Heatherdale Resources Ltd.

MANAGEMENT'S DISCUSSION AND ANALYSIS

NINE MONTHS ENDED JULY 31, 2011

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1.1 Date

This Management Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited condensed consolidated interim financial statements of Heatherdale Resources Ltd. (the "Company" or "Heatherdale") for the three and nine months ended July 31, 2011 and the audited consolidated financial statements for the year ended October 31, 2010 as publicly filed under the Company's profile on SEDAR at www.sedar.com.

The Company reports in accordance with International Financial Reporting Standards ("IFRS") and the following disclosure, and associated consolidated financial statements, are presented in accordance with IFRS.

This MD&A is prepared as of September 22, 2011. All dollar amounts herein are expressed in **United States Dollars** unless otherwise specified.

This discussion includes certain statements that may be deemed "forward-looking statements".

All statements in this release, other than statements of historical facts, that address permitting, exploration drilling, exploitation activities and events or developments that the company expects are forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, exploitation and exploration successes, continuity of mineralization, potential environmental issues and liabilities associated with exploration, development and mining activities, uncertainties related to the ability to obtain necessary permits, licenses and title and delays due to third party opposition, changes in government policies regarding mining and natural resource exploration and exploitation, continued availability of capital and financing, and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements. For more information on the Company, investors should review the Company's continuous disclosure filings that are available at www.sedar.com.

The Company reviews its forward-looking statements on an ongoing basis and updates this information when circumstances require it.

Information Concerning Estimates of Indicated and Inferred Resources

The following discussion uses the terms "indicated resources" and "inferred resources". Heatherdale advises investors that although these terms are recognized and required by Canadian regulations (under National Instrument 43-101, *Standards of Disclosure for Mineral Projects* ("43-101")), the U.S. Securities and Exchange Commission does not recognize them. Investors are cautioned not to assume that all or any part of the mineral deposits in these categories will ever be converted into reserves. In addition, "inferred resources" have a great amount of uncertainty as to their existence, and economic and legal feasibility. It cannot be assumed that all or any part of an Inferred Mineral Resource will ever be upgraded to a higher category. Under Canadian rules, estimates of Inferred Mineral Resources may not form the basis of feasibility or pre-feasibility studies, or economic studies except for a Preliminary Assessment as defined under 43-101. Investors are cautioned not to assume that all or part of an inferred resource exists, or is economically or legally mineable.

1.2 Overview

1.2.1 Summary

Heatherdale is an exploration and development company with interests in two Alaska-based assets, the advanced exploration stage Niblack Project ("Niblack") and the mid exploration stage Delta Project ("Delta"). During 2011, the Company has further advanced a successful drilling program at Niblack and initiated drilling at Delta.

Niblack Project

As of August 2011, Heatherdale has earned a 60% interest in the Niblack Project and the other 40% interest is held by Niblack Mineral Development Inc. Heatherdale has determined that it will not proceed with an option to earn an additional 10% interest and work on the project is now proceeding on a 60/40 joint venture basis, although Heatherdale has agreed to sole fund operations until October 23, 2011 to facilitate the uninterrupted continuation of the current exploration program.

The 6,200-acre Niblack property is located at tidewater on Prince of Wales Island, some 27 miles (44 kilometres) from Ketchikan. Ketchikan is a community of 8,000 people and provides important services to support project development, including a deep water port and an international airport.

Six copper-gold-zinc-silver volcanogenic massive sulphide ("VMS") deposits - Lookout, Trio, Dama, Lindsy, Mammoth and the historic Niblack mine - are known to occur on the property. Mineral resources have been outlined in the Trio and Lookout deposits.

Since its formation in June 2009, the joint venture has completed some 130,000 feet of underground drilling at the Niblack Project. This work has been very successful. Drilling from 2009 to the end of December 2010 resulted in a 54% increase in the mineral resources. At a $50 Net Smelter Return ("NSR") cutoff, the March 2011[1] estimate comprises:

[1] Qualified Persons are Deon Van Der Heever, Pr. Sci. Nat., Hunter Dickinson Inc., who is not independent of the Company, and Marek Nowak P.Eng., of SRK Consulting, who is independent of the Company. The Net Smelter Return ("NSR") cutoffs use long-term metal price forecasts: gold $1050/oz, silver $18.00/oz, copper $2.50/lb, and zinc $1.00/lb; Recoveries to Cu concentrate of 95% Cu, 56% Au and 53% Ag with payable metal factors of 96.5% for Cu, 90.7% for Au, and 89.5% for Ag; to Zn concentrate of 93% Zn, 16% Au, and 24% Ag with payable metal factors of 85% for Zn, 80% for Au and 20% for Ag. Detailed engineering studies will determine the best cutoff.

- 4.1 million tonnes of indicated mineral resources grading 1.13% copper, 2.32 g/t gold, 2.27% zinc and 38.70 g/t silver; and
- 2.5 million tonnes of inferred mineral resources grading 1.21% copper, 1.77g/t gold, 2.29% zinc and 25.90 g/t silver.

In addition a continuous zone of high grade material was identified within the indicated resources of the Lookout deposit. This 1.5 million tonne zone grades 1.73% Cu, 3.50 g/t Au, 3.84% Zn and 61.60 g/t Ag at a $150 NSR cutoff.

These resources laid the foundation for advancing the project to the next stage of engineering and scoping studies, which are a part of the 2011 program. A preliminary economic assessment has also been initiated.

Extensive drilling from underground and surface has continued in 2011. Recent results have confirmed that the geological model for the project, refined over the past two years, is robust and can successfully target new mineralization. In particular, a new zone was intersected in drilling between Lookout and Trio which is expected to add to the mineral resources.

As only about one quarter of the six miles of prospective horizon that hosts the Niblack deposits has been tested by drilling, there is significant additional resource potential on the property.

Delta Project

Heatherdale holds a 60% interest, with options to acquire a 100% interest, in the Delta Project. Delta is a mid-stage exploration project that provides the Company with a longer-term development opportunity to complement the Niblack Project.

The Delta property is located in east-central Alaska about 19 miles (30 km) from the Alaska Highway. The 39,840-acre property hosts several known massive sulphide occurrences. An initial estimate of the mineral resources in seven of the occurrences based on past work is 15.4 million tonnes in the inferred category grading 0.60% Cu, 1.7% Pb, 3.8% Zn, 62 g/t Ag, and 1.7 g/t Au[2]. Several of these zones remain open to expansion both laterally and vertically. There is also excellent additional exploration potential.

In July 2011, one rig was mobilized to the Delta site to drill test copper-lead-zinc-silver-gold VMS targets identified on the property. Along with drilling, the program includes further evaluation and sampling of a variety of other potential drill targets on the property.

[2]Based on the 2006 estimate by independent qualified persons Samuel S. Dashevsky, CPG, and Carl F. Schaefer, CPG, of Northern Associates, Inc., using a polygonal method, which applied an $80/ton over a minimum true width of 8 feet (2.4 m) cut-off, using metal prices ($US) of $2.00/lb for Cu, $0.50/lb for Pb, $1.00/lb for Zn, $10.00/oz for Ag and $550/oz for Au, for seven sulphide lenses, including the DDN, DDS, DW, Mid, LP, LPH and PP2 deposits.

1.2.2 Financings

Heatherdale completed a private placement of 7,889,500 units of its securities at a price of Cdn$1.00 per unit for gross cash proceeds of Cdn$7,889,500 during the first quarter of fiscal 2011. Each unit comprised one common share and one warrant entitling the holder to purchase an additional common share at a price of Cdn$1.20 until May 26, 2012.

In the third quarter, the Company completed a further private placement of 11,314,255 units of its securities at a price of Cdn$0.83 per unit for gross proceeds of Cdn$9,390,831. Each unit comprised one common share and one warrant exercisable to purchase an additional common share at a price of Cdn$1.20 for 18 months until December 15, 2012 and each are subject to a four month hold period. Finder's fees were paid on a portion of the financing.

