per day processing plant and 10 mineral concessions.
- On September 27, 2011, IMPACT announced the granting of stock options under its Stock Option Plan to directors, officers, employees and consultants exercisable for 2,000,000 shares of the Company. The options are exercisable on or before September 26, 2016 at a price of \$1.85 per share.

IMPACT is a reporting issuer in British Columbia and Alberta and trades on the TSX Venture Exchange as a Tier 1 Issuer under the symbol IPT and on the Frankfurt Stock Exchange under the symbol IKL.

For more information on IMPACT visit its website at [www.impactsilver.com](http://www.impactsilver.com) and SEDAR at [www.sedar.com](http://www.sedar.com).

---

<sup>5</sup> Cash flows from operations before changes in non-cash working capital is a non-IFRS measure which the Company believes provides a better indicator of the Company's ability to generate cash flows from its mining operations. See "NON-IFRS MEASURES."

## **SAFETY, SOCIAL AND ENVIRONMENTAL POLICY**

In the beginning of July we lost one of our most senior drillers and a very good friend, Gerry Jordon, to an unfortunate accident in the field. The client, a senior mining company, government inspectors and Energold safety personnel all investigated the fatality and came with a limited number of recommendations that were implemented immediately throughout the rig fleet, although none were directly related to the specific accident. We express our deepest sympathies to his family.

An ongoing research program on equipment safety is being conducted and the Company has commenced a retrofit program for new safety upgrades on all of its rigs. The Company developed and maintains an active safety audit program.

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. Additives used are non-toxic, and contaminants from petroleum based products are contained with a dual retention system.

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 safety, social, and environmental 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. For instance during 2010, as part of its overall community programs in Mexico the Company 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 must be well planned, safe and with a concern for the environment and communities surrounding us.

## **CONTRACT DRILLING RISK FACTORS**

The Company is faced with a number of risks with respect to its contract drilling operations. 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 earnings.

### 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 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, mine safety, environmental legislation, and expropriation of property.

### Environmental and Other Regulatory Requirements

The current or future operations of the Company and its clients involving contract drilling, exploration, development activities, production and mining 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 changed, which could significantly adversely affect the business of the Company and its clients in any jurisdiction in which the Company operates.

### Permits and Licenses

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 in the future.

As 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 is determined by quoted prices in active markets for identical assets at the balance sheet date. At September 30, 2011 all short-term investments held were classified as Level 1 and cash and cash equivalents were classified as Level 2 on the fair value hierarchy of IFRS 7 - *Financial Instruments - Disclosures*.

### **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, 2011 the Company's total liabilities were \$60 million, of which \$28.1 million is due for payment within twelve months of the balance sheet date. As a result of the acquisition of Energold Energy, the Company has a long term contingent liability and convertible debenture commitment of \$11 million and \$10 million, respectively.

#### **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 sales 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, 2011 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, 2011, a 5% depreciation or appreciation of all the above currencies against the Canadian dollar would result in an approximate \$1.4 million decrease or increase in the Company's net earnings.

#### Interest rate risk

Interest rate risk is the risk that the fair values 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 and its outstanding borrowings as described in Note 17. In addition, the debt component of the convertible debenture is exposed to interest rate risk as a result of the fixed interest rates earned. The Company has outstanding borrowings of \$3.9 million and convertible debt of \$10.2 million as at September 30, 2011.

#### **Transition to International Financial Reporting Standards (“IFRS”)**

On January 1, 2011, the Canadian Accounting Standards Board replaced Canadian GAAP with IFRS for publicly accountable enterprises, with a transition date of January 1, 2011. IFRS represents standards and interpretations approved by the IASB and are comprised of IFRSs, IASs and interpretations issued by the IFRICs or the former SICs.

In addition, the conversion from Canadian GAAP to IFRS as a primary basis for preparing the Company's consolidated financial statements has resulted in changes in the Company's accounting policies and additional financial expertise and training requirements. The conversion did not have any significant impact on the Company's financial covenants, key financial performance ratios or compensation plans.

The IASB continues to amend and add to current IFRS standards and interpretations with several projects underway. Accordingly, the accounting policies adopted by the Company for the Company's Second IFRS annual consolidated financial statements for the year ending December 31, 2011 may differ from the significant accounting policies used in the preparation of the Company's unaudited interim financial statements as at and for the nine months ended September 30, 2011. As of the date of this document, the Company does not expect any of the IFRS standards to have a significant impact on its 2011 consolidated financial statements. The Company's unaudited interim consolidated financial statements as at and for the nine months ended September 30, 2011 have been prepared in accordance with existing IFRS standards with restatements of comparative balance sheets as at December 31, 2010 and January 1, 2010 and statements of earnings and comprehensive income for the nine months ended September 30, 2010 as previously reported and prepared in accordance with Canadian GAAP.

