Stikine
Gold Corporation

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## (FORM 51-102F1)

## SIX MONTHS ENDED AUGUST 31, 2009

**SEPTEMBER 28, 2009**

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Stikine Gold Corporation



### Date of Report

This Management Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited financial statements and related notes thereto for the three and six months ended August 31, 2009 and 2008, and the audited financial statements and related notes thereto for the years ended February 28, 2009 and February 29, 2008, which have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). This MD&A is prepared as of September 28, 2009. All amounts in the financial statements and this MD&A are expressed in Canadian dollars, unless otherwise indicated.

### Description of Business

Stikine Gold Corporation (the "Company") is engaged in the exploration for mineral resources in British Columbia and Saskatchewan, Canada.

### Selected Annual Financial Results

The information below has been extracted from the Company's audited annual financial statements.

| | Year Ended February 28, 2009 | Year Ended February 29, 2008 | Year Ended February 28, 2007 |
|---|---|---|---|
| Total revenues | Nil | Nil | Nil |
| Net loss | (1,769,922) [1] | (453,008) [2] | (3,484,099) [3] |
| Net loss per share - basic and diluted | (0.04) | (0.01) | (0.12) |
| Total assets | 103,276 | 1,248,729 | 1,537,740 |
| Total long term debt | Nil | Nil | Nil |

Note 1: The loss for the year-ended February 28, 2009 includes a write-off of $1,542,781 in resource property costs.
Note 2: The loss for the year-ended February 29, 2008 includes a write-off of $304,916 in resource property costs.
Note 3: The loss for the year-ended February 28, 2007 includes a write-off of $3,652,595 in resource property costs and future income tax recoveries of $562,980.

### Summary of Quarterly Results

The information below has been extracted from the Company's unaudited interim quarterly financial statements.

| | Aug. 31, 2009 | May 31, 2009 | Feb 28, 2009 | Nov. 30, 2008 |
|---|---|---|---|---|
| Total revenues | Nil | Nil | Nil | Nil |
| Net loss | (43,635) | (28,423) | (1,559,489) [1] | (42,156) |
| Net loss per share - basic and diluted | (0.01) | (0.01) | (0.04) | (0.01) |
| Total assets | 352,631 | 105,241 | 103,276 | 1,754,761 |
| Total long term debt | Nil | Nil | Nil | Nil |

| | Aug. 31, 2008 | May 31, 2008 | Feb. 29, 2008 | Nov. 30, 2007 |
|---|---|---|---|---|
| Total revenues | Nil | Nil | Nil | Nil |
| Net loss | (129,470) [2] | (38,807) | (37,833) | (34,874) |
| Net loss per share -basic and diluted | (0.01) | (0.01) | (0.01) | (0.01) |
| Total assets | 1,323,475 | 1,280,904 | 1,248,729 | 1,282,944 |
| Total long term debt | Nil | Nil | Nil | Nil |

Notes:
1) The loss for the quarter ended February 28, 2009 includes a write-off of $1,542,781 in resource property costs.
2) The loss for the quarter ended August 31, 2008 includes $85,649 in stock-based compensation.

## Results of Operations

During the six months ended August 31, 2009, the Company recorded the Company incurred a loss of $72,058 and deferred acquisition and exploration costs of $179,398 compared to a loss of $168,210 and deferred acquisition and exploration costs of $112,076 for the six months ended August 31, 2008. The loss decreased as a result of lower accounting and legal fees and lower stock-based compensation during the current period.

During the three months ended August 31, 2009, the Company incurred a loss of $43,635 and deferred acquisition and exploration costs of $146,637 compared to a loss of $129,470 and deferred acquisition and exploration costs of $52,401 for the three months ended August 31, 2008. The loss decreased largely because of lower stock based compensation during the current period. While the Company was relatively inactive in 2008, recently exploration activity has accelerated at the Nonda Quartzite project in northeastern British Columbia.

### *British Columbia Quartzite Properties*

The Company recently completed an initial field program at a number of its 100-per-cent-owned quartzite properties in northeastern British Columbia. The purpose of the program was to conduct a preliminary assessment of the Company's 17 properties, now totalling almost 83,000 hectares of mineral claims covering prospective quartzite zones. Based on that preliminary work, the Company determined that several of the properties meet the criteria for raw silica sources that could potentially be used in the production of frac sand. Frac sand is an indispensable component in the development of unconventional tight shale gas wells.