Proceeds from the placements are being used to continue to advance exploration of the Niblack and Delta properties in Alaska and for general corporate and working capital purposes.

1.2.3 Niblack Project, southeast Alaska

1.2.3.1 Niblack Project Agreement

In July 2009, Niblack Mineral Development Inc. ("NIB"), formerly CBR Gold Corp., and its wholly-owned subsidiary, Abacus Alaska Inc. ("AAI"), and Heatherdale entered into an agreement (the "Niblack LLC Agreement") to form and operate a limited liability company under the Delaware Limited Liability Company ("LLC") Act that is registered to carry on business in the State of Alaska (the "Niblack Project LLC"), to hold the joint venture assets and construct facilities in order to explore, evaluate and if feasible, develop and mine the Niblack property.

Under the terms of the Niblack LLC Agreement, Heatherdale had to fund exploration and development expenditures on the Niblack Project totaling in aggregate at least $15 million within three years (the "Initial Contribution") in order to retain 51% interest in the Niblack Project LLC (which it completed in December 2010). Heatherdale also had earn-in options to increase its ownership interest in the Niblack Project LLC to 60% by funding additional expenditures of $10 million (which was completed by July 31, 2011 and advised to NIB in August 2011) and to 70% by funding completion of a positive bankable feasibility study within an additional three year period. Heatherdale has determined that it will not proceed with the option to earn a 70% interest and work on the project is now proceeding on a 60/40 joint venture, although Heatherdale has agreed to sole fund operations until October 23, 2011 to facilitate the uninterrupted continuation of the current exploration program. In terms of the Niblack LLC Agreement, the Niblack Project LLC is principally managed by Heatherdale in collaboration with NIB. Heatherdale has overall responsibility for operations and reporting and implementation of decisions of the management committee, which is chaired by Heatherdale and comprises three representatives from each party. Decisions of the management committee are determined in proportion to ownership interest, with certain decisions requiring a vote of more than 60%. Once a program and budget is approved by the management committee, if either party declines to fund its share of a cash call, the other party can elect to cover those costs and standard straight-line dilution will apply.

If the ownership interest of either party is reduced below 10%, its interest will be converted to a 2% Net Smelter Royalty ("NSR") and the other party will have a buy-out option to reduce the NSR to 1% by making a payment of $1 million. The withdrawing party shall be deemed to have resigned and withdrawn from the Niblack Project LLC with their interest accruing free and clear to the other party.

If either party receives a bona fide written third-party offer to sell their ownership interest in the Niblack Project LLC, the other party is entitled to receive notice and a right of first refusal, prior to acceptance of the third party offer.

1.2.3.2 Technical Programs

The Niblack property has a long history of mineral exploration and development. It supported historic underground mining operations from 1905-08, and produced approximately 20,000 tons grading 4.9% copper, 2.2 g/t gold and 30 g/t silver.

Previous owners expended some $41 million over 34 years to complete 195,000 feet of drilling in 246 holes. A 2,800-foot underground development drive and 500 feet of crosscuts were constructed in 2007-2008 to facilitate cost-effective underground drilling at Niblack, and 28 underground holes were completed to the end of 2008.

Preliminary metallurgical testing was undertaken on the Niblack deposits. Average results include recoveries to copper concentrate of 95% Cu, 56% Au and 53% Ag with payable metal factors of 96.5% for copper, 90.7% for gold and 89.5% for silver. Recoveries to zinc concentrate are 93% zinc, 16% gold and 24% silver with payable metal factors of 85% for zinc, 80% for gold and 20% for silver.

An initial mineral resource was established by the historic drilling in the Lookout and Trio deposits. The last two holes (U027 and U028) in the 2008 underground program returned grades significantly higher than the historic averages, indicating the presence of a new high-grade zone to the southwest of the Lookout Deposit.

Exploration by Heatherdale

Underground Drilling

Building on the 2008 discovery of high-grade VMS mineralization within the Lookout Deposit, exploration and delineation drilling was undertaken in 2009 and 2010 that achieved substantial increases to the size, grade and extent of the resource. Drilling in 2011 has focused on further expanding Lookout as well as testing a number of other targets.

Since Heatherdale's acquisition of its ownership interest in Niblack, Heatherdale has completed some 130,000 feet of underground drilling had been completed at the Niblack Project. Approximately 38,000 feet of drilling had been done in calendar 2011, continuing to expand the dimensions of the known mineralization while also demonstrating the strength and continuity of replacement and accumulation-style massive sulphide mineralization within the prospective felsic volcanic horizon.

Initial 2011 results from 23 holes were announced in July. Drilling proceeded in fan patterns from underground drill stations. Key intersections were encountered in the Lookout deposit (U128), the Mammoth zone (U112 and U114), and a new zone between the Lookout and Trio deposits (U110, U113, U117, U121 and U123) are shown in the assay table and described further below:

Drill Hole Number		From (feet)	To (feet)	Intercept (feet)	Cu %	Au g/t	Zn %	Ag g/t
U110		1362.2	1370.0	7.8	0.67	1.73	0.93	23
U112		472.0	491.0	19.0	3.32	0.49	3.14	28
U112	**incl.**	**472.0**	**479.3**	**7.3**	**6.78**	**0.99**	**7.07**	**59**
U113		1356.5	1373.0	16.5	0.31	0.40	3.61	4
U113	incl.	1356.5	1366.0	9.5	0.30	0.48	5.16	4
U114		504.5	510.2	5.7	4.15	0.72	1.36	29
U114		535.5	540.0	4.5	0.15	0.24	2.28	4
U117		1472.0	1473.0	1.0	3.56	0.41	0.02	15
U121		1588.4	1592.0	3.6	0.85	0.42	0.82	10
U123		**1648.0**	**1655.8**	**7.8**	**1.67**	**19.51**	**3.32**	**263**
U123		1705.0	1710.0	5.0	0.07	1.99	0.44	6
U128		880.0	885.0	5.0	0.58	0.77	0.27	18
U128		890.4	898.4	8.0	0.99	2.23	1.68	40
U128		909.7	954.7	45.0	1.06	1.66	1.85	31
U128	incl.	910.5	929.4	18.9	1.90	3.12	1.60	57

No significant results U105-U109, U111, U115, U116, U118-120, U122, U125-127; Assays pending for U124B.
True widths of intersections located outside of the Lookout deposit have not yet been accurately established.

Lookout Deposit

Hole U128 was drilled to further define the resource model in the southwest part of the Lookout deposit. Mineralization was encountered three times in the hole; the most significant intersection is 45 feet grading 1.06% copper, 1.66 g/t gold, 1.85% zinc and 31 g/t silver and including a 19-foot interval of higher copper and gold grades.

Mammoth Zone

The exploration drift is collared into the Mammoth zone. It sits within the prospective felsic stratigraphy, approximately 3,000 feet northwest of the Trio deposit. Historically, narrow widths of sea floor accumulation-style mineralization were intersected in several holes in this area but limited drill efforts had been made to extend those intersections along strike or down dip. The Heatherdale team reviewed the historic data and designed a series of drill fans to better assess these mineralized zones. Significant intersections were encountered in drill holes U112 and U114, indicating good potential. Follow up drilling is required to delineate mineral resources at Mammoth.

New Zone between Lookout and Trio with high gold grades

A series of six holes were drilled to target deeper mineralization in the felsic sequence that lies between the Trio and Lookout deposits, testing an exploration hypothesis for a repetitive zone of mineralization at depth beyond the Lookout deposit. Five of the six holes encountered mineralization, including Hole U123, which intersected high grade gold of 19.51 g/t and significant silver and copper grades of 263 g/t and 1.67%, respectively, over 7.8 feet. This new zone will add to the overall tonnage estimate for the deposit. The zone remains open and drill testing is ongoing.

Surface Exploration and Drilling

Surface work, including detailed geological mapping, sampling and diamond drilling has also been underway, designed to test additional priority targets along the favorable felsic stratigraphy. In August 2011, Heatherdale received permits to conduct surface drilling of priority targets in federal lands designated as roadless area. This permit will assist the Company in testing the full extent of the 6 miles of prospective horizon that lies on the property.

