



## **Management Discussion and Analysis of Financial Position and Results of Operations for the Six Months ended September 30, 2011**

*This report is dated November 10, 2011. (The “Report Date”)*

*All amounts are stated in United States dollars, except where otherwise noted.*

### ***Introduction***

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The following information should be read in conjunction with the audited consolidated financial statements of Evolving Gold Corp. for the years ended March 31, 2011 and 2010.

These financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”). Previously, the Company’s financial statements were prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). This discussion includes the results of the Company’s wholly-owned active subsidiary, Evolving Gold Corp. a Nevada, United States company, 5210 Nunavut Ltd. a wholly-owned subsidiary incorporated under the Business Corporations Act of Nunavut, Prosperity Goldfields Corp. a subsidiary incorporated under the Canada Business Corporations Act, which currently holds the Kiyuk Lake mineral property option and a wholly-owned Canadian subsidiary, Exemplar Gold Corp. which has not yet commenced operations. All amounts are expressed in United States dollars. Note 2 of the consolidated financial statements at March 31, 2011, describes all of the Company’s significant accounting policies and a description of changes made during the 2011 fiscal year is included therein. During the year ended March 31, 2011, the Company’s critical accounting estimates and significant accounting policies have remained substantially unchanged. During the six months ended September 30, 2011 the Company adopted IFRS and commenced reporting in United States dollars.

### ***IFRS transition and United States dollar reporting***

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In February 2008 the AcSB announced that 2011 was the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The reader is referred to the 2011 annual audited financial statements and MD&A of the Company, as well as the same documents for Q1 of this year, for a complete discussion of the transition to IFRS.

The quarter ended September 30, 2011 is the second quarter of the 2011-12 fiscal year in which the Company is reporting its condensed consolidated interim financial statements under IFRS. The first annual consolidated financial statements prepared under IFRS will be issued for the fiscal year ended March 31, 2012. The current financial statements include the restatement of comparative information presented.

The transition to IFRS did not have a material impact on contractual arrangements, information technology and data systems, internal control over financial reporting, or disclosure controls and procedures, and only minimal impact on financial expertise and training requirements. However, while assessing the potential impact of IFRS on the Company, management determined that there was an issue with functional currency reporting. All of the Company’s exploration properties and significant expenditures are located in the United States, and for the most part have been since 2007. The functional currency of the parent company and of the two other subsidiaries remains the Canadian dollar, however the relative expenditures in these

companies are not material compared to the expenditures and activities in the Nevada subsidiary of the Company. Accordingly, management determined that the best presentation of the Company's activities would be with US dollar reporting.

The quarter ended September 30, 2011 is the second quarter of the 2011-12 fiscal year in which the Company is reporting its condensed consolidated interim financial statements in US dollars.

*All amounts presented in this document are stated in United States dollars, except where otherwise noted.* The most notable exceptions are in the discussion of share capital, where securities prices are stated in Canadian dollars (C\$), and with respect to the activities of Prosperity Goldfields Corp.

### ***General***

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The Company became a reporting issuer in the Provinces of Alberta, British Columbia and Ontario on May 14, 2004 and the Company traded on the Canadian Trading and Quotation System Inc. (the "CNQ") under stock symbol "CNQ: GOLD" from June 14, 2004 until June 13, 2007 when it began trading on the Canadian TSX Venture Exchange under the symbol TSX-V: EVG. Effective November 3, 2008 the Company graduated to become a Tier I issuer on this exchange and eventually was named as one of the top ten mining companies on the TSX-V and a member of the TSX Venture 50.

On December 7, 2010 the Company announced that it had received approval to list its common shares on the Toronto Stock Exchange (TSX) and continues to trade on this exchange under the stock symbol T:EVG.

Since August 13, 2007 the Company has also been listed on the Frankfurt Stock Exchange under the symbol "EV7" in order to provide easier access for European investors.

Effective July 28, 2005 shares of the Company were also traded on the NASD.OTCBB exchange in the United States under the stock symbol OTCBB: EVOGF" but in fiscal 2009 the Company voluntarily applied to cease trading on this exchange.

On May 4, 2011, the Company was quoted on the OTCQX board under the symbol EVOGF.

### ***Description of Business***

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Evolving Gold Corp. ("Evolving" or the "Company") is a Canadian-based gold and precious mineral exploration and development company engaged in the acquisition, exploration and development of natural resource properties. It was envisioned that more advanced and intensive exploration programs would be undertaken on its discovery properties, Rattlesnake Hills, Wyoming; Carlin-Humboldt, Nevada and Jake Creek, Nevada, but it also has other projects in Nevada and New Mexico and acquired an option for the Kiyuk Lake property in Nunavut, Canada in August, 2009. Evolving currently holds approximately 75,900 hectares of exploratory lands. The Company's focus is drill intensive exploration of properties believed to have potential for the discovery of bulk tonnage and/or high grade gold deposits of significant economic interest.

At its Rattlesnake Hills property approximately 62,100 meters of diamond drilling were completed between 2008 and 2010 with final assay results for the 2010 season of drilling reported on January 12, 2011. A total of 156 diamond holes have been drilled, most targeting the North Stock and Antelope Basin zones.

Evolving signed a Letter of Intent dated May 9, 2011, to form a joint venture to continue exploration on its Rattlesnake Hills property, as announced in a news release dated May 9, 2011. Definitive documents were signed June 24, 2011. A drill program undertaken by the JV began in July, 2011. As of Sept 2011 approximately 15 new drill holes were completed and assays are pending.

With the Rattlesnake JV in place, Evolving is focusing its attention on exploration in Nevada where its Carlin-Humboldt project continues to produce impressive results such as 10.1 m at 11.09 grams per tonne (gpt) Au in hole CAR-010, 14.7 m at 8.76 gpt Au in hole CAR-010.1 and 15.7 m at 5.08 gpt Au in hole CAR-002.3.1. Evolving believes results to date indicate discovery of two high grade zones, one in the vicinity of hole CAR-002 and the other around holes CAR-007 and -010, both approximately 500 m northwest of hole CAR-002.

In the first half of 2010, major land acquisition agreements were put in place with respect to the Carlin-Humboldt projects. The Company's present mineral holdings in the Carlin-Humboldt project total approximately 56 square miles (14,500 hectares). Current drilling is targeting structures, revealed by geophysical surveys conducted in late 2010 that are believed to control the two high grade discoveries. Three reverse circulation pre-collar holes, CAR-011 through -013 have recently been drilled in the vicinity of these two zones. Coring has begun and will continue through 2011. Results are expected to be received in the next few weeks through early spring.

With respect to its other existing mineral properties, the Company completed a two-hole reverse circulation drill program at its Jake Creek property in September, 2010, one of which encountered 28.9 meters at 1.33 gpt Au. Additional drilling began in August, 2011. Assay results are pending.

A single diamond core hole was completed at the Company's Boulder Valley property in late 2010. Results from this hole include a long interval of anomalous Au (0.020-0.108 gpt) from 768-919 m including a short interval, 0.2 m 1.11 gpt Au starting at 768 m down hole depth.

### ***Changes in Management and Directors***

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On November 9, 2011, the Company announced that Quinton Hennigh resigned as a Director and Chief Geologist of the company. The Company's current portfolio of quality gold projects resulted from the creative vision and diligent exploration work of Mr. Hennigh. In particular, his discoveries at the Carlin-Humboldt projects in Nevada and the Rattlesnake Hills project in Wyoming are the foundation of Evolving Gold's current exploration programs.

