

EMGOLD MINING CORP
Form 20-F/A
May 03, 2013

May 3, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F/A
Amendment No. 3

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) or 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the fiscal year ended December 31, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report _____

Commission file number 000-51411

EMGOLD MINING CORPORATION

(Exact Name of Registrant as Specified in its Charter)

BRITISH COLUMBIA, CANADA

(Jurisdiction of incorporation or organization)

Suite 1400, 570 Granville Street

Vancouver, British Columbia, Canada, V6C 3P1

(Address of principal executive offices)

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
None	None

Securities registered or to be registered pursuant to Section 12(g) of the Act:

Common
Shares without
par Value
(Title of class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None
(Title of class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report. 58,714,504

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued by the International Accounting Standard Board

Other

If "Other" has been checked in response to the previous question, indicate by a check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18 NOT APPLICABLE

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES

NO

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EXPLANATORY NOTE

This Form 20-F/A, Amendment No. 3, includes revisions to Item 3.A, "Selected Financial Data," to provide certain clarifying information related to our adoption of International Financial Reporting Standards; Item 15, "Controls and Procedures," to provide information about the framework used by management to evaluate the effectiveness of internal control over financial reporting; Item 16F, "Change in Registrant's Certifying Accountant," to include disclosure previously filed in Amendment No. 1 to this report but inadvertently omitted from Amendment No. 2; and Items 17 and 18, "Financial Statements," to indicate that our financial statements were prepared in compliance with Item 18 rather than Item 17, as previously indicated in Amendment No. 1. We have also included in this amendment financial statements and officer certifications that were inadvertently omitted from Amendment No. 2 but were included with the original filing of this report and Amendment No. 1. In all other respects, this Form 20-F/A is unchanged from Amendment No. 2 filed on January 16, 2013.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Certain statements in this Annual Report under the captions "Risk Factors", "Business Overview", "Operating and Financial Review and Prospects" and "Quantitative and Qualitative Disclosures about Market Risk" and elsewhere in this Annual Report and the documents attached as exhibits constitute "forward-looking statements" within the meaning of the United States securities laws. Some forward-looking statements may be identified by such terms as "believes," "anticipates," "intends" or "expects." These forward-looking statements are based on the Company's current expectations and projections about future events and financial trends affecting the financial condition of its business and the industry in which it operates. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Company, or industry results to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements and the Company expressly disclaims any obligation to revise or update forward-looking statements in respect of actual results, performance or achievements. Such factors include, among others, the following: general economic and business conditions, which will, among other things, impact demand for gold and other metals; industry capacity; the ability of the Company to implement its business strategy; changes in, or the unintentional failure to comply with, government regulations (especially safety and environmental laws and regulations); changes in the uses of gold and other metals; gold and commodity price volatility; increased competition; mining risks; exploration programs not being successful; inability to obtain financing; inability to obtain or, cancellation of, government permits; changes to regulations and mining law; increased reclamation obligations; title defects with respect to properties; risks associated with international operations; and foreign exchange and currency fluctuations.

Conversion of metric units into imperial equivalents is as follows:

Metric units	Multiply by	Imperial units
Hectares	2.471	= acres
Metres	3.281	= feet
Kilometres	0.621	= miles (5,280 feet)
Grams	0.032	= ounces (troy)
Tonnes	1.102	= tons (short) (2,000 lbs)
grams/tonne	0.029	= ounces (troy)/ton

CAUTIONARY NOTE TO U.S. INVESTORS

This Annual Report uses the terms "measured resources" and "indicated resources." We advise U.S. investors that while such terms are recognized and permitted under Canadian regulations, the U.S. Securities and Exchange Commission does not recognize them. U.S. investors are cautioned not to assume that any part or all of the mineral deposits in these categories will ever be converted into reserves.

This Annual Report may use the term "inferred resources." We advise U.S. investors that while such term is recognized and permitted under Canadian regulations, it is not recognized by the U.S. Securities and Exchange Commission. "Inferred resources" have a significant amount of uncertainty as to their existence, and uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an inferred mineral resource will ever be upgraded to a higher category. Under Canadian rules estimates of inferred mineral resources may not form the basis of feasibility or other economic studies. U.S. investors are cautioned not to assume that any part or all of an inferred resource exists, or is economically or legally mineable.

S.E.C. Industry Guide 7

Reserve: That part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. The United States Securities and Exchange Commission requires a final or full Feasibility Study to be completed in order to support either Proven or Probable Reserves and does not recognize other classifications of mineralized deposits. Note that for industrial mineral properties, in addition to the Feasibility Study, "sales" contracts or actual sales may be required in order to prove the project's commerciality and reserve status.

Proven Reserves: Reserves for which a quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling of the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well established.

Probable Reserves: Reserves for which quantity and grade and/or quality are computed from information similar to that used for proven reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven reserves, is high enough to assume continuity between points of observation.

National Instrument 43-101

Mineral Reserve: The economically mineable part of a Measured or Indicated Mineral Resource demonstrated by at least a Preliminary Feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified.

Proven Mineral Reserve: The economically mineable part of a Measured Mineral Resource demonstrated by at least a Preliminary Feasibility study. This study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction is justified.

Probable Mineral Reserve: The economically mineable part of an indicated, and in some circumstances, a Measured Mineral Resource, demonstrated by at least a Preliminary Feasibility Study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified.

Glossary of Abbreviations

AA	Annexation Application
Ag	Silver
Au	Gold
Ba	Barium
Co	Cobalt
Cu	Copper
EM	Electromagnetic
Fe	Iron
gpm	Gallons per minute
gpt	Grams per tonne
g/t	Grams per tonne
IP	Induced Polarization geophysical survey
Ni	Nickel
NSR	Net smelter returns royalty
oz	Troy ounce
Pb	Lead
Pd	Palladium
ppb	Parts per billion
ppm	Parts per million
Pt	Platinum
S	Sulphur
ton	Short ton (2,000 pounds)
tonne	Metric ton (1000 kilograms - 2204.62 pounds)
tpd	Tons per day
VLF	Very low frequency electromagnetic geophysical survey
VMS	Volcanogenic massive sulphide

All currency amounts in this Annual Report are stated in United States dollars unless otherwise indicated.

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PART 1

ITEM IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

1.

(a) Directors and Senior Management

This form 20-F is being filed as an annual report under the Securities Exchange Act of 1934, as amended and as such, there is no requirement to provide any information under this item.

(b) Advisers

This form 20-F is being filed as an annual report under the Securities Exchange Act of 1934, as amended and as such, there is no requirement to provide any information under this item.

(c) Auditor

This form 20-F is being filed as an annual report under the Securities Exchange Act of 1934, as amended and as such, there is no requirement to provide any information under this item.

ITEM OFFER STATISTICS AND EXPECTED TIMETABLE

2.

This form 20-F is being filed as an annual report under the Securities Exchange Act of 1934, as amended and as such, there is no requirement to provide any information under this item.

ITEM KEY INFORMATION

3.

A. Selected Financial Data

The selected financial data of Emgold Mining Corporation (“Emgold” or the “Company”) for the years ended December 31, 2011, 2010, and 2009 was derived from the Company’s consolidated financial statements as audited by MSCM LLP, Chartered Accountants for 2011 and PricewaterhouseCoopers LLP, Chartered Accountants for the years 2010 and 2009, as indicated in the audit report included elsewhere in this Annual Report. The financial reporting represents consolidated reporting for Emgold’s 100% subsidiary companies Emgold U.S. Corporation (“Emgold U.S.”), Idaho-Maryland Mining Corporation (“IMMC”), and Golden Bear Ceramics Company (“GBC”).

The selected consolidated statement of financial position data as of December 31, 2008 and 2007, and the selected consolidated statement of income data and the selected consolidated statement of cash flows data set forth below for the years ended December 31, 2008 and 2007 are derived from our audited consolidated financial statements not included in this Annual Report. Our consolidated financial statements as of and for the years ended December 31, 2011 and 2010 have been prepared in conformity with IFRS. We adopted IFRS effective as of and for the fiscal year ended December 31, 2010 by applying IFRS 1: First Time Adoption of International Reporting Standards. These first annual consolidated financial statements have been prepared in accordance with IFRS 1, First-Time Adoption of International Financial Reporting Standards. The accounting policies we adopted comply with International Financial Reporting Standards in effect at the end of our first IFRS reporting period on December 31, 2011. The accounting policies have been consistently applied in the opening consolidated statement of financial position at 01 January 2010, and throughout all subsequent years presented. Our consolidated financial statements as of and for the year ended

December 31, 2010 were originally prepared in accordance with generally accepted accounting principles in the United States, or US GAAP, and were restated in accordance with IFRS for comparative purposes only. The selected consolidated statement of financial position data as of December 31, 2009, 2008 and 2007 and the selected consolidated statement of income data and the selected consolidated statement of cash flows data for the years ended December 31, 2009, 2008 and 2007 were derived from our audited consolidated financial statements not included in this Annual Report and were prepared in conformity with US GAAP. The information based on US GAAP is not comparable to information prepared in accordance with IFRS.

In accordance with rule amendments adopted by the U.S. Securities and Exchange Commission, or SEC, which became effective on March 4, 2008, we do not provide a reconciliation to US GAAP for financial information prepared in accordance with IFRS. The selected financial information as of and for the years ended December 31, 2011 and 2010 set forth below should be read in conjunction with, and is qualified in its entirety by reference to “Item 5. Operating and Financial Review and Prospects” and our audited consolidated financial statements and the notes thereto.

At the Annual and Special General Meeting of its shareholders held on September 18, 2009, the shareholders approved a special resolution to alter the Company's authorized share structure by consolidating all of the issued and outstanding common shares without par value, of which 168,972,873 common shares were then issued on the basis of ten (10) pre-consolidation common shares for one (1) post-consolidation common share. After adjusting for rounding, 16,894,310 common shares were issued and outstanding after giving effect to this consolidation. The issued and outstanding Class A preference shares were consolidated on the same basis, resulting in 398,483 Class A preference shares, after consolidation. The share consolidation of the common shares without par value and the Class A preference shares was effective December 21, 2009. All periods presented have been retroactively adjusted to reflect this reverse split.

The Company has not declared any dividends on its common shares since incorporation and does not anticipate that it will do so in the foreseeable future. The present policy of the Company is to retain future earnings for use in its operations and the expansion of its business.

Amount in conformity with IFRS:

(United States Dollars)

Selected Consolidated Statement of Financial Position Data	December 31,	
	2011	2010
Total assets	\$2,198,166	\$2,207,283
Total liabilities	1,543,237	661,707
Contributed surplus	6,800,722	6,629,389
Accumulated other comprehensive income (loss)	--	--
Share capital	42,817,739	41,490,268
Equity component of convertible preference shares	--	--
Warrants	1,219,617	1,271,008
Deficit	(50,183,149)	(47,845,089)
	2011	2010
Equipment and mineral property interests	\$1,053,339	\$1,120,075
Shareholders' equity (deficiency)	654,929	1,545,576
Number of outstanding common shares	58,714,504	38,552,444

No cash or other dividends have been declared on common shares.

Selected Consolidated Statement of Income Data	For the years ended	
	December 31, 2011	2010
Revenue	\$--	\$--
Investment and other income	--	--
General and administrative expenses	1,030,920	402,596
Exploration expenses	1,307,140	670,491
Ceramext research costs	--	--
Write-down of mineral property interests	--	--
Loss according to financial statements	(2,338,060)	(1,073,087)
Loss per share – basic and diluted	(0.06)	(0.05)

Amount in conformity with US GAAP:
(United States Dollars)

Selected Consolidated Statement of Financial Position Data	December 31,		
	2009	2008	2007
Total assets	1,136,369	1,642,605	6,506,695
Total liabilities	1,925,709	626,549	743,797
Share capital	38,792,139	39,109,658	38,877,347
Contributed surplus	4,711,378	4,286,347	2,972,267
Warrants	112,355	1,936,339	3,049,862
Accumulated other comprehensive income	(577,454)	(577,454)	(577,456)
Deficit	\$(44,206,549)	\$(43,863,334)	\$(38,559,122)

	2009	2008	2007
Equipment and mineral property interests	1,096,514	1,044,553	1,217,013
Shareholders' equity (deficiency)	(789,340)	1,016,056	5,762,898
			15,648,987
Number of outstanding common shares	16,894,310	15,751,987	

Selected Consolidated Statement of Income Data	For the years ended December 31,		
	2009	2008	2007
Revenue	\$--	\$--	\$--
Investment and other income	--	--	--
General and administrative expenses	218,688	2,060,237	1,928,483
Exploration expenses	1,175,520	2,586,625	3,188,134
Ceramext research costs	92,340	447,809	629,148
Write-down of mineral property interests	75,169	--	--
Loss according to financial statements	(1,561,717)	(5,094,671)	(5,745,765)
Loss per share – basic and diluted	(0.09)	(0.32)	(0.56)

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Financial Risk Factors

Readers should carefully consider the risks and uncertainties described below before deciding whether to invest in shares of the Company's common stock.

Emgold currently has no source of operating cash flow and has a history of operating losses. Emgold currently has no revenue from operations and all of its mineral property interests are in the exploration or development stages. The Company does not expect to receive significant revenue from operations at any time in the near future, and Emgold has had no prior years' history of earnings or operating cash flow. Neither Emgold nor its predecessors have paid dividends on their shares since incorporation and the Company does not anticipate doing so in the foreseeable future.

Emgold has no source of revenue other than interest income, shares from the Lease and Option to Purchase Agreement on the Rozan Property. There is potential to convert shares and warrants from the Lease and Option to Purchase Agreement on the Rozan Property to cash in the future. A mining project can typically require ten to twenty years or more between discovery, definition, development and construction and as a result, no production revenue is expected from any of the Company's exploration properties for at least 4 years. All of Emgold's short to medium-term operating and exploration expenses must be paid from its existing cash position or external financing. At December 31, 2011, Emgold had working capital of \$651,840, compared to a working capital of \$527,753 at December 31, 2010. Working capital is defined as current assets less current liabilities. In January 2012, after failing to meet its work commitments on the Rozan Property, Valterra announced that it has elected to terminate the Agreement with the Company.

Emgold may be unable to obtain the funds necessary to expand exploration. If Emgold's exploration and research and development programs are successful, additional capital will be required to place the Idaho-Maryland Project ("I-M Project") into commercial production. To date, the only sources of funds that have been available to the Company are from the sale of equity capital or the offering by the Company of an interest in its properties to be earned by another party or parties carrying out further development thereof. Emgold presently does not have sufficient financial resources to undertake all of the Company's plans as outlined in previous periods, and requires additional financing to complete the permitting of the I-M Project and start the engineering studies to enable the I-M Project to enter the feasibility stage of development. In spite of the current relatively high market price of gold, the market conditions in the junior mining and exploration sector are very depressed and therefore it is very difficult raising additional capital. Emgold has been successful in the past in obtaining financing through the sale of equity securities, but as an exploration stage company, it may be difficult to obtain adequate financing in the future or financings with favourable terms. If Emgold fails to obtain additional financing on a timely basis, the Company could forfeit its interest in its mineral property interests, dilute its interests in the properties and/or reduce or terminate operations. Exploration programs would have to be prioritized to fit within cash availability.

Currently the Company is reviewing strategies for equity financings and joint ventures that may be able to carry the Company through the next year of operations. The financings, if completed, could result in dilution of the Company's

shares. Funds from any financing will be used primarily for permitting at the I-M Project and general working capital. Separate financing is being pursued for GBC and the development of recycled stone and ceramic processing facilities as part of the I-M Project or for a plant located elsewhere. Financing may also be pursued to fund exploration on Emgold's other exploration properties including the Buckskin Rawhide Project, NV, the Stewart Property B.C., and the Rozan Property, B.C. The Rozan Property is currently under a lease and option to purchase agreement with Valterra Resource Corporation and currently has no funding requirements.

Changes in the market prices of gold, which have fluctuated widely, will affect our operations and can negatively impact the economic viability of the mineral properties. Emgold has no history of mining or current source of revenue. The Company is exploring for gold, and historically, the prices of the common shares of junior mining companies are very volatile. This volatility may be partly attributed to the volatility of gold prices, and also to the success or failure of the Company's exploration programs. The market price of gold may not remain at current levels. In particular, an increase in worldwide supply and consequent downward pressure on prices may result over the longer term from increased gold production from mines developed or expanded as a result of current metal price levels.

The ability to raise funds for exploration and development in a venture capital company is affected by factors such as the price of gold, a factor over which the Company has no control. Annual average, high and low gold prices since 2000 are shown below, demonstrating the fluctuation in the price of gold. Metals prices also affect the rate of return of a mining property that reaches the development stage over the longer term.

Year	Average Price per ounce (US\$)	High Price per ounce (US\$)	Low Price per ounce (US\$)
2000	279.11	312.70	264.10
2001	271.04	293.25	255.95
2002	309.73	349.30	277.75
2003	363.38	416.25	319.90
2004	409.72	454.20	375.00
2005	444.74	536.50	411.10
2006	603.46	725.00	524.75
2007	695.39	841.10	608.40
2008	871.96	1011.25	712.50
2009	972.35	1212.50	810.00
2010	1224.53	1421.00	1058.00
2011	1568.59	1895.00	1319.00

Fluctuations in the world markets, including the TSX Venture Exchange, can have a negative impact on the Company's share price, can have a negative impact on the availability of capital for investment in junior mining companies, and can negatively impact the Company's ability to raise funds. The world markets are currently being affected by a major recession in the U.S., a deficit crisis in the U.S., high oil prices, political turmoil in the Middle East, a European debt crisis, and other international economic and political factors. Over the past several years, there have been major fluctuations in the markets caused by the housing mortgage crisis in the U.S., bail out of several major banks world-wide, bail out of Freddie Mac and Fannie Mae in the U.S., bail out of several major automobile manufacturers world-wide, and bail out of several countries in the world such as Greece. This has caused record deficits in several countries, including the U.S. These crises, which have occurred over a multi-year period, have affected the Company's ability to raise capital and have negatively impacted the stocks of many junior exploration companies. It is likely there will be future turmoil in the world markets over the next several years, and this uncertainty may negatively impact the Company's ability to raise necessary capital and advance the I-M Project.

