



**STIKINE ENERGY CORP.**

(formerly Stikine Gold Corporation)

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**(FORM 51-102F1)**

**SIX MONTH INTERIM PERIOD ENDED AUGUST 31, 2010**

**OCTOBER 15, 2010**



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**STIKINE ENERGY CORP.** (formerly Stikine Gold Corporation)  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**SIX MONTHS ENDED AUGUST 31, 2010**

**Date of Report**

This Management Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited financial statements and related notes thereto for the six months ended August 31, 2010 and 2009, and the audited financial statements and related notes thereto for the years ended February 28, 2010 and 2009, which have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). This MD&A is prepared as of October 15, 2010. All amounts in the financial statements and this MD&A are expressed in Canadian dollars, unless otherwise indicated.

**Description of Business**

Stikine Energy Corp. (the "Company") is engaged in the exploration for mineral resources in British Columbia, Canada.

**Selected Annual Financial Results**

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

	<b>Year Ended February 28, 2010</b>	<b>Year Ended February 28, 2009</b>	<b>Year Ended February 29, 2008</b>
Total revenues	Nil	Nil	Nil
Net loss	(140,568)	(1,769,922) <sup>1</sup>	(453,008) <sup>2</sup>
Net loss per share			
- basic and diluted	(0.01)	(0.04)	(0.01)
Total assets	1,017,378	103,276	1,248,729
Total long term debt	Nil	Nil	Nil

Note 1: The loss for the year-ended February 28, 2009 includes a write-off of \$1,542,781 in resource property costs.

Note 2: The loss for the year-ended February 29, 2008 includes a write-off of \$304,916 in resource property costs.

**Summary of Quarterly Results**

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

	<b>Aug. 31, 2010</b>	<b>May 31, 2010</b>	<b>Feb. 28, 2010</b>	<b>Nov. 30, 2009</b>
Total revenues	Nil	Nil	Nil	Nil
Net profit (loss)	(101,004)	(175,319) <sup>1</sup>	14,525 <sup>2</sup>	(83,035)
Net loss per share				
- basic and diluted	(0.01)	(0.01)	0.01	(0.01)
Total assets	4,851,488	1,368,342	1,017,378	1,146,666
Total long term debt	Nil	Nil	Nil	Nil

  

	<b>Aug. 31, 2009</b>	<b>May 31, 2009</b>	<b>Feb. 28, 2009</b>	<b>Nov. 30, 2008</b>
Total revenues	Nil	Nil	Nil	Nil
Net loss	(43,635)	(28,423)	(1,559,489) <sup>3</sup>	(42,156)
Net loss per share				
-basic and diluted	(0.01)	(0.01)	(0.04)	(0.01)
Total assets	352,631	105,241	103,276	1,754,761
Total long term debt	Nil	Nil	Nil	Nil

**Notes:**

- 1) The loss for the quarter ended May 31, 2010 includes stock based compensation expense of \$120,630.
- 2) The company recorded a tax credit gain of \$49,721 and a deferred tax credit recovery of \$16,719 during the quarter ended February 28, 2010.
- 3) The loss for the quarter ended February 28, 2009 includes a write-off of \$1,542,781 in resource property costs.



## **Results of Operations**

During the six months ended August 31, 2010, the Company recorded a loss of \$276,323 and deferred acquisition and exploration costs of \$2,090,595 compared to a loss of \$72,058 and deferred acquisition and exploration expenditures of \$179,169 for the six months ended August 31, 2009. In the prior year, the Company was just beginning its acquisition and exploration of British Columbia Silica properties whereas in the current year it has been much more active. Higher general and administrative expenses are a function of the Company's higher activity level and non-cash stock based compensation of \$120,629 being recorded in the current year.

During the three months ended August 31, 2010, the Company incurred a loss of \$101,004 and deferred acquisition and exploration costs of \$1,772,383 compared to a loss of \$43,635 and deferred acquisition and exploration costs of \$149,437 for the three months ended August 31, 2009. Again, higher general and administrative expenses are a function of the Company's much higher activity level in the current year while conducting substantive sampling programs at its B.C. Silica projects.

### ***British Columbia Silica Properties***

The Company holds a 100% interest in approximately 90,000 hectares of mineral claims covering prospective silica zones and potential access/infrastructure sites in northeastern British Columbia. Based on preliminary field work conducted in 2009, the Company determined that several of the properties meet the criteria for raw silica sources that could potentially be used in the production of frac sand. Frac sand is an indispensable component in the development of unconventional tight shale gas wells, such as the nearby Horn River, Liard and Montney basins.

Work to date indicates that the Nonda and Angus properties represent the best opportunities to develop frac sand sources, subject to further sampling and process testwork. Sampling and mapping at the Nonda property highlight its very large-scale potential over an impressive 11,500-metre by 1,000-metre area. Petrographic analysis of samples collected from Nonda indicate the rocks are very pure with up to 99 percent silica comprising variably sized quartz grains that fall within the required range for commercial frac sand.