Engineering Studies

Drilling in 2009 and 2010 established a threshold of mineral resources on which to advance the project to the next stage. Initial engineering work and technical studies for the completion of a Preliminary Economic Assessment, as well as to provide the foundation for a prefeasibility study of the project are also underway.

1.2.4 Delta Project, east-central Alaska

1.2.4.1 Delta Project Agreement

Heatherdale acquired Heatherdale Acquisitions Ltd ("HAL", previously known as Hunter Dickinson Acquisitions Inc.), a non-arm's length private company that holds a 60% interest, with options to acquire a 100% interest, in the Delta Project under a Limited Liability Company Agreement of Delta Project LLC ("Delta LLC Agreement"), dated October 20, 2010 with Grayd Resource Corporation and its wholly owned subsidiary Grayd Resources (USA) Inc ("Grayd"). At the time of the transaction, certain directors of HAL were also directors of the Company.

In terms of the HAL purchase (the "HAL Share Purchase Agreement") and the underlying Delta LLC Agreement, in addition to assuming certain acquisition costs, Heatherdale has made or, will be required to make the following payments and incur exploration expenditures as set out below:

- Heatherdale issued 2,000,000 common shares to the former shareholders of HAL in May 2011 on closing of the HAL Share Purchase Agreement.
- To retain its 60% interest in the Delta Project, under the Delta LLC Agreement Heatherdale must expend at least $1,000,000 on or before January 1, 2012 (of which $519,222 has been spent to date by HAL and the remaining expenditures were completed by Heatherdale in August 2011) and an additional amount of at least $2,000,000 on or before January 1, 2013 (the "Initial Contribution").

- Under the HAL Share Purchase Agreement, upon completion of its Initial Contribution, Heatherdale will issue 2,000,000 common shares to the former shareholders of HAL.
- If Heatherdale does not complete its Initial Contribution, it shall be deemed to have withdrawn from the Delta Project and its 60% ownership interest in the Delta Project LLC will be divested to Grayd. In this event no further payments will be due to the former HAL shareholders under the HAL Share Purchase Agreement.
- Upon completion of its Initial Contribution, Heatherdale shall have an additional earn-in option under the Delta LLC Agreement to increase its ownership interest in the Delta Project to 80% by funding additional expenditures of $4,000,000 on or before January 1, 2014 (the "First Option").
- Under the HAL Share Purchase Agreement, if Heatherdale exercises the First Option, Heatherdale will issue Cdn$2,000,000 worth of common shares based on the 10-day volume weighted average price before date of issue, to the former HAL shareholders, (or make a cash payment in lieu thereof in the event that: (i) there has been a change in control of Heatherdale; (ii) its shares are no longer listed on the TSX Venture Exchange ("TSX-V") or a similar exchange; or (iii) Heatherdale shareholder approval, if necessary, has not been obtained).
- Within 90 days of exercising the First Option, under the Delta LLC Agreement Heatherdale shall have the option to increase its ownership interest in the Delta Project to 100% by issuing to Grayd Resources (USA) Inc., at Heatherdale's election and subject to regulatory approval, either two million shares or shares with a market value of $4,000,000 (the "Second Option").
- Under the HAL Share Purchase Agreement, if Heatherdale exercises the Second Option, Heatherdale will issue Cdn$2,000,000 worth of common shares based on the 10-day volume weighted average price before date of issue, to the former HDAI shareholders or make a cash payment in lieu thereof in the event that: (i) there has been a change in control of Heatherdale; (ii) its shares are no longer listed on the TSX-V or a similar exchange; or (iii) Heatherdale shareholder approval, if necessary, has not been obtained.
- If Heatherdale elects not to complete either the First Option or the Second Option, under the Delta LLC Agreement its ownership interest will remain at the last ownership milestone earned, and under the HAL Share Purchase Agreement it will have no further obligations to issue shares or make payments to the former HAL shareholders.

1.2.4.2 Technical Programs

The Delta property is a district-scale land position comprised of 249 Alaska State mining claims covering an area of 39,840 acres, over a largely under-explored VMS district with strong potential for expansion of known resources and the discovery of new deposits.

The property lies within a regionally extensive package of Devonian to Mississippian age metasedimentary and metavolcanic rocks referred to as the Yukon-Tanana Terrane, which occurs in east-central Alaska and extends in an ESE trending arc across Yukon into northern British Columbia. Several clusters of VMS mineral occurrences are known in the Alaska portion of the terrane. Massive sulphides occur on the Delta property in three southeast to northwesterly trending horizons: the Upper Lagoon Series with a strike length of approximately 9.5 miles (15 km); the Lower Lagoon Series with a similar extent; and more localized occurrences in Drum Series rocks. A 12.5 mile (20 km) long, thrust-fault repeated section of the Lagoon Series also hosts sulphide mineralization.

Since an initial discovery was made at Delta in 1976, exploration work by a number of operators has investigated more than 40 occurrences of massive sulphide mineralization. To 2007, some 141 widely spaced holes totaling some 75,000 feet (23,000 m) were drilled.

Several of the zones for which initial mineral resources have been estimated remain open to expansion both laterally and vertically. In addition, there are numerous other exploration targets on the Delta property, including:

- Previously outlined exploration targets that remain untested or only partially drill-tested.
- Areas from which mineralized grab samples returned very high precious metal grades.
- Several exciting new targets that were identified for follow-up from an airborne Versatile Time Domain Electro-Magnetics (VTEM) geophysical survey flown by HAL over the entire Delta district in 2010.

Exploration by Heatherdale

An exploration program has been undertaken in 2011, involving drilling with one rig and sampling of a variety of other potential drill targets on the property. Results are still pending.

1.2.5 Market Trends

Although there has been periodic volatility in the gold market, the average annual price has been on an upward trend for the past five years. In response to the global economic uncertainty that began in mid-2008, gold prices were strong in 2009 and 2010, and have continued their upward trend in 2011.

Copper prices increased significantly between late 2003 and mid 2008 before declining in late 2008 and through early 2009 but have been steadily increasing since that time. In 2011, prices remain strong.

Zinc prices were variable in 2008 and 2009. In 2010, prices weakened mid-year, and then improved steadily and have continued to increase in 2011.

Silver prices were impacted by economic volatility in 2008-2009. Prices increased significantly in 2010, reaching $30.91/oz at year end. The upward trend in the silver price has continued in 2011.

Average annual prices as well as the average prices so far in 2011 for gold, copper, zinc and silver are shown in the table below:

Year	Average Metal Price			
	Gold	Copper	Zinc	Silver
2008	$871/oz	$3.16/lb	$0.80/lb	$14.95/oz
2009	$974/oz	$2.34/lb	$0.75/lb	$14.70/oz
2010	$1,228/oz	$3.42/lb	$0.98/lb	$20.24/oz
2011 to date of MD&A	$1,532/oz	$4.23/lb	$1.04/lb	$36.56/oz

1.3 Selected Annual Information

The following consolidated annual financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC") effective for the Company's reporting year ended October 31, 2010 and are expressed in United States dollars unless otherwise stated.

Statements of Financial Position	As at October 31 2010	As at October 31 2009
Property, plant and equipment	$ 14,442,419	$ 14,440,656
Trade and other receivables	339,557	110,915
Cash and cash equivalents	3,661,449	3,985,045
Total assets	**$ 18,443,425**	**$ 18,536,616**
Total equity	$ 17,228,565	$ 17,563,078
Payable to a related party	163,739	245,822
Trade and other payables	1,051,121	727,716
Total equity and liabilities	**$ 18,443,425**	**$ 18,536,616**

Statements of Comprehensive Loss	Year ended October 31 2010	Year ended October 31 2009
Expenses:		
Exploration	$ 12,429,556	$ 2,675,951
Administration	3,529,660	583,978
Loss before the following	15,959,216	3,259,929
Interest income	(49,859)	(44,489)
Foreign exchange gain	(268,848)	(625,991)
Loss before income tax	15,640,509	2,589,449
Income tax expense	–	–
Loss and comprehensive loss for the year	$ 15,640,509	$ 2,589,449

1.4 Summary of Quarterly Results

Expressed in thousands of United States dollars, except per share amounts. Minor differences are due to rounding.