Emgold may not be able to find equity investment to further fund GBC to build a recycled stone and ceramics processing facility using commercially available technology to process mine waste at the I-M Project.

Emgold has developed and is planning to use commercially available technology in connection with the operation of the I-M Project to process development rock (rock mined to access the gold ore) and mine tailings (the remains of the gold ore after the gold has been removed). Permitting of the I-M Project includes a 1,200 ton per day recycled stone and ceramics, processing facility, which may be the first commercial plant of its kind. This technology is being developed in Emgold's wholly owned subsidiary, GBC. The Company is in the process of converting GBC into an independent operating entity. The Company has decided to finance GBC and its recycled stone and ceramics processing facility separately from Emgold, if possible, to allow GBC to pursue opportunities for growth on a global basis and construct a series of production plants.

If the Company is unable to obtain equity or some other form of financing to develop the recycled stone and ceramics processing facilities, the proposed use of such facilities at the I-M Project may be at risk. The I-M Project is not

dependent on the use of a recycled stone and ceramics plant and the expected alternative would be to dispose of 100% of the mine tailings from the I-M Project as underground backfill (mine tailings used to backfill the voids created by gold and industrial mineral (aggregate) mining).

If suitable financing is obtained, GBC plans to complete a detailed feasibility study and basic engineering by utilizing independent consultants to design the first commercial plant. GBC will not be able to conduct further research and development or prepare marketing and feasibility studies until it has independently raised sufficient financing for that purpose.

Environmental and Regulatory Risk Factors

Emgold may be unable to obtain necessary permits for the I-M Project. IMMC has submitted applications to acquire a Conditional Mine Use Permit (“CMUP”) and other entitlements to allow the Company to dewater, explore, construct, operate, and reclaim the Idaho-Maryland Mine in Grass Valley, CA. The Company expects to complete the EIR, the CMUP, and other entitlements in mid-2013, subject to financing. The Company has a proactive community outreach program to inform local residents and decision makers and stakeholders about the I-M Project and its benefits to the region, as well as to obtain their input and incorporate it into the project permitting. Additional environmental investigations may be required as a part of the permitting process and for the future development of the surface properties for the purposes of mining and milling of ore. Currently the Company believes that the expected date and time frame for obtaining the permits is reasonable providing the Company is able to maintain adequate funding through the permitting process. Obtaining or reviewing governmental permits is a complex and time consuming process. The duration and success of efforts to obtain and renew permits are contingent upon variables not within the Company’s control. Delays or failure to obtain the CMUP, or the expiry, revocation or failure by us to comply with the terms of any such permits we have obtained would adversely affect our business.

Compliance with environmental regulations could affect future profitability and timeliness of operations. The current and anticipated future operations of the Company, including development activities and commencement of production on its properties, require operating permits from various federal, state, and local governmental authorities. Companies engaged in the development and operation of mines and related facilities generally experience increased costs, and delays in production and other schedules as a result of the need to comply with applicable laws, regulations and permits as well as the effects of inflation and the availability of mining specific goods and services.

The Company’s exploration activities and its potential mining and processing operations are subject to various laws governing land, air and water use, the protection of the environment, prospecting, development, production, commodity prices, exports, taxes, labour standards, occupational safety and health, waste disposal, toxic substances, mine safety and other matters. Emgold believes it is in substantial compliance with all material laws and regulations which currently apply to its activities. There is no assurance that the Company will be able to obtain all permits required for exploration, development and construction of mining facilities and conduct of mining operations on reasonable terms or that new legislation or modifications to existing legislation, would not have an adverse effect on any exploration or mining project which the Company might undertake.

Readers are cautioned that the CMUP is required in order to dewater the existing mine workings at the I-M Project and to construct a decline to conduct underground exploration and complete feasibility work. A production decision must be made before the mine can go into production.

The I-M Project could have “growth inducing impacts” The Company will need to address those impacts associated with growth due to industrial development proximate to an urban center. The Company believes that it has defined and disclosed the extent of and can mitigate the potential impacts in all of these areas in ways satisfactory to all of its stakeholders. Where required and agreed, local jurisdictions may receive direct compensation for the cost of improving roadway intersections and expanding services to accommodate potential increased demands on social services and local infrastructure.

The I-M Project contains areas that have been impacted by historic mining activities and clean up of historic tailings will be required. The Company currently leases this property and is not conducting any mining operations, therefore no reclamation liability has been accrued. As part of the CMUP process, the Company has completed test work to characterize the historic tailings and will be entering into agreements with the California Department of Toxic Substance Control who will be the Lead Agency overseeing the cleanup of historic tailings on site. The Company worked with the California Regional Water Quality Control Board and has remediated the location where two historic

fuel tanks were removed by the previous owners of the land. Costs for clean up and short and long term liabilities for cleanup of the site are being addressed with State and local agencies. Should the economics of site cleanup of historic mine tailings on site become prohibitive, the Company could elect not to complete the purchase of this property and discontinue the project. However, information available at this time indicates that clean up of the site can be completed in a reasonable and economic fashion, and this clean up will be a benefit to the local community in the long term.

California is in the process of implementing a number of rules related to air quality and green house gas emissions through the California Air Resources Board. These regulations are ultimately expected to lead to cap-and-trade legislation. While this new legislation is being addressed as part of the permitting process for the I-M Project, it is unknown how this legislation will impact operating and capital costs of the project and such impacts, as a worst case, could result in the I-M Project not being economically viable. It is expected that as part of the CMUP process, IMMC will be required to mitigate any air quality impacts that may result from the I-M Project. The scope and cost of these mitigations are unknown at this time.

Specific to U.S. properties, costs involved in complying with various government environmental regulations vary by operation and regulatory jurisdiction. Typically, surface sampling does not require any permits. Agency review and approval for exploration drilling and access construction can vary from several hundred dollars to several thousands of dollars, depending upon the level of activity. Permitting and environmental compliance costs vary, depending upon the level of activities proposed and the sensitivity of the areas where mineral activities are proposed. As a general rule, these costs make up 12% or less of the total cost of an exploration or development program.

In addition, certain types of operations related to the opening and operation of the mine will require the submission and approval of environmental impact assessments. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce or eliminate the profitability of operations. For example, if the Company is unable to obtain required permits, and the reasons that the permits cannot be obtained are deemed to be financially insurmountable, the development of the I-M Project would be curtailed, and operations in Grass Valley, California would cease.

On the Federal, State or Provincial or County level, regulations deal with environmental quality and impacts upon air, water, soils, vegetation and wildlife, as well as historical and cultural resources. Approval must be received from the applicable departments before exploration can begin, and will also involve ongoing monitoring of operations. For the I-M Project, the City acts as the Lead Agency and is responsible for representing other regulatory agencies during the permitting process. If operations result in negative effects upon the environment, government agencies will usually require the Company to carry out remedial actions to correct the negative effects.

Information about the I-M Project is distributed at community events. Issues of concern to the community are addressed and communicated to all interested parties at public workshops and meetings, community events as well as through local news media, direct mail-outs, circulars and brochures. A website, devoted to the I-M Project, www.idaho-maryland.com, provides general I-M Project information, permitting documentation and addresses community concerns regarding the expected impact of dewatering existing mine workings, underground development, exploration and the possible operation of a mine on the community and the environment.

The Company may be required to post reclamation bonding in California to ensure that areas will be reclaimed after exploration. Reclamation bonds are also required in British Columbia, and have all been posted. The exploration activity in British Columbia to date has been limited to drilling, and as such, the reclamation bonds posted are nominal. If exploration activity is carried out on the Buckskin Rawhide Project in Nevada, a reclamation bond will also be required for any such work.

Failure to comply with environmental and reclamation rules could result in penalties. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violation of applicable laws or regulations. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas, which would result in environmental pollution. A breach of such legislation may result in the imposition of fines and penalties. At present, the Company has estimated that no funds are required for reclamation at the I-M Project, as reclamation related to a drilling program is normally defined in the drilling permit and completed at the end of the program. The Company is not conducting any mining operations, therefore no reclamation liability has been accrued. To date Emgold has been successful in obtaining all permits that it has applied for and believes it has a good working relationship with local regulators. The Company and its employees have been engaged in the exploration and

development of mineral properties for many years. Currently, the operations of the Company have been limited to exploration and permitting. To date, no mining activity has yet been undertaken by the Company.

Risk Factors Associated with Mining and Exploration

Emgold's exploration and development efforts may be unsuccessful in locating viable mineral resources. Resource exploration and development is a speculative business, characterized by a number of significant risks, including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits but also from finding mineral deposits, which, though present, are insufficient in quantity and quality to return a profit from production.

There is no certainty that the expenditures to be made by the Company on the exploration of its properties and prospects as described herein, in particular, the I-M Project, will result in discoveries of mineralized material in commercial quantities.

Emgold may not be able to market the minerals acquired or discovered by the Company due to factors beyond the control of the Company. The marketability of minerals acquired or discovered by the Company may be affected by numerous factors which are beyond the control of the Company and which cannot be accurately predicted, such as market fluctuations, the proximity and capacity of milling facilities, mineral markets and processing equipment, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection, the combination of which factors may result in the Company not receiving an adequate return on investment capital.

Other Risk Factors

Emgold's title to mineral property interests may be challenged. Although Emgold has completed a review of titles to its mineral interests and has had two title opinions prepared on the I-M Project, it has not obtained title insurance or any formal legal opinion with respect to all of its properties and there is no guarantee of title. The mineral properties may be subject to prior unregistered agreements or transfers or native land claims, and title may be affected by undetected defects. Emgold's mineral property interests include mineral claims in British Columbia and Nevada, which have not been surveyed, and therefore, the precise area and location of such claims or rights may be in doubt. As there are unresolved native land claim issues in British Columbia, the Company's properties and prospects in this jurisdiction may be affected in the future.

Currency fluctuations between the United States dollar and the Canadian dollar may affect Emgold's financial position and results. Many of Emgold's principal financial obligations are in United States dollars, which make it subject to foreign currency fluctuation and such fluctuations may materially affect its financial position and results. In fiscal 2011, the Company received \$1,375,094, net of issue costs, from the issuance of 20,055,770 common shares in private placements. The Company's consolidated financial statements are reported in United States dollars and the functional currency of the Company is United States dollars.

We may not be able to insure certain risks which could negatively impact our operating results. In the course of exploration, development and production of mineral properties, certain risks, and in particular, unexpected or unusual geological and operating conditions including rock bursts, unusual or unexpected formations, formation pressures, cave-ins, land-slides, fires, explosions, flooding and earthquakes, power outages, labour disruptions, and the inability to obtain suitable or adequate machinery, equipment or labour may occur. It is not always possible to fully insure against such risks and the Company may decide not to take out insurance against such risks as a result of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the securities of the Company.

U.S. investors may not be able to enforce their civil liabilities against the Company or its directors, controlling persons and officers. It may be difficult to bring and enforce suits against the Company. The Company is a corporation

incorporated in British Columbia under the Business Corporations Act (British Columbia) and, consequently, there is a risk that Canadian courts may not enforce judgements of U.S. courts or enforce, in an original action, liabilities predicated directly upon U.S. federal securities laws. A majority of the Company's directors and officers are residents of Canada and a substantial portion of the Company's assets are located outside of the United States. Consequently, it may be difficult for United States investors to effect service of process upon those directors or officers who are not residents of the United States, or to realize in the United States upon judgements of United States courts predicated upon civil liabilities under United States securities laws. It is unlikely that an original action could be brought successfully in Canada against any of such persons or the Company predicated solely upon such civil liabilities under the U.S. Securities Act.

Emgold's directors and officers serve as directors and officers of other publicly traded junior resource companies. Some of the directors and officers of Emgold serve as officers and/or directors of other resource exploration companies and are engaged and will continue to be engaged in the search for additional resource opportunities on their own behalf and on behalf of other companies, and situations may arise where these directors and officers will be in direct competition with Emgold. Such potential conflicts, if any, will be dealt with in accordance with the relevant provisions of British Columbia corporate and common law. In order to avoid the possible conflict of interest which may arise between the directors' duties to Emgold and their duties to the other companies on whose boards they serve, the directors and officers of Emgold expect that participation in exploration prospects offered to the directors will be allocated among or between the various companies that they serve on the basis of prudent business judgement and the relative financial abilities and needs of such companies.

Emgold is dependent on its ability to recruit and retain key personnel. Emgold has relied on and may continue to rely upon consultants and others for exploration, development and technical expertise. The Company strongly depends on the business and technical expertise of its management and key personnel. As the Company's operations expand additional general management and human resources will be required. It may be difficult for Emgold to continue to find and retain the services of qualified personnel.

Risks associated with the commercialization of the stone and ceramics products. Emgold's management and consultants have identified possible areas of risk concerning the commercialization of the recycled stone and ceramic building materials to be produced from mine development rock and tailings from the I-M Project or other similar operations. It will be necessary to address the remediation of these risks during the marketing and feasibility phases of the process and product development. Risks that may apply to the commercialization of the recycled stone and ceramics products include developing distribution networks, defining markets, and sales prices for the products. The capital and operating costs for a production plant will need to be determined as part of the feasibility process.

Risks Relating to an Investment in the Securities of the Company

The Company could be deemed a Passive Foreign Investment Company which could have negative consequences for U.S. investors. Potential investors who are U.S. taxpayers should be aware that Emgold expects to be a passive foreign investment company ("PFIC") for the current fiscal year, appears to have been a PFIC in prior years and may also be a PFIC in subsequent years. If Emgold is a PFIC for any year during a U.S. taxpayer's at least certain holding period, then such U.S. taxpayer generally will be required to treat any so-called "excess distribution" received on its common shares, or any gain realized upon a disposition of common shares, as ordinary income and to pay an interest charge on a portion of such distribution or gain, unless the taxpayer makes a qualified electing fund ("QEF") election or a mark-to-market election with respect to the shares of Emgold. In certain circumstances, the sum of the tax and the interest charge may exceed the amount of the excess distribution received, or the amount of proceeds of disposition realized, by the taxpayer. A U.S. taxpayer who makes a QEF election generally must report on a current basis its share of Emgold's net capital gain and ordinary earnings for any year in which Emgold is a PFIC, whether or not Emgold distributes any amounts to its shareholders. A U.S. taxpayer who makes the mark-to-market election generally must include as ordinary income each year the excess of the fair market value of the common shares over the taxpayer's tax basis therein. U.S. taxpayers are advised to seek the counsel of their professional tax advisors.

The liquidity of our shares in the United States markets may be limited or more difficult to effectuate because we are a "Penny Stock" issuer. Emgold's stock may be subject to U.S. "Penny Stock" rules which may make the stock more difficult for U.S. shareholders to trade on the open market. The SEC has adopted rules that regulate broker-dealer practices in connection with transactions in "penny" stocks. Penny stocks are equity securities with a price of less than \$5.00 per share (other than securities registered on certain national securities exchanges provided that current prices and volume information with respect to transactions in such securities is provided by the exchange or system).

The Penny Stock Rules require a broker-dealer, prior to effecting a transaction in a penny stock not otherwise exempt from such rules, to deliver a standardized risk disclosure document prepared by the SEC that provides information about penny stocks and the nature and level of risks in the penny stock market.

In addition, the Penny Stock Rules require that prior to a transaction in a penny stock not otherwise exempt from such rules the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written acknowledgment of the receipt of a risk disclosure statement, a written agreement to transactions involving penny stocks, and a signed and dated copy of a written suitability statement. At the present market prices, Emgold's common shares will (and in the foreseeable future are expected to continue to) fall within the definition of a penny stock. Accordingly, United States broker-dealers trading in Emgold's shares will be subject to the Penny Stock Rules. Rather than complying with those rules, some broker-dealers may refuse to attempt to sell penny stock. As a result, shareholders and their broker-dealers in the United States may find it more difficult to sell their shares of Emgold, if a market for the shares should develop in the United States.

Emgold's stock price may limit its ability to raise additional capital by issuing common shares. The low price of Emgold's common stock also limits Emgold's ability to raise additional capital by issuing additional shares. There are several reasons for these effects. First, the internal policies of certain institutional investors prohibit the purchase of low-priced stocks. Second, many brokerage houses do not permit low-priced stocks to be used as collateral for margin accounts or to be purchased on margin. Third, some brokerage house policies and practices tend to discourage individual brokers from dealing in low-priced stocks. Finally, broker's commissions on low-priced stocks usually represent a higher percentage of the stock price than commissions on higher priced stocks. As a result, Emgold's shareholders pay transaction costs that are a higher percentage of their total share value than if Emgold's share price were substantially higher.

The market for the Company's stock has been subject to volume and price volatility which could negatively affect a shareholder's ability to buy or sell the Company's shares. The market for the common shares of the Company may be highly volatile for reasons both related to the performance of the Company or events pertaining to the industry as well as factors unrelated to the Company or its industry.