Over the past year, lab-scale processed Nonda-Ghost Ridge samples have been submitted to Stim-Lab (a Core Laboratories company specializing in proppant testing) and tested specifically for crush resistance. The Company's lab-scale work to date clearly demonstrates that iterative refinements to the processing of the Nonda rock samples can produce frac-quality sand. More recently, samples of processed "40/70" frac sand and "100 mesh" frac sand show excellent long term conductivity results.

The Company is now proceeding to pilot-plant testing to make Nonda 40/70 and 100 mesh frac sands for the first time at an industrial scale. Approximately 430 tonnes of Nonda quartz-pure arenite (sandstone) samples have now been transported to a pilot plant located in Abbotsford, British Columbia. Operation of the pilot plant will help to define operating parameters, yield and capital/operating costs for the project.

To August 31, 2010, the Company had recorded acquisition costs totalling \$82,297 and deferred exploration costs of \$3,032,681.

## **Personnel Developments**

In March of 2010, the Company received the resignation of director John M. Mirko who left the board to focus on other commitments. The Company subsequently appointed Cleve R. Graham to the board of directors and Robert W. (Bob) Chambers, P.Eng, as vice-president, environment and sustainability.

Mr. Graham has been focused on oil and gas well completions for much of his 34 years in the industry. For the past 10 years he has concentrated on project-style development work and during the last five



years has been heavily involved in the horizontal or unconventional aspect of the business. His work has primarily focused on the Horn River basin located in northeast British Columbia. During this time he worked closely with Apache Canada and EnCana Corporation on multistage shale-gas completions including: hydraulic fracturing procedures, equipment and consumables such as frac sand. He helped to develop an entirely new approach to how surface operations for such completions are handled. He is widely recognized as an expert in the field and continues to work with several oil and gas companies in the industry.

Mr. Chambers will be responsible for environmental and development planning for all of the Company's operations and project sites. He is a geotechnical engineer with over 20 years experience in site assessment, design and environmental aspects of tailings, mine rock and water management for mining projects. He has worked on projects in British Columbia, Yukon, Northwest Territories, Manitoba, Saskatchewan, Ontario, United States, Mexico, Peru, Chile, Indonesia, Ireland, Slovakia, Papua New Guinea and the Philippines. Mr. Chambers has a bachelor of applied science degree in geological engineering and a master of engineering in civil engineering from the University of British Columbia. Mr. Chambers is a member of the Association of Professional Engineers and Geoscientists of British Columbia.

### **Liquidity and Financial Position**

The viability of the Company's future operations is dependent on future financing. At August 31, 2010, the Company had cash and cash equivalents of \$851,931 and working capital of \$1,049,791. The Company will be required to raise further capital to advance its various B.C. Silica properties. Management continues to seek financing for the Company and although management has been successful in the past; there is no assurance that these initiatives will be successful in the future.

### **Financial Instruments**

#### ***Fair Values and Hierarchy Levels***

The Company has designated its financial instruments as follows:

- Cash and cash equivalents are classified as "*Held-For-Trading*" and recorded at fair value with changes in fair value recorded in net income;
- Reclamation bond amounts are classified as "*Available-for-Sale*" and recorded at fair value with temporary changes in fair value recorded in other comprehensive income; and
- Accounts payable, accrued liabilities, and due to related parties are classified as "*Other Financial Liabilities*". These financial liabilities are recorded at amortized cost using the effective interest method.

There are three levels of fair value hierarchy that prioritize the inputs to valuation techniques used to measure fair value, with level 1 inputs having the highest priority. The levels and the valuation techniques used to value the Company's financial assets and liabilities are described below:

- Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 – Quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 – Unobservable (supported by little or no market activity) prices.



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The carrying amounts of financial instruments approximate fair value as of August 31, 2010 as shown below:

	Fair Value Hierarchy Level		Carrying and Fair Values
<b>Financial Assets</b>			
Cash and cash equivalents	2	\$	851,931
Reclamation bonds	2	\$	11,000
<b>Financial Liabilities</b>			
Accounts payable and accrued liabilities	N/A	\$	644,543
Due to related parties	N/A	\$	28,320

The fair values of the Company's accounts payable and accrued liabilities and due to related parties are estimated to approximate their carrying values due to the immediate or short-term maturity of these financial instruments.

***Financial Instrument Risk Management***

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

*i) Credit Risk*

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

*ii) Foreign Exchange Risk*

The Company's operations are exclusively conducted in Canada and the operating results and the financial position of the Company are reported in Canadian dollars. The Company is not subject to foreign exchange risk at May 31, 2010.