To transition from Canadian GAAP to IFRS the main adjustments include:

#### *Translation of non-monetary assets*

In accordance with the requirements of IAS 21, the Company assessed the functional currency of its subsidiaries from the date these subsidiaries were acquired or formed. The assessment of functional currency may differ between IFRS and Canadian GAAP as a result of differences in importance placed upon certain indicators of functional currency between the two accounting frameworks.

Under IFRS, the method used to translate foreign subsidiaries from the purposes of consolidation is dependent on the assessment of functional currency. All subsidiaries with a functional currency different than the parent are translated using the current rate method.

Canadian GAAP similarly requires that the functional currency of subsidiaries be assessed; however, the method used to translate foreign subsidiaries for the purposes of consolidation is dependent on the classification of subsidiaries as either “self-sustaining” or “integrated”. Self-sustaining subsidiaries are

translated using the current rate method. Integrated subsidiaries are translated using the temporal method.

As a result of the functional currency assessment performed in accordance with IFRS, the functional currencies of the Company's subsidiaries have changed. Consequently, the method used to translate non-monetary assets within these subsidiaries has been adjusted. Assets which are monetary in nature remain unchanged.

#### *Foreign currency translation adjustment*

In accordance with IFRS 1, Second Time Adoption of IFRS, the Company has applied a one-time exemption to set the foreign currency cumulative translation adjustment ("CTA") to zero as at January 1, 2010. The cumulative translation adjustment balance as of January 1, 2010 was recognized as an adjustment to retained earnings. The application of this exemption had no impact on net equity as at transition to IFRS.

#### *Profit (loss) on drilling for IMPACT Silver*

Under IFRS, profits and losses on downstream revenues from an investor to an associate are eliminated only to the extent of the investor's interest in the investee. Under Canadian GAAP, profits and losses on downstream revenues from an investor to an investee are 100% eliminated from the statement of comprehensive income of the investor. Under IFRS, approximately 11.22%, 13.69% and 13.74% of profits and losses on sales of drilling services from Energold to IMPACT Silver for the year-ended December 31, 2010, for the 9 months ended September 30, 2010 and for year-ended December 31, 2009, respectively, are eliminated under IFRS.

#### *Share based payments*

Under IFRS, the Company accrues the cost of employee stock options over the vesting period using the graded method of amortization rather than the straight line method, which was the company policy under Canadian GAAP. Under IFRS, forfeiture estimates are recognized in the period they are estimated and are revised for actual forfeitures in subsequent periods rather than when they actually occur under Canadian GAAP.

#### *Deferred tax asset / liability*

#### *Reclassification from current to long term*

Under IFRS, it is not appropriate to classify deferred income tax balances as current, irrespective of the classification of the assets or liabilities to which the deferred income tax relates or the expected timing of reversal. Under Canadian GAAP, deferred income tax relating to current assets or liabilities must be classified as current.

#### *Adjustments related to Canadian GAAP and IFRS*

Adjustments have also been made related to the Canadian GAAP and IFRS reconciling difference discussed above was recorded, decreasing equity.

#### *Deferred income taxes and functional currency*

The company has subsidiaries where their functional currency is different from the local currency used to determine their current income tax. Under IFRS, the tax basis is calculated by translating the local currency tax basis at the period end foreign exchange rate and the resulting functional currency tax basis is compared to the functional currency accounting basis to determine the deferred income tax to record. Under Canadian GAAP the deferred income tax liability or asset was recorded in the local currency and

was then transferred from the local currency to the functional currency at the period end foreign exchange rate.

#### *Adjustment to tax basis due to inflation adjustments*

Under IFRS, when calculating deferred income taxes the tax basis includes the increase or decrease due to inflationary adjustments to the tax basis. Under Canadian GAAP, the inflationary adjustments were only recognized when they were realized as an adjustment to current income tax.

## **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 June 30, 2011. 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, 2011 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.

### 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-IFRS MEASURES**

The Company uses both IFRS and non-IFRS measures to assess performance and believes the non-IFRS measures provide useful information to investors to help in evaluating the Company's performance. Following are the non-IFRS 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, due from IMPACT Silver Corp., income taxes receivable, inventories, accounts payable and accrued liabilities, income taxes payable, deferred revenue, and future income taxes).

The Company's method of calculating these non-IFRS 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 IFRS 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 24, 2011