

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2012. All currency amounts are stated in US dollars unless noted otherwise.

### **Current Business Activities**

---

#### **General**

During the quarter ended March 31, 2013, and to the date of this MD&A, the Company advanced its Livengood Gold Project in Alaska with the continuation of activities in support of a feasibility study ("FS"). Completed FS work included advancement of metallurgical test programs; geotechnical, condemnation, infrastructure, hydraulic gradient, borrow source, and large diameter well drill programs; analyzing results thereof; and the advancement of engineering and environmental studies.

#### ***Livengood Gold Project - Feasibility Study***

The FS for the Livengood Gold Project has been underway since early 2012. The two lead firms conducting the study are Samuel Engineering, Inc. of Greenwood Village, Colorado, who is providing process engineering services, and AMEC Environment & Infrastructure, Inc. of Denver, Colorado, who is providing geotechnical and infrastructure engineering services. During the quarter ended March 31, 2013 significant progress was made to advance the FS towards completion.

Metallurgical test work by SGS Canada Inc. in Vancouver, British Columbia progressed on cyanide detoxification testwork. Earlier testwork determined that gold recovery from the four rock types likely to comprise 70% of the resources during the initial years of the Livengood production will range between 77% and 88% using a gravity and whole ore carbon-in-leach (CIL) process. Laboratory work is now in progress to evaluate CIL tailings for closure and reclamation information.

The FS is evaluating a large mill to include primary crushing, a SAG mill and two ball mills with a gravity circuit followed by a whole ore CIL process.

Geotechnical engineering for surface facility sites continued during the quarter and subsequent to the end of the quarter to determine project water balance, water storage reservoir design, tailings management facility design, and waste rock storage design. A power supply study was advanced to confirm the availability of grid power.

Environmental baseline data collection for project design and future permitting continued for groundwater hydrogeology; rock characterization; geohydrology; surface water and hydrology; meteorology and air quality; wetlands and vegetation; aquatic life and resources; wildlife and habitat; cultural resources; and large-scale field testing of material geochemical characteristics. This testing included geochemical characterization of additional samples collected at the end of the 2012 field season.

The Company is now focused on review of the capital, sustaining capital and operating costs to be included in the FS.

During the quarter, several alternatives to the large mill concept were developed and are being analyzed to determine if they can improve the economics of the project compared to the high tonnage base case. These alternatives include varying mill feed rates, stand-alone heap leach, and mill and heap leach combinations. Optimized mine plans were developed to utilize stockpile management strategies in order to maintain higher grade feed to the process plant.

In light of the recent decrease in the gold price and its effect on the gold mining industry, the Company has prepared for the potential of a continuing lower gold price and has developed an alternate work program. The Company revised its 2013 program to limit spending to the engineering and analysis required to support the completion of the

base case FS and the environmental baseline work and project documentation needed to continue to advance the project toward the permitting stage along with the Company's corporate activities and compliance matters.

As the FS nears completion, the Company anticipates that a review of its budgetary and financing options will include consideration of a future strategic alliance to assist in further development, permitting and construction costs.

## Results of Operations

### Summary of Quarterly Results

	<b>March 31, 2013</b>	<b>December 31, 2012</b>	<b>September 30, 2012</b>	<b>June 30, 2012</b>
Net loss	\$ (4,063,282)	\$ (7,258,397)	\$ (25,033,780)	\$ (12,909,320)
Basic and diluted net loss per common share	\$ (0.04)	\$ (0.07)	\$ (0.27)	\$ (0.15)

  

	<b>4 months</b>			
<b>Description</b>	<b>March 31, 2012</b>	<b>December 31, 2011</b>	<b>August 31, 2011</b>	<b>May 31, 2011</b>
Net loss	\$ (11,441,965)	\$ (16,727,561)	\$ (26,582,396)	\$ (12,980,035)
Basic and diluted net loss per common share	\$ (0.13)	\$ (0.19)	\$ (0.31)	\$ (0.15)

### *Three Months Ended March 31, 2013 compared to Three Months Ended March 31, 2012*

The Company incurred a net loss of \$4,063,282 for the period ended March 31, 2013, compared to a net loss of \$11,441,965 for the period ended March 31, 2012. The following discussion highlights certain selected financial information and changes in operations between the three months ended March 31, 2013 and the three months ended March 31, 2012.

Mineral property expenditures decreased significantly to \$2,794,435 for the three months ended March 31, 2013 from \$5,121,876 for the three months ended March 31, 2012 primary due to the Company completing its current exploration and drilling programs and shifting to activities focused to the completion of the FS such as metallurgical, process engineering, and environmental baseline work.