In 2007 and continuing, the U.S. credit markets began to experience serious disruption due to a deterioration in residential property values, defaults and delinquencies in the residential mortgage market (particularly, sub-prime and non-prime mortgages) and a decline in the credit quality of mortgage backed securities. These problems led to a slow-down in residential housing market transactions, declining housing prices, delinquencies in non-mortgage consumer credit and a general decline in consumer confidence. These conditions have continued, causing a loss of confidence in the broader U.S. and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by the U.S. and foreign governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and venture stock markets to decline substantially. In addition, general economic indicators have deteriorated, including declining consumer sentiment, increased unemployment and declining economic growth and uncertainty about corporate earnings. There has been some improvement to date, but economic factors in Europe may cause further deterioration in economic indicators. Potential exists for interest rate increases as the U.S. deficit grows, which may further slow economic recovery.

These unprecedented disruptions in the current credit and financial markets have had a significant material adverse impact on a number of financial institutions and have limited access to capital and credit for many companies. These disruptions could, among other things, make it more difficult for us to obtain, or increase our cost of obtaining, capital and financing for our operations. The Company's access to additional capital may not be available on terms acceptable to it or at all.

Significant potential equity dilution and end of lock-ups. A summary of Emgold's diluted share capital is as follows: Emgold has 2,872,665 stock options outstanding (at December 31, 2011), which are exercisable at prices ranging from Cdn\$0.175 to Cdn\$0.25 per share which is above the current market price for the Company's shares and are not likely to be exercised before expiry but will likely act as an upside damper on the trading range of Emgold's shares. As a consequence of the passage of time since the date of their original sale and issuance, there are no shares of Emgold remaining subject to hold period restrictions in Canada or the United States as of December 31, 2011. At December 31, 2011, there were 38,508,401 warrants exercisable at a weighted average exercise price of \$0.27. The resale of outstanding shares from the exercise of dilutive securities would have a depressing effect on the market for Emgold's shares if there is a significant increase in the Company's share price. Dilutive securities based on the trading range of Emgold's common shares at December 31, 2011, including the 38,508,401 warrants and underlying warrants, and the 2,872,665 stock options above, collectively represent approximately 70% of Emgold's issued shares as at December 31, 2011.

ITEM INFORMATION ON THE COMPANY

4.

A. History and Development of the Company

The legal and commercial name of the Company, which is the subject of this Form 20-F, is “Emgold Mining Corporation”.

The Company’s executive office is located at:
Suite 1400 – 570 Granville Street, Vancouver, British Columbia V6C 3P1
Telephone: (604) 687-4622
Facsimile: (604) 687-4212
E-Mail: info@emgold.com
Website: www.emgold.com

The contact person in Vancouver is Sargent H. Berner, Non-Executive Chairman.

The Company does not have an agent in the United States, and accordingly, the mailing address of the Company is the Company’s executive office at the address noted above.

The Company’s fiscal year end is December 31.

The Company’s common shares are listed on the TSX Venture Exchange under the symbol “EMR”. They also trade on the OTCQB under the symbol “EGMCF” in the United States, and since January 2006 have traded on the Frankfurt market under the symbol “EML”.

Emgold Mining Corporation (“Emgold” or the “Company”) was originally incorporated under the Company Act (British Columbia) as 361869 BC Ltd. on March 17, 1989. The Company’s name was changed to HLX Resources Ltd. (“HLX”) on July 19, 1989. On August 31, 1989, HLX was amalgamated with four mineral exploration companies - Eastern Mines Ltd. (incorporated March 10, 1980), Gallant Gold Mines Ltd. (incorporated January 18, 1979), Silver Sceptre Mines Ltd. (incorporated March 10, 1980) and Standard Gold Mines Ltd. (incorporated February 6, 1980). Eastern Mines Ltd., Silver Sceptre Mines Ltd. and Standard Gold Mines Ltd. originally had exploration properties in the Terrace Bay area of Ontario. Gallant Gold Mines Ltd. originally had exploration properties in the Rossland-Trail area of British Columbia. After the amalgamation, the resulting company continued to be named HLX Resources Ltd.

On March 30, 1992, HLX changed its name to Emperor Gold Corporation at which time a special resolution of the shareholders was passed to consolidate the common shares on a five old for one new common share basis and to increase the authorized share capital from 10,000,000 common shares without par value and 50,000,000 first preference shares without par value, to 50,000,000 common shares without par value and 50,000,000 first preference shares without par value. The Company’s memorandum and articles were amended to reflect this change. On August 12, 1997, the Company’s memorandum and articles were again amended as the Company changed its name to Emgold Mining Corporation. The name was changed due to the fact that there was an unrelated mining company with a very similar name to the Company, with offices in Vancouver, British Columbia.

In fiscal 2002, the Company’s share capital was increased from 100,000,000 to 550,000,000 shares without par value, divided into 500,000,000 Common Shares without par value and 50,000,000 First Preference Shares without par value, each share having attached thereto the special rights and restrictions set out in the Articles of the Company. The Company was continued under the Business Corporations Act in British Columbia in June 2005, and the authorized share capital of the Company was changed to an unlimited number of common shares without par value

and an unlimited number of first preference shares.

At the Annual and Special General Meeting of its shareholders held on September 18, 2009, the shareholders approved a special resolution to alter the Company's authorized share structure by consolidating all of the issued and outstanding common shares without par value, of which 168,972,873 pre-consolidation common shares were issued, on the basis of ten (10) pre-consolidation common shares to one (1) post-consolidation common share. After adjusting for rounding, 16,894,310 common shares, post-consolidation, remained issued and outstanding. The issued and outstanding Class A preference shares were consolidated on the same basis, resulting in 398,483 Class A preference shares, after consolidation. The share consolidation of the common shares without par value and the Class A preference shares was effective December 21, 2009. All periods presented have been retroactively adjusted to reflect this reverse split.

On September 10, 2010, Emgold converted the 398,483 Class A preference shares to common shares. No Series A preference shares remain issued outstanding. In addition, the Company issued 2,813,575 Units of the company in satisfaction of accrued and unpaid dividends associated with the Series A preference shares, totalling approximately CAD\$517,151. Each Unit consisted of one common share and one non-transferable common share purchase warrant. The warrant exercise price is US \$0.35 per warrant share, up to September 9, 2015.

The Company is in the business of acquiring, exploring, and developing mineral properties. For the past three completed financial years, and since 1993, the Company has been principally engaged in permitting and developing the I-M Project located near the City of Grass Valley (the "City") in Nevada County, California, U.S.A. The Company originally acquired the rights to the I-M Project in August 1993. Over the next five years, significant expenditures were made on the I-M Project. An Environmental Impact Report was successfully completed to dewater and explore the Idaho-Maryland Mine and a National Pollution Discharge Elimination System Permit obtained. However, in the late 1990's, with a decreasing gold price, it became impossible to raise capital to continue with the exploration the I-M Project. Gold prices continued to drop and the Company wrote-down the property for a nominal carrying value of \$1 in 1999. The lease option to purchase agreement on the I-M property and mineral rights was eventually dropped. Permits to dewater the mine were cancelled or expired.

Emgold remained interested in the I-M Project and continued to pursue various financing alternatives. In fiscal 2002, the Company renegotiated the terms and conditions of a lease option to purchase agreement with the owners of the Idaho-Maryland property and mineral rights. Details of expenditures relating to the Idaho-Maryland property and mineral rights are included in Item 4 under "Property, Plant and Equipment" and "Idaho-Maryland Project – History of the Property". Emgold incorporated a 100 percent owned Nevada Corporation subsidiary company, the Idaho-Maryland Mining Corporation (the "IMMC"), to hold and develop the I-M Project. Activities and expenditures related to the I-M Project are completed through this subsidiary.

In 2003, Emgold acquired the licensing rights to a ceramics technology and changed the name of its second 100 percent owned Nevada Corporation subsidiary company, then called Holly Corporation, to Golden Bear Ceramics Company ("GBC"). Emgold recognized the potential application of the hot vacuum extrusion technology for the I-M Project (to eliminate the requirement for surface tailings and waste rock disposal) and as a business opportunity for processing a wide range of mineral waste materials to produce high quality recycled stone and ceramic building materials on a global basis. Emgold initiated work to commercialize the technology and to set up a research and development facility in Grass Valley, CA. GBC has since determined that it will be able to produce high quality stone and ceramic building materials from mine development rock and tailings from the I-M Project or other similar operations by using equipment and technology available in the commercial market place. GBC will need to find markets for its stone and ceramics products and construct a facility to produce such products from a wide variety of siliceous waste materials and raw materials, including mine tailings, fly ash and other waste materials, that would otherwise be disposed of in landfills, into high-strength, low-porosity, industrial stone and ceramic building products such as, floor tile, roof tile, brick, construction materials and other industrial and commercial products. Emgold is now planning to use commercially available technology not proprietary to Ceramext, LLC in connection with the operation of the I-M Project, and the licensing agreement with Ceramext, LLC has been terminated.

In 2005, Emgold commenced permitting of the I-M Project with acceptance of its Permit Applications by the City of Grass Valley, Nevada County, California (the "City"). The I-M Project is being permitted according to the California Environmental Quality Act ("CEQA"), the California Surface Mining and Reclamation Act ("SMARA"), and other applicable federal, state, and local legislation. The City has been designated to be the Lead Agency in the permitting process. The City commenced work to complete the permitting process for the Project, which was divided into three phases: Phase 1 is the Master Environmental Assessment, Phase 2 is the Initial Study and Phase 3 is the Environmental Impact Report. The City will then need to approve a Conditional Use Permit for the I-M Project. Currently, permitting is in Phase 3 and it is expected that the Environmental Impact Report will be certified

and the CUP and other entitlements granted by mid-2013, subject to financing.

Emgold also has additional mineral properties: the Rozan (fully vested), optioned to Valterra Gold Corporation in January 2010, the Stewart property (fully vested), and the Buckskin-Rawhide property in Nevada (under option). All the Canadian properties are located in the Nelson mining district north of Ymir in south-eastern British Columbia, Canada. Details of property payments and expenditures with respect to these properties are outlined in Part 4 of this report under "Exploration Projects, British Columbia Properties". Exploration expenditures on the Rozan, Stewart and Jazz properties resulted in a net recovery of \$5,351 in fiscal 2010. The Company is currently considering its options with respect to its properties and exploration activity is planned on the Stewart and Buckskin Rawhide Properties in 2012.

B. Business Overview

General

- (i) Nature of Company: Emgold has historically been a mineral exploration company. The Company is focussed on the permitting and development of the historic Idaho-Maryland Mine, located in Grass Valley, CA. The Idaho-Maryland Mine was the second largest underground gold mine in California, producing 2.4 million ounces of gold between 1862 and 1956. The I-M Project is adjacent to the historic Empire Mine, which was the first mine operated by Newmont Mining Corporation. The Empire Mine produced 5.8 million ounces of gold from 1850 to 1956, and was the largest gold mine in California. The Grass Valley District produced over 17 million ounces of gold. Emgold believes the I-M Project to be one of the largest underground gold exploration targets in North America with potential to become a significant high grade producing mine. Plans are to construct a 2,400 ton per day underground gold mine and gold processing facility, and establish Emgold as a mid-tier producing company.

Emgold also has a portfolio of early-stage mineral exploration projects in British Columbia that contain tungsten, molybdenum, silver, gold, and other mineralization. These properties have been drilled by a number of companies over the years, with further work being completed by Emgold since their acquisition. The Company has optioned the Rozan property to Valterra Gold Corporation. The company has an early stage gold and silver exploration project called the Buckskin-Rawhide Property in Nevada, under a lease and option to purchase agreement with Nevada Sunrise LLC.

For several years, Emgold, through its wholly-owned subsidiary, GBC, has been developing a process to convert mineral wastes and other siliceous materials to stone and ceramic building products. Emgold originally intended to apply this process as a method to deal with development rock and mine tailings from the I-M Project and to eliminate the need for surface tailings impoundments and waste dumps associated with a traditional gold mine. Emgold successfully developed the process to a pilot plant stage using commercially available equipment. Since that time, the Company has determined that the use of commercially available equipment will enable GBC to readily manufacture 100 percent recycled “green” stone and ceramic building products from mineral wastes. Emgold is currently seeking funding to finance GBC, to allow it to expand independently of the I-M Project.

(ii) Principal Markets: Not Applicable.

(iii) Seasonality: Not Applicable.

(iv) Raw Materials: Not Applicable.

(v) Marketing Channels: Not Applicable.

(vi) Dependence: Not Applicable.

(vii) Competitive Position: Not Applicable.

- (viii) Material Effect of Government Regulation: The Company’s exploration activities and its potential mining and processing operations are subject to various laws governing land use, the protection of the environment, prospecting, development, production, contractor availability, commodity prices, exports, taxes, labour standards, occupational safety and health, waste disposal, toxic substances, mine safety and other matters. The Company believes it is in substantial compliance with all material laws and regulations which currently apply to its activities. There is no assurance that the Company will be able to obtain all permits required for exploration,

any future development and construction of mining facilities and conduct of mining operations on reasonable terms or that new legislation or modifications to existing legislation, would not have an adverse effect on any exploration or mining project which the Company might undertake.

Idaho-Maryland Mining Corporation

The Company is seeking to reopen the historical Idaho-Maryland Mine (also referred to as “I-M Project”, or the “Idaho-Maryland”, in this Annual Report), in accordance with all applicable federal, state, and local laws and regulations. Readers are cautioned that a Conditional Mine Use Permit (“CMUP”) is required in order to remove water from the existing mine workings at the I-M Project and to conduct underground exploration and complete a feasibility study.

The Company formally applied to the City of Grass Valley (“City”) for the CMUP on February 9, 2005, and the Project Applications were received as substantially complete on May 24, 2005. Following this, the City completed the Master Environmental Assessment (“MEA”) in June 2006. The next phase was the Notice of Preparation and Initial Study (“NOP” and “IS”) which was completed on January 8, 2008. The Company then made modifications and clarifications and completed a 2007 Revised Project Applications, which was accepted by the City in May 2007.

The preparation of the EIR was commenced by the City in June 2008. The Draft EIR was completed in October, 2008. The public hearings related to the Draft EIR were completed in January 2009. . The Draft EIR was positive, with air quality identified as the only concern that could not be successfully mitigated due to the fact that Nevada County is a non-attainment area for ozone related gases due to ozone blowing into the Sierra Foothills from the Bay and Sacramento area several days during the year. After meeting with various public agencies in the first half of 2009, the Company elected to make several improvements to the I-M Project based on its internal review and analysis of public comment. The primary reasons for the revisions were to ensure the clean up of historic tailing on the Idaho-Maryland site will be included and adequately analyzed in the EIR and to reduce potential air quality impacts identified in the 2008 Draft EIR.

The Company’s 2011 Revised Project Application was accepted by the City in May, 2011. Subsequently, the City completed a competitive bid process and elected to retain a new consultant to complete the EIR process. A Revised Draft EIR will now be completed, with public comment, followed by completion of the Final EIR. The Final EIR is expected to take approximately 12 months from commencement of the work. Emgold is currently raising funds to allow the permitting process to move forward. The Company estimates the budget to be \$2.5 million to complete the CMUP process, excluding corporate overhead costs.

The Company has a mining lease and option to purchase agreement (the “BET Agreement”) for the I-M Project. The BET Agreement covers the lease and purchase of approximately 2,750 acres of mineral rights and 93 acres of surface rights associated with the Idaho-Maryland Project. Emgold owns certain other mineral and surface rights associated with the Project. The BET Agreement has been extended from February 1, 2011, for an additional two years to February 1, 2013. Lease payments during the extension period will be \$30,000 per quarter. The Company has the ability to exercise the purchase option of the BET Agreement at any time while the option agreement remains in good standing. At December 31, 2010, the Company was in compliance with all the terms of the BET Agreement.

Under the previous lease agreement, Emgold was to make quarterly option payments of \$30,000 beginning on February 1, 2009, until January 31, 2010. For the period from February 1, 2010, to January 31, 2011, the quarterly option payments were to increase to \$60,000 per quarter. The BET Group has agreed to defer 50 percent of the quarterly lease payment for 2010, amounting to \$30,000 per quarter. The amount of the deferral, totaling \$120,000, will be added to the purchase price of the Property, the first installment of which becomes due on February 1, 2013 in the event that the Company exercises its option to purchase the I-M property. The deferral of \$120,000 will be subject to interest calculated at 5.25% compounded annually

During the year the Company extended its lease and option to purchase agreement on the Idaho-Maryland Project property with the BET Group for an additional two years to February 1, 2013. All lease payments related to the

agreement are current as at December 31, 2011. Payments for the extension period will be \$30,000 per quarter. Fifty per cent of the quarterly payments for 2010 were deferred, lowering the quarterly payments from \$60,000 to \$30,000 per quarter. The deferred balance of \$120,000, subject to an interest rate of 5.25%, will be added to the purchase price of the property and mineral rights, the first purchase payment being due February 1, 2013.

The Final EIR is anticipated by the Company during 2013 and it is expected that the CMUP may be issued by the City within 120 days of the EIR being completed. There are a variety of operating permits and agreements that will also be required with various regulatory agencies to operate the mine.

There is no guarantee that the City of Grass Valley will approve the project or that other agencies will approve the permits necessary to operate. However, two gold mines (the Mesquite Mine operated by New Gold Inc. and the Briggs Mine operated by ATNA Resources Ltd.) have recently returned to operation in California. Sutter Gold Mining Inc. is currently obtaining permits to operate the Sutter Gold Mine and Golden Queen Mining Company Ltd is in the process of obtaining permits to open the Soledad Mountain Project in California.

An EIR for the Idaho-Maryland Project was previously completed in 1995 to dewater and explore the mine with Nevada County as the Lead Agency. Emgold believes there is no technical reason to prevent the mine from being permitted and the risk is the political uncertainty of permitting in the United States and the State of California with constantly evolving regulations at all levels of government that may impact the permitting requirements at some future date. In particular, potential legislation from the California Air Resources Board and the Federal EPA related to carbon emissions and potential cap and trade rules may have an effect on mining operations in the U.S.