The critical role of Chief Geologist has been transferred to Mr. Steven Koehler who has been leading the Company's Nevada programs since early 2011. Mr. Koehler has over 21 years of Nevada exploration experience and has been involved in five gold discoveries in Nevada, two of which are currently in production at Cortez Hills and Leeville, operated by Barrick and Newmont respectively.

## **Mineral Properties**

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### **Malone Mineral Property**

#### Description

On April 17, 2006 the Company entered into a quitclaim deed and royalty agreement with Newmont North America Exploration Limited whereby the Company was granted all rights, title, estate and interest in 80 unpatented mineral claims covering 665 hectares located in Lordsburg, New Mexico, United States of America in exchange for payment of \$20,000 (paid). The agreement is subject to a royalty of 2% of net smelter returns.

#### Technical Report

An amended technical NI 43-101 report on the Malone property was filed on SEDAR in November, 2007. The report was prepared by Gerald E. Ray, Ph.D. as the qualified person.

#### Exploration Program

By January 2008, the Company had completed detailed mapping, surveying, sampling and a diamond drill program of this property. The diamond drilling totalled 950 meters in 10 holes, to depths of up to 183 meters. All ten holes encountered significant gold and silver mineralization. Better intercepts included 17.6 m grading 0.48 grams per tonne (“gpt”) gold and 41 gpt silver in MAL-04, 5.5 m grading 1.53 gpt gold, and 164 gpt silver in MAL-06, 12.7 m grading 0.58 gpt gold and 57 gpt silver in MAL-07. The Company completed Phase Two drilling in April, 2009 of an additional 2,000 m in eleven holes with the objective of defining the dimensions of the near surface, disseminated gold-silver mineralization encountered in Phase One drilling. Unlike Phase One drilling which generally was conducted at depths less than 100 meters, Phase Two drilling tested mineralization at depths up to 300 meters. Significant results include 29.0 meters at 0.51 gpt Au and 25.5 gpt Ag (95 ft at 0.015 opt Au and 0.74 opt Ag) in hole MAL-09-003 and 15.3 meters at 0.79 gpt Au and 81.4 gpt Ag (50 ft at 0.023 opt Au and 2.38 opt Ag) in MAL-09-001. A preliminary review of this data indicates that near surface mineralization is of modest potential. The company is considering what options might be available to lease or joint venture the property.

### **Newmont Mineral Properties**

#### General Description

During the year ended March 31, 2008 the Company acquired by staking, approximately 39,200 acres of open land near the town of Battle Mountain, Nevada which Evolving geologists believed might contain previously untested “pieces” of disarticulated Carlin trend rocks. In September, 2007, the Company signed a Letter of Intent to enter into an agreement with Newmont USA Limited, Newmont Capital Limited and Elko Land and Livestock Company (collectively “Newmont”) concerning an exploration partnership for several prospective gold project areas in Nevada specifically Boulder Valley, Carlin, Cottonwood Creek, Sheep Creeks and Susie Creek. Susie Creek has not had any activity to date and accordingly no interest in this property has been recorded in Evolving’s financial statements. On May 20, 2010, the Company informed Newmont that it would no longer pursue its interest in the Sheep Creeks or Cottonwood Creek mineral properties and accordingly the costs associated with these properties were written down to nil in the March 31, 2010 financial statements. A November 28, 2007 Mineral Lease Sublease and Agreement continues to govern the Company’s interest in Boulder Valley and Carlin mineral properties. Under the terms of this Agreement Newmont would lease or sublease to Evolving its interest in certain lands, unpatented mining claims and fee interests in these areas, subject to a back-in right.

Under the terms of the lease and sub-lease Evolving would:

- Assume all of Newmont's lease obligations insofar as they pertain to these project areas.
- Incur \$3,500,000 in aggregate exploration expenditures (70% of exploration expenditures to be incurred for direct drilling) within each of two project areas for a total of \$7,000,000 over five years.
- Reimburse Newmont for all payments and filings necessary to keep the properties in good standing.
- Provide semi-annual reports to Newmont detailing each project area's work program and costs incurred
- After six years, in the event that \$750,000 was not incurred on exploration expenditures during the preceding lease year on any project area, Evolving would pay annual rental on each project area calculated at \$10 per acre, escalating by 5% each year, for each project area so defined.
- Pay a 3% to 5% sliding scale net smelter return royalty on production from the property less any underlying royalties with a minimum of 2%

Newmont can elect to terminate the agreement and enter into one or more joint venture agreements with Evolving covering all or portions of each project area. Newmont may earn a 51% interest in the joint venture property by expending on the property 200% of the exploration expenditures made by Evolving from the date of the agreement to the date Newmont elects to exercise their joint venture option and may elect to earn an additional 19% interest in the joint venture property by expending on the property an additional 150% of Evolving's expenditures on the joint venture property.

The Company has the right to provide sixty days written notice at any time to surrender the agreement as to all or any part of these properties.

If Evolving decides to commence mineral production of any project area and Newmont elects not to exercise the joint venture option or elects not to complete its earn-in expenditures Newmont would agree to sell its interest in the project area property to Evolving.

#### Boulder Valley Mineral Property

Boulder Valley is comprised of approximately 10,700 acres of Newmont held fee surface and mineral rights, and 1,846 (94 claims) acres of Newmont held lode claims on Bureau of Land Management of Nevada lands in the Carlin trend.

The Company completed a single diamond core hole at Boulder Valley in late 2010. This hole, situated approximately 3 km southwest of the Post-Betze deposit on the Carlin Trend, targeted favourable lower plate sedimentary rocks. This hole intersected approximately 400 m of volcanic overburden before entering upper plate chert and shale. Lower plate carbonate rocks believed to belong to the Popovich Formation were intersected at approximately 760 m and the hole remained in these rocks to 875 meters. Here, the hole re-entered upper plate rocks in which it remained to the end of the hole at 1,313.7 meters. Results from this hole include a long interval of anomalous Au (0.020-0.108 gpt) from 768-919 m including a short interval, 0.2 m 1.11 gpt Au starting at 768 m down hole depth. Expenditures relating to the completion of this drill hole met the third year work requirement for the Newmont farm-in agreement. Further work on this project is under review.

### Carlin Mineral Property

Carlin comprises approximately 10,880 acres, made up of a combination of Federal lode claims that were staked or leased by the Company, fee surface and mineral rights acquired or leased by the Company, and earn-in rights to both fee surface and mineral rights, as well as lode claims on Federal lands, held by Newmont.

The Company commenced a diamond drill program on the property on June 7, 2009 to test for favourable stratigraphy within a buried horst block between the Gold Quarry and Rain mines on the Carlin Trend. Results from a vertical hole, CAR-002, including 35.1 m @ 1.21 gpt Au (115 ft @ 0.035 opt Au) starting at 858.0 m and 22.8 m @ 1.11 gpt Au (75 ft at 0.032 opt Au) starting at 1420.4 m, were published in a press release dated September 10, 2009. Both intercepts occur in favourable units of the lower plate of the Roberts Mountain Thrust and are accompanied by highly anomalous pathfinder elements including arsenic, antimony and mercury. Upon receiving these encouraging results, the Company subsequently drilled hole CAR-003, a vertical hole collared approximately 200 m west of CAR-002, to a depth of approximately 1,100 m, and hole CAR-004, a vertical hole collared approximately 200 m east of CAR-002, to a depth of approximately 1,000 m, hole CAR-004, a vertical hole collared approximately 200 m east of CAR-002, to a depth of approximately 1,000 m and CAR-007, a vertical hole collared approximately 500 m northwest of CAR-002, to a depth of 1,312 m. All assays from these latter holes were released on February 25, 2010 with results noting that hole CAR-007 intersected significant high grade gold mineralization such as 18.3 meters at 11.7 grams per tonne (60 feet at 0.34 opt) gold. Such thickness and grades are comparable to other gold deposits currently being mined underground on the Carlin Trend.

