

**Goldstake Explorations Inc.**  
**Management Discussion and Analysis**

**For the Year Ended**  
**December 31, 2004**

March 31, 2005

### **Background**

Goldstake started acquiring properties (purchase and lease) along the 18-mile floodplain on Whitewood Creek (WWC), South Dakota, U.S.A. in 1986. Goldstake spent U.S. \$2.3 million on acquisition, proving resource, environmental and engineering work – which was subsequently reimbursed by Joint Venture partner, Homestake Mining Company (HMC) of California. Goldstake entered into this Joint Venture in September, 1988. Goldstake received a further U.S. \$3.5 million over eight years from HMC, which was described as administrative costs to be used by Goldstake during the time it was to take HMC to obtain mining permits from the State of South Dakota, and to prepare a bankable feasibility study to enable Goldstake to finance its 50% share of the capital cost of developing a mine on WWC.

Although HMC did prepare a conceptual mining feasibility “study”, which showed an internal rate of return of 28.9% before tax, it did not complete a bankable mining feasibility, nor did it make an application for a mining permit as called for in the Joint Venture agreement and it consistently refused to prepare and lodge a mining application in spite of arbitration awards finding HMC in breach of the agreement and instructing them to comply with these terms of the Joint Venture agreement.

A substantial part of the amount received from HMC was expended on legal costs in an arbitration action brought against HMC when it continued to breach the JV agreement. The JV started in Sept., 1988 and ended in Feb., 2002 after almost 10 years of arbitration. Goldstake was awarded U.S. \$1 million, less certain costs of approximately U.S. \$250,000 and 3,250 acres of farm properties encompassing its tailings deposits on WWC.

It is estimated that HMC has spent over U.S. \$20 million on WWC since Goldstake became involved in 1986.

Goldstake owns a large natural crater beside WWC, which has the capacity to hold 20 million tons of tailings. It is the only feasible tailings repository in the area, other than the HMC tailings pond in the Black Hills – a distance of over 30 miles by road and which, almost certainly, would not have the capacity to hold an additional 20 plus million tons of tailings.

More than 90% of the work required to file a mining permit application has been completed on this project. It is estimated that a further U.S. \$3 million is required to complete a bankable feasibility and the mine permit application.

**Significant Accounting Policies**

## (a) Basis of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Goldstake Explorations (S.D.) Inc. (“Goldstake S.D.”), located in the United States. All significant intercompany accounts and transactions have been eliminated.

## (b) Mining properties and related expenditure:

The Company considers its exploration costs to have the characteristics of property, plant and equipment and, as such, all costs related to mineral exploration are capitalized on a property-by-property basis. Such costs include acquisition, exploration, development and mining-related administration expenditure, net of any recoveries. Until the mineral properties are explored to a point where it is determined that the mineral properties are or are not capable of being economically developed through assessable exploration results or measurable reserves, in management’s opinion, it is impractical to assess the realization of exploration and development costs capitalized to the mineral properties.

When there is little prospect of future work on a property being carried out by the Company or its partners, the costs of the property will be charged to earnings.

The recoverability of amounts shown as mineral properties is dependent on the identification and determination of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development and upon future profitable production.

(c) Foreign currency translation:

For Canadian operations, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates of exchange in effect at the balance sheet date. Amounts entering into results of operations are translated at rates in effect at the date of the transaction. The Company's foreign operation is accounted for using the temporal method. Accordingly, monetary assets and liabilities are translated at exchange rates in effect at the balance sheet date, and non-monetary assets and liabilities are translated at historical rates. Revenue and expense items, other than amortization, are translated at average exchange rates prevailing during the year. Amortization is translated using historical rates of its related assets. All foreign exchange gains or losses arising on translation are included within the consolidated statements of operations.

(d) Stock-based compensation:

The Company has a stock-based compensation plan.

Effective January 1, 2004, the Company adopted the new recommendations of The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments" ("Section 3870") with respect to directors and employees, whereby all stock options granted are accounted for under the fair value-based method. Section 3870 is applied retroactively to all stock-based compensation granted to directors and employees on or after January 1, 2002. Opening deficit as at January 1, 2004 has been adjusted downwards by \$ 185,750; opening share capital has been adjusted upwards by \$ 88,593 and opening contributed surplus has been adjusted upwards by \$ 97,157 to reflect the cumulative effect of the change in prior periods. Prior periods have not been restated.

(e) Income Taxes:

The Company accounts for income taxes using the asset and liability method. Under this method, future income taxes are recognized for all significant temporary differences between the tax and accounting treatment bases of assets and liabilities and for certain carryforward items. Future income tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effect of changes in tax laws and rates on the date of the enactment or substantive enactment of the change.