Statements of Financial Position	Jul 31 2011	Apr 30 2011	Jan 31 2011	Oct 31 2010	Jul 31 2010	Apr 30 2010	Jan 31 2010	Oct 31 2009
Property, plant and equipment	$ 16,657	$ 14,438	$ 14,440	$ 14,442	$ 14,446	$ 14,449	$ 14,452	$ 14,440
Trade and other and related party receivables	344	864	539	340	336	478	269	111
Cash and cash equivalents	6,863	3,223	7,269	3,661	7,478	10,997	13,920	3,985
Total assets	**23,864**	**18,525**	**22,248**	**18,443**	**22,260**	**25,924**	**28,641**	**18,536**
Total equity	18,456	14,957	17,345	17,228	21,317	24,934	27,807	17,563
Derivative financial liabilities	3,907	2,092	3,879	–	–	–	–	–
Trade and other and related party payables	1,501	1,476	1,024	1,215	943	990	834	973
Total equity and liabilities	**23,864**	**18,525**	**22,248**	**18,443**	**22,260**	**25,924**	**28,641**	**18,536**
Working capital	$ 5,706	$ 2,611	$ 6,784	$ 2,786	$ 6,871	$ 10,485	$ 13,355	$ 3,123

Statements of Comprehensive Loss	Jul 31 2011	Apr 30 2011	Jan 31 2011	Oct 31 2010	Jul 31 2010	Apr 30 2010	Jan 31 2010	Oct 31 2009
Expenses:								
Exploration	$ 5,029	$ 3,700	$ 3,346	$ 3,868	$ 3,229	$ 3,153	$ 2,180	$ 2,018
Administration	1,030	1,071	712	611	761	975	1,182	373
Net loss before the following:	6,059	4,771	4,058	4,479	3,990	4,128	3,362	2,391
Foreign exchange (gain) loss	(123)	(263)	(132)	(18)	66	(531)	214	(1)
Loss (gain) on derivative financial liabilities	(1,301)	(1,787)	777	–	–	–	–	–
Interest income	(13)	(15)	(13)	(9)	(12)	(14)	(15)	(10)
Issuance costs on derivative financial liabilities	179	–	–	–	–	–	–	–
Loss before income tax	4,801	2,706	4,690	4,452	4,044	3,583	3,561	2,380
Income tax expense	–	–	–	–	–	–	–	–
Loss and comprehensive loss for the period	$ 4,801	$ 2,706	$ 4,690	$ 4,452	$ 4,044	$ 3,583	$ 3,561	$ 2,380
Basic and diluted loss per common share	$ 0.08	$ 0.05	$ 0.09	$ 0.09	$ 0.08	$ 0.07	$ 0.08	$ 0.07
Weighted average number of common shares outstanding YTD (thousands)	63,489	55,796	53,297	47,868	47,868	47,868	45,177	33,420

1.5 Results of Operations

The following financial data has been prepared in accordance with IFRS as issued by the IASB and interpretations of the IFRS Interpretations Committee effective for the period ended July 31, 2011 and are expressed in United States dollars unless otherwise specified. Minor differences are due to rounding.

1.5.1 Results of Comprehensive Loss for the Three Months Ended July 31, 2011 vs. 2010

The Company incurred a loss of $4,801,000 in the quarter compared to a loss of $4,044,000 in 2010. The Company incurred increased exploration related costs as it continued with an exploration program at Niblack to fulfill the requirements to earn a further 9% interest in the Niblack Project and commence the drill program at Delta. Administrative costs increased due mainly to increased corporate activities.

Exploration costs amounted to $5,029,000 (2010 – $3,229,000) for the quarter. Exploration costs were higher as the Company continued drilling at Niblack with three drill rigs and initiated a drill program at Delta. The major expenses incurred were for drilling (2011 – $2,517,000; 2010 – $1,495,000), geological wages (2011 – $726,000; 2010 – $517,000), site activities (2011 – $1,021,000; 2010 – $797,000), assays and analysis (2011 – $122,000; 2010 – $105,000) and environmental (2011 – $71,000; 2010 – $50,000). Further discussion on technical programs at Niblack and Delta are discussed in 1.2.3.2 and 1.2.4.2, respectively.

Administration costs excluding share-based compensation increased to $668,000 from $341,000 in 2010. This is due to increases in management consulting fees, salaries, travel and trust and filing costs primarily as a result of increased support required for head office activities which included the finalization of the Delta acquisition and completion of a private placement financing.

The Company recognized share-based compensation of $362,000 (2010 – $421,000). The lower expense is due mainly to the lower share-based compensation recognized on the 1.8 million options issued in the previous quarter, none of which were vested, as compared to 4.1 million options in 2010 of which one tranche had vested. The share option expense was determined using the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 2.32%, expected volatility of 96%, expected life of 3.93 years and an expected dividend yield of nil.

The Company recognized a gain of $1,301,000 on the change in fair value of the derivative financial liabilities at the end of the quarter. The Company determined that the warrants issued in December 2010 and June 2011 were derivative financial liabilities as they have an exercise price denominated in a currency other than the Company's functional currency. The Company determines the fair value of the warrants at each reporting period with changes in fair value recognized in profit or loss.

The Company recorded a foreign exchange gain of $123,000 (2010 – $66,000 loss) in the quarter. The Company received proceeds from the June 2011 financing, which were mostly in Canadian funds, when 1 USD = 0.9800 CAD. The Canadian dollar strengthened to 1 USD = 0.9555 CAD at July 31, 2011.

Interest income earned for the quarter increased marginally to $12,900 from $11,600 in 2010. Average interest earned on cash balances held during the quarter in business and savings accounts were marginally higher than in 2010.

1.5.2 Results of Comprehensive Loss for the Nine Months Ended July 31, 2011 vs. 2010

The Company incurred a loss of $12,198,000 in the period compared to a loss of $11,188,000 in 2010. The Company incurred increased exploration related costs as it completed the Company's Initial Contribution and an additional earn-in option to retain a total 60% ownership interest in the Niblack Project (refer 1.2.3.1). Administrative costs decreased marginally due mainly to lower legal, accounting and audit costs and share-based compensation.

Exploration costs amounted to $12,075,000 (2010 – $8,562,000) for the period. Exploration costs were higher in the period as the Company continued drilling at Niblack with three drill rigs, completed and filed a 43-101 technical report on mineral resources and completed other investigations at Niblack (refer 1.2.3.2 Technical Programs). The Company also initiated a drill program at Delta. The major expenses incurred were for drilling (2011 – $5,918,000; 2010 – $3,550,000), geological wages (2011 – $1,766,000; 2010 – $1,407,000), site activities (2011 – $2,758,000; 2010 – $2,305,000), assays and analysis (2011 – $284,000; 2010 – $332,000) and environmental (2011 – $190,000; 2010 – $246,000). Further discussion on technical programs at Niblack and Delta are discussed in 1.2.3.2 and 1.2.4.2, respectively.

Administration costs excluding share-based compensation increased to $1,892,000 from $1,155,000 in 2010. The increase is due to the increase in office and administration, salaries, shareholder communication, and travel to support increased head office activities which included the finalization of the Delta acquisition and completion of two private placement financings.

The Company recognized share-based compensation of $921,000 (2010 – $1,763,000). The lower expense is due in part to the Company granting only 1.8 million options as compared to 4.1 million options in 2010. The share option expense was determined using the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 2.32%, expected volatility of 96%, expected life of 3.93 years and an expected dividend yield of nil.

