



## **Management's Discussion and Analysis For the Year Ended May 31, 2012**

The following discussion and analysis, prepared as of September 27, 2012, should be read together with the audited consolidated financial statements of Advance Gold for the year ended May 31, 2012, which are prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts are stated in Canadian dollars unless otherwise indicated. The reader should also refer to the audited consolidated financial statements for the year ended May 31, 2011 and May 31, 2010 and related notes attached thereto and the related Management Discussion and Analysis for those years.

IFRS replaced the previous Canadian GAAP for publicly accountable enterprises, including the Company, effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Accordingly, the accompanying consolidated financial statements have been prepared in accordance with IFRS. The transition to IFRS resulted in changes to the Company's accounting policies. The fiscal 2011 comparative information presented in the consolidated financial statements and the MD&A reflect accounting policies consistent with IFRS.

Financial information in this MD&A for periods prior to June 1, 2010 has not been restated for the changes in accounting policy. For the purposes of this MD&A, the term "Canadian GAAP" or "CGAAP" refers to Canadian generally accepted accounting principles for the Company before the adoption of IFRS.

Readers of the MD&A should also refer to "Changes in Accounting Policies" below, and in Note 18 of the accompanying consolidated financial statements, for a discussion of IFRS and its impact on the Company's consolidated financial statements.

Statements in this report that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties, which could cause actual results to vary considerably from these statements. Readers are cautioned not to put undue reliance on forward-looking statements. Additional information related to Advance Gold is available for view on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Description of Business**

Advance Gold is an exploration stage company engaged in the evaluation and exploration of mineral property interests. Advance Gold trades on the TSX Venture Exchange under the symbol "AAX". It currently has interests in Kenya and Tanzania, East Africa.

### **Management & Directors**

**James T. Gillis, Director, President & Chief Executive Officer** – Since 1985 Mr. Gillis has been the President of James T. Gillis Management Co. Inc., a private company which provides management services to public companies. He is the President and Chief Executive Officer of Anglo Aluminum Ltd., President of Cassidy Gold Corp., and a director of Clemson Resources Corp. and Audiotech Healthcare Corp.

**Christopher J. Wild, P.Eng, Director** – Mr. Wild is currently a director of Cassidy Gold Corp. and a director, Vice President Exploration and Chief Operating Officer of Anglo Aluminum Ltd., and Vice President Exploration of Rockgate Capital Corp. Mr. Wild is a Professional Engineer with over 28 years of experience in mining and mineral exploration in North and South America and Africa. Mr. Wild earned a Bachelor of Applied Science degree from the University of British Columbia in 1984. He subsequently worked for a few major mining companies including Noranda and Minnova (Inmet Mining) before becoming Chief Mine Geologist at Goldstream Mine, north of Revelstoke and then Mount Polley Mine near Likely, British Columbia. Mr. Wild has spent the last 10 years exploring and developing gold, bauxite, and uranium projects in West Africa.

**Mr. Jeffrey Scott Ackert, Director and Vice-President, Exploration and Business Development** – Mr. Ackert, a geologist, has been involved in gold exploration in Africa for over 10 years. Mr. Ackert has worked in Burkina Faso, Mali, Niger and Ghana in West Africa, and Tanzania and Kenya in East Africa. He has worked for several majors, including six years as a mine geologist at Barrick's Golden Patricia mine in Northern Ontario. Mr. Ackert held the positions of Vice-President of Exploration and Vice-President Technical Services for Orezone Resources Inc. until that company's sale to IAMGOLD.

**Debbie M. Silver, Director and Corporate Secretary & Chief Financial Officer** - Ms. Silver was a legal assistant from 1979 until 2002, involved in corporate, mining and securities law, and has been a public company administrator since 1997. She is currently the Corporate Secretary and Chief Financial Officer of Cassidy Gold Corp. and Anglo Aluminum Ltd.

**Ali Afif Fawaz, Director** - Mr. Fawaz is an international transportation supply chain professional and a licensed customs broker. Since 2000, Mr. Fawaz has been the managing director of Villa Plast Ltd., a scrap-metal recycling plant in Dar es Salaam, Tanzania, and since 2001 he has been the managing director of BNM Company Ltd., a company providing clearing and freight forwarding liaison services to associated entities in the Democratic Republic of Congo. Mr. Fawaz also consults and provides services to a number of entities involved in freight forwarding, and the container freight and cargo transport industries operating out of Dar es Salaam, Tanzania, as well as being involved, since 2010, as a consultant to the mining industry in Tanzania. Mr. Fawaz is fluent in English, French, Arabic and Kiswahili.