Two additional drill holes were completed by the Company in May to July, 2010. Holes CAR-008 and CAR-009 were collared 205 m northwest and 180 m southeast of hole CAR-007, respectively. CAR-008, drilled to 1,198 m, intersected the same sequence of favourable host rocks encountered in CAR-007 as well as anomalous gold intervals from 633 m to the bottom of the hole. CAR-009, drilled to 1,308 m, similarly encountered the same favourable stratigraphic units and intercepted 172 m at 0.31 gpt Au from 1,136 m to the bottom of the hole. A third drill hole, EVGQ-001, was completed to 1,401 m depth on a new target approximately 4.5 km northwest of CAR-008. This hole encountered the same favourable host rocks as in the CAR holes along with anomalous gold and geochem in the bottom 160 meters of the hole. A fourth hole, EHB-003, collared approximately 2 km southeast of CAR-002, was drilled to 1,356 meters in late 2010. Favourable host rocks were encountered bearing locally anomalous gold and geochem.

In September, 2010, the Company undertook a Titan Magnetic Tellurics (MT) survey over the area around the CAR holes in an effort to better evaluate the structural controls on the high grade gold values encountered in hole CAR-007. Based on these results, the Company is presently drilling structural targets revealed by this survey in search of additional high grade mineralization. Hole CAR-010, collared 26 m due west of hole CAR-007, intersected 10.1 m at 11.09 grams per tonne (gpt) Au starting at 892 m, and a wedge hole, CAR-010.1, intersected 14.7 m at 8.76 gpt Au starting at 885 m. These encouraging results from CAR-010 coupled with the high grade results from CAR-007 confirm the discovery of a high grade zone of Carlin mineralization. Evolving believes this zone trends roughly north-south and has planned or is presently drilling holes that step out 100 to 300 meters from holes CAR-010 and CAR-002. These include holes CAR-011 through CAR-014.

In an effort to follow up on results in hole CAR-002, the original discovery hole on the project, Evolving re-entered this hole in March, 2011, and drilled a series of wedge holes testing the area immediately around the upper gold intercept. Results from these wedges include 15.7 m at 5.08 gpt Au in hole CAR-

002.3.1 starting at 921 m. This wedge indicates the discovery of a new elevated grade zone in the vicinity of hole CAR-002 and suggests a north-south orientation to the zone similar to that 500 m to the northwest. As a result, Evolving has started drilling a new hole, CAR-013, approximately 300 m due north of CAR-002 targeting what is believed to be a mineralizing structure defined by geophysical data. As of this writing assays are pending for holes CAR-011, CAR-012, and CAR-013

In 2010, the company increased its mineral and surface rights within the Carlin Project As follows:

- On January 11, 2010 the Company signed a ten year surface lease agreement for the lands described as the Carlin property in exchange for cash of \$16,000 (paid) and \$10,000 payable annually on January 11, 2011 and each year thereafter. Prior to commencement of commercial production the Company is obligated to purchase the area for US\$2,000 per applicable acre. The agreement can be terminated by Evolving upon thirty days written notice and can be extended if certain conditions are met including providing compensation for surface area disturbance.

On March 29, 2010 the Company signed a purchase option and royalty reservation agreement for a 50% undivided fee mineral interest in additional lands on the Carlin property in exchange for cash of \$10,000, cash of \$190,000 paid on completion of due diligence and the issue of non-interest bearing promissory notes for \$1,200,000 payable in annual \$300,000 instalments commencing May 27, 2011. The Company will be committed to pay up to 1.0% NSR on production.

- On April 13, 2010 the Company signed an additional option purchase agreement for a 100% undivided fee interest in additional adjacent lands in exchange for cash paid on signing of \$10,000, cash of \$290,000 paid on completion of due diligence and the issue of promissory notes for \$2,200,000 payable in annual \$550,000 instalments, commencing August 10, 2011. The Company will be committed to pay up to 1.0% NSR on production. Subsequent to the quarter end, the Company agreed with the vendor to postpone the August 10, 2011 payment by six months in return for a payment of \$150,000.
- 8 Additional unpatented lode claims were staked, amounting to approximately 150 acres.
- Additional agreements that increased surface and mineral rights affecting both the Carlin Project and Humboldt Project are described below.

### **Humboldt Property**

The Humboldt property lies adjacent to the Carlin project, but is not subject to any terms of the Newmont agreement described above. This land package is one of the largest land holdings in the Carlin Trend. The Company carried out an aggressive exploration program on the Humboldt property in calendar 2010, including geophysics, mapping and drilling, and has generated numerous drill targets several of which are still untested. One hole, EHB-002, was completed on one of these new targets in early September, 2010 to a depth of 1,310 m. This hole encountered favourable stratigraphic host rocks similar to those encountered in the CAR holes on the Company's property approximately 4.5 km northwest. Anomalous gold, arsenic and antimony were encountered between 1,115-1,150 meters. Two reverse circulation pre-collars were drilled in the western part of the property in late 2010. A core tail, FC-001, was completed on one of these pre-collars on June 16, 2011 to a depth of approximately 680 meters. This hole did not reach its intended depth of 1000 m, because artesian water flow was encountered and there was concern the drill site would become unstable. Unfortunately, this hole terminated in rocks above the prospective host horizon. The second pre-collar will be drilled with a core tail later this year.

In 2010, the company has increased its mineral and surface rights within the Humboldt Project.

- On March 29, 2010 the Company signed a purchase and royalty reservation agreement for a 50% undivided fee interest in additional mineral lands on the Humboldt property in exchange for cash paid of \$15,000, cash of \$285,000 paid on completion of due diligence, and the issue of non-interest bearing promissory notes for \$2,800,000 payable in annual \$700,000 instalments, commencing May 27, 2011. The Company will be committed to pay up to 1.0% NSR on production. Subsequent to year end the Company paid the first promissory note instalment of \$700,000.
- At April 13, 2010 the Company also signed two other purchase agreements for a 100% undivided fee interest in additional adjacent lands in exchange for cash of \$20,000 paid, cash of \$480,000 paid on closing and the issue of promissory notes for \$1,800,000 and \$3,200,000 payable in annual \$450,000 and \$800,000 instalments respectively, commencing August 10, 2011. The Company will be committed to pay up to 1.0% NSR on production. Subsequent to the quarter end, the Company agreed with the vendor to postpone the August 10, 2011 payment by six months in return for a payment of \$150,000.
- In 2009 and 2010 Evolving staked 602 unpatented lode claims within the Humboldt project

### **Carlin and Humboldt Properties**

Additional agreements that increased surface and mineral rights affecting both the Carlin Project and Humboldt Project are described below.

On October 26, 2009 the Company signed a mineral lease and property option agreement comprising sixty-two unpatented mining claims located in Elko County, Nevada, part of the Humboldt property. In addition on February 28, 2010 the Company signed a mineral lease and royalty buy down agreement comprising eight unpatented mining claims located within the Carlin Project.