Information about the I-M Project is distributed at community events. Issues of concern to the community are addressed and communicated to all interested parties at public workshops and meetings and community events as well as through local news media, direct mail-outs, circulars and brochures. A website devoted to the I-M Project, www.idaho-maryland.com, provides general I-M Project information and permitting documentation and addresses community concerns regarding the expected impact of dewatering existing mine workings, underground development, exploration and the possible operation of a mine on the community and the environment. The Company has participated in public workshops held during the preparation of the draft EIR.

In addition to its interest under the BET Agreement, IMMC owns 45 acres of the former sawmill site adjacent to the Idaho-Maryland property above, and the two properties encompass the 102 acres known as the Idaho-Maryland site. The company also owned 7 acres known as the Round Hole site. IMMC also owns the subsurface mineral rights of 70% of the Dana-Christopher Columbus patented mining claims and 100% of the Golden Gate West and Golden Gate East subsurface patented mining claims, totalling about 30 acres. These properties are contiguous and are part of the current I-M Project and consist of only subsurface mineral rights.

The Idaho-Maryland site has sufficient surface rights to construct a portal and shaft for underground access, gold milling and recycled stone and ceramic manufacturing facilities, aggregate crushing and screening plant, maintenance facilities, tile storage areas, a Mining Education Center and an administrative site. The New Brunswick site will be primarily used for dewatering the mine. The Company's plan is to use the Round Hole Shaft as a ventilation shaft and emergency access way for the I-M Project during operations.

The existing mine workings are currently flooded with approximately 2,500 acre-feet of ground water, or approximately 500 million gallons of water. In order to conduct underground exploration, the mine workings must be pumped out or "dewatered". The Company anticipates pumping water to surface up to a maximum rate of 12 acre-feet per day for approximately 9 to 12 months to complete the dewatering, if the pumping is conducted 24 hours a day and depending on the local precipitation and the water flow in the receiving waterway. The water will be transferred via pipeline to the Idaho-Maryland site, treated, and pumped into the adjoining Wolf Creek. The timeframe will lengthen accordingly if pumping is not constant over the 24-hour period.

The Company may consider mining and toll milling of gold ore should sufficient gold bearing ore be mined during the initial stages of underground exploration and development. A positive feasibility study may need to be completed and a production decision must be made before the mine can go into production. The outcome of this feasibility work and receipt of the CMUP will have a direct impact on the ability of the Company to put the I-M Project into production.

The long-term development plan for the I-M Project includes underground exploration to define further resources possibly leading to staged construction and operation of up to a 2,400 Short Tons Per Day ("STPD") underground gold

mine and mill, a 1,200 STPD manufacturing plant for recycled stone and ceramic building materials, as well as a 365 STPH aggregate crushing and screening plant. The recycled stone and ceramics plant would be designed to process development rock and gold mine tailings as feedstock to produce high-quality recycled stone and ceramic building materials, to reduce the effective cost of gold production and to mitigate the environmental impact of the proposed mining operations. The aggregate crushing and screening plant would be used to process development rock to make a series of aggregate products for sale into the local and regional market.

Golden Bear Ceramics Company

Emgold, through GBC, has developed a recycling technology because of its potential to provide a tailings management strategy for the I-M Project while contributing a significant revenue stream to the mine. The Company believes there is also a global business opportunity to process a wide range of siliceous waste and naturally occurring materials and to produce high quality stone and ceramic building materials. The recycled stone and ceramics technology has been demonstrated on a laboratory and pilot plant basis. It has been possible to perform forming operations on a wide variety of silicate materials at elevated temperatures. Stone and ceramic materials of high quality, strength, and very low porosity have been produced. The process production volume has not yet been scaled up and therefore, cannot be considered commercialized. The Company has determined that the use of commercially available equipment should enable GBC to readily manufacture 100 percent recycled “green” stone and ceramic building products from mineral wastes. These materials will qualify for Leadership in Energy and Environmental Design (“LEED”) credits..

The Company is continuing to seek capital investment to commercialize its products. If the Company were able to obtain investment to develop GGC, additional marketing studies, a feasibility study, and basic engineering would need to be completed independently of the mining operations. It is anticipated that these studies could be completed within 12 to 14 months from financing.

C. Organizational Structure

The Company has three direct and indirect wholly owned subsidiaries, Idaho-Maryland Mining Corporation (formerly Emperor Gold (U.S.) Corp.), Golden Bear Ceramics Company (formerly Holly Corporation (U.S.)) and Emgold (U.S.) Corporation (“Emgold US”), all incorporated in the State of Nevada. Unless the context otherwise requires, references herein to the “Company” or “Emgold” include the subsidiaries of the Company. Emgold U.S. holds the Golden Bear subsidiary.

D. Property, Plant and Equipment

The Company has mineral exploration interests in four properties: the I-M Project (California), the Stewart (British Columbia), the Rozan (British Columbia) property and the Buckskin-Rawhide (Nevada). The Company’s principal property is the I-M Project, which is comprised of three separate areas: the Idaho-Maryland, New Brunswick and Round Hole sites.

In 2004, the Company entered into a joint venture with a private, non-related company to acquire approximately 45 acres adjacent to other properties under option by the Company in Grass Valley, California. The Company’s share of the purchase price was \$542,500 plus legal costs. The property was initially acquired to complement the I-M Project, as the combined 102 acre site would be suitable for mining, milling and ceramic manufacturing facilities. The Company and its arm’s-length partner have since terminated the joint venture, and the Company’s portion of the title has been transferred to the Company’s name. The land is expected to be used for buildings that may be needed for construction of mining operations including storage areas, access for vehicular traffic and to provide buffer zones to isolate the mine from adjacent properties. Development of the site is subject to review and approval of the City.

In 2004, the Company entered into a three-year lease and option to purchase agreement for approximately 2.75 acres of land and a 44,750 square foot building located in Grass Valley, California. Effective April 1, 2007, the lease and option to purchase agreement was renewed until December 2010. The lease was terminated in February 2010 and the Company has moved to new office space in Grass Valley, California and the equipment used for Golden Bear has been placed into storage. Subsidiary company administration and geological personnel are all housed in the same office premises.

None of the Company's projects has known reserves, and all proposed programs are exploratory in nature. The I-M Project has National Instrument 43-101 compliant mineral resources in Measured, Indicated, and Inferred categories.

Idaho-Maryland Project

Surface and Mineral Rights

The I-M Project is located 1.5 miles east of downtown Grass Valley, Nevada County, within the State of California. The property comprises approximately 2,800 acres of subsurface mineral rights and 146 acres of surface rights. The surface rights are centered around three of the historic mine shafts at the properties. The properties comprise the 102 acre Idaho-Maryland site, the 37 acre New Brunswick site, and the 7 acre Round Hole site. The mineral rights are severed from the surface rights at variable depths from surface, with all mineral rights being contiguous below 200 ft from surface. Most of the property is located in the City of Grass Valley, but the New Brunswick property is located in Nevada County adjacent to the City.

History of the Property

The Grass Valley mining district is one of the most productive and famous mining districts in the State of California. The mines in the district were known as the “Northern Mines” and were not part of the Mother Lode gold belt. The first and second largest underground gold producing mines in the state, the Empire and Idaho-Maryland, are located adjacent to one another within the district. Placer gold was first found in Wolf Creek, adjacent to the Idaho-Maryland mine, in 1848. Gold-bearing quartz was discovered at Gold Hill in 1850. The original claim on the Idaho-Maryland mine was staked in 1851 and high-grade gold mineralization was discovered in 1861, with the commencement of mining in 1863. It has been estimated that over the approximately 106 years of gold mining activity in the Grass Valley district from 1850 to 1956, a total of 17 million ounces of gold were produced. The district is still considered the fifth largest gold-producing area in the United States, although most of the mines have not been in production since 1956. The Idaho-Maryland mine yielded an estimated 2,383,000 ounces of gold from 5,546,000 short tons for a recovered grade of 0.43 ounces of gold per short ton. The Idaho-Maryland area was mined only to the 3,280-foot level while its neighbour, the Empire Mine, was systematically mined to the 5,000-foot level.

The claims around the deposit were consolidated in 1915 to form the Idaho-Maryland mine. Metals Exploration Company of New York acquired control of the property, dewatered the mine, deepened the Idaho shaft to 2,000 ft and moved the Union Hill stamp mill to the Idaho shaft area. Full production, however, was never achieved in the 1920’s. Control over the property changed in 1926 when Errol MacBoyle and Edwin Oliver created holdings that included the Idaho-Maryland, Brunswick, and Morehouse mines. Production commenced the same year. From 1926 to 1942 the Idaho Mine produced 650,000 ounces of gold from 1.1 million tons of ore. The Brunswick Mine restarted production in 1934 after deepening its shaft to 3,460 ft and constructing a 750 STPD mill. The mines were closed in 1942, due to the enactment of the Federal War Production Boards Limitation Order L-208, and were reopened again in 1945. Production was hampered by depleted operating funds, rising costs, skilled labour shortages, and negligible exploration and underground development work. Gold mining ceased at the Idaho-Maryland mine in 1954, being briefly replaced by government-subsidized tungsten production until 1957. Mining activity stopped altogether in 1957. At the time of closure, Idaho-Maryland Industries, Inc. owned the mine. In 1963 Idaho-Maryland Industries, Inc. executed a Quit Claim Deed to William and Marian Ghidotti. Ownership of the mineral rights eventually passed to Mary Bouma, Erica Erickson, and William Toms (referred to as the BET Group) in 1983.

In August 1993, Emgold originally leased, with an option to purchase, the initial four land parcels in Grass Valley, California from the BET Group, the unrelated owners of the properties. Until 1999, the Company held interests in four land parcels in Grass Valley, California (collectively referred to herein as the “I-M Project”) through its subsidiary, IMMC. The four parcels were comprised of the subsurface (generally below 200 feet mineral rights to 2,745 acres of land and the surface rights to three parcels, one of 37 acres surrounding the 3,281 foot deep New Brunswick shaft, one of 80 acres adjacent to and south of the New Brunswick shaft (the “Brunswick Millsite”) and one of 13 acres surrounding the Round Hole Shaft.

The Company held a 100% interest in the Round Hole Shaft until December 2000. It also held a lease and option to purchase a 100% interest in the other three land parcels, which expired. These land parcels were held as security for a convertible debenture held by Frank A. Lang and a convertible debenture held by Lang Mining Corporation, a private company controlled by Frank A. Lang. As the Company and the debenture holders could not come to mutually acceptable terms for an extension to the convertible debentures, which expired on June 8, 2000, the convertible debentures were cancelled and the land held as security was transferred to a private company controlled by Frank A. Lang. In June 2009, the Company announced it had reached an agreement with Frank A. Lang to re-purchase approximately 7.13 acres of the original land parcels that were transferred to Mr. Lang's private company in 2000 and the land transfer was completed in 2010. The subject acreage is located at the intersection of Idaho-Maryland and Brunswick Roads in Grass Valley, CA, and overlies part of the mineral rights associated with the I-M Project and is the location of the historic Round Hole Shaft. The agreement to re-purchase was conducted by way of share issuance.

Emgold had incurred significant expenditures on the property prior to 1999. Under Canadian generally accepted accounting principles and the policy of the Company, the status of the property was reviewed and the Company recorded a write-down in its interest in the I-M Project of \$6,982,016 to a nominal carrying value of \$1. Gold prices were low, and it was difficult to raise capital for exploration of mineral properties. In 2002 Emgold changed its accounting policy with respect to exploration and development expenditures, whereby such costs are expensed until a pre-feasibility or feasibility study has been completed that indicates a property is economically feasible. Acquisition costs relating to option payments, land payments and share issuances are capitalized, until the mineral property is determined to be uneconomic or is advanced by disposition, or further development. During the year ended December 31, 2011, \$775,500 (2010 - \$670,657) was expended by the Company on exploration and permitting activities on the I-M Project.

In fiscal 2002, the Company renegotiated the 1993 lease and option to purchase agreement with the owners of the Idaho-Maryland mineral rights and certain surface properties in the Grass Valley Mining District, California. This is called the BET Agreement. The initial term of the BET Agreement was five years, commencing on June 1, 2002, and ending on May 31, 2007. The owners granted to the Company the exclusive right and option to purchase all of the leased property. The property is subject to a 3% Net Smelter Royalty ("NSR") from production if the property is still being leased. Any royalty payments made prior to exercising the purchase option may be deducted from the purchase price. Lease payments of \$25,500 were payable quarterly commencing May 1, 2004, and continuing until February 1, 2007.

In February 2007, for a one-time payment of \$75,000, the Company negotiated an extension to the BET Agreement whereby the term of the exercise date was extended from May 31, 2007, to December 31, 2008, with quarterly lease payments of \$75,000. In 2009, the BET Agreement was extended to run from February 1, 2009 to February 1, 2011 with quarterly payments of \$30,000 in year one and quarterly payments of \$60,000 in year two. In 2010, the BET Agreement was extended to run an additional two years from February 1, 2011 to February 1, 2013. Quarterly lease payments will be \$30,000 per quarter.

In 2010, as part of negotiations for the extension of the BET Agreement, the BET Group agreed to defer fifty percent of the quarterly leases payments for 2010, amounting to \$30,000 of the \$60,000 per quarter outlined above. The amount of the deferral, totaling \$120,000, will be added to the purchase price of the Property, of which the first installment comes due on February 1, 2013 in the event that the Company exercises its option to purchase the I-M property. The deferral of \$120,000 will be subject to interest calculated at 5.25% compounded annually. Should the company elect to cancel the BET Agreement or not complete the purchase of the property, this deferred amount will remain due to the BET Group.

All other conditions of the original agreement, including the option purchase price and NSR remain unchanged. The quarterly lease payments are being expensed in the Consolidated Statements of Operations as holding costs.

Provided that payments are kept current, the Company may purchase the property at any time. The purchase price at January 31, 2012 would be \$5,846,037, and is increased by 3% each lease-year. The Company has capitalized a total of \$1,035,163 in Mineral Property Interests, of which \$747,219 relate to Idaho-Maryland acquisition costs. Additional properties have been acquired for a total of \$287,944.

Accessibility, Climate, Local Resources, Infrastructure and Physiography

The I-M Project is within the area of influence of the city of Grass Valley as defined in their 2020 General Plan. Both Grass Valley and Nevada City are Sierra Nevada foothill communities located approximately 20 miles north of Auburn and approximately 55 miles northeast of Sacramento. Highway 49 and Highway 20 connect the Grass Valley/Nevada City area regionally.

Geological Setting

The I-M Project and the Grass Valley Mining District are situated in the northern portion of the Sierra Nevada Foothills Gold Belt, a geographic area containing many historic gold mines. This belt averages 50 miles in width and extends for 320 miles in a north-northwest orientation along the western slope of the Sierra Nevada range. The location of the Sierra Nevada Foothills Gold Belt coincides closely with a zone of metamorphic rocks and regional faults known as the outcrop area of the Sierra Nevada Foothills Metamorphic Belt.

Exploration

Historic Drilling

Until the mine closed in the 1950's exploratory and delineation diamond drilling regularly took place. Historically, eleven hundred holes totalling 230,000 ft were diamond drilled. Hole traces have been input into the geological database, as have the historical assay, stope, and geology various plans and drawings. No historical drill logs have been found in the historical information.

Down hole surveys were not conducted in early drilling, and deviation of the drill holes was common. Recorded in the geology monthly reports were experiences such as driving an underground heading on a drill hole only to find that the hole soon curved significantly from the planned orientation. The deviation was not consistent, and so could not be predicted. This observation was one of the main reasons a technical report prepared for the Company by AMEC Americas Limited ("AMEC") recommended that mineral resources defined by drilling alone should be classified as inferred mineral resources. No core was preserved from past mining operations at the Idaho-Maryland Mine.

Sampling and Analysis

The I-M Project contains a historic database with over 100,000 assays. The historic assays, which are almost exclusively for gold, were done on samples taken from underground workings (walls and backs from drifts and crosscuts, walls from raises). Sample quality can be inferred by the reconciliation of historic production records to underground sample data. These studies, as well as a recent investigation on mill-to-resource prediction, show that the resource or reserve estimates consistently underestimated the amount of gold produced by milling, a discrepancy most likely reflective of sample size influence rather than laboratory technique. Gold deposits with coarse gold areas are best sampled with large sample sizes, which was not common practice when the mine was in production. Therefore, any estimates made using this historic data should include comparisons with values unadjusted and adjusted for the regular underreporting of grade (i.e., call factor). It is believed that the comprehensive set of assay plans, supported by records of muck car stope samples and mapped geology data, as well as the detailed historical production records, all support the integrity of the assay data for the Idaho-Maryland Mine. These data are deemed suitable for use in mineral resource estimation, and have been utilized in the reports prepared for the Company by AMEC.

Gold Exploration

The gold exploration program has consisted of an extensive geologic evaluation of the historical mine records plus additional diamond drilling from surface. This rather unique program was possible because of the excellent and comprehensive preservation of the historical Idaho-Maryland mine and mill records. This data is exhaustive and

essentially complete, although without any historical drill data, and has been used to generate a consistent, property-wide structural geology model and vein set definition and chronology. Un-mined mineralization was identified along underground workings and in historical diamond drill holes. Interpretation of the updated geologic model defined new vein sets and extensions of known vein sets. This data has been entered into a three-dimensional computer model using MineSight® software to help with interpretations.

Emgold believes that there is significant potential to identify substantial additional gold resources on the I-M Project, and intends to continue with an ongoing gold exploration program. Once dewatering and access to the mine is achieved it is planned to establish underground drilling stations for further drill testing of key gold target areas, plus definition and expansion of known gold resources.

