Report
on the
2010
Diamond Drilling Program

McKenzie Gray Prospect
Nipigon Area Joint Venture Property

Mine Centre
Kenora District, Ontario

for

Q-Gold Resources Limited

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Table of Contents

1. Introduction 1
2. Previous Work 1
3. Diamond Drilling Program 4
4. Geological Units 5
    a. Trondhjemite 5
    b. Altered Trondhjemite 5
    c. Felsite 6
    d. Mafic Metavolcanics 7
    e. Shear Zones 7
    f. Fault Zones 7
    g. Breccia Zones 7
    h. Fracture Zones 7
5. Mineralization and Mineralized Units 8
    a. Mineralized Quartz Veins 8
    b. Quartz Sulphide Zones 8
    c. Quartz Rich Zones 8
    d. Quartz Veins 9
    e. Quartz-Carbonate-Tourmaline Veins 9
6. Geological and Assay Cross-Sections 10
7. Interpretation and Conclusions 14
8. Recommendations 15
9. References 16

List of Figures and Tables

Figure 1: Nipigon Area Property: General Location Map ____ 17

Figure 2: Nipigon Area Property: Mine Centre Regional Geology Map ____ 18

Figure 3: Detailed Geological Map, Mackenzie Gray Prospect ____ 19

Figure 4: McKenzie Gray DDH Locations and Geological Sections ____ 20

Figure 5a: McKenzie Gray DDH Geological Cross Section 1 ____ 21
Figure 5b: McKenzie Gray DDH Assay Cross Section 1 ____ 22

Figure 6a: McKenzie Gray DDH Geological Cross Section 2 ____ 23
Figure 6b: McKenzie Gray DDH Assay Cross Section 2 ____ 24

Figure 7a: McKenzie Gray DDH Geological Cross Section 3 ____ 25
Figure 7a: McKenzie Gray DDH Assay Cross Section 3 ____ 26

Figure 8a: McKenzie Gray DDH Geological Cross Section 4 ____ 27
Figure 8b: McKenzie Gray DDH Assay Cross Section 4 ____ 28

Figure 9a: McKenzie Gray DDH Geological Cross Section 5 ____ 29
Figure 9b: McKenzie Gray DDH Assay Section 5 ____ 30

Figure 10: Structural Model: Idealized Cross-Section ____ 31

Table 1: Summary of MG Diamond Drilling, 2010 ____ 4

Table 2: MG DDH 2010 Composite Assays sorted by DDH Number ____ 32

Appendices

Appendix 1: McKenzie Gray DDH Geological Logs, Assays, and Multi-elements

McKenzie Gray Diamond Drilling Program, 2010

1. Introduction

The Q-Gold properties are situated the Kenora Mining Division, in unorganized territory in Northwestern Ontario, approximately 65 kilometres east of Fort Frances, Ontario. The Company's McKenzie Gray Prospect is located approximately 15 kilometres south of the village of Mine Centre and Highway 11 and is situated on map sheet NTS 52-C/10. (Figure 1 and 2).

The Au-Ag-Zn Prospect and the drill holes reported herein are situated on leased mining claim K-475273, which forms part of a six claim group that constitutes the McKenzie-Gray property/mining lease (mining lease #105934). The McKenzie Gray Prospect and drill hole locations are easily accessible by truck via a short access road off the Shoal Lake Road, which connects to Highway 11.

2. Previous Work on the Property

Glidden (1990) describes the exploration history of the McKenzie-Gray property, as follows:

"The McKenzie-Gray vein is the main showing on the property. It is reported to have been discovered in 1926 …….by Bankfield Consolidated Mines Ltd. Subsequent trenching, sampling and diamond drilling by Bankfield delineated the McKenzie-Gray gold-bearing vein.

Brief documented visits were made to the property by Wright-Hargraves, Sylvanite Gold Mines Ltd., McIntyre Gold Mines Ltd., U.S. Smelter and Ventures Ltd. from 1938-1946. Three reported the following assays from the Bankfield surface sampling and diamond drill programs.

> McIntyre: 16.8 g Au/t across 0.9 metres and 76.2 metres long (0.49 oz Au/t across 2.9 feet and 250 feet long)
>
> U.S. Smelter: 15.1 g Au/t across 1.2 metres and 53.4 metres long (0.44 oz Au/t across 4.0 feet and 175 feet long)
>
> Ventures Ltd.: 9.3 g Au/t across 1.2 metres and 91.5 metres long (0.27 oz Au/t across 4.0 feet and 300 feet long)

Steep Rock Mines Ltd. visited the area in 1966-67 to survey the area along the Finger Lake fault zone. Weak EM-VLF conductors were detected in this area, and copper, molybdenum and pyrite mineralization were noted in the Island Bay and Finger Lake area.