Both agreements have a primary term of fifteen years and so long thereafter as exploration, development or mining is being conducted on the property but can be terminated at any time in whole or in part after the Company provides thirty days written notice. Pursuant to the terms of these two agreements the Company is required to pay:

- Cash of \$ 25,000 (paid)
- Advance royalty payments:
  - \$ 10,000 (paid)
  - \$ 12,500 on October 26, 2010 (paid)
  - \$ 15,000 on October 26, 2011
  - \$ 17,500 on October 26, 2012
  - \$ 20,000 on October 26, 2013
  - \$ 25,000 on October 26, 2014 and
  - \$ 25,000 consumer price index adjusted, to be paid annually on October 26, 2015 and each year thereafter for the duration of the lease
- Advance royalty payments:
  - \$ 10,000 on February 28, 2011 to 2015 (\$10,000 paid)
  - \$ 15,000 on February 28, 2016 to 2020
  - \$ 20,000 on February 28, 2021 and

- \$ 20,000 consumer price index adjusted, to be paid annually on February 28, 2021 and each year thereafter for the duration of the lease
- Shares to be issued:
  - 50,000 shares to be issued (or cash equivalent) by October 26, 2014
  - 50,000 shares to be issued (or cash equivalent) by February 28, 2015
  - 200,000 shares to be issued (or cash equivalent), at commencement of production.
- Pay claim maintenance fees and filings to maintain the unpatented claims.

The agreements are subject to a royalty of 2.775% to 3% of net smelter returns which the Company can, with respect to the 8 unpatented claims, reduce to 2% with the payment of \$1,000,000 for each 0.5% reduction.

Pursuant to the terms of the October 26, 2009 Agreement, the Company has the right to acquire ownership of the 62 unpatented claims (and royalty) in exchange for a cash payment of \$4,000,000 subject to recoupment of any royalty payments made by the Company.

On April 13, 2010, the Company signed a ten year surface lease agreement to obtain access to drill over fee ground within the Carlin and Humboldt project areas in exchange for cash of \$42,503 on execution and on each anniversary thereafter if acreage is not decreased. The Company will also pay a one-time payment of \$1,500 for each drill site and \$100 per acre per year for other surface disturbance if ranching and grazing is not possible. One half of these costs have been allocated to each of the Carlin and Humboldt properties.

On April 13, 2010 the Company signed two mineral lease agreements encompassing a total of 4,635.76 acres of additional lands in the Elko and Eureka counties in Nevada in exchange for cash paid for advance mineral royalties of \$55,725. One half of these costs have been allocated to each of the Carlin and Humboldt properties.

Future royalties will be payable annually based on the amount of acreage utilized but will be at least \$20,000. The term of each lease is ten years which can be extended if certain conditions are achieved.

Pursuant to the terms of both leases the Company can decrease the leased acreage or can otherwise terminate the lease after thirty days written notice is provided and has also been granted the right of first refusal to purchase either property. The agreements are subject to a non-participating production royalty of 5% of net smelter returns.

### **Jake Creek Mineral Property**

In late December, 2007 the Company acquired by staking approximately 435 claims totalling approximately 8,900 acres several kilometres near the Twin Creeks mine in north-central Nevada. A mercury vapour study was completed at Jake Creek in August, 2008. Results from this survey defined at least four drill targets for possible buried Carlin-style mineralization. In September, 2010, the Company drilled two reverse circulation drill holes on two of these mercury vapour targets to depths of approximately 670 m and 410 m. Both holes intersected sedimentary rocks considered favourable for hosting Carlin type gold deposits beneath volcanic cover. On November 18, 2010, the Company announced results for these two drill holes. Hole JC-005 intersected 45.7 meters at 0.97 gpt Au, including 28.9 meters at 1.33 gpt Au, and 1.5 meters at 11.3 gpt Au. This mineralization is in volcanic units, and anomalous gold and alteration continues into the underlying Paleozoic sedimentary units. Through

additional claim staking, the Company has subsequently increased its land holdings at Jake Creek to approximately 21,000 acres.

Reverse circulation drilling recommenced in mid-August. A total of 20 drill holes had been permitted and an initial phase one program of 10 holes was envisaged, for the Summer/Fall 2011 drill program. Technical challenges have been experienced by the contract driller. As of this writing, Evolving Gold has replaced the drill company initially charged with the work program, with a technically stronger group that was previously unavailable to the company. A new RC drill rig is expected on site by November 12<sup>th</sup>.

### **Rattlesnake Hills Mineral Property**

In July, 2007, the Company entered into a Letter of Intent with Golden Predator Mines, Inc. and Golden Predator Mines (US) Inc. (collectively "GPM") for the acquisition of Golden Predator's mining option on a 100% interest in Bald Mountain Mining Company's ("BMM") Rattlesnake Hills mineral property located in Natrona County, Wyoming.

An amended and restated Option Agreement was signed on December 11, 2007 between GPM and BMM. In January, 2008 a Letter of Agreement was signed to formalize the terms by which BMM would assign its interest in the underlying option agreement between itself and Golden Predator in exchange for a cash payment of \$200,000 (paid) and the issue of 400,000 shares (issued).

Also in January, 2008 Evolving signed a property option agreement with GPM. Pursuant to the terms of this Agreement Evolving subsequently acquired its interest in the property option in exchange for the issue of 3,000,000 shares over approximately a two year period. As part of the agreement GPM retains a 0.5% net smelter return royalty ("NSR") with respect to the property and Evolving has the option to purchase one-half of the NSR royalty for \$ 375,000, reducing the royalty to 0.25%. The property is currently subject to a 4% production royalty payable to the underlying owners. The production royalty is equal to the gross proceeds less all milling, smelting, refining, treatment and other processing costs. A finder's fee was paid by the issue of 75,000 shares in connection with this transaction.

Prior to the Company completing the acquisition of this mineral property option, GPM had the right to purchase up to 10% of the shares offered in private placements undertaken by the Company, such purchases to be at the same terms and conditions as other purchasers participating in the offering. Pursuant to these terms 1,000,000 units were issued to GPM in April, 2008 for proceeds of C\$1,000,000 and an additional 1,234,578 units were issued as part of the November, 2009 private placement for proceeds of C\$1,111,120. Each unit was comprised of one common share and one-half of a share purchase warrant. The 500,000 warrants attached to the April, 2008 unit issue have expired.

A National Instruments 43-101 Technical report dated May 1, 2010 was prepared by Ted Eggleston, Ph. D. P. Geo. for this property and filed on SEDAR with Evolving's Annual Information Filings for March 31, 2010. This report updated all previous NI 43-101 previously filed.

Subsequent to entering into the Rattlesnake Hills Option Agreement and the Rattlesnake Hills Letter Agreement, the Company acquired, through staking and filing lode mining claims an additional 10,700 acres thereby increasing its total Rattlesnake Hills Property land position to approximately 14,500 acres.

The Rattlesnake Hills area is host to an alkaline volcanic center comprised of over 40 intrusions and diatremes. Gold mineralization was discovered here in the late 1980's by American Copper and Nickel Corporation and was subsequently drilled by Newmont Corporation. Gold is closely associated with

alkaline volcanic and intrusive rocks. The Rattlesnake Hills project has been the focus of an extensive drill campaign by the Company to test three sizeable targets evident on the property. The Phase One drilling program began on this property on June 21, 2008 with two LF-90 diamond core drills. Drilling operations ceased due to weather conditions on October 10, 2008 after completion of 6,524 m (21,405 feet) of drilling in fifteen holes. Alteration and veining were observed over significant intervals in most holes and assay results from these holes were released in late calendar 2008 and early 2009. Intervals of significance include 146 m grading 2.92 gpt Au (480 ft @ 0.085 opt Au) including 27.4 m grading 5.98 gpt Au (90 ft @ 0.175 opt Au) in hole RSC-003, 131 m grading 2.84 gpt Au (430 ft @ 0.083 opt Au) in hole RSC-007 and an aggregate composite interval of 360 m grading 0.90 gpt Au (1180 ft @ 0.026 opt Au) in hole RSC-012 (North Stock target). Numerous long intervals of low grade (<1 gpt) gold were encountered in other holes at North Stock. A significant 36.5 m grading 1.46 gpt Au (120 ft @ 0.043 opt Au) including 9.3 m grading 3.21 gpt Au (30 ft @ 0.094 opt Au) was encountered in hole RSC-001 (Antelope Basin target).