Gold Mineral Resource and Mineral Reserve Estimates

In 2002, Emgold completed a NI 43-101 Technical Report (required by regulatory authorities in Canada) on the Idaho-Maryland Mine. This report was prepared by AMEC. The report summarized Measured, Indicated, and Inferred Mineral Gold Resources for the I-M Project. The resources for the I-M Project were estimated under the direction of Mark Payne (Registered Geologist 7067, State of California) and a Qualified Person for the purposes of NI 43-101, using traditional longitudinal sections, hand calculations and 3-D geologic models by commercial mine planning software (Vulcan® and MineSight®). AMEC's review concentrated on the geologic interpretation of the mineralization controls, the most critical factor in the resource estimate. Historic production information was also used in establishing confidence in continuity of mineralization. The mineral resource classification logic was also examined. A cut-off grade of 0.1 oz/ton was used in this estimate.

In 2004, as part of a NI-43-101 Preliminary Assessment of the industrial mineral resource (see below), the gold resources for the I-M Project were increased. This report was also prepared by AMEC. The resources for the I-M Project were estimated under the direction of Mark Payne (Registered Geologist 7067, State of California) and a Qualified Person for the purposes of NI 43-101, using traditional longitudinal sections, hand calculations and 3-D geologic models by commercial mine planning software (Vulcan® and MineSight®). The same methodology, cut-off grade, and gold price were used as in the 2002 Technical Report.

In 2007, a subsequent small increase in the resource numbers was estimated under the direction of Robert Pease, Professional Geologist (California), Chief Geologist for the I-M Project, and a Qualified Person in accordance with NI 43-101 in Canada. This resource increase represented only an additional 50,000 inferred ounces over and above the 2002 NI 43-101 Technical Report prepared by AMEC, or approximately 5%, and was announced by Emgold in a March 1, 2007, press release. The same methodology, cut-off grade, and gold price were used in the 2007 resource calculation as in the 2002 and 2004 Technical Reports to keep the methodology consistent with past reports. The resource cut off grade used in all reposts is calculated as follows:

$$\text{Cut off grade} = \text{mining cost}/(\text{mill recovery gold price}) = \$35/(0.93 \times \$375) = 0.1 \text{ opt.}$$

The gold price has risen significantly since the original 2002 report and it is anticipated that further resource estimates will be updated with the current gold price and lower cut off grade. The mineral resource classification of the I-M Project deposits used methods consistent with the CIM definitions referred to in NI 43-101. Measured mineral resources are supported only in areas exposed by underground development and estimated from detailed underground sampling. The gold resources for the I-M Project are summarized in the following table:

Cautionary Note to U.S. Investors concerning estimates of Measured and Indicated Resources

This section uses the terms “measured” and “indicated resources.” We advise U.S. investors that while those terms are recognized and required by Canadian regulations, the U.S. Securities and Exchange Commission does not recognize them. U.S. investors are cautioned not to assume that any part or all of mineral deposits in these categories will ever be converted into reserves.

Summary Idaho-Maryland Gold Mineral Resource, March 1, 2007

Classification	True Thickness (ft)	Tonnage (ton)	Gold Grade (oz/ton)	Gold Grade w/ MCF
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				(oz/ton)
Idaho-Maryland Resources ²				
Measured Mineral Resource ¹	13.3	271,000	0.22	0.31
Measured Mineral Resource ²	70.7	831,000	0.15	0.15
Indicated Mineral Resource	8.1	489,000	0.35	0.50
Measured + Indicated Mineral Resources	41.1	1,666,000	0.22	0.28

1. MCF = Mine Call Factor (not applicable to Waterman Group resources).

2. Idaho-Maryland measured resources are split into two categories: 1) the Eureka, Idaho, Dorsey, and Brunswick Groups, and 2) the Waterman Group (stock work/slate type ore).

Cautionary Note to U.S. Investors concerning estimates of Inferred Resources

This section uses the term “inferred resources.” We advise U.S. investors that while this term is recognized and required by Canadian regulations, the U.S. Securities and Exchange Commission does not recognize it. “Inferred resources” have a great amount of uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an Inferred Mineral Resource will ever be upgraded to a higher category. Under Canadian rules, estimates of Inferred Mineral Resources may not form the basis of feasibility or pre-feasibility studies, except in rare cases. U.S. investors are cautioned not to assume that part or all of an inferred resource exists, or is economically or legally mineable.

Classification	True Thickness (ft)	Tonnage (ton)	Gold Grade (oz/ton)	Gold Grade w/MCF (oz/ton)
Idaho-Maryland Resources ²				
Inferred Mineral Resources	9.1	2,573,000	0.27	0.39

Mine Call Factor

The mine “call” factor was determined from the historical mining information and was used while the mine was in operation to predict the head grade of ore fed to the mill. Historically the planned mill feed tonnage and gold grade rarely matched the actual results. This was a result of a variety of factors that could be resolved by adjusting the planned production by a constant number. This number or factor is called the multiplier factor or mine call factor. Commonly, these deposit types typically under-predict the gold produced. Causes include poor sampling of high-grade material, inconsistent assaying procedures for the high-grade samples and, in places, the use of too low a bulk density number for the ore. Prior studies have included a detailed investigation into historic mine-mill reconciliation at the Idaho-Maryland mine. Analysis of data from later years (1950 to 1952), where the records of mine and mill production were kept in some detail and were traceable to parts of the mine, were examined and two factors were calculated: a "model" (underground sampling) to "mine" (muck car sampling) factor, equal to 1.21, and a "mine" to "mill" factor, calculated to be 1.19. The total Mine Call Factor is equal to 1.44. AMEC reviewed the work done by previous studies and has agreed with their results. The use of the Mine Call Factor can be used to establish a relationship between the historic underground channel samples and expected production. This factor should only be used on the nugget vein system data.

Industrial Minerals Resource and Mineral Reserve Estimates

When Emgold acquired the rights to a potential ceramics technology in 2003, the Company realized that the I-M Project may host mineral resources suitable as feedstock for the process and potentially for aggregate production. Initial investigations of the meta-volcanic rock commenced in June 2004 with a geotechnical drilling program designed to obtain data for the design of a mine access ramp. Geological information from this program was also analyzed to determine if the rock excavated during ramp construction would be suitable feedstock for the ceramics technology. The analysis included surface geologic mapping, outcrop sampling, sampling of the diamond drill core, and testing of samples to assess their suitability for ceramics manufacture. The result of these analyses was the definition of a large volume of igneous rocks of similar composition that were considered satisfactory as an industrial mineral resource suitable for ceramics manufacture. The industrial rocks are adequately defined by core drilling, but further testing, marketing, and production of ceramic products using the ceramics technology, and the beginning of underground development will be necessary to upgrade this industrial rock into reserves. Sales contracts or actual sales may be required in order to prove the commerciality of the stone and ceramics products to bring the

resource into reserve status. No further core drilling of the meta-volcanics is planned until access is developed underground.

The 2004 Preliminary Assessment presents industrial minerals (ceramics feedstock) resources and gold resources for the I-M Project. The industrial minerals resource was delineated by seven geotechnical core holes drilled at inclinations of 40° and 45°, one exploration core hole, seven surface sample sites, and certain geologic data from historical underground mine drifts. The average top boundary of the resource is 200 ft below the ground surface (due to depth of mineral rights). Drill hole spacing ranged from 80 ft to 1,200 ft. The lower boundary of the resource is based on the bottom of the drill holes. The west boundary is where the amount of gabbro and ultramafic rocks begins to increase. The east boundary is based on the limit of geotechnical drilling and surface sampling.

Since the initial acquisition of the ceramics technology, the Company has determined that production of recycled stone and ceramics products is possible using commercially available equipment. Additionally, more advanced equipment, which may be applied by the Company to produce high quality stone and ceramics building products from mine wastes, has since been developed by ceramics equipment producers and is readily available for sale.

Measurement uncertainty and impairment assessments

Emgold is currently in the exploration stage on its mineral property interests, and has expensed its exploration costs. The mineral property costs that are capitalized relate to mineral property acquisition costs. At December 31, 2011, the carrying value of mineral property interests was \$1,035,163. Of this, \$747,219 was related to surface rights and two minor mining claims related to the Idaho-Maryland Property. The balance of the costs relate to the Rozan, Stewart and Bucksin properties. To the extent that the cumulative exploration amounts expensed to date were significantly in excess of the property carrying value and in the absence of negative exploration results or a decision to abandon the property management has concluded that the fair values of the properties is at least equal to or greater than its book value. The Company also used an overall global valuation test, and compared the market capitalization to its net book value at December 31, 2011, as well as an assessment as to what premium, if any, would be reasonable and concluded that no property impairment charges were identified.

In addition, the Company re-evaluates the carrying values of property, plant and equipment when events or changes in circumstance indicate that carrying values may not be recoverable. If it is determined that the estimated net recoverable amount based on non-discounted cash flows is less than the carrying value, a write-down to the estimated fair value is made by a charge to earnings. Where estimates of future cash flows are not available and where other conditions suggest impairment, management assesses whether the carrying value can be recovered.

As at December 31, 2011, the Company also determined that impairment indicators existed based on the Company's ability to raise financing and significant changes in a property's work program. The Company completed an impairment assessment for each of its mineral property interests.

It is management's opinion that the carrying amount of the exploration properties is supported by recent exploration expenditures in excess of the properties carrying value and the Company's near-term exploration plans. Although management believes that estimates applied in these impairment assessment are reasonable, such estimates are subject to significant uncertainties and judgments.

Mine Planning and Scheduling

The Company is currently reviewing underground exploration opportunities and developing several mining scenarios to optimize access to gold resources for drilling and potential conversion to proven and probable mining reserves.

Metallurgy

AMEC reviewed the mill operating statistics for 1934, 1936, 1937, 1938, 1941, and 1947. Results indicate stable overall gold recoveries and metallurgical response to gravity, flotation, and cyanidation, with overall gold recoveries ranging from 93.8% to 97.2%.

Tungsten was processed using gravity and flotation methods in the 1950s.

Overall gold recovery using modern technology should result in gold recoveries consistent with those achieved in the early milling circuits at the Idaho-Maryland mill. However, it can be expected that gold recovery from the gravity separation portion of the recovery plant using modern gravity technology may exceed the recoveries attained (i.e., average 65%) in the 1930s and 1940s. Test work to determine the maximum total gold recovery potential using gravity separation, flotation concentration and cyanidation has been recommended. The gold recovery from gravity separation using modern technology may be approximately 80% to 85%, with overall recovery including flotation concentration and cyanide recovery consistent with historical recoveries of 93.8% to 97.2%. This information is provided in detail in the Company's November 2002 NI 43-101 Technical Report and is discussed again in the

November 2004 NI 43-101 Preliminary Assessment Technical Report.

Capital Cost Estimation

Estimation of capital costs for the I-M Project is ongoing and will be available upon completion of initial underground exploration and the preparation of a feasibility study.

Operating Cost Estimation

Estimation of operating cost for the I-M Project is ongoing and will be available upon completion of initial underground exploration and the preparation of a feasibility study.

Project Schedule

The CMUP is expected to be completed in mid-2013, subject to financing. It is anticipated that construction of the I-M Project will be conducted in three Phases as outlined in the Project Application with reclamation occurring in a fourth phase. After completion of the CMUP, financing activities will occur for Phase 1 of the project, consisting of dewatering, mine rehabilitation, development, and exploration. By 2013-14, it is expected that final operating permits for the mine will be obtained and engineering work for Phase 1 will commence, along with obtaining operating permits and conducting initial site work.

Golden Bear Ceramics Company

Technology Development

Emgold initially licensed the worldwide rights to the Ceramext® technology pursuant to a World Wide License Agreement (the "Agreement") dated September 17, 2003 between the Company's wholly owned subsidiary GBC, and Ceramext, LLC. The agreement was entered into because of the apparent potential of the hot vacuum extrusion process to provide an effective tailings management strategy for the I-M Project while potentially contributing a significant revenue stream to the mine if utilized at the I-M Project. However, GBC has since determined that it has access to commercially available technology not proprietary to Ceramext, LLC that may be used for the further development of its recycling and stone and ceramics product business.

Emgold provided advance royalty payments, as per the Agreement, up to and including the December 21, 2008, payment. The March 2009 payment was not made and the Agreement was terminated as of May 7, 2009. The Company has continued to work to separate GBC from Emgold, and intends to provide minimal financial resources to its subsidiary until the potential separation is completed and GBC is independently financed.

GBC designed and operated a pilot plant in Grass Valley, California. GBC, subject to financing, is planning to complete marketing studies, a feasibility study and basic engineering of a production plant for converting mine tailings and other industrial waste materials into high quality recycled stone and ceramics products on a commercial basis. In 2005, the Company completed an initial ceramics marketing study. This comprehensive report is assisting the Company in planning aesthetics, distribution channels, market segmentation and other factors that will impact product development costs and the initial phases of the Company's marketing strategy. Additional marketing and distribution definition and studies were conducted in fiscal 2006 and are planned to be on-going in the future as products advance, subject to financing of GBC as a separate entity.

In 2007 and 2008, the development of the stone and ceramics products by Golden Bear was limited to patenting and financing activities while the Company focused on the permitting process for the I-M Project, the likely location of the first commercial manufacturing facility. Should sufficient funding be obtained and the schedule for the I-M Project be delayed, the Company would consider construction of a first commercial plant at a location other than the I-M Project. GBC has been able to source equipment from outside sources to further the development the proposed recycled stone and ceramics products using commercially available technology.

I-M Project and the Use of Waste Materials for the Production of Stone and Ceramics Products

Materials from the I-M Project geotechnical-drilling program and from surface exposures have been evaluated for their suitability for commercial exploitation. These have included historic Idaho-Maryland mine tailings and a variety of metamorphosed volcanic and intrusive igneous rocks derived from core samples and other exploration work. The goal was to determine which of the materials that will be processed during mine development and during ultimate gold processing may be suitable for use in manufacturing ceramic products.

The raw materials from the I-M Project processed and evaluated by GBC appear to be fully suitable for commercial use using commercially available equipment. Exploration for resource definition, early mining activities and partial mining operations may commence before a recycled stone and ceramics plant is constructed and operational on site.

In November 2004, a Preliminary Assessment for the I-M Project was prepared by AMEC using Measured, Indicated and Inferred Mineral Resources from the Idaho-Maryland Mine to evaluate the production of high quality stone and ceramic building materials. Although the report is preliminary in nature, it identifies the necessary activities for staged development of the I-M Project and includes estimated capital and operating costs that may allow the historic mine to return to production as a gold and ceramics producer. The Preliminary Assessment describes the staged development of the I-M Project to produce 1,200 to 2,400 tons per day ('tons/d') of ore and development rock. The development rock and tailings could then be used to produce from 160 million to 320 million equivalent square feet of ceramic tile per year.

The current plan deviates from the Preliminary Assessment with respect to the maximum ceramics production rate. The ceramics production is now planned to occur in staged with initial production set at 200 STPD then increasing to 1,200 STPD in 200 STPD increments. This translates into a maximum ceramic tile production of 160 million equivalent square feet of ceramic tile produced from 1,200 STPD of development rock and tailings. It is anticipated that a new Preliminary Assessment for the I-M Project will be completed to further describe the new plans once sufficient working capital is available.

Successful application of the recycled stone and ceramics manufacturing facility is expected to consume up to half of the tailings from the I-M Project with the other half returning underground as backfill. Excess development rock will be crushed, screened, and sold off site as aggregate. This eliminates the requirement for long-term surface storage of these materials. The successful production and sales of recycled stone and ceramic building materials would allow IMMC to continue with exploration of additional gold targets, and pre-production development, with the objective of defining an economic gold reserve while generating positive cash flow. The ultimate combination of a gold mine and processing facility, recycled stone and ceramics manufacturing facility, and aggregate mine and processing facility would greatly enhance the economic viability of the I-M Project and allow it to withstand fluctuations in metal prices that often impact a stand alone gold mine. If the recycled stone and ceramics plant does not get financed or the market is smaller than expected, the mine can operate by increasing aggregate production and placing up to 100% of the mine tailings underground.

Exploration Projects, British Columbia Properties

The Company has two early-stage exploration projects in British Columbia, Canada. The locations are shown on the map below, with details of the projects following.

Exploration activities on the Rozan and Stewart properties have been planned and carried out under the supervision of Linda Dandy, P. Geo, and Perry Grunenberg, P. Geo both “Qualified Persons” for the purpose of NI 43-101, “Standards of Disclosure for Mineral Projects”.

Stewart Property, British Columbia

The Stewart Property in British Columbia is without known mineral resources and reserves and the proposed programs are exploratory in nature.

Property Location and Geology

Pursuant to an option agreement entered into in 2001 and completed in 2008, the Company acquired the rights to 9 mineral claims located at latitude 49°14'N and longitude 117°20'W in the Nelson Mining Division near Ymir, British Columbia. Currently the property consists of 28 claims totalling 5,789 hectares.

The property has been subject to an exploration activity by numerous companies over the years, many focusing on different metals. In 2001 Emgold conducted soil geochemistry sampling to verify prior historic work, and in 2003 Emgold added airborne geophysics (magnetics, resistivity, and electromagnetics). In 2005 Emgold completed a 6-hole diamond drill program totaling 404.5 meters (1,327 feet) of NQ size core and in 2006 five more holes were drilled. That program included rock and soil sampling and the results indicated that further work on the property was warranted and that other areas of the property were deemed to have potential for tungsten, and silver-lead-zinc mineralization.

In 2007, Emgold conducted a trenching and diamond drill program over several areas of the property. A total of 28 trenches and 30 diamond drill holes (3,338 meters or 10,950 feet of drilling) were completed on the property, and 339 trench samples along with 1,285 BTW size core samples were obtained and shipped to a laboratory in Vancouver B. C. for analysis. The results of this program further defined the presence of molybdenum, tungsten and gold mineralization on the property, and produced more evidence that Stewart has significant exploration potential.