The focus of field activities in June and July, 2009, was to locate and define raw quartzite sources proximal to the northeastern B.C. shale gas fields. Work to date indicates that the Nonda, Beav, Crow, Pet and Angus properties represent good opportunities to develop frac sand operations, subject to further testwork. Sampling and mapping at the Nonda property highlight its very large-scale potential over an impressive 11,500-metre by 1,000-metre area. Petrographic analysis of samples collected from Nonda indicate the rocks are very pure with up to 98 per cent quartz comprising variably sized grains that fall within the required range for commercial frac sand.

The Company has now initiated a more focused assessment of the Nonda property by a helicopter-supported diamond drill program. Nonda's quartzite occurrence covers an impressive 11,500-metre by 1,000-metre area extent lying approximately 150 kilometres west of the Horn River gas basin.

The purpose of the field work is to assess the thickness and potential variability of the quartzite in 12 diamond drill holes totalling approximately 1,400 metres of HQ diamond drill core. Drill core samples will be sent for petrography to confirm the grain size and quartzite quality, and to establish the basis for a resource estimate. Also, additional surface samples will be taken and used for larger bench-scale processing tests. A sufficient quantity of frac sand will be produced from this work to submit for API RP19C (American Petroleum Institute)/ISO 13503-2 (International Standards Organization) tests, in addition to proppant conductive permeability tests for potential customers.

To August 31, 2009, the Company had recorded acquisition costs totalling $40,761 and deferred exploration costs of $138,408.

**Liquidity and Financial Position**

The viability of the Company's future operations is dependent on future financing. These financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern which assume that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. For the six months ended August 31, 2008, the Company reported a loss of $72,058 and an accumulated deficit of $8,419,423 at that date. Cash and cash equivalents at August 31, 2009 amounted to $155,009.

These circumstances lend significant doubt as to the ability of the Company to continue as a going concern. Continuing operations as a going concern are dependent upon management's ability to continue to raise adequate financing and to ultimately achieve profitable operations in the future. Management continues to seek equity financing for the Company and although management has been successful in the past; there is no assurance that these initiatives will be successful in the future.

**Financial Instrument Risk Management**

The Company is exposed to potential loss from various risks including credit risk, interest rate risk, currency risk, liquidity risk, market risk and commodity price risk.

*i) Credit Risk*

A concentration of credit risk in accounts receivable resides with the Canada Revenue Agency. Management has considered payment history and other factors and estimated that no allowances are required to allow for potential credit losses, as the risk of non-performance is remote. The Company's maximum exposure to credit risk is the carrying value of its accounts receivables.

*ii) Foreign Exchange Risk*

The Company's operations are exclusively conducted in Canada and the operating results and the financial position of the Company are reported in Canadian dollars. The Company is not subject to foreign exchange risk at May 31, 2009.

*iii) Interest Rate Risk*

The Company is exposed to interest rate risk on its cash and cash equivalents. Generally, the Company's interest income will be reduced during sustained periods of lower interest rates as higher yielding cash equivalents and short-term investments mature and the proceeds are invested at lower interest rates. A 1% change in interest rates would have an insignificant impact on the Company's financial statements or operating results.

*iv) Liquidity Risk*

The Company is exposed to liquidity risk. The Company seeks to manage liquidity risk by maintaining sufficient cash and short-term investment balances for settlement of its obligations. Liquidity requirements are managed based on expected cash flow to ensure there is sufficient capital in order to meet short-term obligations. For the six months ended August 31, 2008, the Company reported a loss of $72,058 and an accumulated deficit of $8,419,423 at that date. Cash and cash equivalents at August 31, 2009 amounted to $155,009. At August 31, 2009, the liquidity risk of the Company was considered very high due to limited funds and general uncertainty in the world economy.

*v) Pledged Financial Assets*

The Corporation has financial assets that are pledged for reclamation obligations. Reclamation deposits are maintained to satisfy the Corporation's obligation for future reclamation expenditures at its various exploration properties.

*vi) Market and Commodity Price Risk*

The Company is exposed to market risk and commodity price risk. Declines in the market price of commodities can affect the Company's ability to raise capital to fund its ongoing exploration and development activities.