## **Performance Summary**

### **Ngira Migori Gold Project, Kenya East Africa**

#### **Termination of Red Rock Resources PLC option -- Ngira Migori, Kenya**

Pursuant to the terms of the mining option agreement dated Aug. 13, 2009, between Gold Rim Exploration Inc., Advance Gold's wholly owned subsidiary, and Red Rock Resources, Advance Gold has terminated the option as Red Rock failed to incur expenditures within the time periods set out in the option agreement. Under the terms of the option, Red Rock was granted an option to acquire a 70-per-cent interest in Advance Gold's Ngira Migori property in Kenya.

### **Kakamega Properties**

#### **Rosterman, Bukura and Sigalagala Gold Properties, Kenya East Africa**

On April 27, 2011 Advance Gold entered into an Option and Joint Venture Agreement with Aviva Corporation Ltd. ("Aviva"). Under the terms of the agreement, Aviva has the right to earn a 75-per-cent equity in three prospective special licences in western Kenya, namely SL265 Bukura, SL266 Sigalagala and SL267 Rosterman.

The three licences are excisions within Aviva's existing West Kenyan special prospecting licence SPL213 Siaya. They cover a total of 64 square kilometres and include Kenya's largest historical gold mine, Rosterman, which is reported to have produced 250,000 oz. gold @ over 13 grams per tonne between 1932 and 1952.

On July 20, 2012 Advance Gold announced that Aviva has given a notice under its earn-in option on the 64-square-kilometre Kakamega project areas in Kenya, confirming that it has incurred exploration expenditures on the property in excess of that needed to exercise the preliminary option. This first earn-in grants Aviva the sole and exclusive option to acquire a 51-per-cent ownership interest in the project, which comprises three prospective special licences in western Kenya namely: SL265 Bukura, SL266 Sigalagala and SL267 Rosterman, held by Gold Rim Exploration Kenya Ltd., Advance Gold's wholly owned subsidiary. Aviva is the operator on the project under the terms of the agreement.

On July 23, 2012 Advance Gold announced that Aviva has entered into a binding sale and purchase agreement (SPA) with African Barrick Gold PLC, to sell all of Aviva's Kenyan gold and base metals assets for an initial cash payment of \$20-million (Australian). ABG is one of the five largest gold producers in Africa, and this acquisition represents its first move into Kenya. ABG is majority owned by Barrick Gold Corp., the world's largest gold producer.

The key terms of the SPA are as follows:

- ABG will acquire all the shares in Aviva Mining Kenya Ltd., the company that owns Aviva's Kenyan assets, for \$20-million (Australian).

- There is a further payment of \$10-million (Australian) due to Aviva if a National Instrument 43-101-compliant indicated resource of three million ounces or more is declared over the project areas.
- ABG will finance all the costs that Aviva incurs on the Kenyan assets, based on an agreed work program retrospectively from June 1, 2012, until completion of the SPA. This financing is capped at \$1-million (Australian) but can be increased with ABG's approval.
- In addition, ABG will finance the \$100,000 (U.S.) for the exercise by Aviva Kenya of its preliminary option in terms of the joint venture with Advance Gold. Following the payment of the preliminary option exercise price of \$100,000 (U.S.), Advance Gold will grant Aviva Kenya the right to acquire a 51-per-cent ownership interest in the mineral rights, owned by Advance Gold and which are the subject of the joint venture agreement, in consideration for Aviva Kenya incurring further exploration expenditure of \$500,000 (U.S.) in a defined period of 24 months in relation to those mineral rights.
- If the SPA does not proceed to completion, other than due to a material breach by ABG, Aviva will be required to repay the financing advanced by ABG under the SPA within 90 days.

The SPA is subject to the following conditions precedent:

- Approval of Aviva shareholders under the Australian Securities Exchange Listing Rules at an extraordinary general meeting expected to be convened in late August or early September;
- Kenyan Competition Authority approval of the transaction;
- ABG financing the preliminary option exercise price of \$100,000 (U.S.) in terms of the joint venture with Advance Gold;
- Aviva's respective joint venture partners, Lonmin PLC and Advance Gold, agreeing to release Aviva as a guarantor under the joint venture agreements and replacing it with ABG.

Aviva Kenya has the following material interests in Kenya (Aviva Kenya only has assets in Kenya):

- The right to earn a 75-per-cent interest in special licence 265, special licence 266; special licence 265 through a joint venture with Advance Gold;
- A 51-per-cent interest in special licence No. 123 and special licence 213, with an option to earn an additional 24 per cent through a joint venture with Lonmin.

### **Background to the three special licences**

In addition to the potential in and around the old mines, prospects and artisanal workings themselves, all three special licences lie along regional structures that are interpreted to represent reactivated, inverted syn-sedimentary extensional faults on or close to the Kavirondian-Nyanzian unconformity. These structures are target areas considered to have potential to host gold deposits.