(f) Loss per share:

Basic loss per share is computed by dividing loss for the year by the weighted average number of common shares outstanding for the year. Shares held in escrow are included in the weighted average number of common shares when they are released from escrow. Diluted loss per share is similar to basic earnings per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued using the treasury stock method. The stock options are anti-dilutive and have been excluded from the calculation of diluted loss per share.

(g) Measurement uncertainty:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

The Company is subject to all of the risks normally associated with mining activities. Changes in estimates and assumptions will occur based on additional information and the occurrence of future events.

### **Financings**

During 2004, 1,650,000 options were exercised for \$ 195,000.

On December 31, 2004, the Company raised \$450,000 with a private placement 5,062,500 shares and 2,531,250 of warrants.

### **Proposed Financings**

In addition to the \$450,000 raised on December 31, 2004, the Company is currently negotiating for further financing to enable it to explore and develop its projects. A further financing could be finalized during the first quarter 2005.

### **Selected Consolidated Annual Financial Information**

The following selected financial data with respect to the Company's financial condition and results of operations have been derived from the consolidated financial statements of the Company for the years ended Dec. 31, 2004, 2003, and 2002, which have been prepared in accordance with accounting principles generally accepted in Canada. The selected financial data should be read in conjunction with those financial statements and the notes thereto.

	Fiscal Years Ended Dec. 31		
	2004	2003	2002
Total Revenues	\$ 317,182	\$ 356,919	\$ 92,572
Net Income (Loss)	5,479	(4,710,598)	(1,096,918)
Net Income (Loss) per share	0.00	(0.09)	(0.02)
Balance Sheet Data			
Total Assets	\$ 757,136	\$ 401,019	\$ 4,938,070
Long Term Debt	150,250	217,366	304,150
Cash Dividends Declared	Nil	Nil	Nil

### **Dividend Record**

There are no restrictions that prevent the Company from paying dividends. The Company has not paid any dividends on its common shares in the last 5 fiscal years.

The Company currently has no intention of paying any dividends on its common shares. It is anticipated that funds raised from sale of assets or sale of shares will be used to pay for exploration, overheads and creditors. The Board of Directors of the Company will determine if and when dividends should be declared and paid in the future, based on the Company's financial position at the relevant time.

### **Results of Operations**

The following discussion of the financial condition, changes in the financial condition and results of operations of the Company for the fiscal years ended Dec. 31, 2004 and Dec. 31, 2003 should be read in conjunction with the year end and interim financial statements of the Company and notes thereto. There have been no major changes in accounting policies during these periods.

The following table sets forth selected quarterly information for the 2004 fiscal year and the previous two fiscal years.

Fiscal Year 2004 Quarters Ended	Dec 31, 2004 (12 months)	Sep. 30, 2004 (9 months)	Jun 30, 2004 (6 months)	Mar. 31, 2004 (3 months)
Total Revenues	\$ 317,182	\$ 353,182	\$ 357,032	\$ 91,434
Net Income (Loss)	5,479	(162,626)	(17,614)	(66,345)
Net Income (Loss) per share	0.00	0.00	0.00	0.00

Fiscal Year 2003 Quarters Ended	Dec. 31, 2003 (12 months)	Sep. 30, 2003 (9 months)	Jun 30, 2003 (6 months)	Mar. 31, 2003 (3 months)
Total Revenues	\$ 356,919	\$ 41,251	\$ 27,338	\$ 22,493
Net Income (Loss)	(4,710,598)	(340,213)	(143,519)	(91,222)
Net Income (Loss) per share	(0.09)	(0.01)	( 0.00)	( 0.00)

### **Year Ended December 31, 2004 compared to year ended December 31, 2003**

The financial statements for the year ended Dec. 31, 2004, show a net income of \$ 5,479 compared to a net loss of \$ 4,710,598 for the previous year.

The difference was almost entirely due to the size of the write-down of mining properties and related expenditures. The year ended Dec. 31, 2003 included a write-down of assets of \$ 4,474,033, while there was no corresponding write-down in the current year.

Total interest costs decreased in the year ended Dec. 31, 2004 to \$ 145,377 from \$203,058 in the previous year. There were no software development costs in the year ending December 31, 2004, but \$ 20,000 in the previous year.

**Year Ended December 31, 2003 compared to year ended December 31, 2002**

The financial statements for the year ended Dec. 31, 2003, show a net loss of \$4,710,598, compared to a net loss of \$1,096,918 for the previous year.