Phase 2 drilling began May 22, 2009 with three core drills operating on the property. A fourth rig was added on July 18, 2009 after the Company intersected a high grade interval of 67 m grading 10.8 gpt in hole RSC-20. By late August, a fifth and sixth rig were operating on site. Drilling was terminated on October 26 due to weather conditions. A total of approximately 29,500 m was drilled in 78 holes. Assays for all holes from Phase 2 drilling have been completed and released. Results from the North Stock target, including 175.3 m grading 1.86 gpt Au (575 ft @ 0.054 opt Au) in hole RSC-039, 141.7 m grading 1.56 gpt Au (465 ft @ 0.046 opt Au) in hole RSC-041 and 158 meters grading 2.64 gpt Au (520 ft @ 0.077 opt Au) in hole RSC-089 continue to indicate substantial mineralization along the wall of the diatreme complex. A new zone of gold mineralization associated with a trachytic porphyry dike swarm was intersected southeast of the diatreme complex. At Antelope Basin, hole RSC-019 intersected 163.1 m grading 1.25 gpt Au (535 ft @ 0.037 opt Au) and hole RSC-042 intersected 76.2 m grading 1.70 gpt Au (250 ft @ 0.050 opt Au).

Beginning in June, 2010, the Company commenced a diamond drill program encompassing 20,000 meters. The budget for this program was increased upon completion of the private placement of approximately C\$15,600,000 with Goldcorp in July 2010. By the end of the program on October 10, 2010 25,600 m were drilled in 63 drill holes bringing the total on the property to 156 drill holes. Approximately 65% of the 2010 season's drilling was allocated to infill and step-out around the North Stock and Antelope Basin deposits. The remaining 35% targeted new areas including deep porphyry style mineralization. Assays for all holes returned by early January and were released January 12, 2011. Additional promising results included 161.5 m at 1.84 gpt Au in hole RSC-126 and 313 m at 1.94 gpt Au in hole RSC-145.

On May 9, 2011, the Company announced that it has signed a Letter Agreement with a subsidiary of Agnico-Eagle Mines Ltd. to form a joint venture on its Rattlesnake Hills project in Wyoming.

On June 24, 2011 the Company entered into definitive agreements with Agnico-Eagle Mines Limited and its operating subsidiaries (collectively "Agnico-Eagle") with respect to the Company's Rattlesnake Hills project in Wyoming, U.S.A. Evolving Gold and Agnico-Eagle have executed the definitive Joint Venture agreement, an Exploration Services agreement and a Subscription agreement on the terms of the non-binding Letter Agreement dated May 9, 2011. Under these agreements, Agnico-Eagle has the option to earn up to a 70% interest in the Rattlesnake Hills project over a seven year period. Requirements to earn the 70% interest include a total of \$12 million in cash payments to Evolving Gold, the purchase of C\$23 million of the common shares of Evolving Gold, and exploration and development expenditures of \$41 million. The Company is carried through to completion of a feasibility study. The agreements have received final regulatory approval.

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As of this writing, over 20 drill holes have been completed by Agnico-Eagle as part of the 2011 Summer/Fall drill program at Rattlesnake Hills. The objectives of this season's drilling were to extend and infill gold mineralization at the two partially defined gold zones, to explore between these two zones and to test several new gold targets elsewhere on the property. A news release is in preparation detailing the results of roughly half of the completed drill holes. A second news release will cover the balance of the season's drilling.

The terms of the payments to the Company are as follows:

	2011	2012	2013	2014	2015	2016	2017
<i>In millions of dollars</i>	Earn 51%					Earn 70%	
Cash Payments (US\$)	1	2	2.5	3	3.5	-	-
Cumulative Cash Payments (US\$)	1	3	5.5	8.5	12	-	-
EVG Share Purchases (C\$ from treasury)	-	-	2.5	3	3.5	7	7
Cumulative Share Purchases (C\$)	-	-	2.5	5.5	9	16	23
Work Commitment (US\$)	3	5	5	6	7	7	8
Cumulative Work Commitment (US\$)	3	8	13	19	26	33	41
Annual Total (Assumes US\$1=C\$1)	4	7	10	12	14	14	15
Cumulative Total	4	11	21	33	47	61	76

**Exploration and evaluation assets as of September 30, 2011**

	Boulder Valley	Carlin	Humboldt	Jake Creek	Malone	Rattlesnake	Total for six month period ended Sept. 30, 2011
<b>Acquisition costs</b>							
Opening balance	\$ -	\$ 599,175	\$ 875,849	\$ -	\$ -	\$ 925,951	\$ 2,400,975
Additions	-	774,066	399,066	-	-	20,000	1,193,132
Deletions	-	-	-	-	-	-	-
	-	1,373,241	1,274,915	-	-	945,951	3,594,107
<b>Deferred exploration costs</b>							
Opening balance	1,551,726	7,606,940	1,724,658	908,787	833,900	22,339,723	34,965,734
Assays and reports	272	84,304	1,201	13,851	-	7,374	107,002
Drilling	-	2,601,593	365,675	281,099	-	-	3,239,367
Field expenses & other	2,752	151,197	53,321	29,845	780	90,513	328,408
Geological consulting	1,564	298,179	49,167	70,490	1,550	46,305	467,257
Geophysical/geological	-	-	-	-	-	-	-
Staking and recording	23,172	47,245	141,561	75,025	11,608	960	299,571
	1,579,486	10,789,458	2,326,583	1,379,097	847,838	22,484,876	39,407,338
Reclamation bonds	13,634	302,295	-	-	125,000	150,000	590,929
Asset Retirement Obligation	8,000	12,000	14,000	8,000	-	260,000	302,000
Write down of mineral properties	-	-	-	-	-	-	-
Property payments received	-	-	-	-	-	(1,000,000)	(1,000,000)
<b>Balance, Sept. 30, 2011</b>	<b>\$ 1,601,120</b>	<b>\$12,476,994</b>	<b>\$3,615,498</b>	<b>\$ 1,387,097</b>	<b>\$972,838</b>	<b>\$22,840,827</b>	<b>\$ 42,894,374</b>

**Kiyuk Lake Mineral Property (Prosperity Goldfields Corp.)**

On August 1, 2009 the Company signed a five year mineral property option agreement for the Kiyuk Lake property near Nueltin Lake in Nunavut. Payments of C\$50,000 cash and 50,000 common shares were made with respect to this agreement on August 8, 2009. Under the terms of the agreement, C\$60,000 cash was to be paid and 40,000 common shares were to be issued in each of the remaining four years of the term.