The three special licences comprise a total of about 64 square kilometres and were granted to the company's wholly owned subsidiary, Gold Rim Exploration Kenya Ltd., in October, 2008, and renewed for a further two years in 2010.

### **SL267 Rosterman**

The most northerly of the three licences hosts the historic Rosterman mine, which is reported to have produced in excess of 250,000 ounces Au at in excess of 13 grams per tonne. Rosterman was subject to significant exploration activity during the mining period up until 1952, but since then, very little exploration appears to have been done. The potential for residual ore, more lodes and the value of selvedges to mined lodes justifies immediate further exploration activity.

Recent structural mapping has highlighted a major long-lived structure on the northern flank of the Kakamega dome combined with a number of occurrences of gold-in-stream anomalies that appear never to have been followed up.

### **SL Bukura 265 and SL266 Sigalagala**

The southern licences, Bukura and Sigalagala, in addition to hosting numerous significant historical colonial mines and areas of active artisanal mining, lie along the western portion of the Liranda lineament known as the Bushiangala-Shitole segment. Kimingini, Busiangala, Isulu and Shitgoko all lie in close proximity to the mapped and interpreted structure. Sigalagala appears to lie on a different structure to the north of the main Liranda lineament.

Once again very little work has been completed since the 1950s. The Bukura gold and Sigalagala colonial workings represent walk-up drill targets. Stream-sediment anomalies on the Bukura licence require follow-up as do soil anomalies on the Sigalagala licence.

On January 30, 2012 Advance Gold announced results and exploration updates from its Option and Joint Venture with Aviva Corporation Ltd. (“Aviva”) on the 64 km<sup>2</sup> Kakamega project area in Kenya West Africa. Hole **ASRC024** intersected a significant intercept and ended in mineralisation of > 1g/t Au. The hole returned 57.00m of 0.67g/t Au from a depth of 49m including 9.00m of 1.75g/t Au and 9.00m of 1.47g/t Au from 97.00m ending in mineralisation. Hole **ASRC023** was abandoned at 36m after drilling into a cavity. The hole however did intersect a mineralised zone before entering the cavity. The hole returned 7.00m of 0.89g/t Au from 29.00m including 2.00m of 2.33g/t Au.

Aviva has completed the following on the three licences:

- 1) Collection and compilation of regional data sets – ALOS, ASTER, Magnetics, BRGM data. Regional mapping and interpretation as part of Aviva’s West Kenyan regional evaluation.
- 2) Preliminary prospect scale mapping, focusing on the regional setting and position in terms of the Nyanzian-Kavirondian boundary. The contact and associated reactivated syn-sedimentary extensional structures are believed to be important controls to gold mineralisation.
- 3) Soil sampling at 1080 sites for Au and multi-elements on SL267 Rosterman and 265 Bukura.
- 4) 2 RC holes (1 abandoned before target depth) completed into the Bukura workings with the following results:

Hole	Length	Grade	
<b>ASRC024</b>	57.00m	0.67g/t Au	including
	9.00m	1.18g/t Au	and
	1.00m	1.66g/t Au	and
	1.00m	1.57g/t Au	and
	9.00m	1.47g/t Au	ending in mineralization
<b>ASRC023</b>	7.00m	0.87g/t Au	including
	2.00m	2.33g/t Au	

**Table 1: Highlights of the Results of RC Drilling at Bukura**

## Qualified Person

Jeffrey Scott Ackert, a director of the Company and its Vice President Exploration and Business Development, is a Qualified Person as defined by National Instrument 43-101 and has reviewed and approved the exploration information and technical disclosure in this MD&A.

## Results of Operations

Advance Gold’s focus continues to be the exploration of properties and consequently, no operating income is shown or expected.

## Summary of Quarterly Results

	May 31/12 IFRS	Feb 29/12 IFRS	Nov 30/11 IFRS	Aug 31/11 IFRS	May 31/11 IFRS	Feb 28/11 IFRS	Nov 30/10 IFRS	Aug 31/10 IFRS
Total assets	\$728,550	\$834,208	\$852,149	\$711,780	\$534,641	\$2,772,417	\$2,775,264	\$2,821,112
Exploration properties and deferred costs	\$502,208	\$654,767	\$654,648	\$654,710	\$507,523	\$2,747,861	\$2,747,861	\$2,754,122
Working capital (deficiency)	\$140,457	\$116,309	\$154,327	\$(143,427)	\$(93,847)	\$(39,263)	\$(12,538)	(26,623)
Deficit	\$4,896,597	\$4,678,315	\$4,644,427	\$4,590,600	\$4,553,976	\$2,593,335	\$2,556,610	\$2,521,188
Revenues	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Net loss	\$185,309	\$33,887	\$53,828	\$69,599	\$1,927,666	\$26,725	\$45,422	\$45,397
Earnings (loss) per share	\$(0.01)	\$(0.01)	\$(0.01)	\$(0.01)	\$(0.08)	\$(0.01)	\$(0.01)	\$(0.01)

The significant changes in key financial data from June 1, 2010 to May 31, 2012 can be attributed to write down of mineral properties and to a decreased in exploration activity due to changes in the capital market making it more difficult to raise exploration funding through private placements. The ability to raise capital for exploration is expected to improve in the future as capital markets stabilize. Due to a reduction in exploration activity, there has been a decrease in overall operating costs.