Share-based payment charges were \$1,578,028 during the three months ended March 31, 2013 compared to \$1,965,316 during the three months ended March 31, 2012. The decrease in share-based payment charges during the period was mainly the result of a reduction in the number and fair value of options granted during the period and vesting of prior option grants. The Company granted 613,000 options during the three months ended March 31, 2013 compared to 680,000 during the three months ended March 31, 2012.

#### Share-based payment charges

Share-based payment charges for the three month periods ended March 31, 2013 and 2012 were allocated as follows:

<b>Expense category:</b>	<b>March 31, 2013</b>	<b>March 31, 2012</b>
Consulting	\$ 544,430	\$ 36,898
Investor relations	43,825	1,478
Professional fees	-	395
Wages and benefits	989,773	1,926,545
	<u>\$ 1,578,028</u>	<u>\$ 1,965,316</u>

Excluding share-based payment charges of \$989,773 and \$1,926,545 respectively, wages and benefits for the period decreased to \$887,191 during the three months ended March 31, 2013 from \$1,336,091 during the three months ended March 31, 2012 as a result of decreased personnel during the period.

Excluding share-based payment charges of \$544,430 and \$36,898 respectively, consulting fees decreased to \$94,573 during the three months ended March 31, 2013 from \$223,988 during the three months ended March 31, 2012 due to additional fees incurred in the prior period primarily for general corporate matters and compensation benefits design and implementation.

Other expense categories reflected only moderate change period over period.

Other items amounted to a gain of \$1,932,058 during the current period compared to a loss of \$2,193,859 during the prior year period ended March 31, 2012. The gain in the current period resulted mainly from an unrealized gain of \$1.5 million on the revaluation of the derivative liability at March 31, 2013 resulting from a decrease in the average price of gold, compared to an unrealized loss of \$2.4 million on the revaluation of the derivative liability during the prior period which resulted from an increase in the average price of gold. In addition to the unrealized gain on the derivative liability, the Company had foreign exchange gain of \$397,829 during the current period compared to a loss of \$20,420 during the prior period as a result of an increase in the value of the Canadian dollar compared to the U.S. dollar. The increase in other income was partially offset by \$141,948 of income from mineral property earn-in recognized during the period ended March 31, 2012 which was related to the Terra and Chisna properties transferred to Corvus Gold Inc. in 2010 compared to no mineral property earn-in income for the period ended March 31, 2013.

### **Liquidity and Capital Resources**

The Company has no revenue generating operations from which it can internally generate funds. To date, the Company's ongoing operations have been predominantly financed through sale of its equity securities by way of private placements and the subsequent exercise of share purchase and broker warrants and options issued in connection with such private placements. However, the exercise of warrants/options is dependent primarily on the market price and overall market liquidity of the Company's securities at or near the expiry date of such warrants/options (over which the Company has no control) and therefore there can be no guarantee that any existing warrants/options will be exercised. This situation is unlikely to change until such time as the Company can develop a bankable feasibility study for the Livengood Gold Project.

As at March 31, 2013, the Company reported cash and cash equivalents of \$24,675,780 compared to \$30,170,905 at December 31, 2012. The decrease of approximately \$5.5 million resulted mainly from expenditures on the Livengood Gold Project, advancing work towards completion of the FS. The Company continues to utilize its cash resources to fund the Livengood Gold Project exploration, permitting, feasibility study completion, including related metallurgical and geotechnical studies, and corporate administrative requirements.

The Company had no investing activities during the three months ended March 31, 2013. Investing activities during the three months ended March 31, 2012 comprised of mineral property acquisitions of \$2 million. Mineral property acquisitions during 2012 related to certain mining claims and related rights in the vicinity of the Livengood Gold Project.

The Company had no cash flows from financing activities during the three month periods ended March 31, 2013 and 2012.