The Company recognized a gain of $2,311,000 on the change in fair value of the derivative financial liabilities at the end of the period. In December 2010 and June 2011 when the Company completed private placements of 7,889,500 units and 11,314,255 units respectively in securities of the Company, consisting of shares and warrants, it was determined that the warrants issued were derivative financial liabilities as they have an exercise price denominated in a currency other than the Company's functional currency and so do not meet the definition of equity instruments. Accordingly, the Company recognized the warrants at fair value with changes in fair value at the end of each reporting period recognized in profit or loss.

The Company also recorded a foreign exchange gain of $518,000 (2010 – $252,000) in the period as a result of a strengthening Canadian dollar during the period (from 1 USD = 1.02 CAD at November 1, 2010 to 1 USD = 0.9555 CAD at July 31, 2011).

Interest income earned for the period decreased marginally to $40,600 from $41,100 in 2010. Average cash balances held during the period in business and savings accounts were lower than in 2010.

1.5.3 Financial position as at July 31, 2011 vs. October 31, 2010

Total assets increased to $23,864,000 from $18,443,000. The increase is mainly attributable to an increase in cash and cash equivalents and the increase in property, plant and equipment. The Company recorded in property, plant and equipment $2,221,000 relating to the acquisition of the mineral property interest in Delta of which $1,673,000 was for the common shares that were issued. Cash and equivalents increased mainly as a result of proceeds received from private placements that were completed in the period in which the Company raised net $16,848,000. The Company received a further $21,700 on the exercise of share options and $40,600 from interest on funds invested during the period. The Company utilized $13,670,000 of its cash resources in its operations, paid $548,000 with regards to the Delta Project transaction and recognized an exchange gain of $518,000 on its Canadian dollar cash balances during the period.

1.5.4 Discussion of quarterly trends

Exploration related expenditure has increased every quarter since Q4 of 2009 to $3,868,000 in Q4 of 2010. In Q1 of 2011, there was a marginal decrease to $3,346,000 as the Company's activities at the Niblack Project site wound down for the Christmas break. In Q2 of 2011, exploration expenditure increased to $3,700,000 as drilling recommenced with two rigs at site and in Q3 of 2011, exploration expenditures increased to $5,029,000 as drilling continued with three rigs at site and the commencement of a drill program at Delta. The Company completed its Initial Contribution in December 2010 and fulfilled the earn-in requirement to earn a further 9% interest in Niblack (refer Section 1.2.3.1).

Administrative costs have increased from $373,000 in Q4 of 2009 to $1,030,000 in Q3 of 2011 due to increased administration to support the Company's role as Manager and operator of the Niblack Project and the Delta Project and to meet ongoing continuous disclosure obligations as listed entity on the TSX-V. The Company completed a qualifying transaction concurrent with a private placement financing during Q1 of 2010 which resulted in increased legal, regulatory, compliance, accounting and audit fees in Q2 of 2010. In Q2 of 2010, the Company also granted share options and recognized share-based compensation expense of $692,000.

Share-based compensation typically fluctuates based on the timing of share purchase option grants and the vesting periods associated with these grants. The fair value of the share purchase option is recognized at the grant date and each tranche is recognized over the period during which the share purchase option vests.

From Q2 of 2010 to Q4 of 2010, administration costs decreased from $975,000 to $611,000. More than 50% of administration costs comprised share based compensation. In Q1 of 2011, administration costs increased to $712,000 as a result of ongoing support for head office activities. The Group also recognized a loss on the change in fair value of the derivative financial liabilities in the amount of $777,000. In Q2 of 2011, the administration costs increased to $1,071,000 which was attributable to additional support for increased head office activities. The Group also recognized a gain of $1,787,000 on the change in fair value of the derivative financial liabilities. In Q3 of 2011, the administration costs decreased marginally to $1,030,000. The Group recognized a gain of $1,301,000 on the change in the fair value of the derivative financial liabilities.

As a result of the appreciation of the Canadian dollar ("CAD") in Q1 through to Q2 of 2010, Q4 of 2010, and Q1 to Q2 of 2011 the Company recorded exchange gains relating to the exchange differences arising on translation of the Company's Canadian dollar cash and cash equivalents into United States dollar functional currency. In Q3 of 2011, a net gain was recorded due to the timing of the receipt of the proceeds from the private placement which was when the CAD was weaker. The Company has raised most of its funds in Canadian funds and at July 31, 2011 approximately 83% of its funds were held in Canadian dollars.

The following table summarizes the movement in the Canadian dollar to the United States dollar ("USD") and the resulting exchange differences recognized in each quarter:

		1USD for 1CAD		
Period	CAD movement to USD	Start	End	Recognized (gain) loss
Q4 2009	Depreciation	$0.93	$0.92	($1,000)
Q1 2010	Appreciation	$0.92	$0.94	$214,000
Q2 2010	Appreciation	$0.94	$0.98	($531,000)
Q3 2010	Depreciation	$0.98	$0.97	$66,000
Q4 2010	Appreciation	$0.97	$0.98	($18,000)
Q1 2011	Appreciation	$0.98	$1.00	($132,000)
Q2 2011	Appreciation	$1.00	$1.06	($263,000)
Q3 2011	Depreciation	$1.06	$1.05	($123,000)
FY 2009	Appreciation	$0.83	$0.92	($626,000)
FY 2010	Appreciation	$0.92	$0.98	($269,000)

1.6 Liquidity

The Company's major source of funding has been the issuance of equity securities for cash, primarily through private placements to sophisticated investors and institutions.

At July 31, 2011, the Company had working capital of approximately $5.7 million (excluding derivative financial liabilities) which was sufficient to fund working capital requirements in the short term. The Company completed a private placement in December 2010 of 7,889,500 units in securities of the Company at a price of Cdn$1.00 per unit for net cash proceeds of approximately Cdn$7.7 million (approximately $7.6 million). Each unit comprised one common share and one warrant entitling the holder to purchase one additional common share at a price of Cdn$1.20 until May 26, 2012. The Company completed a further private placement in June 2011 of 11,314,255 units in securities of the Company at a price of Cdn$0.83 per unit for net cash proceeds of approximately Cdn$9.0 million (approximately $9.2 million). Each unit comprised one common share and one warrant entitling the holder to purchase an additional common share at a price of Cdn$1.20 until December 15, 2012 and are subject to a four month hold period.

The net proceeds from these financings are funding ongoing exploration and administrative costs and working capital. However, additional sources of funding will be required to meet budgeted expenditures through December 2011 as well as to complete the Company's funding obligation under both the Niblack Project and Delta Project agreements discussed in Sections 1.2.3 and 1.2.4, respectively.

In March 2011, in anticipation of programs to be undertaken on Niblack and Delta as well as the timing of the completion of any financing activity, the Company entered into a loan agreement with a related party, to borrow up to $700,000. The loan will accrue interest at a rate equal to LIBOR plus 4% and will be payable on demand. The loan must be repaid on or before March 10, 2013. As of the date of this MD&A, the Company had not utilized the loan facility.

The mining industry is capital intensive and sources of funding can be subject to fluctuations in metal prices. There can be no certainty that the Company's existing cash balances or that the proceeds from the issuance of its common shares will provide sufficient funds for all of the Company's cash requirements for future work programs. Should the need arise, the Company may pursue other financing options or rely on joint venture partners to supply some of the funds required to explore and develop its mineral property interest. There is no assurance that the Company will be successful in obtaining the funds it will require for its programs or that the terms of any financing obtained will be acceptable.

The Company has no long term debt, capital lease obligations, operating leases or any other long term obligations.

The Company has no "Purchase Obligations", defined as any agreement to purchase goods or services that is enforceable and legally binding on the Company that specifies all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction.

1.7 Capital Resources

The Company's capital resources consist of its cash reserves. The Company has no long-term debt and had 69,110,216 common shares issued and outstanding as at July 31, 2011. Of these 8,150,007 common shares are held in escrow and will be released in November 2011.