*iii) Interest Rate Risk*

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

*iv) Liquidity Risk*

The Company is exposed to liquidity risk. The Company seeks to manage liquidity risk by maintaining sufficient cash and short-term investment balances for settlement of its obligations. Liquidity requirements are managed based on expected cash flow to ensure there is sufficient capital in order to meet short-term obligations. For the six months ended August 31, 2010, the Company reported a loss of \$276,323 and an accumulated deficit of \$8,764,256 at that date. The Company had working capital of \$1,049,791 and cash and cash equivalents at August 31, 2010 amounted to \$851,931. At August 31, 2010, the liquidity risk of the Company was considered high due to limited funds and general uncertainty in the world economy.



*v) Pledged Financial Assets*

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

*vi) Market and Commodity Price Risk*

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

**Critical Accounting Estimates**

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

**Resource Property Costs**

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

**Asset Retirement Obligations**

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



### ***Stock Option and Warrant Valuation***

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

### ***Income and Mining Taxes***

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

### ***New Accounting Pronouncements***

#### *International Financial Reporting Standards ("IFRS")*

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

The CICA issued new Handbook Section 1582, "Business Combinations", Handbook Section 1600, "Consolidated Financial Statements" and Handbook Section 1601, "Non-controlling Interests" in January 2009 which establish a new section for accounting for a non-controlling interest in a subsidiary. These new standards are expected to align Canadian GAAP with the provisions of the International Financial Reporting Standards ("IFRS") equivalent IFRS3, "Business Combinations" and IAS 27, "Consolidated and Separate Financial Statements". The new standards will be effective for business combinations for which the acquisition date is on or after January 1, 2011. The Company is evaluating the impact of these new standards on the Company's consolidated financial statements as part of the Company's IFRS initiatives.

### ***Related Party Transactions***

During the six months ended August 31, 2010, consulting fees of \$29,600 (2009 - \$4,000) were paid or accrued to the Company's President and Chief Executive Officer. Services provided include general corporate, exploration and acquisition strategy, planning and management work, contract negotiations, and investment presentations. During the six months ended August 31, 2010, consulting fees of \$12,900 (2009 - \$7,000) were paid or accrued to the Company's Secretary and Chief Financial Officer. Services provided include corporate finance and funding initiatives, contract negotiations, accounting, office and general management. During the six months ended August 31, 2010, rent costs of \$24,321 (2009 - \$20,511) were paid or accrued to a company with directors of the Company in common. At August 31, 2010 current liabilities include \$28,320 (2009 - \$30,087) payable to related parties. These transactions were incurred in the ordinary course of business, are non-interest bearing, and without specific repayment terms. The transactions are measured at the exchange amount, which is the fair value consideration established and agree to by the related parties.



## Risks and Uncertainties

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

## Additional Disclosure for Venture Issuers without Significant Revenue

Additional disclosure concerning the Company's general and administrative expenses and capitalized resource property costs is provided in the Company's *Statements of Loss, Comprehensive Loss and Deficit* and the *Schedule of Resource Property Costs* contained in its interim Financial Statements dated August 31, 2010 and 2009. These statements are available on the Company's website at [www.stikineenergy.com](http://www.stikineenergy.com) or on the SEDAR website [www.sedar.com](http://www.sedar.com).

## Outstanding Share Data

Common shares and convertible securities outstanding as at the date of this report are:

Security	Expiry Dates	Exercise Prices	Common Shares on Exercise
Common Shares	-	-	68,027,917
Warrants	December 17, 2011	\$0.25	1,947,500
Options	February 20, 2012 to May 3, 2015	\$0.10 to \$0.30	4,960,000
<b>Total</b>			<b>74,935,417</b>

## Legal Claims and Contingent Liabilities

At August 31, 2010, there were no material legal claims or contingent liabilities outstanding.

## Off-balance Sheet Arrangements

The Company has no material off-balance sheet arrangements.

## Outlook

Frac sand already has high value for product delivered to northeastern British Columbia ("NEBC") well heads, but much of the cost is attributed to shipping and transport from great distances. Increased drilling activity as a result of current success of the NEBC gas play and the ongoing development of other gas fields in North America will likely increase demand dramatically over the next three years. A key component to the Company's strategy is to quickly establish potential off-take / investor relationships with



the gas producers in the area. The Company's goal is to quickly define resources and processes to produce frac sand; to accelerate permitting and development activities; and, rapidly become a cash flowing producer of high-quality silica sand products located in close proximity to growing demand.

The Company is proceeding quickly to pilot-plant testing to make Nonda 40/70 and 100 mesh frac sands for the first time at an industrial scale. Approximately 430 tonnes of Nonda quartz-pure arenite (sandstone) samples have now been transported to the pilot plant and processing will begin shortly. Operation of the pilot plant will help to define operating parameters, yield and capital/operating costs for the project.

To reflect its strengthening commitment to the energy sector, the Company recently changed its name to Stikine Energy Corp.

### **Additional Information**

Additional information is available for viewing at the Company's website [www.stikineenergy.com](http://www.stikineenergy.com) or on the SEDAR website [www.sedar.com](http://www.sedar.com).

### **Forward-Looking Information**

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