In 2010, The Company drilled 19 diamond drill holes (2,526 meters or 8,287 feet) of NQ size core. The drilling focused on the Stewart Moly Zone with the goal of defining and expanding the Zone. Both high grade and low grade molybdenum mineralization was identified, with the presence of potential by-product metals gold and rhenium.

In December 2011, the Company completed a Cdn\$767,750(2010-\$500,00) flow-through financing to conduct exploration activities on the Stewart and Rozan Properties during 2012.

Option Agreement

Pursuant to an option agreement entered into in 2001 and completed in 2008, the Company acquired a 100% right, title and interest in and to the Stewart property by making payments totalling Cdn\$104,000 and issuing 260,000 common shares, subject only to a 3% NSR payable to the optionors. The Company has the right to purchase 66 % of the NSR for the sum of Cdn\$1,000,000 and has the first right of refusal to purchase the remaining 33 %.

Exploration Activity

In fiscal 2011, Emgold incurred \$503,544 compared to a recovery of (2010 – \$4,154) and compared to a recovery of (2009 - \$7,611) in exploration expenditures on the Stewart property. In fiscal 2008, summary reports of the work program in fiscal 2007 were completed. No exploration activity was carried out in fiscal 2009.

Prior to year end 2011, the Company raised Cdn\$767,750 in flow through funding to be used to complete exploration work in fiscal year 2012.

Rozan Gold Property, British Columbia

The Rozan Gold Property in British Columbia is without known mineral resources and reserves and the proposed programs are exploratory in nature.

Option Agreement and Location

In 2000 the Company acquired 100% of the rights to the Rozan Gold Property, a prospect located south of the community of Nelson in the Red Mountain area of south eastern British Columbia. The Company earned its interest in the property by making stepped payments totalling Cdn\$100,000 and issuing 200,000 common shares. In fiscal 2006 the claims were transferred to the Company. The property is subject to a 3% NSR. The Company has the right to purchase 2/3 of the NSR for the sum of Cdn\$1,000,000 and has the first right of refusal to purchase the remaining 1/3. Currently the property consists of 32 mineral claims totalling 1,950 acres.

In December 2010, the Company entered into a Lease and Option to Purchase Agreement (the "Agreement") with Valterra Resource Corporation ("Valterra"). The Agreement calls for cumulative work commitments of \$1,000,000 over five years, with a commitment of \$50,000 in 2010, \$200,000 in 2011, and \$250,000 in each of years 3 to 5. The term of the Agreement is for a period of 5 years, with property payments of cash, common shares and five-year warrants to be made by Valterra to the Company during the lease as follows:

Period	Cdn\$	Shares	5 Year Warrants
Signing	Nil	50,000	50,000
Year 1	\$30,000	50,000	50,000
Year 2	\$30,000	50,000	50,000
Year 3	\$40,000	50,000	50,000
Year 4	\$40,000	50,000	50,000
Year 5	\$60,000	100,000	100,000
Total	\$200,000	350,000	350,000

Upon completion of the lease payments and work commitments, Valterra will acquire the Rozan Property, subject to an underlying NSR. Valterra will use its best efforts to complete a NI 43-101 resource estimate for the property by Year 5, subject to results obtained from exploration and development work.

Under the agreement with Valterra, should the Company elect to acquire two thirds of the NSR currently held by the original optionors, or a 2% NSR, Valterra will have 30 days to exercise an option to obtain half of this interest (a 1% NSR) for Cdn\$500,000. The Company will use this payment as part of the required payment to acquire the 2% NSR from the original optionors and will then transfer the 1% NSR to Valterra. Should Valterra elect not to exercise its option at this time, it shall retain a further option to acquire the 1% NSR from the Company at a future date for Cdn\$750,000. The Company will retain its first right of refusal with the original optionors to acquire the remaining 1% of their NSR, should they elect to sell it to a third party. Should the Company obtain this 1% NSR, Valterra shall have first right of refusal if the Company elects to sell it to a third party.

In January 2011, Emgold and Valterra agreed to an amendment to the agreement whereby Valterra requested, and Emgold agreed, to accept securities of Valterra in satisfaction of the Year 1 cash payment of Cdn\$30,000. In February 2011 Emgold received the shares and warrants as specified in the agreement, and 600,000 units of Valterra in satisfaction of the Cdn\$30,000 cash payment. One unit of Valterra is comprised of one common share of Valterra and one warrant to acquire one additional share at an exercise price of Cdn\$0.10 per share for a period of 24 months from the date of issue.

Subsequent to the year ended December 31, 2011, The Rozan Property was returned to Emgold's ownership when Valterra was unable to meet its work commitments for 2011. In December 2011, expecting the return of the property, Emgold completed a Cdn \$ 767,750 flow-through financing to conduct exploration activities on the Stewart and Rozan properties during 2012.

Exploration Activity

An initial work program on the Rozan property was completed in fiscal 2000, and exploration programs required for assessment purposes and under the terms of the option agreement have been completed each year. In 2000, Emgold collected 169 soil samples and 19 rock chip samples, conducted a magnetometer geophysical survey and diamond drilled two BQ size holes to test a granodiorite ridge hosting sheeted stockwork veining and a second hole to test the Main Vein.

In 2003, Emgold retained Furgo Airborne Surveys Corp. who flew 161 line kilometres along NE-SW oriented flight lines using a DIGHEM V EM-MAG geophysical system to cover the Rozan property. The survey identified 167 anomalies, with 88 traceable to discrete bedrock sources often indicative of conductive sulphides and several discrete weak conductors where located.

During 2004, the Company completed follow up soil sampling over the airborne anomalies. A total of 333 soil samples and 9 rock samples were collected. Several correlations were discovered between areas of anomalous magnetic and electromagnetic features, areas of mineralized veining, and alteration mapped during prospecting, as well as with gold-in-soil geochemical anomalies.

During 2007, a single drill hole of 107.29 meters(352 feet) in length was completed on the property. This drill hole was designed to test the northern strike extension to the gold-bearing Rozan Main Vein. Further testing along the Main Vein, and within the stock work mineralized zone to the east was postponed due to weather limitations.

In fiscal 2009, the property was optioned to Valterra. In 2010, Valterra conducted topographical and geophysical compilation studies and re-logged, resampled and catalogued the historic drill core.

In 2011, all previous soil sampling campaigns on the property were digitally compiled into a single database (1,637 samples) by Valterra and tied to corrected UTM, NAD83 co-ordinates based on available grid stations identified/found from the old grid. The historic soil geochemical data was scanned and optically recognized using analytical certificates from assessment and company reports. Valterra conducted geological mapping (approximately two square kilometres) which indicated that the Jurassic aged Nelson Intrusions consisting of granodiorite and porphyritic diorite extend further north than previously thought, expanding the potential for further precious and base mineralization within and adjacent to the intrusives and Elise Formation mafic to intermediate tuffaceous rocks. The mapping also discovered that the Mount Verde fault consists of an approximately 200 meter (656 foot) wide breccia zone with local zones of extensive shearing. Coincident with the Mount Verde fault is spotty but strongly anomalous gold and molybdenum in soils. Also in 2011, Valterra conducted soil sampling comprising approximately 150 samples, to infill a gap in the historic soil sampling coverage and to expand the soil survey to the north. Results of the 2011 soil sampling compiled with previous soil samples has defined an area 1.8 by 1.6 kilometers (1.1 by 1.0 miles) in size with several gold anomalies based on a 55 part per billion gold grade contour. The gold in soil anomaly appears to have two preferential orientations being NW-SE and NE-SW. The northwest orientation is related to the contact between Elise Formation tuffaceous rocks to the west and granodiorite to the east. Gold values in soils ranged from 0.300 to 2.625 parts per billion. Mapping was completed for gold, arsenic, molybdenum, iron, tungsten and manganese. Assaying was done by Acme Labs of Vancouver, an independent laboratory, following standard laboratory procedures, with standard quality control measures (Payne, C., 2011).

A total of 10 gold anomalies were identified by Valterra in 2011. A NW-SE trending gold soil anomaly (Target A) extends for some 1.8 kilometers (1.1 miles) and is up to 200 meters (656 feet) wide(true width is unknown). Along the surface trace of the Mount Verde fault there is a strong anomaly (Target B) indentified by gold, tungsten, arsenic, and manganese in the soils. The remaining gold soil anomalies are generally NE-SW oriented and are considered related to high grade or sheeted quartz vein gold mineralization(most of which remain unexplained) on the property.

Of the NE 'trends', three Trends C, D and G appear to be the most significant. Trends C and D are two sub-parallel NE trending gold in soil anomalies located within granodiorite and may suggest that the sheeted quartz vein system located at the NE end of the soil anomalies extends some 500 meters (1,640 feet) further to the SW. Trend G appears to originate at the historic Rozan workings and extends some 450 meters (1,476 feet) to the SW.

In fiscal 2011, Emgold recovered \$ Nil as compared to a recovery of (2010 – \$1,197); and recovery of (2009 – \$4,551) in exploration expenditures on the Rozan property.

Buckskin Rawhide Property, Nevada

In 2009, the Company entered into a lease and option to purchase agreement to acquire the rights to the Buckskin Rawhide mineral claims, a gold prospect located near Fallon, Nevada.

The Buckskin Rawhide Property is adjacent to the Rawhide Mining Company's Rawhide Mine. The Rawhide Mine, formally known as Denton Rawhide Mine, was owned and operated by Kennecott Minerals Company ("Kennecott") from 1988 to 2009. It produced 1.5 million ounces of gold and 12.4 million ounces of silver (Muntean, 2010). In 2010, Rawhide Mines was acquired by Rawhide Mining Company ("RMC"). They continue to produce gold from historic heap leach pads, remaining after Kennecott ceased mining activity in 2003 due to low metal prices. RMC is currently evaluating reopening the mine, to take advantage of today's high metal prices.

The Property is also adjacent to the Regent exploration property owned by Pilot Gold Corporation. Pilot Gold was formed after the acquisition of Fronteer Gold by Newmont Mining Corporation. The Regent property was previously explored and drilled by Kennecott in the 1990's. Since its formation, Pilot Gold has been conducting exploration on the property, including drilling with the goal of defining a potential NI 43-101 compliant resource.

The Buckskin Rawhide property was previously explored and drilled by Kennecott Minerals, including over 27 drill holes. Results indicate the potential for high grade mineralized gold/silver veins and bulk minable disseminated gold/silver zones. The development alternatives would include advancing the Buckskin Rawhide Property as a standalone gold/silver exploration project or combining it with other existing properties in the region.

In 2010, Emgold completed rock chip sampling and grab sampling of the Black Eagle vein area of the Buckskin Rawhide Property. Sampling results were announced in Emgold's January 12, 2011 news release and included very high grade chip samples, including the best sample averaging 9.00 ounces per ton gold and 17.58 ounces per ton silver. A high-grade mineralized shoot was delineated in the Black eagle vein, about 300 feet in strike length. Emgold believes the property has potential for discovery of both high-grade and bulk disseminated gold and silver mineralization.

In 2011, Emgold continued sampling of the Black Eagle Fault. The Company expanded the Buckskin Rawhide Property by staking 6 claims totalling 120 acres. The Company also announced initial results of surface sampling of the Chicago Mountain area. A bulk disseminated gold exploration target, called the Chicago Mountain Bulk Disseminated Target, was identified being approximately 4,000 feet long by 400 feet wide. A total of 105 historic grab samples in the target area averaged 0.04 ounces per ton gold. Emgold has taken 15 samples in this target area to date, with average grades of 0.02 ounces per ton gold. Ten reverse circulation drill holes were drilled by Kennecott historically in the mineralized area, with the average grade of mineralization in the holes being 0.008 ounces per ton gold and mineralization to a depth of 165 feet (and open to expansion at depth).

Option Agreement and Location

Emgold Mining Corporation (Emgold) has a lease and option to purchase agreement to acquire 100% of the part of the Buckskin Rawhide Property from Nevada Sunrise LLC, a private company located at Auburn, California. The Nevada Sunrise property comprises 715 acres of unpatented mineral lode claims and is under the jurisdiction of the Bureau of Land Management (BLM). The terms of this agreement were disclosed in an Emgold news release dated December 1, 2009. In addition, Emgold owns 6 claims totalling 120 acres.

Part of the Buckskin Rawhide Property is currently 75% owned by Nevada Sunrise LLC, a private Nevada company and 25% owned by Maurice and Lorraine Castagne. Emgold has agreed to lease the property from Nevada Sunrise LLC, subject to the following payments:

Year	Advance Royalty Payment
2009	US\$10,000 (1)
2010	US\$10,000 (1)
2011	US\$10,000 (1)
2012	US\$20,000 (1)
2013	US\$40,000 (1)
2014	US\$60,000 (2)
2015	US\$60,000 (2)
2016	US\$60,000 (2)
2017	US\$60,000 (2)
2018	US\$60,000 (2)
2019	US\$60,000 (2)

Note: (1) Lease payments may be paid in either cash or Emgold common shares based on an average price of shares traded during the calendar month prior to the payment due date. (2) Lease payments may be paid in Emgold common at the discretion of Nevada Sunrise based on an average price of shares traded during the calendar month prior to the payment due date.

During the lease period, Emgold may conduct exploration and, if warranted, complete a NI43-101 compliant feasibility study. On completion of the feasibility study, Emgold may acquire 100% ownership of the property by paying Nevada Sunrise an additional amount of US\$250,000 which Nevada Sunrise is required to use to purchase the retained 25% interest from Maurice and Lorraine Castagne as per an underlying property agreement, and to transfer that title to Emgold. Upon commercial production and after acquisition of 100% interest in the property by Emgold, Nevada Sunrise will be entitled to a 2.5 percent Net Smelter Royalty on production from the property.

Subsequent to year end December 31, 2011, Emgold acquired 420 acres of mineral claims from Jeremy Wire, to expand the Buckskin Rawhide Property further. These claims are under a separate Lease and Option to Purchase Agreement.

Cash Expenditures

Emgold's principal cash capital expenditures (there have been no material divestitures) over the three fiscal years ended December 31, 2011, are as follows:

Year	Mineral Property Interests (Cumulative)	Equipment (Cumulative)
(i) Amounts Deferred (capitalized or invested)		
2011	1,035,163	18,176
2010	1,087,420	32,655
2009	1,067,707	28,807

ii) Amounts expensed

Exploration Expenses in the five fiscal years ended December 31, 2011

Year	Idaho-Maryland	Stewart	Rozan	Jazz	Buckskin	Total
	\$	\$	\$	\$	\$	\$
2011	775,500	503,544			28,096	1,307,140
2010	670,657	(4,154)	(1,197)		5,185	670,491
2009	1,187,628	(7,611)	(4,551)	54	0	1,175,520
2008	2,521,005	41,266	23,734	620	0	2,586,625
2007	2,349,453	714,656	111,255	12,770	0	3,188,134

Golden Bear Costs expensed in the five fiscal years ended December 31, 2010:

Year	Amount Expensed
	\$
2011	0
2010	0
2009	92,340
2008	447,809
2007	629,148

The principal capital expenditures currently anticipated for the year ending December 31, 2012, are as follows:

Accounts payable and accrued liabilities, including related parties	\$504,016
Capital lease	--
Idaho-Maryland property lease	120,000
Mineral property option payments	30,000
Exploration and Permitting	3,000,000
	\$3,654,016

The Company is examining various financing alternatives including reorganizations, mergers, sales of assets, or other form of equity financing to achieve its plans. There is no assurance, however, that any such activity will generate funds that will be available for operations in fiscal 2012.

ITEM UNRESOLVED STAFF COMMENTS

4A.

Not applicable.

ITEM OPERATING AND FINANCIAL REVIEW AND PROSPECTS

5.

The following discussion and analysis should be read in conjunction with the audited consolidated financial statements of Emgold Mining Corporation for the years ended December 31, 2011 and 2010 and the related notes thereto. Emgold's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. We adopted IFRS effective as of and for the fiscal year ended December 31, 2011 by applying IFRS 1: First Time Adoption of International Reporting Standards.

Overview

Emgold is a mineral exploration company with no producing properties and consequently has no current operating income or cash flow. All of Emgold's short to medium-term operating and exploration cash flow must be derived from external financing. Emgold expects to raise additional financing to continue its planned exploration, permitting and development of its I-M Project and to separately finance the commercialization of its recycled stone ceramics business. Additional financing will be raised for its early stage exploration projects.

Critical accounting policies and changes in accounting policies

The preparation of financial statements requires management to establish accounting policies, estimates and assumptions that affect the timing and reported amounts of assets, liabilities, revenues and expenses. These estimates are based upon historical experience and on various other assumptions that management believes to be reasonable under the circumstances, and require judgment on matters which are inherently uncertain. A summary of the Company's significant accounting policies is set out in Note 2 of the Company's consolidated financial statements for the years ended December 31, 2011, 2010, and 2009.

Recent accounting pronouncements

A Summary of recent accounting pronouncements issued which may affect the Company in the future are set out in Note 3 of the Company's consolidated financial statements for the years ended December 31, 2011, 2010, and for IFRS.

The Company transitioned to International Financial Reporting Standards ("IFRS") on January 1, 2011 and will no longer be required to prepare reconciliation to US GAAP. Accordingly, the Company has not assessed the impact of adopting recent US accounting pronouncements with an application date of January 2, 2011 or beyond on its financial statements and disclosures.