The Company completed its Initial Contribution in December 2010 to retain its 51% interest in the Niblack Project. The Company fulfilled the requirements to earn a further 9% interest in the current quarter by funding an additional $10 million in exploration and development expenditures to bring the Company's interest in Niblack to 60%. The Company had completed a $7.6 million (net) private placement financing in December 2010 and a $9.2 million (net) private placement financing in June 2011 to increase cash resources to help fund these required expenditures.

The Company advised NIB that it has elected to pursue the property development in the Niblack Project under a 60/40 joint venture rather than continue to earn a larger interest at this time.

Under the agreement with NIB, all spending requirements are subject to minimum annual expenditure of $5 million of which the Company would be responsible for funding a minimum of $3 million.

With the Company's acquisition of the 60% interest in the Delta Project (refer 1.2.4), in order for the Company to retain its 60% interest, the Company will need to fund exploration expenditures of $1 million on or before January 1, 2012 and $2 million on or before January 1, 2013. The Company contributed $1.1 million to the end of the period.

Other than noted above, the Company had no further commitments for capital expenditures as at July 31, 2011.

Other than the funds that may be drawn (refer 1.6), the Company has no lines of credit or other sources of financing which have been arranged but are as yet unused.

1.8 Off-Balance Sheet Arrangements

None.

1.9 Transactions with Related Parties

(a) Transactions with key management personnel

C.E.C. Engineering Ltd. is a private company controlled by a director that provides administrative and engineering services to the Group at market rate. As at July 31, 2011, the Company had no outstanding balance payable due to C.E.C. Engineering Ltd (October 31, 2010 - $6,306).

Certain key management personnel are the former shareholders of HAL that were issued 2,000,000 common shares as part of the terms of the Delta Project transactions (refer 1.2.4.1).

(b) Entities with significant influence over the Company

The Company's management believes that certain entities have power to participate in the financial or operating policies of the Company. Several directors and other key management personnel of one of these entities, who are close business associates, are also key management personnel of the Company. Pursuant to a management agreement between the Company and this entity which has significant influence over the Company, the Company receives geological, engineering, corporate development, administrative, management and shareholder communication services from this entity.

Transactions and outstanding balances with these entities are as follows:

	For the three months ended July 31		For the nine months ended July 31	
	2011	2010	2011	2010
Services rendered:				
Based on management services agreement(i)	$ 1,078,314	$ 648,654	$ 2,927,357	$ 1,732,780
Based on annual fixed fees(ii)	$ 63,398	$ –	$ 125,166	$ –
Reimbursement of third party expenses paid:	$ 97,848	$ 16,073	$ 314,588	$ 151,582

Balances payable on transactions with related entities	As at July 31 2011	As at October 31 2010
Balances payable for services received	$ 163,232	$ 157,433

(i) The Company transacted with Hunter Dickinson Services Inc. ("HDSI"), a wholly owned subsidiary of Hunter Dickinson Inc. ("HDI"), a private company with certain directors in common with the Company. HDSI provides geological, corporate development, administrative and financial management services pursuant to an agreement dated June 1, 2008. On July 2, 2010, the HDSI agreement was amended to provide services based on annually set rates. Where third party costs are incurred by HDSI on behalf of the Company, the Company reimburses HDSI for these costs.

(ii) HDI Asia Limited ("HDI Asia") is a private company wholly owned by HDSI. HDI Asia provides investor relations, marketing, and shareholder communication services with the intent to expand the Company's profile in Asia. On July 15, 2011 the Company signed a one year agreement with HDI Asia effective February 1, 2011 and services will be provided based on annual fixed fees paid quarterly.

1.10 Fourth Quarter – N/A

1.11 Proposed Transactions

There are no proposed assets or business acquisitions or dispositions, other than those in the ordinary course, before the board of directors for consideration.

1.12 Critical Accounting Estimates

Not required as the Company is a venture issuer.

1.13 Changes in Accounting Policies including Initial Adoption

New and amended standards adopted by the Company

The following new standards and amendments to standards are mandatory for the first time for the Company's financial year beginning November 1, 2010:

- Amendments to IFRS 3, *Business Combinations.* The amendments address the following:
  - transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS. The amendment eliminates the exemption for contingent consideration;
  - the measurement of non-controlling interests. The amendment requires that the choice of measurement at fair value or at the proportionate share of the acquiree's net assets applies only to instruments that represent present ownership interests and entitle their holders to a proportionate share of the assets in the event of liquidation; and
  - the accounting for share-based payment awards not replaced and awards voluntarily replaced in the acquiree. The amendment addresses the accounting for these awards that are part of the business combination in the application guidance in IFRS 3.

  The Group anticipates that these amendments will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results;

- Amendment to IAS 32, *Financial Instruments: Presentation*. The amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Provided such rights are issued pro rata to all of its existing holders of the same class of equity instruments for a fixed amount of currency, such rights are now classified as equity regardless of the currency in which the exercise price is denominated. Previously any such issues needed to be accounted for as derivative liabilities. However, this standard will only impact the Company on issue of such instruments;

- IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*. This interpretation is not expected to have any impact on the financial results of the Company.

New standards, amendments and interpretations to existing standards not adopted by the Company

The Company has not yet adopted certain new standards, amendments and interpretations to existing standards, which have been published but are only effective for accounting periods beginning on or after January 1, 2011 or later periods.

- Amendments to IAS 24, *Related Party Disclosures*, effective for the Company's annual reporting period beginning November 1, 2011. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. When the revised standard is applied, the Company and the parent will need to disclose any transactions between its subsidiaries and its associates.

- IFRS 10, *Consolidated Financial Statements,* effective for the Company's annual reporting period beginning November 1, 2013. This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company and provides additional guidance where it is difficult to assess. IFRS 10 replaces the consolidation requirements in SIC-12, *Consolidation–Special Purpose Entities*, and IAS 27, *Consolidated and Separate Financial Statements*.

- IFRS 11, *Joint Arrangements,* effective for the Company's annual reporting period beginning November 1, 2013. This standard provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than that its legal form. The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. IFRS 11 supercedes IAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly Controlled Entities–Non-monetary Contributions by Venturers*.

- IFRS 12, *Disclosure of Interests in Other Entities,* effective for the Company's annual reporting period beginning November 1, 2013. This new standard provides the disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates, and consolidated structured entities.

- IFRS 13, *Fair Value Measurement*, effective for the Company's annual reporting period beginning November 1, 2013. This standard defines fair value and sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. The standard does not determine when an asset, a liability or an entity's own equity instrument is measured at fair value. Rather, the measurement and disclosure requirements of IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value (with limited exceptions).

The Group is currently assessing the impact that these standards will have on the Group's consolidated financial statements.

- IFRS 9, *Financial Instruments, Classification and Measurement,* effective for the Group's annual reporting period beginning November 1, 2015. The standard represents phase 1 of three phases to replace IAS 39, Financial Instruments: Recognition and Measurement, in its entirety. When completed, IFRS 9, Financial Instruments, will be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39. Phase 1 was issued in November 2009 and amended in October 2010 and addressed the classification and measurement of financial assets and financial liabilities. This standard requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the

Group's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified as at fair value through profit or loss, financial guarantees and certain other exceptions. The Group is currently evaluating the impact of this standard.

1.14 Financial Instruments and Other Instruments

1) Non derivative financial assets

All financial assets are recognized or derecognized on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value. Financial assets held are trade and other receivables and cash and cash equivalents. Financial assets are classified into the following specified categories: loans and receivables and financial assets through profit or loss. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management or investment strategy. Attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

Held for trading financial instruments

Cash and cash equivalents are classified as held for trading financial instruments.

Loans and receivables

Trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

2) Non-derivative financial liabilities

The Company has the following non-derivative financial liabilities: trade and other payables and payables to related parties.

Such financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are amortized at cost using the effective interest method.

3) Derivative financial instruments

Under IFRS, the warrants issued by the Group with an exercise price denominated in a currency other than its functional currency must be classified as liabilities (as they do not meet the definition of an equity instrument) and are recognized at fair value with changes in fair value at the end of each reporting period recognized in profit or loss.