## Critical Accounting Estimates

The Company's accounting policies are described in Note 2 to the Company's annual and interim financial statements. The preparation of these financial statements in conformity with Canadian generally accepted accounting policies requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. These estimates are based on past experience, industry trends and known commitments and events. By their nature, these estimates are subject to measurement uncertainty and the effects on the financial statements of changes in such estimates in future periods could be significant. The estimates made in applying the policies below can be uncertain and a change in these estimates could materially impact the financial statements.

### *Resource Property Costs*

The costs associated with resource costs and/or equipment include acquired interests in exploration stage properties representing the fair value at the time they were acquired. The values of such mineral properties are primarily driven by the nature and amount of mineral interests believed to be contained or potentially contained, in properties to which they relate. The Company reviews and evaluates its mining interests for impairment at least annually or when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Impairment is considered to exist if the total estimated future undiscounted cash flows are less than the carrying amount of the assets. An impairment loss is measured and recorded based on discounted estimated future cash flows. Future cash flows are estimated based on expected future production, commodity prices, operating costs and capital costs. Where future net cash flows cannot be estimated and other events or changes in circumstances suggest impairment, management determines whether the carrying cost is recoverable and at fair value using best estimates and comparative situations in the marketplace.

### *Asset Retirement Obligations*

The Company is subject to various laws governing reclamation of its exploration sites. These laws are continually changing and these changes may affect the procedures and costs required to complete reclamation obligations. Estimates of the fair value of these liabilities for asset retirement obligations are recognized in the period they are incurred. A corresponding increase in the related asset is recorded and depreciated over the estimated life of the asset. If the fair value of the liability decreases due to changes in future cash flow estimates, a corresponding decrease in the related asset is recorded. If the reduction exceeds the value of the related asset, the remaining amount is reduced through earnings. Where a related asset is not identifiable with a liability, the change in fair value is charged to earnings in the period. Each period, the liability is increased to reflect the accretion (or interest) portion of the initial fair value estimate and changes in estimated cost and timing of the reclamation procedures. Actual future reclamation costs may be materially different from the costs estimated by the Company.

### *Stock Option and Warrant Valuation*

The determination of the fair value of stock options and warrants issued requires management to estimate future stock volatility, expected life, and a risk-free rate of return. The Company uses historic information to estimate these future variables and these estimates could materially impact the financial statements.

***Income and Mining Taxes***

The Company uses the liability method of accounting for income taxes. Under the liability method, future tax assets and liabilities are determined based on differences between the financial statement carrying amounts and their respective tax bases, and for tax losses and other deductions carried forward. The Company evaluates the carrying values of its future tax assets periodically by assessing its valuation allowance and by adjusting the amount of such valuation allowance in the period, if necessary.

**Changes in Accounting Policies**

Effective March 1, 2009, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA").

i) Section 3064 – *Goodwill and Intangible Assets* replaces sections 3062 and 3450 and establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. The new standard also provides guidance for the treatment of pre-production and start-up costs and requires that these costs be expensed as incurred.

ii) Emerging Issues Committee ("EIC") Abstract 173 - *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities* provides guidance on evaluating credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments.

iii) EIC Abstract 174 - *Mining Exploration Costs* provides guidance on the accounting and the impairment review of exploration costs.

The adoption of these new accounting standards did not significantly impact the amounts reported or disclosures in the Company's financial statements.

**New Accounting Pronouncements**

*International Financial Reporting Standards ("IFRS")*

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February of 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended February 28, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

**Related Party Transactions**

During the six month period ended August 31, 2009, consulting fees of $4,000 (2008 - $Nil) were paid or accrued to the Company's President and Chief Executive Officer. Services provided include general corporate, exploration and acquisition strategy, planning and management work, contract negotiations, and investment presentations. During the six months ended August 31, 2009, consulting fees of $7,000 (2008 - $8,400) were paid or accrued to the Company's Secretary and Chief Financial Officer. Services provided include corporate finance and funding initiatives, contract negotiations, accounting, office and general management. During the six months ended August 31, 2009, contract fees of $6,000 (2008 - $1,000) were paid or accrued to a company controlled by a director. During the six month period August 31, 2009, rent costs of $20,511 (2008 - $5,386) were paid or accrued to a company with directors of the Company in common. At August 31, 2009 current liabilities include $30,329 (2008 - $84,425) payable to related parties. These amounts were incurred in the ordinary course of business, are non-interest bearing, and without specific repayment terms. The transactions are measured at the exchange amount, which is the fair value consideration established and agree to by the related parties.