The difference was almost entirely due to the size of the write-down of mining properties and related expenditures. The year ended Dec. 31, 2003 included a write-down of assets of \$4,474,033, while the write-down in the previous year was \$214,353. There was also a decrease in general and administrative costs in the year ended December 31, 2003, general and administrative costs were \$44,362 in the year ended December 31, 2003 whilst they were \$457,424 in the previous year.

Total interest costs rose in the year ended Dec. 31, 2003 to \$203,058 from \$112,463 in the previous year.

**Analysis of Mining Properties and Development Expenditures****Whitewood Creek, South Dakota, U.S.A.**

The following should be read in conjunction with the section on Whitewood Creek under the heading "Background" and notes to the financial statements Dec. 31, 2004.

Goldstake retains approximately 1800 acres of the 3250 acres awarded to it by the arbitrator in the dissolution of the Joint Venture with Homestake. Sales to date have ranged between \$600-\$900 an acre. Goldstake continues to sell this real estate and retain the mineral rights to the tailings where applicable.

Goldstake management must obtain mining permits to move this project forward to production and the cost of the mining permit and a bankable feasibility study is approximately U.S. \$3 million. These funds could be raised by the sale of shares to the public or the project could be developed in a Joint Venture with another organization.

**Golden Gully, N.S.W., Australia**

Goldstake owns 20% of Silver Orchid Pty. Ltd., the title-holder to these leases. Silver Orchid owns 70% of the leases and Goldstake, therefore, owns 14%. Over \$3 million has been spent by Silver Orchid, or others, since acquisition. This includes shaft refurbishment twice, surface and underground mining and surface exploration, diamond drilling and geological mapping.

Silver Orchid Pty. Ltd. intends to drill several deeper diamond drill holes on this property to confirm structure. And when, and if funds are available, sink a decline to 600 feet (350 feet below existing workings) and mine the reefs that are known to be on the property.

Goldstake does not have an obligation to contribute.

**Prospect "D", N.T., Australia**

50% of exploration license 23186 was conditionally gifted to Goldstake in August, 2002 by Imperial Granite and Minerals and Goldstake chairman, Robert Cleaver (Imperial).

EL 23186 covers an area of approximately 800 sq. kilometers and was split roughly in half when a Joint Venture with Mithril Resources was formed with Goldstake and Imperial in July, 2003 whereby, for the expenditure of \$5 million including the payment of \$200,000 to Goldstake and Imperial after the expenditure of \$1 million, Mithril would earn 75% of the project.

Mithril has expended in excess of \$600,000 on exploration and can earn 75% in the property by spending \$5,000,000 (including \$200,000 cash payment) by June, 2007.

Work continues on the property with Mithril completing geophysical and drilling programs during the year to December 31, 2004, Results of this work can be found on [www.mithril.com](http://www.mithril.com).

In the event that Goldstake is suspended from trading on the Toronto Stock Exchange for longer than 6 months, becomes insolvent, or enters into receivership or liquidation, Goldstake will return its equity interest in EL 23186 (Prospect "D" and Home of Bullion) to Imperial, after Imperial repays Goldstake for any expenditures made by Goldstake on this property. In the event that there is a change in the management of Goldstake, Imperial will have the option for 90 days to notify Goldstake if it wants to terminate the arrangement, and Goldstake will return its share of EL 23186 after being repaid any expenditures made by Goldstake on EL 23186.

Goldstake has an option (subject to the conditions outlined above) to acquire from Imperial a further 10% of EL 23186, Prospect "D" and/or "Home of Bullion" by paying Imperial 10% of the "net present value" of each project (Prospect "D" and HOB) based on that value being established in a bankable feasibility study.

#### **Home of Bullion Mine, N.T., Australia**

The other half of exploration license 23186 is owned 50% by Imperial and 50% by Goldstake on the same terms and conditions as Prospect "D" (conditions outlined under the heading, "Prospect "D" above). This property contains the Home of Bullion Mine (HOB) which has a mining history of 2500 tons of production containing 22.5% Cu.

It is the intention of Imperial and Goldstake, when funds become available, to start production using the open-cut and cementation process to produce copper and to expand on the reported rock containing minerals by drilling along strike and down dip to determine the size of the structure.

#### **Utopia, N.T., Australia**

During the current year, Imperial reapplied for approx. 250 sq. km. of the Utopia pegmatite outcrop containing tin and tantalum. Goldstake will have a 50% interest subject to the conditions outlined for EL 23186.