## Liquidity

Advance Gold does not currently own or have an interest in any producing resource properties and has not yet derived any revenues from the sale of resource products. Advance Gold's exploration activities have been funded through the issuance of common shares pursuant to private placements and the exercise of stock options and warrants, and Advance Gold expects that it will continue to be able to utilize this source of financing until it develops cash flow from its operations. There can be no assurance, however, that Advance Gold will be able to obtain required financing in the future on acceptable terms, or at all. In the near term, Advance Gold plans to attract suitable partners in order to advance its currently held properties.

	May 31, 2012	May 31, 2011
Working capital (deficiency)	\$140,457	\$ (93,847)
Deficit	\$4,896,597	\$4,553,976

## Financing

On August 9, 2011 announced that it is conducting a non-brokered private placement of up to 8,000,000 units ("Units") of the Company at a price per Unit of \$0.05 for aggregate proceeds of up to \$400,000. Each Unit consists of one common share in the capital of the Company and one non-transferable share purchase warrant, each warrant entitling the holder to purchase one additional common share at a price of \$0.10 for two years from the closing of the offering, subject to accelerated expiry in certain circumstances. The first tranche of the private placement raising \$212,500 closed on September 19, 2011. The second tranche is anticipated to close shortly subject to TSX Venture Exchange approval. The proceeds of the private placement will be used by the Company for general corporate purposes.

## Capital Resources

Advance Gold now has sufficient funds to meet its anticipated general and administrative expenses for the balance of this fiscal year. Advance Gold may from time to time choose to raise money in the capital markets if favourable conditions are present. Additional financing will be required for further exploration programs on Advance Gold's properties during the next fiscal year.

## Fourth Quarter Results

Advance Gold had a net loss of \$185,310 (2011 - \$1,927,666) and general and administrative expenses of \$34,751 (2011 - \$6,043) during the quarter ended May 31, 2011. Such expenses included:

	Q4 2012	Q4 2011
Advertising	\$ 124	\$ 421
Corporate Development	(10,137)	-
Amortization Expense	4	20
Conferences	895	-
Bank Charges and Foreign Ex	1,040	(25,626)
Professional fees	(2,910)	16,776
Management Fees	18,000	15,000
Office Expenses	2,218	(491)
Consulting Fees	2,000	480
Transfer Agent & Filing Fees	2,283	(212)
Office Rent & Telephone	(1,694)	444
Property Investigation	6,310	-
Stock based compensation	6,172	-
Wages	16,756	(2,866)
Writedown of mineral properties	144,249	2,089,147
Future income tax recovery	-	(165,427)
	<u>\$185,310</u>	<u>\$ 1,927,666</u>

Administrative expenses have increased from the prior year due to a decrease in foreign exchange gain. All other administration expenses have remained relatively the same. Advance Gold Corp. had a working capital of \$140,457 for the year ended May 31, 2012.

## Related Party Transactions

Related parties are directors and officers, and companies controlled by directors and officers of Advance Gold. The following summarizes Advance Gold's related party transactions for the years ended May 31, 2012, May 31, 2011 and May 31, 2010:

	Year Ended May 31, 2012	Year Ended May 31, 2011	Year Ended May 31, 2010
Consulting services	\$-	\$480	\$-
Management Fees	\$61,250	\$50,000	\$60,000
Reimbursement of expenses	\$-	\$-	\$-
Rent	\$5,424	\$4,602	\$9,413

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Management fees and consulting and exploration fees were paid to a company controlled by a director of Advance Gold. Rent was paid to a company with common management.

## Critical Accounting Estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions about future events that affect amounts reported in the financial statements. Actual results could differ from these estimates. Significant accounting estimates used in the preparation of Advance Gold's consolidated financial statements are:

- (a) The preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. The preparation of the consolidated financial statements also requires management to make judgments aside from those that involve estimates, in the process of applying the accounting policies.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively from the period in which the estimates are revised. The following are the key uncertainties related to estimates that have a significant risk of resulting in a material adjustment within the next financial year and to judgments that have the most significant effect on the amounts recognized and disclosed in the consolidated financial statements.