The property went through a period of inactivity until 1979 when Corp. Oil and Gas Ltd. took an option on the McKenzie-Gray property from S. Lakatos and K. McTavish. Corp. Oil and Gas conducted a program of stripping, trenching and diamond drilling on the McKenzie-Gray vein. Their best drill results were 1.4 g Au/t over 2.1 metres and 5.1 g Au/t Over 0.6 metres (0.04 oz Au/t over 7 feet and 0.15 oz Au/t over 2 feet). These holes tested the vein down to the 30 and 70 metre levels. The option was dropped in January 1981.

(In 1981), the property was optioned …to Sherritt Gordon Mines Ltd. and a small program of line cutting (3.5 km.), soil and humus geochem was conducted on the McKenzie-Gray vein area from 1982-83. This survey outlines several humus gold and soil lead-zinc anomalies over the surveyed area. The closure of Sherritt Gordon's exploration office in Kenora terminated the program and the option on the property before it could be fully evaluated.

Steep Rock Resources Inc. visited the property in 1983 and an option was taken with S. Lakatos and K. McTavish. A work program of line cutting (21.5 kms), magnetometer and induced polarization surveys was carried out during November and December of 1983. A drilling program was being proposed to test the I.P. and magnetic anomalies on the property, but a closure of Steep Rock's exploration office in Atikokan terminated the option on the property in early 1984. The Steep Rock program did, however, delineate several anomalies located 300-400 metres west of the McKenzie-Gray vein.

In November of 1984, a 25-27 ton bulk sample was taken by the Mine Centre Joint venture Group, from a high grade zinc portion of the McKenzie-Gray vein. It was processed through a local mill. Available data indicates that the mill feed was graded at 7.2 g Au/t, 112.1 g Ag/t, 10-16% Zn and 0.11% Pb (0.21 oz Au/1, 3.27 oz Ag/t). No results are available from the mill testing.

The property was subsequently optioned by Corporation Falconbridge Copper (C.F.C.) in 1985. A program of mechanical stripping and diamond drilling was carried out by C.F.C. from 1985 to 1986 around the immediate area of the McKenzie-Gray vein. The drilling intersected the McKenzie-Gray vein in several drill holes. Good values were obtained in holes L-5, L-6 and L-10. Most of the holes intersected two different coloured quartz veins; a wide white-grey weakly mineralized with pyrite and very minor galena and sphalerite quartz vein; and a narrow reddish-grey and more mineralized quartz vein. The latter appears to cross-cut the white-grey vein. Both veins, as determined from cross-sections of C.F.C. drill information to have a dip to the southwest. The white-grey vein dips approximately 70-75 degrees to the southwest, whereas the reddish-grey vein dips 60-85 degrees to the southwest. The reddish grey vein corresponds with the McKenzie-Gray vein on surface whereas the white-grey vein corresponds with the East vein located 2-3 metres east of the McKenzie-Gray vein on surface. It appears from C.F.C. drill results that a second vein system, similar to the McKenzie-Gray vein was intersected in Hole L-10 and is located northeast of the McKenzie-Gray vein. The property was subsequently dropped by C.F.C. in July of 1987.

In 1988-89, Nipigon Gold Resources optioned the McKenzie-Gray group of six (6) claims and carried out an extensive program of surface stripping and trenching over the McKenzie-Gray and East veins. Sampling by Nipigon Gold Resources on both veins showed consistent moderate to high-grade gold values within the McKenzie vein on surface, but weak and sometimes erratic high values within the East vein. Both, however, were mineralized with results similar to those obtained by Bankfield Consolidated Mines Ltd."

In 1990 Nipigon Gold Resources Ltd. set up a 25 ton per day gravity mill and extracted a 1200-ton bulk sample from a small open pit on the McKenzie Gray Prospect. Metallurgical test samples indicated a grade of 5.66 g/t Au, 18 g/t Ag, 2.12% Zn, and 0.125% Cu (Larouche, 1995).

In 1992 Nipigon Gold drilled 15 holes in the immediate area of the McKenzie Gray Prospect and intersected the mineralized veins and identified the presence of the vein system to the northwest of the bulk sample open pit (Larouche, 1992). The holes were drilled in a northerly to northeasterly direction.