In October, 2010, the Company transferred its C\$1,417,959 interest in the Kiyuk Mineral Property to a wholly-owned, newly incorporated subsidiary, Prosperity Goldfields Corp. ("Prosperity") in exchange for 12,766,395 common shares of Prosperity. Pursuant to a funding agreement effective October 26, 2010 Prosperity issued common shares to the Company as reimbursement for all transaction costs incurred up to the maximum of C\$300,000 by issuing one share for every C\$0.15 of transaction cost incurred. On November 3, 2010, the Company subscribed for an additional 10,000,000 units in Prosperity for cash of C\$1,500,000 or C\$0.15 per unit. Each unit is comprised of one common share and one-half of one warrant with each whole warrant entitling the holder to purchase a common share of Prosperity at C\$0.25 with a two year expiry. On October 28, 2010, Prosperity Goldfields Corp. entered into an amending letter agreement which revised the August 1, 2009 mineral property agreement to reflect the transfer of the interest in the Kiyuk property to Prosperity, and to revise certain financial terms. Under the amending letter agreement, the payments for each of the remaining four years of the agreement are C\$60,000 cash and 20,000 Evolving Gold common shares and 60,000 Prosperity common shares. Prosperity will issue to the Company that number of common shares of Prosperity with an equivalent market value to the market value of the company's common share on the date of issue. The agreement can be terminated by Prosperity after thirty days' notice is provided. The agreement is subject to a royalty of 2% of net smelter returns which Prosperity? can reduce with the payment of C\$2,000,000 for each 1% reduction. Also pursuant to this agreement Prosperity is required to pay filing and maintenance fees and to provide a technical report annually to the vendor, the next report due before March 1, 2011 (paid and provided).

On December 8, 2010, the Company and Prosperity filed a preliminary prospectus which resulted in a dividend-in-kind spin out transaction (the "Spin Out"). On February 2, 2011 the final prospectus was submitted and subsequently receipted by the applicable regulatory authorities, and the TSX Venture Exchange conditionally listed the Prosperity shares under the symbol "PPG". All dividend shares had been issued to residents of Canada by March 3, 2011, and cheques for the cash proceeds resulting from the sale of non-resident dividend shares had been mailed by March 11, 2011. A total of 12,841,236 common shares of Prosperity were dividended by the Company.

The Company holds 11,925,160 common shares of Prosperity, of which 8,943,870 common shares are held in escrow. One tenth of these shares were released from escrow on March 3, 2011 with the remaining shares being released from escrow at a rate of 1/6 each six month period beginning September 3, 2011. As of September 30, 2011, the Company held approximately 29.5% of the issued and outstanding common shares of PPG. The Company also has a majority of directors in common and controls the activities and policies of PPG.

The Kiyuk property covers approximately 800 square km near the southwestern corner of Nunavut. Gold mineralization is hosted by early Proterozoic sedimentary rocks of the Hurwitz and Kiyuk supergroups and is associated with widespread magnetite development and albitization of these rocks. Numerous gold showings are scattered along a strike of 21 km with gold values commonly in the range or 3-5 gpt Au in surface rock samples.

In early calendar 2010, a winter road was laid out on the ground from Treeline Lodge in northern Manitoba to the site in order to provide efficient access in preparation for future exploration and drilling. Additional activity in 2010 included mapping and sampling on new and existing showings and an airborne magnetic survey covering parts of the property that lacked data. The Rusty showing was extended to a total strike length of 1.5 km with surface samples ranging from 1-6 gpt Au. A drill plan was surveyed on the ground in preparation for drilling in 2011.

On August 15, 2011, Prosperity Goldfields completed a private placement. The offering was 2,500,000 units at C\$0.68 per unit for gross proceeds of C\$1,700,000. Each unit consists of one common share and one common share purchase warrant ("Warrant"). Each Warrant entitles the subscriber to acquire one additional common share of the Company for a period of two years at C\$0.85 per common share. No finder's fees or commissions were paid in connection with the Offering.

On September 15, 2011, drill results were announced on the Kiyuk Property. Best results are from the Rusty Zone, with 157.6 meters at 1.70 gpt Au (517 ft at 0.05 opt Au), and including 30.5 meters at 4.90 gpt Au (100.0 ft at 0.143 opt Au). Drilling indicated strong gold mineralization at all three targets, Rusty, Gold Point and Cobalt. Prosperity Goldfields plans to undertake a major, follow-up drill program starting in February, 2012:

- One hole, RU11-001, tested the Rusty target, and it was mineralized from top to bottom. Starting at surface, RU11-001 intersected 157.6 meters at 1.70 grams per tonne (gpt) gold (517 feet at 0.050 oz per ton (opt) gold) including 30.5 meters at 4.90 gpt Au (100 feet at 0.143 opt Au), and including 19.2 meters at 6.17 gpt Au (63.0 feet at 0.180 opt Au). This hole targeted a magnetic anomaly measuring 250 by 450 meters.
- Six holes tested the Gold Point target, a 400 meter long portion of a 24 kilometre magnetic anomaly associated with a series of gold showings at Kiyuk. Drill hole GP11-003 intersected 63.6 meters at 2.84 gpt Au (208.6 feet at 0.083 opt Au) including 38.6 meters at 4.15 gpt Au (126.6 feet at 0.121 opt Au) and 5.4 meters at 11.64 gpt Au (17.7 feet at 0.340 opt Au).
- At the Cobalt Zone drill hole CS11-002 intersected 32.1 meters at 1.82 gpt Au (105.3 feet at 0.053 opt Au). Similar to Gold Point, drill holes at the Cobalt Zone tested a small portion of the 24 kilometre magnetic anomaly with multiple gold showings.

***Results of Operations***

During the three and six months ended September 30, 2011 and 2010 the Company reported a net loss as follows:

	Three month periods ended September 30,		Six month periods ended September 30,	
	2011	2010	2011	2010
Loss from continuing operations	\$ 1,765,452	\$ 839,586	\$ 2,464,114	\$ 4,799,841
Loss from discontinued operations	\$ 740,947	\$ -	\$ 822,300	\$ -
Loss for the period	\$ 2,506,399	\$ 839,586	\$ 3,286,414	\$ 4,799,841
Loss per share	\$ 0.02	\$ 0.02	\$ 0.01	\$ 0.05
Comprehensive loss (gain)	\$ 2,340,383	\$ 1,644,014	\$ 1,995,581	\$ 5,604,359

The loss from discontinued operations reflects 100% of the loss related to the operations of Prosperity.

Comprehensive loss includes the effects of unrealized gains and losses on securities held available for sale, the effect of future income taxes related to Prosperity, and unrealized foreign exchange gains.

With respect to continuing operations, most expenditures for the three and six months ended September 30, 2011 are at similar levels as those of the comparative 2010 quarter. The most significant variations are:

- Accounting and audit expense of \$15,494 (Year to date: \$18,558) (2010 - \$58,966 and \$112,408 respectively) reflects contract accounting costs. As of March, 2011 management had eliminated all outside accounting contracts;
- Amortization of \$5,008 (Year to date: \$40,257) (2010 - \$24,636 and \$70,914 respectively) is reduced as a result of assets having become fully depreciated during fiscal 2011.
- Consulting expense of \$42,256 (Year to date: \$59,484) (2010 - \$51,484 and \$130,457 respectively) (2010 - \$78,973) reflects consulting agreements which were reduced or eliminated late in the 2011 year;
- Management fees of \$159,301 (Year to date: \$327,853) (2010 - \$194,282 and \$562,163 respectively) reflects one-time payments in the first quarter ended June 30, 2010;
- Office, rent and salaries expense of \$190,110 (2010 - \$170,445) reflect increased operational costs in this year as a result of the general increase in supplier invoices;
- Promotion and advertising of \$100,550 (Year to date: \$172,181) (2010 - \$117,181 and \$295,378 respectively) reflects adjustments to consulting contracts as management re-evaluated promotional efforts;

- Stock-based compensation of \$994,544 (Year to date: \$1,266,007) (2010 - \$141,434 and \$1,076,321 respectively) represents non-cash charges incurred in connection with the granting of stock options in prior periods and vesting during the period;
- Write-down on disposal of mineral properties of \$nil (2010 - \$1,949,652) comprised of costs relating to the cumulative exploration expenditures written down with respect to various mineral properties; and
- A gain of \$17,112 (Year to date loss of \$92,492) (2010 – loss of \$13,248 and 13,338 respectively) was recorded on available for sale marketable securities included in other comprehensive income for the period. This reflects the fluctuating value of shares held by the Company as investments.