### Risks and Uncertainties

The Company's financial success will be dependent upon the extent to which it can discover mineralization or acquire mineral properties and the economic viability of developing its properties. The Company competes with many companies possessing greater financial resources and technical facilities than itself. The market price of minerals and/or metals is volatile and cannot be controlled. There is no assurance that the Company's mineral exploration and development activities will be successful. The development of mineral resources involves many risks in which even a combination of experience, knowledge and careful evaluation may not be able to overcome. All of the Company's short to medium term operating and exploration cash flow must be derived from external financing. Actual funding may vary from what is planned due to a number of factors including the progress of exploration and development on its current properties. Should changes in equity market conditions prevent the Company from obtaining additional external financing, the Company will need to review its exploration property holdings to prioritize project expenditures based on funding availability.

### Additional Disclosure for Venture Issuers without Significant Revenue

Additional disclosure concerning the Company's general and administrative expenses and capitalized resource property costs is provided in the Company's *Statements of Loss, Comprehensive Loss and Deficit* and the *Schedule of Resource Property Costs* contained in its unaudited Financial Statements dated August 31, 2009 and 2008. These statements are available on the Company's website at www.stikinegold.com or on the SEDAR website www.sedar.com.

### Outstanding Share Data

Subsequent to August 31, 2009, 1,050,000 warrants exercisable at $0.15 were exercised for proceeds of $157,500. Common shares and convertible securities outstanding as at the date of this report are:

| Security | Expiry Dates | Exercise Prices | Common Shares on Exercise |
|---|---|---|---|
| Common Shares | - | - | 45,942,917 |
| Warrants | October 14, 2009 | $0.15 | 3,950,000 |
| Warrants | August 13, 2010 | $0.15 | 2,000,000 |
| Options | March 4, 2010 to June 10, 2014 | $0.10 to $0.55 | 4,110,000 |
| **Total** | | | 56,002,917 |

### Legal Claims and Contingent Liabilities

At August 31, 2009, there were no material legal claims or contingent liabilities outstanding.

### Off-balance Sheet Arrangements

The Company has no material off-balance sheet arrangements.

## Outlook

The Company has now initiated a diamond drill program at the Nonda-Ghost Ridge quartzite project and will secure enough material to continue its lab processing trials. The Company has located several silica sources it believes will suitable for processing into high-quality frac sand, a key component to the development of the shale gas plays in northeastern British Columbia ("NEBC").

Frac sand already has high value for product delivered to NEBC well heads, but much of the cost is attributed to shipping and transport from great distances. Increased drilling activity as a result of current success of the NEBC gas play and the ongoing development of other gas fields in North America will likely increase demand dramatically over the next three years. A key component to the Company's strategy is to quickly establish potential off-take / investor relationships with the gas producers in the area. The Company's goal is to quickly define resources and processes to produce frac sand; to accelerate permitting and development activities; and, rapidly become a cash flowing producer of high-quality silica products located in close proximity to growing demand.

## Additional Information

Additional information is available for viewing at the Company's website www.stikinegold.com or on the SEDAR website www.sedar.com.

## Forward-Looking Information

This MD&A contains certain forward-looking statements and information relating to the Company that are based on the beliefs of its management as well as assumptions made by and information currently available to the Company. When used in this document, the words "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. This MD&A contains forward-looking statements relating to, amongst other things, regulatory compliance, the sufficiency of current working capital, the estimated cost and availability of funding for the continued exploration of the Company's properties. Such statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties, and assumptions. Factors that could cause the actual results to differ materially from those in forward-looking statements include market prices, exploitation and exploration success, continued availability of capital and financing, inability to obtain required regulatory or governmental approvals 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. Forward looking statements are based on the beliefs, estimates and opinions of the Company's management on the date the statements are made. The Company undertakes no obligation to update these forward-looking statements in the event that management's beliefs, estimates or opinions, or other factors, should change except as required by law. These statements are based on a number of assumptions, including, among others, assumptions regarding general business and economic conditions, the timing of the receipt of regulatory and governmental approvals for the transactions described herein, the ability of the Company and other relevant parties to satisfy stock exchange and other regulatory requirements in a timely manner, the availability of financing for proposed transactions and exploration and development programs on reasonable terms and the ability of third-party service providers to deliver services in a timely manner. The foregoing list of assumptions is not exhaustive. Events or circumstances could cause results to differ materially.