The property was acquired by Hexagon Gold (Ontario) Ltd., a predecessor Company of Q-Gold, in 2007. Q-Gold carried out a review of the historical drilling, geology and geophysical surveys on the property, and a 3D model was constructed (Tortosa, 2009) to assess the drilling completed earlier by Corporation Falconbridge Copper (Wells, 1985) and by Nipigon Gold Resources Ltd (Larouche, 1992). The locations of the historical mineralized intersections were identified to the northwest of the bulk sample open pit and series of closely spaced drill hole fans were designed to confirm and evaluate the northwest extension of the McKenzie Gray Vein and related zinc, gold, silver, copper and lead mineralization.

Q-Gold Resources Ltd. completed a 12-hole drill program in 2009 (1213 metres) to test mineralization northwest of the bulk sample open pit (Beard and Tortosa, 2009). The Q-Gold drill program was successful in delineating mineralized quartz veins and quartz-rich mineralized zones containing significant gold, silver, and zinc values (McKenzie Gray Vein) and quartz –rich zones containing high silver values (East Vein). The total length of the mineralized zone was extended by 60 metres for a total strike length of 150 metres and to a depth of approximately 75-100 metres.

Results of this 2009 drilling program were encouraging, and a follow-up drill program was planned to extend the gold mineralization to the north of the pit. Consequently, a program of line cutting and Pole-Dipole and Gradient IP surveys were commissioned to help locate drill targets. (JVX Ltd., 2010) This work was carried out on the McKenzie-Gray claims as well as the Golden Star deposit, also held by Q-Gold in the area.

3. Diamond Drilling Program

Between October 28 and November 28, 2010, a diamond-drilling program consisting of 18 NQ-size drill holes (2612 metres), was completed on the McKenzie Gray Prospect of Q-Gold Resources Ltd. (Table 1). The Drilling Program was supervised by Vincent Scime, Site 230, Box 54, RR 2, Dryden, Ontario, P8N 2Y5.

The drill holes were designed to intersect the down-dip extension of the mineralized vein system identified in the Q-Gold 2009 drill program. Drill holes were located on the same drill sections as the 2009 drill program, but 60 metres to the southwest in order to intersect the mineralized zone to a 150-metre depth. As well, five drill holes were located on the baseline, but at a shallow dip aimed at establishing the continuity of the vein system closer to surface. Much of the surface is covered by 2-6 metres of overburden.

Table 1: Summary of Q-Gold Diamond Drilling on the McKenzie Gray Prospect, 2010

				DDH			UTM	UTM	
Section	**DDHID**	**Azimuth**	**Dip**	**Length**	**GridN**	**GridE**	**Easting**	**Northing**	**Zone**
Section 1	Q-MG-10-01	45	-40	171.0	0+90 N	0+60 W	523565	5392366	15
Section 1	Q-MG-10-02	45	-50	162.0	0+90 N	0+60 W	523565	5392366	15
Section 1	Q-MG-10-03	45	-60	180.0	0+90 N	0+60 W	523565	5392366	15
Section 2	Q-MG-10-04	45	-50	162.0	1+05 N	0+60 W	523554	5392376	15
Section 2	Q-MG-10-05	45	-60	180.0	1+05 N	0+60 W	523554	5392376	15
Section 3	Q-MG-10-06	45	-50	171.0	1+20 N	0+60 W	523543	5392388	15
Section 3	Q-MG-10-07	45	-60	177.0	1+20 N	0+60 W	523543	5392388	15
Section 4	Q-MG-10-08	45	-40	141.0	1+35 N	0+60 W	523532	5392398	15
Section 4	Q-MG-10-09	45	-50	162.0	1+35 N	0+60 W	523532	5392398	15
Section 4	Q-MG-10-10	45	-60	156.0	1+35 N	0+60 W	523532	5392398	15
Section 5	Q-MG-10-11	45	-40	162.0	1+50 N	0+60 W	523521	5392408	15
Section 5	Q-MG-10-12	45	-50	171.0	1+50 N	0+60 W	523521	5392408	15
Section 5	Q-MG-10-13	45	-60	180.0	1+50 N	0+60 W	523521	5392408	15
Section 1	Q-MG-10-14	45	-40	81.0	0+90 N	BL 0+00	523607	5392410	15
Section 2	Q-MG-10-15	45	-40	81.0	1+05 N	BL 0+00	523596	5392421	15
Section 3	Q-MG-10-16	45	-40	84.0	1+20 N	BL 0+00	523586	5392431	15
Section 4	Q-MG-10-17	45	-35	107.0	1+35 N	BL 0+00	523574	5392441	15
Section 5	Q-MG-10-18	45	-40	84.0	1+50 N	BL 0+00	523564	5392452	15
	Total Length			**2612.0**					