As at March 31, 2013, the Company had working capital of \$23,142,280 compared to working capital of \$27,676,797 at December 31, 2012. The Company expects that it will operate at a loss for the foreseeable future, but believes the current cash and cash equivalents will be sufficient for it to complete the non-discretionary activities at the Livengood Gold Project, and its currently anticipated general and administrative costs, through the 2014 fiscal year. To advance the Livengood Gold Project towards permitting and development, the Company anticipates maintaining certain essential development activities for the 2013 fiscal year ending December 31, 2013. The additional financing completed by the Company in the third quarter of 2012 will fund the continued operations for the 2013 fiscal year and the planned activities for completing the FS in mid-2013. The Company will require significant additional financing to continue its operations (including general and administrative expenses) beyond the anticipated completion of the FS, particularly in connection with any post FS activities at the Livengood Gold Project and the development of any mine that may be determined to be built at the Livengood Gold Project, and there is no assurance that the Company will be able to obtain the additional financing required on acceptable terms, if at all. In addition, any significant delays in the issuance of required permits for the ongoing work at the

Livengood Gold Project, or unexpected results in connection with the ongoing work, could result in the Company being required to raise additional funds to advance permitting efforts. Given the recent significant decrease in the gold price and its effect on the availability of financing options, the Company is reviewing the work program to determine potential reduced activities. The Company's review of its financing options includes considering a future strategic alliance to assist in further development, permitting and future construction costs

Despite the Company's success to date in raising significant equity financing to fund its operations, there is significant uncertainty that the Company will be able to secure any additional financing in the current or future equity markets. See "Risk Factors – We will require additional financing to fund exploration and, if warranted, development and production. Failure to obtain additional financing could have a material adverse effect on our financial condition and results of operation and could cast uncertainty on our ability to continue as a going concern" in the Company's Annual Report on Form 10-K for the year ended December 31, 2012. The quantity of funds to be raised and the terms of any proposed equity financing that may be undertaken will be negotiated by management as opportunities to raise funds arise. Specific plans related to the use of proceeds will be devised once financing has been completed and management knows what funds will be available for these purposes. Due to this uncertainty, if the Company is unable to secure additional financing, it may be required to reduce all discretionary activities at Livengood to preserve its working capital to fund anticipated non-discretionary expenditures beyond the 2013 fiscal year.

Other than cash held by its subsidiaries for their immediate operating needs in Alaska and Colorado, all of the Company's cash reserves are on deposit with a major Canadian chartered bank or invested in Government of Canada Treasury Bills or Banker's Acceptances issued by major Canadian chartered banks. The Company does not believe that the credit, liquidity or market risks with respect thereto have increased as a result of the current market conditions. However, to achieve greater security for the preservation of its capital, the Company has, of necessity, been required to accept lower rates of interest which has also lowered its potential interest income.

## Contractual Obligations

The following table discloses, as of March 31, 2013, the Company's contractual obligations for optional mineral property payments and work commitments and committed office and equipment lease obligations. The table also includes amounts payable under the purchase agreement related to the acquisition of certain mining claims and related rights in the vicinity of the Livengood Gold Project ("Livengood Property Purchase"). The Company does not have any other long-term debt or loan obligations. Under the terms of the Company's mineral property purchase agreements, mineral leases and the terms of the unpatented mineral claims held by it, the Company is required to make certain scheduled acquisition payments, incur certain levels of expenditures, make lease or advance royalty payments, make payments to government authorities and incur assessment work expenditures as summarized in the table below in order to maintain and preserve the Company's interests in the related mineral properties. If the Company is unable or unwilling to make any such payments or incur any such expenditures, it is likely that the Company would lose or forfeit its rights to acquire or hold the related mineral properties. The following table assumes that the Company retains the rights to all of its current mineral properties, but no other lease purchase or royalty buyout options:

	Payments Due by Year						Total
	2014	2015	2016	2017	2018	2019 and beyond	
Livengood Property Purchase <sup>(1)</sup>	\$ -	\$ -	\$ 20,900,000	\$ -	\$ -	\$ -	\$ 20,900,000
Mineral Property Leases <sup>(2)</sup>	396,563	396,563	396,563	396,563	401,563	401,563	2,389,378
Mining Claim Government Fees	89,110	89,110	89,110	89,110	89,110	89,110	534,660
Office and Equipment Lease Obligations	102,825	362	362	362	362	362	104,635
Total	<u>\$ 588,498</u>	<u>\$ 486,035</u>	<u>\$ 21,386,035</u>	<u>\$ 486,035</u>	<u>\$ 491,035</u>	<u>\$ 491,035</u>	<u>\$ 23,928,673</u>

1. The amount payable in December 2016 of \$20,900,000 represents the fair value of the Company's derivative liability as at March 31, 2013 and will be revalued at each subsequent reporting period.
2. Does not include required work expenditures, as it is assumed that the required expenditure level is significantly below the work for which will actually be carried out by the Company. Does not include potential royalties that may be payable (other than annual minimum royalty payments).

## Off-Balance Sheet Arrangements

The Company does not have any off balance sheet arrangements.