Unrealized foreign exchange gains and losses shown in the financial statements of \$148,904 (gain), year to date \$1,383,325 (gain) (2010: \$791,180 loss) reflect the change in value of various assets held by the company as the US dollar fluctuates, as well as the cumulative effects of translation and consolidation of the various entities in the Company.

***Summary of Quarterly Results (Unaudited)***

The following is a summary of the results from the eight previously completed financial quarters:

	2012		2011	
	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010
	(IFRS)	(IFRS)	(GAAP)	(GAAP)
	(US\$)	(US\$)	(CDN\$)	(CDN\$)
Interest income	15,656	30,925	17,733	49,121
Gain on sale of marketable securities	-	-	-	-
Unrealized Gain (Loss) on available for sale securities	17,112	(109,604)	106,562	74,558
Stock Based Compensation	994,544	271,463	895,704	480,000
Write-down of Exploration Costs	-	-	355,895	-
Net Loss	(1,765,452)	(780,025)	(1,538,059)	(1,977,052)
Loss per share, basic and fully diluted	(0.02)	(0.01)	(.01)	(.02)
Total assets	61,640,775	55,444,441	55,968,535	54,768,472
Deferred exploration expenditures (net of write downs and proceeds received)	4,634,735	3,494,899	4,066,121	3,578,517
Working capital	11,090,280	8,524,506	10,423,618	12,587,351

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	2011		2010	
	September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009
	(IFRS)	(IFRS)	(GAAP)	(GAAP)
	(US\$)	(US\$)	(CDN\$)	(CDN\$)
Interest income	50,534	27,922	38,841	18,048
Gain on sale of marketable securities	90	-	-	167,112
Unrealized Gain on available for sale securities	(13,338)	-	(13,773)	184,975
Stock Based Compensation	141,434	934,887	591,405	255,255
Write-down of Exploration Costs	-	2,063,531	4,871,535	267,516
Net Loss	(839,586)	(3,960,345)	(6,739,040)	(1,114,123)
Loss per share, basic and fully diluted	(.01)	(.04)	(.06)	(.01)
Total assets	53,065,540	42,062,995	43,125,243	47,575,109
Deferred exploration expenditures (net of write downs and proceeds received)	4,634,735	3,932,286	(4,050,459)	2,657,649
Working capital	12,679,123	8,168,032	13,951,976	16,879,904

Diluted calculations have not been provided due to the anti-dilutive effect of outstanding stock options and warrants.

The table above has been modified to present amounts calculated under IFRS and US dollar reporting requirements only for the periods so noted.

Interest Income

Interest income fluctuated with the amount of interest earning assets held and the interest rate earned thereon.

Gain on Available for Sale Securities

The 2010 fiscal year included two three-month periods when marketable securities, consisting of shares and warrants in two publicly traded companies, Klondex Mines Ltd. and Golden Predator Royalty & Development Corp. all of which, except for Golden predator warrants, were sold after significantly increasing in value since their purchase in March and July, 2009 respectively. During the 2011 fiscal year only a minimal number of marketable securities have been sold, and the warrants expired unexercised. During the first and second quarters of 2012 no securities were sold.

Unrealized Loss on Available for Sale Securities

The unrealized gain or loss on available for sale securities relates to an investment in NV Gold Corporation, a publicly traded mining company, the shares and warrants of which were purchased in October, 2009 with additional shares also acquired pursuant to terms of sale for the Fisher Canyon mineral property. The gain or loss will fluctuate based on the market value of the securities as investment is marked to market price.

### Net Loss

Net loss varies based on normal corporate expenditures and certain periodic expenses, such as stock based compensation, the write-down of exploration expenditures and gains on the sale of marketable securities. Stock-based compensation varies with the timing of vesting of option grants. A write-down of exploration expenditures is recorded when the Company determines that a property no longer has any exploration merit. A gain on sale of marketable securities is recorded when a sale occurs.

The payment of bonuses to employees and management in December 2010 and July 2009 accounts for the increase in expenditures reflected for the quarters ended December 31, 2010 and September 30, 2009.

### Working Capital

Working Capital for all quarters presented above decreased due to exploration and administrative costs. However this decrease in working capital for all quarters was offset or compensated by proceeds received on shares issued in private placements or on conversion of warrants and exercise of options. Included in the decrease for the quarter ended June 30, 2009 was \$625,000 in cash which was required to be deposited as security against a Letter of Credit facility.

### ***Capital Expenditures***

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During the six months ended September 30, 2011, the Company paid \$1,193,132 in cash with respect to the land acquisitions on its properties, and paid 80,000 shares to the Kiyuk mineral property agreement. In addition Evolving incurred \$4,441,604 in deferred exploration expenses relating to its various mineral property interests. \$1 million was received as a property payment during the period. The Company also continued to enter into agreements with respect to the Carlin and Humboldt mineral properties, which require cash payments and share issuances over various future time periods. During the six months ended September 30, 2011, the Company also incurred expenditures of \$44,021 on new office and field assets.

### ***Financing Activities***

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During the year ended March 31, 2011, 2,831,143 options were exercised for proceeds of \$1,237,960. During this same period 4,880,000 options were granted, and 800,000 options expired upon cessation of services provided by the holder. In the first quarter of 2012, a further 93,000 options were exercised for proceeds of \$33,621, and nil options were granted.

On October 26, 2010, the Company transferred its interest in the Kiyuk Mineral Property to a wholly owned newly incorporated subsidiary, Prosperity Goldfields Corp, and completed the spin-out of this company as a dividend prior to year end.

On August 24, 2011 the Company completed a non-brokered private placement (the "Offering") of 10,290,000 units ("Units") at a price of C\$0.56 per unit for gross proceeds of \$5,715,783 (C\$5,762,400). Each Unit is comprised of one common share (each a "Common Share") and one-half of one common share purchase warrant (each whole warrant, a "Warrant"). Each Warrant entitles the holder thereof to acquire one common share of the Company at a price of C\$0.75 until February 23, 2013.

In connection with the Offering, the Company paid certain arm's length parties a cash fee on the sale of Units representing 6% of the proceeds raised by such finder and issued finder's compensation warrants (the "Finder's Warrants") equal to 6% of the number of Units sold by such finder. Each Finder's Warrant

entitles the holder thereof to acquire one common share of the Company at a price of C\$0.60 until February 23, 2013.

All securities issued in the Offering are subject to a four-month hold period ending December 24, 2011 in accordance with applicable Canadian securities laws. The net proceeds of the Offering will be used for exploration of the Company's gold properties in Nevada and for general corporate purposes.

### ***Liquidity and Capital Resources***

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The Company's aggregate operating, investing and financing activities for six months September 30, 2011 resulted in a cash increase of \$145,979 (2010: decrease of \$5,254,671). As at September 30, the Company's cash and cash equivalents balance was \$8,033,562 and the Company had working capital of \$11,090,280.

The Company has not as yet put into commercial production any of its mineral properties and as such has no operating revenues. Accordingly, the Company is dependent on the equity markets as its sole source of operating working capital. The Company's capital resources are largely determined by the strength of the junior resource markets and by the status of the Company's projects in relation to these markets, and its ability to compete for the investor support of its projects.