#### **Hemlo, Ontario, Canada**

Approximately 1000 acres on the northeastern end of the Hemlo Mines. Goldstake's stake in this property was acquired in the late 1970's prior to current management's involvement with Goldstake.

One diamond drill hole was drilled to approximately 2400 feet by the J.V. partner at a reported cost of over \$400,000. Deeper drilling is suggested to search for the Hemlo structure.

Goldstake maintains the property by paying the rent of approximately \$110 per annum.

**McGarry Township, Kirkland Lake, Ontario, Canada**

In August, 2003, Goldstake acquired an option, for 1,500,000 shares valued at \$0.15 cents per share for a total of \$225,000, from Transpacific Resources Inc. to earn a 60% interest on Transpacific's 4000 acre property by spending \$1,500,000 over 4 years. Subsequent to December 31, 2004, the Company entered into an amendment to the agreement with Transpacific Resources Inc. The Company will earn up to a 75% interest in properties owned by Transpacific Resources Inc. in the Larder Lake Mining District of Ontario, subject to the Company incurring \$ 2,500,000 of expenses in relation to these properties, with \$ 500,000 to be spent by December 31, 2005 for a 30% interest and an additional \$ 1,000,000 by December 31, 2007 for a further 30% and \$ 1,000,000 by December 31, 2009 for the remaining 15%. The agreement is subject to a 3% net smelter return royalty. As consideration for this option, the Company has issued an additional 1,500,000 common shares to Transpacific Resources Inc. at market value. The property lies one mile north of the Kerr Addison Mine, which produced 11,000,000 oz. of gold.

Two exploration programs, by McGarry partnership and run by Dr. Hulbert Lee, in 1985/86. and Transpacific, run by Mr. Ernest Gallo, P.Geo. in 1995/97 identified 8 gold zones. Diamonds were also identified on the property in both programs.

Two of the eight gold zones have had drilling activity and a gold resource has been identified (see NI 43-101 report on SEDAR by Ernest Gallo, P.Geo, dated April, 2004).

Geophysical evidence shows 3 circular magnetic anomalies on the property, and these are immediate drill targets to test for diamondiferous kimberlites when funds are available.

Two diamond drill holes were drilled on the property between April 23 and May 1, 2004 for a total of 251.8 meters. The holes were drilled to satisfy assessment requirements of the Ontario Ministry of Northern Development and Mines, and to further investigate a previously discovered gold bearing zone termed "Instant Pond". The cost of this program was \$60,000. The cost of the NI 43-101 report was \$15,000.

If Goldstake is delisted from any Canadian stock exchange for more than 6 months, goes into liquidation or is declared insolvent, then this agreement shall become null and void.

In February, 2005, a \$250,000 drilling program was commenced to test the 3 magnetic anomalies for possible diamondiferous kimberlite and also to further drill the gold areas known as "Instant Pond" and the "South Zone".

### **Liquidity and Capital Reserves**

At December 31, 2004, the Company's working capital deficiency was \$ 2,623,297, which consisted of cash and sundry receivables less accounts payable, accrued liabilities, due to Directors and loans payable.

At December 31, 2003, the Company's working capital deficiency was \$ 3,217,485, which consisted of cash and sundry receivables less accounts payable, accrued liabilities, due to Directors, current portions of loans payable and current portions of long-term debt.

### **Summary of Securities Outstanding at December 31, 2004**

Authorized share capital – Unlimited common shares

	<u>Shares</u>	<u>Amount</u>
December 31, 2004	57,298,160	\$ 20,399,132

At December 31, 2004, 800,000 options were outstanding under the Company's 1996 Stock Option Agreement.

On January 14, 2005, 7,675,000 options were granted at a price of \$0.10 per share, expiring January 31, 2008.

There were 70,000 escrowed shares at December 31, 2004.

### **Related Party Transactions**

There is an amount of \$ 929,487 owing to Robert Cleaver. This loan is unsecured, non-interest bearing with no repayment date attached.

An annual management fee of US. \$150,000 (CA \$ 195,254) is payable to Robert Cleaver. This has not been paid for a number of years, but is credited to his loan account.

During the quarter ended December 31, 2004, a party related to a Director has advanced the Company \$ 6,600. The advance is non-interest bearing and has no fixed terms of repayment.

Conditions applying to exploration license 23186 (Prospect “D” and Home of Bullion Mine) are described under the heading “Prospect “D” and “Home of Bullion” in the “Analysis of Mining Properties and Development Expenditures” section in this MD&A.

**Added Notes**

The Company does not engage in any specific investor relations other than providing dissemination of material information regarding the Company to the general public and brokerage communities.