## Environmental Regulations

The operations of the Company may in the future be affected from time to time in varying degrees by changes in environmental regulations, including those for future removal and site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company vary greatly and are not predictable. The Company's policy is to meet or, if possible, surpass standards set by relevant legislation by application of technically proven and economically feasible measures.

## Certain U.S. Federal Income Tax Considerations for U.S. Holders

The Company has been a "passive foreign investment company" ("PFIC") for U.S. federal income tax purposes in recent years and expects to continue to be a PFIC in the future. Current and prospective U.S. shareholders should consult their tax advisors as to the tax consequences of PFIC classification and the U.S. federal tax treatment of

PFICs. Additional information on this matter is included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012, under “Part II. Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities - Certain U.S. Federal Income Tax Considerations for U.S. Holders.”

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has exposure to market risk in areas of interest rate risk, foreign currency exchange rate risk, and other price risk.

#### *Interest Rate Risk*

Interest rate risk consists of the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company’s cash and cash equivalents consists of cash and cash equivalents held in bank accounts and short term deposit certificates of Guaranteed Investment Certificates (“GICs”) with two major Canadian financial institutions that earn interest at variable interest rates. Future cash flows from interest income on cash and cash equivalents will be affected by interest rate fluctuations. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values.

At March 31, 2013, the Company held a total of \$22,796,411 (December 31, 2012 - \$27,367,356) cash equivalents which consist of interest saving accounts and GICs:

	Quantity	Maturity Date	Annual Yield
TD Mortgage Corporation (GIC)	\$ 4,430,700	April 16, 2013	1.45%
Investment savings accounts	18,365,711		
	\$ 22,796,411		

The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity. The Company’s sensitivity analysis suggests that a 0.5% change in interest rates would affect interest income by approximately \$100,000.

#### *Foreign Currency Risk*

The Company is exposed to foreign currency risk to the extent that certain monetary financial instruments and other assets are denominated in Canadian dollars. As the majority of the Company’s assets, aside from cash, are denominated in U.S. dollars, currency risk is limited to those Canadian cash balances. The Company has not entered into any foreign currency contracts to mitigate this risk. The Company’s sensitivity analysis suggests that a consistent 5% change in the absolute rate of exchange for the Canadian dollar would affect net assets by approximately \$250,000. Furthermore, depending on the amount of cash held by the Company in Canadian dollars at the end of each reporting period using the period end exchange rate, significant changes in the exchange rates could cause significant changes to the currency translation amounts recorded to accumulated other comprehensive income.

As at March 31, 2013, Canadian balances were converted at a rate of C\$1 to US \$0.9846.

#### *Credit Risk*

Concentration of credit risk exists with respect to the Company’s Canadian cash and cash equivalents as all amounts are held at two major Canadian financial institutions. Credit risk with regard to cash held in the United States is mitigated as the amount held in the United States is only sufficient to cover short-term requirements. With respect

to receivables at March 31, 2013, the Company is not exposed to significant credit risk as the receivables are principally interest accruals.

### ***Other Price Risk***

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or foreign exchange risk. The Company's investments in marketable securities are exposed to such risk. The Company's derivative liability, which consists of a future contingent payment valued using historic and estimated future gold prices, is also exposed to other price risk. See Note 5 of the notes to the unaudited condensed consolidated interim financial statements included elsewhere in this Quarterly Report on Form 10-Q. The fair value of this liability will fluctuate with the average daily price of gold as well as with future projections for the average price of gold over the life of the obligation. For every dollar change in the average daily price of gold, the value of the derivative liability will change by \$23,148.

## **ITEM 4. CONTROLS AND PROCEDURES**

### **Disclosure Controls and Procedures**

As of March 31, 2013, an evaluation was carried out under the supervision of and with the participation of the Company's management, including the Chief Executive Officer (the principal executive officer) and Chief Financial Officer (the principal financial officer and accounting officer), of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act). Based on the evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of March 31, 2013, the Company's disclosure controls and procedures were effective in ensuring that: (i) information required to be disclosed in reports filed or submitted to the SEC under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in applicable rules and forms and (ii) accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, in a manner that allows for timely decisions regarding required disclosures.

The effectiveness of our or any system of disclosure controls and procedures, however well designed and operated, can provide only reasonable assurance that the objectives of the system will be met and is subject to certain limitations, including the exercise of judgement in designing, implementing and evaluating controls and procedures and the assumptions used in identifying the likelihood of future events.

### **Changes in Internal Control over Financial Reporting**

There were no changes in internal controls over financial reporting during the quarter ended March 31, 2013 that have materially, or are reasonably likely to materially affect, the Company's internal control over financial reporting.