**(b) Impairment of non-financial assets**

When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. Recoverable amount is the greater of value in use and fair value less costs to sell. Determining the value in use requires the Company to estimate expected future cash flows associated with the assets and a suitable discount rate in order to calculate present value. During the year ended May 31, 2012, the Company recognized an impairment of \$144,249 representing the carrying values of the Ngira Migori and Singida Properties.

**(c) Useful life of property, plant and equipment**

Property, plant and equipment are depreciated over the estimated useful lives of the assets. Changes in the estimated useful lives could significantly increase or decrease the amount of depreciation recorded during the year and the carrying value of property, plant and equipment. Total carrying value of property, plant and equipment at May 31, 2012 was \$89 (May 31, 2011 - \$111), (June 1, 2010 - \$138).

**(d) Share-based compensation**

Management is required to make certain estimates when determining the fair value of share option awards, and the number of awards that are expected to vest. These estimates affect the amount recognized as share-based compensation in the Company's consolidated statement of comprehensive loss. For the year ended May 31, 2012 the Company recognized share-based compensation expense of \$6,172 (May 31, 2011 - \$nil).

**(e) Exploration and evaluation assets**

Management is required to apply judgment in determining whether technical feasibility and commercial viability can be demonstrated for its mineral properties under exploration. Once technical feasibility and

commercial viability of a property can be demonstrated, it is reclassified from exploration and evaluation assets and subject to different accounting treatment. As at May 31, 2012 and May 31, 2011, management had determined that certain exploration and evaluation assets should be written off.

**(f) Income taxes**

The measurement of income taxes payable and deferred income tax assets and liabilities requires management to make judgments in the interpretation and application of the relevant tax laws. The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the consolidated financial statements.

**Future Changes in Accounting Standards**

The following new or amended accounting standards have been issued by the International Accounting Standards Board ("IASB"). These new or amended standards are not yet effective, and the Company has not completed its assessment of their impact on its consolidated financial statements.

**IFRS 9 Financial Instruments**

In November 2009, the IASB issued, and subsequently revised in October 2010, IFRS 9 Financial Instruments (IFRS 9) as a first phase in its ongoing project to replace IAS 39. IFRS 9, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2015, with earlier application permitted.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The standard also adds guidance on the classification and measurement of financial liabilities.

**IFRS 10 Consolidated Financial Statements**

In May 2011, the IASB issued IFRS 10 Consolidated Financial Statements (IFRS 10). IFRS 10, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IAS 27 *Consolidated and Separate Financial Statements* ("IAS 27"), consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 will replace SIC 12 *Consolidation - Special Purpose Entities* and parts of IAS 27.

**IFRS 11 Joint Arrangements ("IFRS11")**

IFRS 11 was issued in May 2011, and is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

IFRS 11 requires interests in joint arrangements to be classified as a joint venture or joint operation. A joint arrangement is an arrangement in which two or more parties have joint control. Joint ventures will be accounted for using the equity method of accounting whereas a party with joint control of a joint operation will recognize its share of the assets, liabilities, revenues and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in certain joint ventures. IFRS 11 will replace IAS 31 *Interests in Joint Ventures* and SIC 13 *Jointly Controlled Entities - Non-monetary Contributions by Venturers*.

In conjunction with the issue of IAS 11, IAS 28 *Investments in Associates* was amended to include joint ventures within its scope, and to address the guidance included in IFRS 10 and IFRS 12 *Disclosure of Interest in Other Entities*. IAS 28 is retitled to *Investments in Associates and Joint Ventures*.

**IFRS 12 Disclosure of Interests in Other Entities**

In May 2011, the IASB issued IFRS 12 *Disclosure of Interests in Other Entities* (IFRS 12). IFRS 12, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

IFRS 12 establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates and unconsolidated structured entities. The IFRS standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an

entity's interests in other entities. The standard also requires enhanced disclosures of how control was determined and any restrictions that might exist on consolidated assets and liabilities within the consolidated financial statements.

### **IFRS 13 Fair Value Measurement**

In May 2011, the IASB issued IFRS 13 Fair Value Measurement (IFRS 13). IFRS 13, which is to be applied prospectively, is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

### **Changes in Accounting Policies**

IFRS replaced Canadian GAAP for the company, effective for its 2011 interim annual consolidated financial statements. Accordingly, financial statements have been prepared in accordance with IFRS.

The adoption of IFRS resulted in changes to the company's accounting policies compared with the most recent annual financial statements prepared under Canadian GAAP. The accounting policies discussed in Note 3 to the financial statements have been applied consistently to all periods presented and in the preparation of an opening IFRS consolidated Statement of Financial Position as at June 1, 2010. The impact of the transition from Canadian GAAP to IFRS is explained in detail in Note 18 to the financial statements. The changes in accounting policies have not been applied to any information for periods prior to June 1, 2010.