The Company will continue to require funds to meet its obligations under its property option agreements and as a result, will have to continue to rely on equity and debt financing during such period. There can be no assurance that financing, whether debt or equity, will always be available to the Company in the amount required at any particular time or for any particular period or, if available, that it can be obtained on terms satisfactory to the Company.

The Company continues to review its mineral property holdings on an annual basis. With respect to the Newmont Properties, it will be obligated to expend a total of \$3,500,000 in exploration expenditures on each of the Boulder Valley and Carlin mineral exploration project areas with aggregate exploration expenditures of \$7,000,000 staged over five years. At the Report Date it is anticipated that this commitment has already been met. A further \$3,500,000 may also be required to be incurred if certain conditions are achieved with respect to the Susie Creek mineral property. The Company also will be required to commit some funds and personnel to the Rattlesnake mineral property joint venture; however this amount is not yet quantified. The Company could also be obligated to pay over the next five years up to \$3,400,000 with respect to the Carlin property, and up to \$7,800,000 with respect to the Humboldt property.

Other than some advance royalty payments required with respect to its mineral properties the Company does not have any other commitments for material capital expenditures either in the near or long term over normal operating requirements and none are presently contemplated other than as disclosed above.

### ***Off Balance Sheet Arrangements***

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Effective May 22, 2009 the Company established a \$600,000 guaranteed irrevocable letter of credit with respect to environmental permitting for the Rattlesnake Hills mineral property. The letter of credit is secured by \$625,000 (September 30, 2011: \$658,028 with interest) held on deposit with the lending financial institution and can be cancelled once ninety day notice has been provided.

To the best of management's knowledge, there are no other off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the company.

### ***Critical Accounting Estimates***

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The Company's financial statements are impacted by the accounting policies used, and the estimates and assumptions made, by management during their preparation. The Company's accounting policies are described in Note 2 to the audited consolidated financial statements as at March 31, 2011. The accounting estimates considered to be significant to the Company include assessment of impairment to the carrying value of mineral properties and asset retirement obligations included therein, the determination of the likelihood that future income tax benefits can be realized, and the assumptions used in calculating the fair value of stock-based compensation.

Management reviews the carrying values of its resource properties on at least an annual basis to determine whether any impairment should be recognized. Eleven properties and some minor costs relating to the exploration of potential new properties have been written down with respect to the values attributed to resource properties and deferred exploration expenditures since inception.

The Company uses the fair-value method of accounting for stock-based compensation related to incentive stock options granted, modified or settled. Under this method, compensation cost attributable to all incentive stock options granted is measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. In determining the fair value, the Company makes estimates of the expected volatility of the stock as well as an estimated discount rate. Changes to these estimates could result in the fair value of the stock-based compensation being different than the amount recorded.

### ***Changes in Accounting Policies***

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#### ***Amendments to IFRS 7 "Financial Instruments: Disclosures"***

This amendment increases the disclosure required regarding the transfer of financial assets, especially if there is a disproportionate amount of transfer transactions that take place around the end of a reporting period. This amendment is effective for annual periods beginning on or after July 1, 2011

#### ***New standard IFRS 9 "Financial Instruments"***

This new standard is a partial replacement of IAS 39 "Financial Instruments: Recognition and Measurement". This new standard is effective for annual periods beginning on or after January 1, 2013.

### ***Future Accounting Changes***

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In May 2011, the IASB issued the following standards which have not yet been adopted by the Corporation: IFRS 10, Consolidated Financial Statements ("IFRS 10"), IFRS 11, Joint Arrangements ("IFRS 11"), IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12"), IAS 27, Separate Financial Statements ("IAS 27"), IFRS 13, Fair Value Measurement ("IFRS 13") and amended IAS 28, Investments in Associates and Joint Ventures ("IAS 28"). Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Corporation has not yet begun

the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

The following is a brief summary of the new standards:

**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 IFRS, 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 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.

**IFRS 11** requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venture will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers.

**IFRS 12** establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The 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.

**IFRS 13** is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRSs. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

In addition, there have been amendments to existing standards, including IAS 27 and IAS 28. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.

### ***Outstanding Share Data***

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As of September 30, 2011 and the Report Date, the following table summarizes the outstanding share capital of the Company:

	<b>September 30, 2011</b>	<b>Report Date</b>
Common Shares	138,983,448	138,983,448
Stock Options	8,869,000	8,869,000
Warrants	11,408,630	11,408,630
Total, Fully Diluted	<b>159,261,075</b>	<b>159,261,075</b>

***Risks and Uncertainties***

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Natural resources exploration, development, production and processing involve a number of business risks, some of which are beyond the Company's control. These can be categorized as operational, financial and regulatory risks.

Operational risks include: the Company may not be able to find and develop reserves economically, the Company cannot guarantee title to its properties, the Company may have difficulty in marketing production and services, the Company must manage changing governmental law and regulations, the Company may have difficulty in hiring and retaining skilled employees and contractors, there are significant risks and hazards related to mining that are beyond the Company's control, there is no assurance that the Company will acquire additional mineral properties and any acquisitions may expose the Company to new risks, and the mining industry is intensely competitive for the acquisition of new properties, access to capital and hiring of skilled personnel. The Company continuously monitors and responds to changes in these factors and adheres to all regulations governing its operations.

Financial risks include commodity prices, interest rates and fluctuating foreign exchange rates, all of which are beyond the Company's control. Additional financial risks are the Company's ability to raise capital to continue funding its operations.

Regulatory risks include the possible delays in getting regulatory approval to, and permits for, the transactions that the Board of Directors believe to be in the best interest of the Company, and include increased fees for filings, the introduction of ever more complex reporting requirements the cost of which the Company must meet in order to maintain its exchange listing.

***Disclosure controls and procedures and internal controls over financial reporting***

The Company's management, with the participation of the Chief Executive Officer and the Chief Financial Officer, engaged external consultants to evaluate the effectiveness of the Company's disclosure controls and procedures (as defined in the rules of the Canadian Securities Administrators ("CSA") as at March 31, 2011, and have concluded that such disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under Canadian securities laws is (i) recorded, processed, summarized and reported within the time periods specified in Canadian securities laws and (ii) accumulated and communicated to the Company's management to allow timely decisions regarding required disclosure. As of June 30, 2011 this conclusion is still in effect.

Management is also responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Management has engaged external consultants, who used the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") control framework to evaluate the effectiveness of the Company's internal control over financial reporting. As of March 31, 2011, management assessed the effectiveness of the Company's internal control over financial reporting and concluded that such internal control over financial reporting is effective and that there are no material weaknesses in the Company's internal control over financial reporting that have been identified by management. As of June 30, 2011 this conclusion is still in effect.

As of the date of this report, management is not aware of any change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

It should be noted that all internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

***Cautionary Note Regarding Forward Looking Statements***

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Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those implied by the forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are advised to consider such forward-looking statements in light of the risks as set forth below. This Management's Discussion and Analysis is intended to supplement and complement the consolidated financial statements and notes thereto for the year ended March 31, 2011 and the condensed consolidated interim financial statements for the three months ended June 30, 2011 (collectively the "Financial Statements"). Readers are encouraged to review both these Financial Statements as well as the audited financial statements of the Company for the year ended March 31, 2010 in conjunction with your review of this Management's Discussion and Analysis. Certain notes to the Financial Statements are specifically referred to in this Management's Discussion and Analysis and such notes are incorporated by reference herein. Additional information relating to the Company may be found on SEDAR at [www.sedar.com](http://www.sedar.com) or at the company's website at [www.evolvinggold.com](http://www.evolvinggold.com).