On date of issue the Group recognized warrant derivative financial liabilities of $3,116,510 and $3,101,508 respectively for the June 2011 and December 2010 private placement warrants. The proceeds from these private placements have been allocated to the warrant derivative financial liabilities based on the fair value with the residual being allocated to share capital. The fair value was estimated using the Black-Scholes option pricing model with the following assumptions:

	June 2011 warrants	December 2010 warrants
Risk-free interest rate	1.45%	1.67%
Expected volatility	96%	96%
Expected life	1.5 years	1.48 years
Expected dividend yield	Nil	Nil

At July 31, 2011, the fair value of the warrant derivative financial liabilities was estimated at $2,711,921 and $1,195,045 for the June 2011 and December 2010 warrants respectively using the Black-Scholes option pricing model with the following assumptions:

	June 2011 warrants	December 2010 warrants
Risk-free interest rate	1.39%	1.39%
Expected volatility	96%	96%
Expected life	1.4 years	0.8 years
Expected dividend yield	Nil	Nil

The following reconciles the change in fair value of the warrant derivative financial liability and the resulting gain from the change in fair value recognized in the loss for the three months and nine months ended July 31, 2011:

	Three months ended July 31, 2011			Nine months ended July 31, 2011		
	Dec. 2010 warrants	June 2011 warrants	Total	Dec. 2010 warrants	June 2011 warrants	Total
Fair value on date of issue	$ –	$ 3,116,510	$ 3,116,510	$ 3,101,508	$ 3,116,510	$ 6,218,018
Fair value at end of last quarter	2,091,688	–	2,091,688	–	–	–
Fair value at July 31,2011	1,195,045	2,711,921	3,906,966	1,195,045	2,711,921	3,906,966
Change in fair value	$(896,643)	$ (404,589)	$(1,301,232)	$(1,906,463)	$ (404,589)	$(2,311,052)

The non-publicly traded warrants are classified in Level 3 of the fair value hierarchy.

4) Financial Risk Management

(a) Overview

The Company has exposure to credit risk, liquidity risk and market risk from its use of financial instruments.

This following presents information about the Company's exposure to each of these risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

(b) Credit Risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and cash equivalents and trade and other receivables. The Company limits its exposure to credit risk on liquid financial assets through investing its cash and cash equivalents with high credit quality financial institutions in business and savings accounts.

The carrying value of the Company's cash and cash equivalents and trade and other receivables represent the maximum exposure to credit risk.

Financial Assets	Carrying Amount	
	As at July 31 2011	As at October 31 2010
Trade receivables	$ 182,400	$ 276,612
Cash and cash equivalents	6,863,400	3,661,449
	$ 7,045,800	$ 3,938,061

At July 31, 2011 the Company concluded that there is no objective evidence of impairment to its loans and receivables.

(c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures that there are sufficient capital resources in order to meet short term business requirements, after taking into account cash flows from operations and the Company's holdings of cash and cash equivalents. The Company's cash and cash equivalents are currently invested in business and savings accounts with high-credit quality financial institutions which are available on demand by the Company for its programs.

The following are the contractual maturities of financial liabilities:

Trade payables and payables to related parties	Carrying Amount	Contractual Cash Flow	Due in less than six months
As at July 31, 2011	$ 1,500,754	$ 1,500,754	$ 1,500,754
As at October 31, 2010	$ 1,214,860	$ 1,214,860	$ 1,214,860

Refer also to Section 1.6 *Liquidity.*

(d) Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

(i) Interest Rate Risk

The Company is subject to interest rate risk with respect to its investments in cash and cash equivalents. The Company's policy is to invest cash at fixed rates of interest and cash reserves are to be maintained in cash equivalents in order to maintain liquidity, while achieving a satisfactory return for shareholders. Fluctuations in interest rates when the cash and cash equivalents mature impact interest income earned.

Assuming that all variables remain constant, a 100 basis points change representing a 1% increase or decrease in interest rates would have resulted in a decrease or increase in the loss for the three and six months ended July 31, 2011 of approximately $13,000 (2010 - $23,000) and $39,000 (2010 - $43,000) respectively.

(ii) Currency Risk

In the normal course of business, the Company enters into transactions for the purchase of supplies and services denominated in a currency other than the functional currency of the Company. As a result, the Company is subject to foreign exchange risk from fluctuations in foreign exchange rates. The Company has not entered into any derivative or other financial instruments to mitigate this foreign exchange risk.

The exposure of the Company's financial assets and liabilities to foreign exchange risk is as follows:

Currency	As at July 31 2011	As at October 31 2010
Canadian dollars – Financial assets		
Cash and cash equivalents	$ 5,678,484	$ 1,917,197
Trade and other receivables	182,400	216,572
Total financial assets	$ 5,860,884	$ 2,133,769
Canadian dollars – Financial liabilities		
Payables to related parties	$ 205,561	$ 169,614
Trade and other payables	21,378	68,498
Total financial liabilities	$ 226,939	$ 238,112

A 10% change of the Canadian dollar against the US dollar at July 31, 2011 would have increased or decreased net loss by $512,177 (at October 31, 2010 – $172,296). This analysis assumes that all other variables, in particular interest rates, remain constant.

(e) Equity Management

The Company's policy is to maintain a strong equity base so as to maintain investor and creditor confidence and to sustain future development of the business. The equity structure of the Company comprises share capital and reserves, net of accumulated deficit. The Company manages its equity structure through the preparation of operating budgets, which are approved by the Board of Directors.

There were no changes in the Company's approach to equity management during the period.

The Company is not subject to any externally imposed equity requirements.

(f) Fair Value

The fair value of the Company's financial assets and liabilities approximate the carrying value. For the derivative financial liabilities refer note 3 above.

1.15 Other MD&A Requirements

Additional information relating to the Company is available on SEDAR under the Company's profile at www.sedar.com.

1.15.1 Additional Disclosure for Venture Issuers without Significant Revenue

(a) Capitalized or expensed exploration and development costs;

The required disclosure is presented in the Condensed Consolidated Interim Statements of Comprehensive Loss.

(b) expensed research and development costs;

Not applicable.

(c) deferred development costs;

Not applicable.

(d) general and administration expenses;

The required disclosure is presented in the Condensed Consolidated Interim Statements of Comprehensive Loss.

(e) any material costs, whether capitalized, deferred or expensed, not referred to in (a) through (d);

None.

1.15.2 Disclosure of Outstanding Share Data

The following details the share capital structure as at the date of this MD&A.

Equity	Expiry date	Exercise price per share	Number	Number
Common shares:				69,110,216
Share options	November 17, 2012	Cdn$1.00	2,056,200	
	December 1, 2012	Cdn$1.12	56,000	
	April 9, 2013	Cdn$1.24	90,000	
	January 11, 2014	Cdn$1.22	36,000	
	March 10, 2014	Cdn$1.12	36,000	
	March 29, 2014	Cdn$1.00	696,000	
	July 8, 2014	Cdn$0.76	160,000	
	August 12, 2014	Cdn$0.73	15,000	
	November 17, 2014	Cdn$1.00	1,530,000	
	October 1, 2015	Cdn$1.10	300,000	
	March 10, 2016	Cdn$1.12	300,000	
	March 29, 2016	Cdn$1.00	412,800	
	July 8, 2016	Cdn$0.76	120,000	5,808,000
Warrants	May 26, 2012	Cdn$1.20	7,889,500	
	December 15, 2012	Cdn$1.20	11,314,255	19,203,755

1.15.3 Internal Controls over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal controls over financial reporting. Any system of internal controls over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

1.15.4 Disclosure Controls and Procedures

The Company has disclosure controls and procedures in place to provide reasonable assurance that any information required to be disclosed by the Company under securities legislation is recorded, processed, summarized and reported within the applicable time periods and to ensure that required information is gathered and communicated to the Company's management so that decisions can be made about timely disclosure of that information.