#### **(a) First-time adoption**

The adoption of IFRS requires the application of IFRS 1, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires retrospective application of IFRS effective at the end of an entity's first annual IFRS reporting period. However, IFRS 1 also provides certain optional exemptions and mandatory exceptions to this retrospective treatment.

The Company has elected to apply the following optional exemptions in its preparation of its opening IFRS consolidated statement of financial position as at June 1, 2010, the Company's Transition Date:

#### **Share-based payments**

To apply IFRS 2 *Share-based Payments* only to equity instruments that were issued after November 7, 2002 and had not vested by the Transition Date.

#### **Business combinations**

To apply IFRS 3 *Business Combinations* prospectively from the Transition Date, therefore not restating business combinations that took place prior to the Transition Date.

#### **Borrowing costs**

To apply IAS 23 *Borrowing Costs* prospectively from the Transition Date. IAS 23 requires the capitalization of borrowing costs directly attributable to the acquisition, production or construction of certain assets.

#### **Leases**

To not assess whether arrangements contain a lease under IFRIC 4 "Determining whether an Arrangement Contains a Lease" where the same determination was made previously under Canadian GAAP. For arrangements where this determination was not made previously under Canadian GAAP, to make the assessment based on the circumstances existing at the Transition Date.

#### **Estimates**

IFRS 1 does not permit changes to estimates that have been made previously. Estimates used in the preparation of the Company's opening IFRS consolidated statement of financial position, and other comparative information restated to comply with IFRS, are consistent with those made previously under current Canadian GAAP.

#### **(b) Changes in accounting policies**

The adoption of IFRS resulted in changes to the accounting policies as compared with the Company's most recent annual consolidated financial statements prepared under Canadian GAAP. However, these changes to its accounting policies have not resulted in any significant change to the recognition and measurement of assets, liabilities, equity, revenue and expenses within these consolidated financial statements.

The following summarizes the significant changes to the Company's accounting policies on adoption of IFRS, and the effect on the Company's opening IFRS consolidated statements of financial position:



**Impairment of (non-financial) assets**

IFRS requires a write down of assets if the higher of the fair market value and the value in use of a group of assets is less than its carrying value. Value in use is determined using discounted estimated future cash flows. Canadian GAAP required a write down to estimated fair value only if the undiscounted estimated future cash flows of a group of assets are less than its carrying value.

IFRS also requires the reversal of any previous impairment losses, with the exception of goodwill, where circumstances have changed such that the level of impairment in the value of the assets has been reduced. Canadian GAAP prohibits the reversal of impairment losses.

The Company has changed its accounting policies related to impairment of assets to be consistent with the requirements under IFRS. The changes in accounting policies related to impairment did not have an impact on the Company's consolidated financial statements.

**Decommissioning liability (asset retirement obligations)**

IFRS requires the recognition of a decommissioning liability for legal or constructive obligations, while current Canadian GAAP only requires the recognition of such liabilities for legal obligations. A constructive obligation exists when an entity has created reasonable expectations that it will take certain actions.

The Company's accounting policies related to decommissioning liabilities have been changed to reflect these differences, which changes in policies have no impact on its consolidated financial statements.

**Share-based payments**

In certain circumstances, IFRS requires a different measurement of share-based compensation than Canadian GAAP. In particular, IFRS requires that each tranche (that vests separately) must be treated as a separate grant and that an estimate of forfeitures be included in the determination of the expense associated with share option grants.

Due to the nature of the Company's share options, this change in accounting policy did not have a significant impact on its consolidated financial statements.

**Exploration and evaluation assets**

Subject to certain restrictions, IFRS currently allows an entity to determine an accounting policy that specifies the treatment of costs related to the exploration for and evaluation of mineral properties. On adoption of IFRS, the Company has retained its policy of capitalizing all costs directly related to exploration activities once the Company has obtained the legal right to explore.

Once technical feasibility and commercial viability can be demonstrated, the carrying value of exploration and evaluation assets will be reclassified to mineral properties under development.

There were no changes to the Company's accounting policies related to exploration and evaluation assets that had a significant impact on its consolidated financial statements.

**Income taxes**

IFRS requires the recognition of deferred taxes on the temporary differences in the accounting and tax basis of non-monetary assets and liabilities of foreign operations arising from exchange rate fluctuations. Deferred taxes were not recognized on these types of temporary differences under current Canadian GAAP.

The Company's accounting policies were changed to reflect this difference however, due to the nature of the Company's deferred tax balances, there was no significant impact on its consolidated financial statements.