A. Operating Results

Year Ended December 31, 2011 ("fiscal 2011") Compared to Year Ended December 31, 2010 ("fiscal 2010")

Emgold's loss in fiscal 2011 was \$2,338,060, or a loss per share of \$0.06, compared to a loss of \$1,073,087, or a loss per share of \$0.05 in fiscal 2010. This includes \$1,307,140 in exploration costs incurred in fiscal 2011, compared to \$670,491 incurred in fiscal 2010. Emgold's accounting policy is to expense exploration costs until the Company

reaches the development stage on its mineral property interests.

During fiscal 2011 the Company earned interest income of \$Nil on excess cash balances compared to \$261 in fiscal 2010. In fiscal 2011, the Company has had no excess cash to invest in short term investments resulting in the decrease. In fiscal 2011, the Company received \$1,000 from the sale of equipment with a book value of \$Nil as compared to 2010 where the company sold equipment with a book value of \$Nil for \$48,788.

Amortization expenses relating to general and administrative activities increased from \$14,214 in fiscal 2010 to \$14,478 in fiscal 2011.

Accretion expenses decreased from \$4,471 in fiscal 2010 to \$Nil in fiscal 2011. The debt portion of the convertible preference shares was accreted over ten years from inception such that the Canadian dollar expense would decline each year; however, this was offset by changes in the foreign exchange rate between the Canadian and U.S. dollar.

During fiscal 2010, the Company settled \$152,034 in debt by the issuance of 608,135 common shares at a deemed value of \$0.25 per common share. This resulted in a gain of \$ 77,197, due to the difference in fair value of the common shares at the time of issuance of \$0.12 and the deemed value of \$0.25 per share.

In addition, the 394,843 preference shares were converted to common shares on a one for one ratio. Also, the Company issued 2,813,575 warrants with an exercise price of \$0.35, exercisable for five years, formed part of the debt settlement, and were valued at \$479,587, using a Black-Scholes model, at a volatility of 170.6%, and expected life of five years, no dividend and a discount rate of 2.56%. This has been recorded as a cost of the settlement of the conversion of the preference shares, and the resulting gain on the settlement of the convertible preference shares and accrued dividends was \$155,869.

The Company shares services on a full cost recovery basis including rent, certain accounting and administrative salaries and overhead with three other public companies. Quorum Management and Administrative Services Inc. ("Quorum"), a private company held jointly by the Company and two other public companies, provides services to these public entities currently sharing office space and other services with the Company. The companies each hold a one-third interest in Quorum and also have certain common directors and are related parties of Emgold. The Company advanced three months of funds to Quorum for future services. Quorum held this advance as a deposit for each shareholder company as working capital. As at December 31, 2008, it was concluded that amounts advanced may not be recoverable in full, based on the financial position of Quorum and its corresponding ability to continue to provide services to the Company. Consequently, a provision of \$321,839 was recorded. Since the allowance was recorded, Quorum has provided services. Recovery of \$77,045 was recorded against this provision in 2009. At December 31, 2010, the Company determined that the full amount of the Quorum provision remaining of \$124,605 was recoverable, and this amount was recorded as a recovery in the statement of operations. In fiscal 2011 Quorum provided services to Emgold totalling \$186,109 compared to \$136,396 in fiscal 2010. A distribution of income from Quorum in fiscal 2011 resulted in a credit to Emgold in the amount of \$48,083.

The Company has stopped all further development of the Ceramext® Process but has paid advance royalties and intellectual property protection costs through to the end of December 31, 2008 ("fiscal 2008"). In May 2009, the Agreement was terminated, and the advance technology royalties were not paid. There were no costs incurred in fiscal 2010 or fiscal 2011.

Foreign exchange losses decreased from a loss of \$57,480 in fiscal 2010 to a gain of \$40,297 in fiscal 2011. Fluctuations in currency affected operations to a greater degree in fiscal 2011 due to volatility in the Canada and United States exchange rates and the changes in the United States dollar relative to the Canadian dollar, than in fiscal 2010. In the past, the Company has held most of its excess cash and short-term investments in Canadian dollars while the majority of the Company's expenses are denominated in U.S. dollars. Much of the loss in 2010 relates to the preference shares and related accrued interest which are denominated in Canadian dollars.

Finance expense decreased from \$32,413 in fiscal 2010 to \$Nil in fiscal 2011. The finance expense in 2010 relates to interest on the convertible preference shares which are denominated in Canadian dollars and vary as exchange rates fluctuate. A debt settlement of common shares has settled all unpaid accrued interest, and the preference shares have also been converted to common shares. No interest will be accrued or paid in future periods. Interest was also being accrued on promissory notes payable entered into by the Company with directors, officers and investors to provide working capital. The promissory notes and all accrued interest have been repaid to the directors, officers and investors from the proceeds of the private placement financing.

Legal, accounting and audit fees increased from \$99,012 in fiscal 2010 to \$175,381 in fiscal 2011, due to higher legal fees related to various proposed financings and general corporate issues, higher audit fees for fiscal 2010 than had been accrued and accounting fees related to the conversion to IFRS.

Management and consulting fees decreased \$26,129 from \$68,763 in fiscal 2010 to \$42,634 in fiscal 2011. Consulting fees paid or accrued and payable to two private companies, each controlled by an officer and director of the Company, have decreased for one and discontinued for another, due to changes in officers (consolidation of the CEO and COO positions) and renegotiation of lower fees with the officers. The Company has discontinued payment of quarterly directors' fees to independent directors until it is in a better financial position.

Office and administration expenses decreased \$78,892 from \$168,903 in fiscal 2010 to \$90,011 in fiscal 2011. Administrative expenses include telephone, courier and other direct costs. The expense decreased compared with the previous period as a result of various fluctuations in other direct costs as a result of sharing of office space as well as various cost cutting initiatives such as a reduction in the amount of corporate office space used by Company personnel. In California, the Company moved to smaller warehouse and office premises in February 2010. In addition, a distribution of income from Quorum in fiscal 2011 resulted in a credit to Emgold in the amount of \$48,083.

Salaries and benefits increased by \$34,445 from \$178,913 in fiscal 2010 to \$213,358 in fiscal 2011 as a result of paralegal consulting and increased head office personnel.

Shareholder communications costs decreased \$20,070 from \$82,272 in fiscal 2010 to \$62,202 in fiscal 2011. These costs include dissemination of news releases, transfer agent, regulatory and filing fees as well as fees associated with the maintenance of the Company's website. The decrease relates primarily to a reduction in investor relations activity compared with the previous period.

Stock-based compensation of \$45,812 in fiscal 2011 relates to stock options granted to directors and officers of the Company. The stock option expense was calculated using a Black-Scholes option valuation model, using a risk free rate of 2.2%, and expected life of 3.8 years, and an estimated volatility of 112.3%. The fair value per option grant was Cdn\$0.18 for each of the stock options granted at a price of Cdn\$0.25, with an expiry date of March 17, 2015. Stock based compensation of \$300,647 in fiscal 2010 relates to re-valuations of stock options granted to directors and officers of the Company.

Travel expense decreased \$1,179 from \$1,179 in fiscal 2010 to \$Nil in fiscal 2011. The Company has reduced the number of trips to destinations other than the United States and reduced the extent of travel from Grass Valley, California to Vancouver, BC in order to reduce expenses.

General and administrative expenses:

Amortization expenses relating to general and administrative activities decreased from \$30,813 in fiscal 2009 to \$14,214 in fiscal 2010. The decrease relates to certain hardware and software used in administrative activities, being fully amortized in 2008.

Foreign exchange losses decreased \$145,332 from a loss of \$185,807 in fiscal 2009 to a loss of \$46,475 in fiscal 2010. The decrease is a result of a reduction in U.S. expenses in 2010 requiring decrease need to exchange funds. The Company holds most of its cash and short-term investments in Canadian dollars while the majority of the Company's expenses are denominated in U.S. dollars. The Company does not hedge its foreign exchange exposure.

Finance expense decreased from \$57,995 in fiscal 2009 to \$32,413 in fiscal 2010. The finance expense relates to interest on the convertible preference shares which are denominated in Canadian dollars and vary as exchange rates fluctuate. The preference shares were converted to common shares in third quarter of 2010, eliminating the associated interest after that date.

Legal, accounting and audit fees decreased \$98,965 from \$197,977 in fiscal 2009 to \$99,012 in fiscal 2010. In 2009, the company experienced higher legal costs that occurred as part of a share consolidation that occurred in the last quarter of the year.

Management and consulting fees decreased \$42,346 from \$111,109 in fiscal 2009 compared to \$68,763 in fiscal 2010. Included in consulting fees is \$20,775 (2009 - \$52,953) paid to Kent Avenue Consulting Ltd., a private company controlled by an officer and director of the Company. In fiscal 2010, consulting fees of \$47,988 (2009 - \$52,964) were also paid to 759924 Ontario Ltd., a private company controlled by an officer and director of the Company. The Company entered into consulting fee agreements effective August 1, 2007, resulting in payments of Cdn\$14,000 per month to these private companies controlled by two of the directors of the Company throughout 2008. The contract with Kent Avenue Consulting was terminated in 2010 and the payments to 759924 Ontario Ltd. were reduced in 2010 as part of the Company's cost cutting measures.

Office and administration expenses decreased \$68,330 from \$237,233 in fiscal 2009 to \$168,903 in fiscal 2010. Administrative expenses include telephone, courier and other direct costs. The expense decreased compared with the previous year as a result of various fluctuations in other direct costs as a result of sharing of office space as well as various cost cutting initiatives such as a reduction in the amount of corporate office space, project office space, and warehouses space used by Company personnel in Vancouver and Grass Valley.

Salaries and benefits increased by \$6,904 from \$172,009 in fiscal 2009 to \$178,913 in fiscal 2010 primarily as a result of paralegal consulting fees and increased personnel in its head office.

Shareholder communications costs decreased \$37,806 from \$120,078 in fiscal 2009 to \$82,272 in fiscal 2010. These costs include dissemination of news releases, transfer agent, regulatory and filing fees as well as fees associated with the maintenance of the Company's website. The decrease relates primarily to a reduction in investor relations activity compared with the previous year. In April 2008, the Company retained King James Capital Corporation, an investor relations consulting firm, who was contracted Cdn\$5,000 per month effective April 2008. This contract was terminated in 2010 reducing investor relations costs for that year.

Stock-based compensation increased \$299,684 from \$963 in fiscal 2009 to \$300,647 in fiscal 2010. The increase relates to stock options granted in fiscal 2010 at a price of Cdn \$0.25, with an expiry date of March 17, 2015. Travel expense decreased \$136 from \$1,315 in fiscal 2009 to \$1,179 in fiscal 2010. The Company has reduced the number of trips to destinations other than the United States and reduced the extent of travel from Grass Valley, California to Vancouver, BC in order to conserve cash balances.

Research and development expenses:

In fiscal 2008 the Company incurred \$447,809 in expenditures directly related to the maintenance of the Ceramext® process compared to \$92,340 in fiscal 2009. The Company's expenditures related to the development of the Ceramext® process are currently limited to permitting of a manufacturing facility as part of the I-M Project, advance royalties, and intellectual property protection costs. In May 2009, the agreement with Ceramext, LLC was terminated. Fiscal 2008 expenses include \$11,696 in site costs related primarily to the warehouse rental for the pilot plant and laboratory equipment, amortization expenses relating to equipment of \$180,839, Ceramext® technology royalties of \$160,000 and engineering costs of \$33,778 which include management time and planning related to the development of a business plan for the potential separation of the Golden Bear as a separate business entity.

Exploration expenses – Idaho-Maryland Project:

Direct exploration expenditures on the I-M Project increased \$104,843 from \$670,657 in fiscal 2010 to \$775,500 in fiscal 2011. The Company's primary focus continues to be the completion of the final phase of the three-phase permitting process. Site activities and geological and geochemical costs include the ongoing digitization and evaluation of historical data, mine modeling and scheduling, cost modeling, geologic modeling, engineering and environmental studies, and permitting.

Planned expenses in fiscal 2012 for the I-M Project include the activities associated with the continuing application process for a CMUP, on-going geologic investigations and exploration, financing and public outreach activities.

Exploration expenses – Buckskin Rawhide Property, Nevada

Exploration expenditures on the Buckskin Rawhide Property increased by \$22,911 from \$5,185 in fiscal 2010 to \$28,096 in fiscal 2011.

Exploration expenses - British Columbia Properties

Exploration expenditures on the Stewart Property increased by \$507,698 from a recovery of \$4,154 in fiscal 2010 to an expense of \$503,544 in fiscal 2011. In December 2010, the Company completed a Cdn\$500,000 flow-through financing to conduct exploration activities on the Stewart Property during 2011.

B. Liquidity and Capital Resources

Financial Conditions for year ended December 31, 2011

Historically, the Company's sole source of funding is and has been the issuance of equity securities for cash, primarily through private placements to sophisticated investors and institutions. The Company has issued common shares pursuant to private placement financings and the exercise of warrants and options.

The current market conditions, the challenging and inhospitable funding environment and the low price of the Company's common shares make it difficult to raise funds through private placements of shares. In addition the

Company must endeavour to minimize dilution to existing shareholders. There is no assurance that the Company will be successful with any financing ventures. Please refer to Item 3 – Key Information – section D - Risk Factors in this document.

At December 31, 2011, the Company had working capital of \$651,840, defined as current assets less current liabilities, compared with working capital of \$527,753 at December 31, 2010. The Company's consolidated financial statements were prepared using International Financial Reporting Standards applicable to a going concern. Several adverse conditions cast substantial doubt on the validity of this assumption – see “Going Concern” disclosure below. When the Company has unused cash, it primarily invests its unused cash in guaranteed investment certificates which are redeemable in full after 30 days with interest or in treasury bills. There have been no investments in commercial paper. Where the initial term of the guaranteed investment certificate is greater than 90 days it is recorded as a short-term investment.

Operations for the year ended December 31, 2011, have been funded primarily from private placement financings and loans from related parties.

Potential Restrictions on Transfer of Funds by Subsidiaries

The Company's three subsidiaries are Nevada incorporated corporations. There are no currency restrictions on transfer of funds from the United States to Canada.

The Company currently has no source of operating cash flow and has a history of operating losses. Emgold currently has no revenue from operations and all of its mineral property interests are in the exploration or development stages. The Company does not expect to receive significant revenue from operations at any time in the near future, and Emgold has had no prior years' history of earnings or operating cash flow. Neither Emgold nor its predecessors have paid dividends on their shares since incorporation and the Company does not anticipate doing so in the foreseeable future.

Investing Activities

As at December 31, 2011, Emgold has capitalized \$1,035,163 (2010 - \$1,087,420) representing costs associated with the acquisition of its mineral property interests in California and British Columbia.

The Company entered into an agreement to acquire 7.13 acres of land known as the "Whisper Property". Under the terms of the agreement, the Company issued 280,823 (post-consolidation) common shares to the seller for the purchase of the Whisper Property at a deemed market price of Cdn\$0.55 on the date of filing. No common shares were issued as bonuses, finder's fees or commissions in connection with this transaction. The common shares have been issued from treasury but have not been distributed to the seller pending title searches and final documentation.

A vehicle at a cost of \$38,834 was purchased in fiscal 2006 and was financed through a capital lease, payable at \$697 monthly. Current lease obligations are \$Nil for fiscal 2011.

Capital Resources

At December 31, 2011, Emgold's working capital, defined as current assets less current liabilities, was \$651,840, compared to a working capital of \$527,753 at December 31, 2010. The Company's continued operations are dependent upon the Company's ability to obtain sufficient financing to carry on planned operations. Currently, the Company does not have sufficient working capital to carry on planned operations, and will have to cease operations, if it is unable to raise funds for general corporate maintenance.

At December 31, 2011, the Company had 58,714,504 common shares issued and outstanding and nil Class A preference shares. During the year ended December 31, 2010, the holders of its issued and outstanding Series A Preference Shares agreed to convert all of the Series A Preference Shares and related accrued interest and dividends into common shares of the Company in return for the receipt of 2,813,575 units of the Company. Each unit comprised one common share and one purchase warrant. Each share purchase warrant was exercisable at a price of \$0.35, with an expiry date of September 9, 2015. The fair value of the 2,813,575 shares issued as part of the units total and the 394,843 shares issued upon conversion of debt totalled \$ 589,725. The warrants were valued at \$ 497,587 using the Black-Scholes method and the following assumptions: a volatility of 170.6%, an expected life of five years, no dividend and discount rate of 2.56. The total gain arising was \$ 174,197 of which \$ 155,869 and \$ 18,328 have been recorded in the statements of operations and equity, respectively. The common shares market value was less than the \$ 90,902 preference share value and the difference of \$ 18,328 was recorded in contributed surplus.

Additional financing will be required in fiscal 2012 in order for the I-M Project and the Company to move forward as scheduled. The Company currently does not have sufficient working capital for the next full year of operations and will therefore need to raise additional capital to continue operations, as it currently has no source of revenue. Such financing may be achieved through the exercise of share purchase warrants and through the issuance of common shares, or other forms of financing.

Share Capital

At December 31, 2011 the Company had 58,714,504 common shares issued and outstanding.

The Company's continued operations are dependent upon the Company's ability to obtain sufficient financing to carry on planned operations. Currently, the Company does not have sufficient working capital to carry on planned operations, and will have to cease operations, if it is unable to raise funds for general corporate maintenance.

2011

In November, 2011 the Company completed the first tranche of a non-brokered private placement which comprised 11,620,000 units at a price of CDN\$0.10 per unit. Each unit consists of one common share of the Company and one non-transferable share purchase warrant (a "Warrant"). Each warrant entitles the holder to purchase, for a period of 24 months, one additional Share at a price of CDN \$ 0.15.

Finder's fees of CDN\$53,600 and 536,000 Finder's Warrants were awarded in relation to the first tranche of the financing. Each Finder's Warrant entitles the holder to purchase, for a period of 24 months, one common share of the Company at a price of CDN\$0.15.