1.15.5 Risk Factors

The risk factors associated with the principal business of Heatherdale are discussed below. Briefly, these include the highly speculative nature of the mining industry characterized by the requirement for large capital investment from an early stage and a very small probability of finding economic mineral deposits. In addition to the general risks of mining, there are country-specific risks associated with operating in a foreign country, including currency, political, social, and legal risk.

Due to the nature of Heatherdale's business and the present stage of exploration and development of the Niblack Project and the Delta Project, Heatherdale may be subject to significant risks. Readers should carefully consider all such risks set out in the discussion below. Heatherdale's actual exploration and operating results may be very different from those expected as at the date of this MD&A.

Exploration and Mining Risks

Resource exploration, development, and operations are highly speculative, characterized by a number of significant risks, which even a combination of careful evaluation, experience and knowledge may not eliminate, including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits but from finding mineral deposits which, though present, are insufficient in quantity and quality to return a profit from production. Few properties that are explored are ultimately developed into producing mines. Unusual or unexpected formations, formation pressures, fires, power outages, labour disruptions, flooding, explosions, cave-ins, landslides and the inability to obtain suitable or adequate machinery, equipment or labour are other risks involved in the operation of mines and the conduct of exploration programs. Heatherdale will rely on consultants and others for exploration, development, construction and operating expertise. Substantial expenditures are required to establish mineral resources and mineral reserves through drilling, to develop metallurgical processes to extract the metal from mineral resources, and in the case of new properties, to develop the mining and processing facilities and infrastructure at any site chosen for mining.

No assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operations or that funds required for development can be obtained on a timely basis. Whether a mineral deposit will be commercially viable depends on a number of factors, some of which are:

- the particular attributes of the deposit, such as size, grade and proximity to infrastructure;
- metal prices, which are highly cyclical; and
- government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals, and environmental protection.

The exact effect of these factors cannot accurately be predicted, but the combination of these factors may result in Heatherdale not receiving an adequate return on invested capital.

Heatherdale will carefully evaluate the political and economic environment in considering any properties for acquisition. There can be no assurance that additional significant restrictions will not be placed on the Niblack Project, the Delta Project and any other properties Heatherdale may acquire or its operations. Such restrictions may have a material adverse effect on Heatherdale's business and results of operation.

Future Profits/Losses and Production Revenues/Expenses

Heatherdale has no history of operations and expects that its losses will continue for the foreseeable future. No deposit that has yet been shown to be economic has yet been found on the Niblack Project or the recently acquired Delta Project. Heatherdale had only one mineral property until this recent acquisition. There can be no assurance that Heatherdale will be able to acquire any additional properties. If Heatherdale is unable to acquire additional properties, its entire prospects will rest solely with the Niblack Project and the Delta Project. There can be no assurance that Heatherdale will be profitable in the future. Heatherdale's operating expenses and capital expenditures may increase in subsequent years as needed consultants, personnel and equipment associated with advancing exploration, development and commercial production of the Niblack Project and the Delta Project and any other properties Heatherdale may acquire are added. The amounts and timing of expenditures will depend on:

- the progress of ongoing exploration and development;
- the results of consultants' analyses and recommendations;
- the rate at which operating losses are incurred;
- the execution of any joint venture agreements with strategic partners; and
- the acquisition of additional properties and other factors, many of which are beyond Heatherdale's control.

Heatherdale does not expect to receive revenues from operations in the foreseeable future, if at all. Heatherdale expects to incur losses unless and until such time as the Niblack Project, the Delta Project or any other properties Heatherdale may acquire enter into commercial production and generate sufficient revenues to fund its continuing operations. The development of the Niblack Project, the Delta Project and any other properties Heatherdale has and may acquire will require the commitment of substantial resources to conduct the time-consuming exploration and development of the properties. There can be no assurance that Heatherdale will generate any revenues or achieve profitability. There can be no assurance that the underlying assumed levels of expenses will prove to be accurate.

Additional Funding Requirements

Further exploration on, and development of, the Niblack Project and the newly acquired Delta Project, will require additional resources/funding. Heatherdale currently does not have sufficient funds to meet all its exploration commitments on the Niblack Project and the Delta Project. In addition, a positive production decision at the Niblack Project, the Delta Project or any other development projects acquired in the future would require significant resources/funding for project engineering and construction. Accordingly, the continuing development of Heatherdale's properties will depend upon Heatherdale's ability to obtain financing through debt financing, equity financing, the joint venturing of projects, or other means. There is no assurance that Heatherdale will be successful in obtaining the required financing for these or other purposes, including for general working capital.

Environmental Matters

All of Heatherdale's mining operations will be subject to environmental regulations, which can make operations expensive or prohibit them altogether.

Heatherdale may be subject to potential risks and liabilities associated with pollution of the environment and the disposal of waste products that could occur as a result of its mineral exploration, development and production.

To the extent Heatherdale is subject to environmental liabilities, the payment of such liabilities or the costs that it may incur to remedy environmental pollution would reduce funds otherwise available to it and could have a material adverse effect on Heatherdale. If Heatherdale is unable to fully remedy an environmental problem, it might be required to suspend operations or enter into interim compliance measures pending completion of the required remedy. The potential exposure may be significant and could have a material adverse effect on Heatherdale.

All of Heatherdale's exploration, development and any production activities will be subject to regulation under one or more environmental laws and regulations. Many of the regulations require Heatherdale to obtain permits for its activities. Heatherdale must update and review its permits from time to time, and is subject to environmental impact analyses and public review processes prior to approval of the additional activities. It is possible that future changes in applicable laws, regulations and permits or changes in their enforcement or regulatory interpretation could have a significant impact on some portion of Heatherdale's business, causing those activities to be economically re-evaluated at that time.

Market for Securities and Volatility of Share Price

There can be no assurance that an active trading market in Heatherdale's securities will be established or sustained. The market price for Heatherdale's securities could be subject to wide fluctuations. Factors such as announcements of exploration results, as well as market conditions in the industry, may have a significant adverse impact on the market price of the securities of

Heatherdale. The stock market has from time to time experienced extreme price and volume fluctuations, which have often been unrelated to the operating performance of particular companies.

Conflicts of Interest

Certain of Heatherdale's directors and officers may serve as directors or officers of other companies or companies providing services to Heatherdale or they may have significant shareholdings in other companies. Situations may arise where these directors and/or officers of Heatherdale may be in competition with Heatherdale. Any conflicts of interest will be subject to and governed by the law applicable to directors' and officers' conflicts of interest. In the event that such a conflict of interest arises at a meeting of Heatherdale's directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In accordance with applicable laws, the directors of Heatherdale are required to act honestly, in good faith and in the best interests of Heatherdale.

Payment of Dividends Unlikely

There is no assurance that Heatherdale will pay dividends on its shares in the near future. Heatherdale will likely require all its funds to further the development of its business.

Lack of Revenues; History of Operating Losses

Heatherdale does not have any operational history or earnings and has incurred net losses and negative cash flow from its operations since incorporation. Although Heatherdale will hope to eventually generate revenues, significant operating losses are to be anticipated for at least the next several years and possibly longer. To the extent that such expenses do not result in the creation of appropriate revenues, Heatherdale's business may be materially adversely affected. It is not possible to forecast how the business of Heatherdale will develop.

General Economic Conditions

Market conditions and unexpected volatility or illiquidity in financial markets may adversely affect the prospects of Heatherdale and the value of its shares.

Reliance on Key Personnel

Heatherdale will be dependent on the continued services of its senior management team, and its ability to retain other key personnel. The loss of such key personnel could have a material adverse effect on Heatherdale. There can be no assurance that any of the Heatherdale's employees will remain with Heatherdale or that, in the future, the employees will not organize competitive businesses or accept employment with companies competitive with Heatherdale.

Furthermore, as part of Heatherdale's growth strategy, it must continue to hire highly qualified individuals. There can be no assurance that Heatherdale will be able to attract, assimilate or retain qualified personnel in the future, which would adversely affect its business.