**(c) Reconciliation of Canadian GAAP to IFRS**

The following provides reconciliations of the Company's equity and its comprehensive loss from Canadian GAAP to IFRS for the respective periods. The changes in accounting policies resulting from the Company's adoption of IFRS had no significant impact on its consolidated financial statements for these comparative periods. The adoption of IFRS did not have a material impact on the consolidated statements of cash flows.

	<b>May 31, 2012</b>	<b>May 31, 2011</b>
Total equity under Canadian GAAP	\$ 679,452	\$ 2,381,999
Adjustments for changes in accounting policies	(33,698)	(33,698)
<b>Total equity under IFRS</b>	<b>\$ 645,754</b>	<b>\$ 2,348,301,</b>

  

	<b>May 31, 2011</b>	<b>June 1, 2010</b>
Comprehensive loss under Canadian GAAP	\$ 5,000	\$ 5,000
Adjustments for changes in accounting policies	(5,000)	-
<b>Comprehensive loss under IFRS</b>	<b>\$ -</b>	<b>\$ 5,000</b>

### Off-Balance Sheet Arrangement

Advance Gold does not have any off-balance sheet arrangements which may affect its current or future operations or conditions.

### Financial Instruments

The Company's financial instruments are exposed to certain financial risks, being credit risk, liquidity risk, and market risk, which are defined as follows:

**(a) Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents. The Company deposits the majority of its cash and cash equivalents with high credit quality financial institutions in Canada and as a result, the Company considers its credit risk to be minimal.

**(b) Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company manages liquidity risk by maintaining adequate cash and short-term investment balances.

The Company's expected source of cash flow in the upcoming year will be through equity financing and future loan facilities. Cash on hand at May 31, 2012 and expected cash flows for the next 12 months are not sufficient to fund the Company's ongoing operational needs. Therefore, the Company will need funding through equity or debt financing, entering into joint venture agreements, or a combination thereof.

Accounts payable and accrued liabilities are due within twelve months of the consolidated statement of financial position date.

**(c) Market risk**

Market risk consists of interest rate risk, foreign currency risk and other price risk. These are discussed further below.

**(i) Interest rate risk**

Interest rate risk consists of two components:

- To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk.
- To the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

Current financial assets and financial liabilities are generally not exposed to interest rate risk because of their short-term nature and maturity.

**(ii) Foreign currency risk**

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to foreign currency risk to the extent that monetary assets and liabilities are denominated in foreign currency.

The Company is exposed to foreign currency risk with respect to cash and cash equivalents and accounts payable and accrued liabilities, as a portion of these amounts are denominated in US dollars as follows:

	US DOLLARS		
	May 31, 2012	May 31, 2011	June 1, 2010
Cash and cash equivalents	\$ 13,845	\$ 8,792	\$ 7,821
Accounts payable and accrued liabilities	(14,606)	-	-
Rate to convert to \$1.00 CDN	\$ 1.0329	\$ 0.9686	\$ 1.0462

The Company manages foreign currency risk by minimizing the value of financial instruments denominated in foreign currency. The Company has not entered into any foreign currency contracts to mitigate this risk.

**(iii) Other price risk**

The Company's ability to raise capital to fund mineral resource exploration is subject to risks associated with fluctuations in mineral resource prices. Management closely monitors commodity prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

**(d) Fair value of financial instruments**

The fair values of the Company's amounts receivable, accounts payable and accrued liabilities and loan payable approximate their carrying values because of the short-term nature of these instruments.

The Company uses a fair value hierarchy that categorizes inputs used in valuation techniques to measure the fair value of financial instruments:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's cash and cash equivalents are all classified at level one of the fair value hierarchy. The Company's remaining financial instruments are classified as Level 2.

**Changes in Accounting Policies**

Advance Gold has not changed its accounting policies for the year ended May 31, 2012.

**Off-Balance Sheet Arrangements**

Advance Gold does not have any off-balance sheet arrangements which may affect its current or future operations or conditions.

**Financial Instruments**

Advance Gold's financial instruments consist of cash, investments, accounts receivable and accounts payable. The fair value of these financial instruments is approximately equal to their carrying values, unless otherwise noted. Unless otherwise noted, it is management's opinion that Advance Gold is not exposed to significant interest, currency or credit risks arising from these financial instruments. Interest rate risk is limited as the Company only invests in highly liquid securities with short-term maturities. The Company manages its currency risk through the preparation of short and long term expenditure budgets in different currencies and converting Canadian dollars to foreign currencies whenever exchange rates are favourable. Credit risk is minimal as accounts receivable consists primarily of goods and services tax refunds due from the Government of Canada.