In December, 2011 the Company completed the second tranche of a non-brokered private placement which comprised 2,530,000 units at a price of CDN \$0.10 per unit. Each unit consists of one common share of the Company and one non-transferable purchase warrant (a "Warrant"). Each warrant entitles the holder to purchase, for a period of 24 months, one additional share at a price of CDN \$0.15.

Finder's fees of CDN \$3,200 and 32,000 Finder's Warrants were awarded in relation to the second tranche of the financing. Each Finder's Warrant entitles the holder to purchase, for a period of 24 months, one common share of the Company at a price of CDN \$0.15.

In December, 2011 the Company completed a non-brokered private placement of flow-through units for gross proceeds of Cdn\$767,750. A total of 5,905,769 units were issued at a price of CDN \$0.13 per unit. Each unit consists of one "flow-through" common share of the Company and one half of one common share purchase warrant (each whole warrant a "Warrant"). Each warrant entitles the holder to purchase, for a period of 18 months, one additional common share of the Company at a price of CDN \$0.20 per share.

Finder's fees of Cdn\$49,920 and 383,999 finder's warrants were awarded in relation to the flow-through financing. 269,230 of the finder's warrants entitles the holder to purchase, for a period of 18 months, one additional common share of the Company at a price of Cdn\$0.15 and 114,769 at a price of Cdn\$0.20 for a period of 18 months.

The Shares issued in connection with these non-brokered private placement, including any issued on the exercise of the Warrants, will be subject to a minimum hold period of four months.

2010

In April 2010, the Company completed a non-brokered private placement raising gross proceeds of \$ 750,000. A total of 3,000,000 units were issued at a price of \$0.25 per unit. Each unit consists of one common share of the Company and one non-transferable share purchase warrant. Each warrant entitles the holder to purchase, for a period of 24 months, one additional common share of the Company at a price of \$0.35. The shares and warrants issued in connection with this non-brokered private placement are subject to a minimum hold period of four months. Finder's fees of \$76,797 and 192,000 finder's warrants were awarded in relation to the financing. The finder's warrants have the same terms as the warrants included in the units sold to purchasers except for an exercise price of \$ 0.25. The finders warrants and share purchase warrants were valued using a Black Scholes option pricing model using the following assumptions: weighted average risk free interest rate of 1.78%, volatility factors of 89% and an expected life of 2 years. The total value ascribed to the finder's warrants and share purchase warrants was \$198,869.

On September 24, 2010, the Company completed a first tranche of a private placement, which comprised 5,203,856 units at a price of \$0.14, comprising one common share and one warrant, exercisable for \$0.35 for a period of 24 months. Finder's fees of \$15,680 and 112,000 finder's warrants were awarded in relation to the first tranche of the financing. The finder's warrants have the same terms as the warrants included in the units sold to purchasers. The finder's warrants and share purchase warrants were valued using a Black Scholes option pricing model using the following assumptions: weighted average risk free interest rate of 1.35%, volatility factors of 94% and an expected life of 2 years. The total value ascribed to the finder's warrants and share purchase warrants was \$149,353.

On October 14, 2010, the Company closed the second and final tranche of the non-brokered private placement of 7,296,142 units. Finder's fees of \$75,673 and 540,491 finder's warrants were paid in relation to the second tranche of the financing. Each finder's warrant entitles its holder to purchase, for a period of 24 months, one additional common share of the Company at a price of US\$0.35. In total, 12,499,998 units were issued at the price of \$0.14 per unit to raise gross proceeds of approximately \$1,750,000. The shares, the warrants, the finder's warrants and any common shares issued on exercise of the warrants or the finder's warrants were subject to a minimum hold period of four months. The finder's warrants and share purchase warrants were valued using a Black-Scholes option pricing model using the following assumptions: weighted average risk free interest rate of 1.35%, volatility factors of 92% and an expected life of 2 years. The total value ascribed to the finder's warrants and share purchase warrants was \$319,133.

On December 22, 2010, the Company completed a non-brokered private placement financing of 2,272,727 flow-through units at a price of Cdn\$0.22 per unit for gross proceeds of Cdn \$500,000. Each unit consists of one flow-through common share and one-half of one transferable non-flow-through share purchase warrant, totalling 1,136,363 warrants. Each warrant is exercisable for a period of two years from the date of issue at a price of Cdn\$0.30 per share. The proceeds will be used for exploration projects in British Columbia. Finder's fees of Cdn\$35,000 and 159,000 finder's warrants were awarded in relation to the financing. Each finder's warrant entitles its holder to purchase, for a period of 2 years, one additional common share of the Company at a price of US \$0.30. The Finders Warrants and share purchase warrants were valued using a Black-Scholes option pricing model using the following assumptions: weighted average risk free interest rate of 1.38%, volatility factors of 99% and an expected life of 2 Years. The total value ascribed to the Finders Warrants and share purchase warrants was \$103,022.

A finder's fee of Cdn\$35,000 was paid in association with this financing. In addition, the Company has issued 159,090 warrants to the finder, which will entitle the finder to acquire the number of common shares of the Company at a price of Cdn\$0.23 per share at any time, subject to a hold period, and from time to time, on or before December 21, 2012.

2009

On March 5, 2009, the Company completed a private placement of 501,500 units at a price of \$0.40 per unit, for gross proceeds of \$200,600. Each unit was comprised of one fully paid and non-assessable common share of the Company and one transferable common share purchase warrant. Each common share purchase warrant entitles the holder to subscribe for one common share for a period of 24 months following the date of issue, exercisable in the first year at \$1.20, and in the second year at \$1.60. The share purchase warrants were valued using a Black-Scholes pricing model using the following assumptions: weighted average risk free interest rate of 1.0%, volatility factors ranging from 121% - 123% and an expected life of two years. The value attributable to the transferable common share purchase warrants was \$0.10 per warrant.

On April 9, 2009, the Company completed an additional closing of 10,000 units at a price of \$0.40 per unit, for gross proceeds of \$4,000. Each unit was comprised of one fully paid and non-assessable common share of the Company and one transferable common share purchase warrant. Each common share purchase warrant entitles the holder to subscribe for one common share for a period of 24 months following the date of issue, exercisable in the first year at \$1.20, and in the second year at \$1.60. The share purchase warrants were valued using a Black-Scholes pricing model using the following assumptions: weighted average risk free interest rate of 1.0%, volatility factors ranging from 123% - 125% and an expected life of two years. The value attributable to the transferable common share purchase warrants was \$0.10 per warrant.

On November 4, 2009, the Company completed a financing of 350,000 units at a price of \$0.50 per unit, for gross proceeds of \$175,000. Each unit was comprised of one fully paid and non-assessable common share of the Company and one transferable common share purchase warrant. Each common share purchase warrant entitles the holder to subscribe for one common share for until November 4, 2011. Each warrant is exercisable in the first year at \$1.20, and in the second year at \$1.60. The share purchase warrants were valued using a Black-Scholes pricing model using the following assumptions: weighted average risk free interest rate of 1.0%, volatility factors ranging from 139% - 141% and an expected life of two years. The value attributable to the transferable common share purchase warrants was \$0.20 per warrant. A finder's fee of \$5,500 was paid for services rendered in introducing certain subscribers to the offering.

Subsequent to December 31, 2009, the Company has settled \$152,034 in liabilities by the issuance of 608,135 common shares at a deemed value of \$0.25 in a debt settlement.

The Company continues to pursue various methods to reduce its current liabilities, including additional debt settlements, divestiture of assets and additional equity investment.

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2008

During the year-ended December 31, 2008, share capital increased \$165,817 through the exercise of 94,250 warrants with exercise prices ranging from Cdn\$1.10 to Cdn\$1.50 and through the exercise of 8,750 options at an exercise price of Cdn\$1.50.

The securities offered have not been registered under the United States Securities Act of 1933, as amended, and may not be offered or sold in the United States absent registration or an available exemption from the registration requirements.

Options and Warrants

2011

For the twelve months ended December 31, 2011, a total of 405,700 incentive stock options previously granted to directors, officers, employees and consultants of the Company with exercise prices ranging from Cdn\$1.00 to Cdn\$10.00 were repriced to Cdn\$0.175 per share. The expiry dates, ranging from October 12, 2011 to July 12, 2014, remain unchanged. During the twelve months ended December 31, 2011 a total of 65,500 options expired and 175,833 were cancelled or forfeited.

2010

In April 2010, the Company issued 3,000,000 share purchase warrants relating to a private placement. Each warrant entitles the holder to subscribe for one common share for a period of 24 months following the date of issue, exercisable at \$0.35. Finder's warrants totalling 192,000 were awarded in relation to the financing. The finder's warrants have the same terms as the warrants included in the units sold to purchasers except for an exercise price of Cdn\$0.25. The shares and warrants issued in connection with this non-brokered private placement are subject to a minimum hold period of four months.

In October 2010, the Company closed a private placement in which a total of 12,499,998 units were issued at the price of \$0.14 per unit. In total 652,491 finder's warrants were awarded in relation to the private placement. Each unit is comprised of one common share and one warrant, exercisable for \$ 0.35 for a period of 24 months. The finder's warrants have the same terms as the warrants included in the units sold to purchasers. The shares, the warrants, the finder's warrants and any common shares issued on exercise of the warrants or the finder's warrants were subject to a minimum hold period of four months.

In December 2010, the Company completed a non-brokered private placement financing of 2,272,727 flow-through units at a price of Cdn\$ 0.22 per unit. Each unit consists of one flow-through common share and one-half of one transferable non-flow-through share purchase warrant, totalling 1,136,363 warrants. Each warrant is exercisable for a period of 24 months from the date of issue at a price of Cdn \$0.30 per share. Finder's warrants totalling 159,090 were awarded in relation to the financing. Each finder's warrant entitles the holder to purchase, for a period of 24 months, one additional common share of the Company at a price of Cdn \$0.22.

During the year ended December 31, 2010, the Company granted a total of 2,078,998 incentive stock options to directors, officers, employees and consultants of the Company. A total of 559,998 are exercisable over a five year period expiring March 17, 2015, and a further 1,500,000, expiring December 8, 2015, are all exercisable at a price of Cdn\$ 0.25, in accordance with the Company's 10% rolling stock option plan.

In addition, a total of 648,300 incentive stock options granted to directors, officers, employees and consultants of the Company with exercise prices ranging from Cdn\$1.00 to Cdn\$10.00 were re-priced to Cdn\$0.175 per share. The expiry dates, ranging from October 12, 2011 to July 12, 2014, remain unchanged.

2009

During fiscal 2009, 8,175,134 warrants and underlying warrants, exercisable at prices ranging from Cdn\$1.10 to Cdn\$1.50 expired unexercised. In addition, 17,000 stock options exercisable at Cdn\$2.50, expired unexercised, and 150,000 options with exercise prices of Cdn\$1.20 to Cdn\$2.90 were forfeited. In March and April 2009, 511,500 share purchase warrants relating to a private placement were issued. Each warrant entitles the holder to subscribe for one common share for a period of 24 months following the date of issue, exercisable in the first year at \$1.20, and in the second year at \$1.60. In November 2009, 350,000 shares purchase warrants, related to a private placement were issued. Each warrant entitles the holder to subscribe for one common share for a period of 24 months following the date of issue, exercisable in the first year at \$1.26, and in the second year at \$1.60.

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Subsequent to December 31, 2009, the Company granted a total of 559,998 incentive stock options to directors, officers, employees and consultants of the Company, exercisable over a five-year period expiring March 17, 2015, at a price of Cdn\$0.25 per share, in accordance with the Company's 10% rolling stock option.

2008

During 2008, 18,739,823 warrants exercisable at prices ranging from Cdn\$0.26 to Cdn\$0.50, expired, unexercised. In addition, 1,158,000 stock options exercisable at prices ranging from Cdn\$0.15 to Cdn\$1.00 were cancelled and 87,500 stock options were exercised by an officer of the Company with an exercise price of \$0.15. In 2008, 942,500 warrants were exercised at prices ranging from Cdn\$0.11 to Cdn\$0.15.

Financing Activities

Golden Bear has been looking at various alternatives to implement Golden Bear's business plan as noted at Item 4 above. Using the pilot-plant facility in Grass Valley, the Company has produced stone and ceramic tiles that were installed in a home/office building constructed by a development partner in the research process.

Further financing will be required to advance the I-M Project and for general and administrative costs, in order to complete the permitting process. This could involve joint venture, equity financing, sale of assets, or other forms of financing.

Going Concern

At December 31, 2011, the company has a working capital surplus, however, substantial additional financing will be required to continue permitting activities at the required level to obtain the CMUP by 2013. Executive salaries are being deferred voluntarily, together with Board remuneration and management and consulting fees, until such time as new financing is available. The need to raise working capital directly impacts the ability of the Company to undertake planned exploration programs or advance permitting activities relating to the Idaho-Maryland project. Sufficient work has been undertaken on all of the Company's current mineral property interests in Canada for several years, but if the Company is unable to perform additional exploration work in future years or with exploration partners, it may be necessary to write-down additional mineral property interests in future periods, and there is substantial doubt as to the Company's ability to continue as a going concern, without restructuring or some form of joint venture with respect to the I-M Project. If additional working capital is not raised, the Company might have to terminate its lease on the Buckskin Rawhide Property in Nevada or the Koegel Rawhide Property in Nevada.

The Company's ability to continue as a going concern is contingent on its ability to obtain additional financing. The current equity and financial market conditions, the challenging environment for raising monies, and the low price of the Company's common stock make it difficult to obtain additional funding by private placements of shares. There is no assurance that the Company will be successful with any financing ventures. It is dependent upon the continuing financial support of shareholders and obtaining financing to continue exploration and/or development of its mineral property interest. While the Company is expending its best efforts to achieve its plans by examining various financing alternatives including reorganizations, mergers, sales of assets, or other form of equity financing, there is no assurance that any such activity will generate funds that will be available for operations.

The consolidated financial statements do not include any adjustments to the recoverability and classification of recorded assets, or the amounts of, and classification of liabilities that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

Plans for 2012

The Company continues to focus on the permitting required for the I-M Project in Grass Valley. The I-M Project is entering the final stages of the permitting process and is requiring a substantial amount of the Company's financial and management resources.

Upon obtaining the necessary financing to continue the permitting process for the I-M Project, it is estimated that the Company may require approximately \$180,000 - \$220,000 per month in working capital to operate the Company over the subsequent year, including environmental monitoring, permitting, legal, and engineering costs associated with obtaining the CMUP, as well as corporate administration. This excludes existing accounts payable and any financing costs or exploration work on other properties. Should the Company not obtain sufficient financing to continue the permitting for the I-M Project, the Company would be forced to terminate the BET Agreement and potentially abandon the Idaho-Maryland Project, as least in the short term. In that situation, the Company would require between \$60,000 and \$140,000 per month in working capital to operate the Company over the subsequent year, assuming the Company was placed in a holding pattern until capital markets improved. The estimated direct cost for environmental monitoring, permitting and community relations costs leading to award of the CMUP on the I-M Project is contingent on the progress made by the City of Grass Valley and its consultants in completing a Revised Draft EIR and Final EIR, as well as other permit applications. The I-M project will also be impacted by the Company's ability to raise additional funds to advance through the final stages of the permitting process which could result in potential delays to the permitting process as well as additional costs.

Additional environmental investigations are required as a part of the permitting process and for the future development of the surface properties for the purposes of underground exploration and possible mining and milling of ore. Currently the Company believes that the time frame for completing the EIR and obtaining the Conditional Mine Use Permit is approximately 12 months providing the Company is able to obtain adequate funding through the permitting process. The Company has engaged numerous independent consultants to assist with preparation of information required to obtain the CMUP.

The Company continues to expand the resource at the I-M Project and develop new exploration targets. When the Company obtains the CMUP, the Company plans to conduct underground exploration leading to the completion of a feasibility study for a 2,400 STPD underground gold mine mill. The Company has been performing remediation activities on an on-going basis. As such, management feels that there is no significant reclamation liability outstanding on properties owned by the Company. In addition much of the exploration activities in California relates to the digitization of historical information. No drilling has been conducted since 2004, and reclamation related to drilling was completed at that time.

Readers are cautioned that the CMUP is required in order to dewater the existing mine workings at the I-M Project and to construct access to the underground to conduct underground exploration and complete feasibility work. A production decision must be made before the mine can go into gold production.

The Company is in the process of exploring its mineral property interests and has not yet determined whether its mineral property interests contain mineral reserves that are economically recoverable. The Company's continuing operations and the underlying value and recoverability of the amounts shown for mineral property interests are entirely dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of the mineral property interests and on future profitable production or proceeds from the disposition of the mineral property interests.

Although 40 gold mines have been permitted for operations in California since the CEQA legislation was enacted in the 1960s, there seems to remain a general perception in the mining industry that it is not possible to permit a mine in California and this has seriously impeded the Company's efforts to obtain required and timely equity financing. The number of gold mines permitted and put into production is only a small fraction of the other mineral and metal mining production in California. According to the United States Bureau of Economic Analysis, California's Gross State Product ("GSP") for mining in 2007 was nearly \$5.5 billion while for comparison Nevada's GSP for mining in 2007 was only \$2.7 billion. Permits applied for by the Company since its acquisition of the I-M Project have been obtained to date. However, there remains a perception that California is not a hospitable or significant mining jurisdiction and

this has made it extremely difficult for the Company to obtain adequate financing for the permitting of the I-M Project, causing delays in anticipated timing of the permit schedule.

Preference shares, issued

	Number of Shares	Amount
Equity portion of Class A Convertible Preference Shares, December 31, 2010		
Contributed Surplus	-	\$ -
Equity portion of Class A Convertible Preference Shares, December 31, 2011	-	-