As at May 31, 2012 \$201,676 cash and cash equivalents are held in Canadian dollars, \$14,300 cash and cash equivalents are held in US dollars and Kenya Schilling. Advance Gold does not use derivative instruments or foreign exchange contracts to hedge against gains or losses arising from foreign exchange fluctuations.

## **Outstanding Share Data**

The authorized capital of Advance Gold consists of an unlimited number of common shares and an unlimited number of preferred shares, issuable in series with special rights and restrictions attached. As of September 27, 2012 there were 35,806,696 common shares issued and outstanding, of which 1,715,000 were held in escrow 1,807,500 (2.39 million shares over a five-year term expiring Aug. 15, 2017, at an exercise price of 10 cents per share.) stock options outstanding, and the following warrants and broker's options outstanding:

<b>Grant Expiry Date</b>	<b>Grant Price</b>	<b>Warrants Outstanding</b>
Sept 19, 2013	\$0.10	4,250,000
Oct 25, 2013	\$0.10	2,940,000
May 25, 2014	\$0.10	2,000,000

## **Disclosure of Controls and Internal Controls over Financial Reporting**

The Company's Chief Financial Officer and Chief Executive Officer (the "Certifying Officers") are responsible for establishing and maintaining disclosure controls and procedures ("the Procedures") which provide reasonable assurance that information required to be disclosed by the Company under provincial or territorial securities legislation (the "Required Filings") is reported within the time periods specified. Without limitation, the Procedures are designed to ensure that material information relating to the Company is accumulated and communicated to management, including its Certifying Officers, as appropriate to allow for timely decisions regarding the Required Filings.

The Company's Certifying Officers are also responsible for establishing and maintaining internal controls over financial reporting ("Internal Controls") and have designed such Internal Controls, or caused it to be designed under their supervision, which provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's GAAP.

During the year ended May 31, 2012 there were inherent weaknesses in the Company's internal controls which are typical of small companies, which have a limited ability to segregate incompatible functions. The Company expects to remedy these weaknesses by expanding the number of individuals involved in the accounting function as it grows. Effective disclosure controls were achieved, despite the inherent weaknesses in internal control over financial reporting, because of the President and Chief Executive Officer's direct involvement in the disclosure controls and procedures process.

The Certifying Officers evaluate the Company's Internal Controls on a regular basis throughout the year and have certified that there were no changes in the Company's Internal Controls during the Company's most recent fiscal period that materially affected, or is reasonably likely to materially affect, the Company's Internal Controls.

## **Investor Relations**

Investor relations activities are currently being performed by directors, officers and key personnel.

## **Risk Factors**

Exploration-stage mineral exploration companies face a variety of risks and, while unable to eliminate all of them, Advance Gold aims at managing and reducing such risks as much as possible. Few exploration projects successfully achieve development stage, due to factors that cannot be predicted or anticipated, and even one such factor may result in the economic viability of a project being detrimentally impacted such that it is neither feasible nor practical to proceed. Advance Gold closely monitors its activities and those factors that could impact them, and employs experienced consultants to assist in its risk management and to make timely adequate decisions.

Environmental laws and regulations could also impact the viability of a project. Advance Gold has ensured that it has complied with these regulations, but there can be changes in legislation outside Advance Gold's control that could also

add a risk factor to a project. Operating in a specific country has legal, political and a currency risk that must be carefully considered to ensure their level is commensurate to Advance Gold's assessment of the project.

## Approval

The Board of Directors of the Company has approved the disclosure contained in this MD&A.

## Selected Annual Information

The financial information reported here in has been prepared in accordance with Canadian GAAP. Advance Gold uses the Canadian dollar ("CDN") as its reporting currency. The following table represents selected financial information for Advance Gold's 2012, 2011 and 2010 fiscal years:

### *Selected Statement of Operations Data*

	Year ended May 31,		
	2012	2011	2010
Loss for the year	\$(342,623)	\$ (2,044,487)	\$ (625,759)
Weighted average number of shares outstanding, basic and diluted	28,797,929	23,847,909	21,226,854
Loss per share, basic and diluted	\$(0.01)	\$ (0.09)	\$ (0.03)

The loss for the year increases in 2012 as a result of the write down of mineral properties.

### *Selected Balance Sheet Data*

	Year ended May 31,		
	2012	2011	2010
Cash and cash equivalents and short term investments	\$215,976	\$ 13,288	\$ 27,298
Net working capital	\$140,457	\$ (93,847)	\$ (14,398)
Total assets	\$728,550	\$534,641	\$ 2,427,132
Long term liabilities	\$-	-	-
Total shareholders' equity	\$645,754	\$ 413,787	\$ 2,348,301

Total assets decreased from \$2,427,132 in 2010 to \$728,550 in 2012 due to a write down of exploration and evaluation assets.