Drill holes were designed to intersect the mineralized vein system on sections oriented a 045° with 2-3 drill holes per section in order to estimate the vein and mineralization boundaries and produce cross sections of the geology, vein system, and assay results. Down-hole dip and azimuth test were completed at the start of the hole and at the end. Casings were left in place for future use.

4. Geological Units

The main rock types in the immediate area of the McKenzie Gray Prospect consists of trondhjemite and altered trondhjemite containing segments or inclusions of mafic metavolcanics.

Trondhjemite

Trondhjemite is the field term used to classify the main host rock to the McKenzie Gray Prospect. The trondhjemite is a massive rock, medium-to coarse-grained, leucocratic and grey in colour. It generally contains 1 – 2% pyrite as finely disseminated crystals. Plagioclase grains vary from fresh to a yellow-green colour due to weak sauseritization of the plagioclase crystals. The plagioclase crystals have a pink tint in weakly altered (sauseritized) trondhjemite, which increases in intensity to a pink-red tint towards sections of altered trondhjemite. The trondhjemite is weakly foliated in places. Within the trondhjemite, quartz grains form quartz 'eyes' in places that give the rock is vaguely porphyritic appearance.

There is a transition to a dark gray phase of trondhjemite, which is a massive, dark gray, fine-to medium-grained rock. The transition in and out of this phase is abrupt, but without a distinct contact. This gray phase constitutes a small proportion of the rock.

The trondhjemite is cut by narrow quartz, quartz-carbonate, and quartz-carbonate-tourmaline veinlets in places. In some locations mineralized quartz veins cut across unaltered trondhjemite, which is an uncommon occurrence.

Unaltered trondhjemite is estimated to comprise about 15-20% of the rocks intersected by the drilling, indicating that large portions of the host rocks are weak to moderately altered.

Altered Trondhjemite

Altered trondhjemite can be subdivided into two classes: a strong to intense alteration associated directly to the presence of quartz rich zones, quartz veins, and mineralized quartz veins, and a weak to moderate alteration which affects much of the host trondhjemite.

Weak to Moderately Altered Trondhjemite

Altered trondhjemite is typically a pale grey-green colour, medium grained, and mostly massive to weakly foliated in places. It contains 1 – 3% disseminate pyrite as fine crystals and plagioclase grains commonly have a pink to red tint. It generally is described as being weakly to moderately altered. Alteration consists of varying amounts of sericitization and silicification.

The transition from unaltered trondhjemite to altered trondhjemite is generally gradational. Within the altered trondhjemite the rock may contain small sections of unaltered trondhjemite. There are small sections where the pink/red tint of the plagioclase results in an intense brick red colour over a distance of 1 to 4 metres. This is most likely due to hematization.

Commonly, where quartz, quartz-carbonate, and quartz-carbonate-tourmaline stringers and veinlets cut the altered trondhjemite, there is an increase level of alteration adjacent to the veinlets.

The weak to moderately altered trondhjemite comprises approximately 60-65% of the rock intersected in drill holes.

Strongly to Intensely Altered Trondhjemite

Strongly to intensely altered trondhjemite is commonly associated with quartz rich zones, quartz veins, and mineralized quartz veins. The rock is massive, fine-to medium-grained with a bleached to pale grey-green appearance. The greater intensity of alteration is due to a significant increase in silicification and sericite. There is between 2-10% finely disseminated pyrite within the altered zone. Iron carbonate (ankerite) alteration is most notable after the core has been on core racks exposed to the weather; the iron oxidizes to a light brown colour.

A moderate to strong foliation commonly forms in the strong to intense alteration zone, with increasing alteration intensity and fabric development towards the quartz rich zones, quartz veins, and mineralized quartz veins.

In places, quartz rich zones, quartz veins, and mineralized quartz veins are separated by strongly to intensely altered trondhjemite with a moderate to strong foliation. Commonly the foliation is stronger closer to the vein contacts. The rock is pale green, fine to medium grained and locally very fine grained, containing 6-10% very finely disseminated pyrite. The rock is intensely silicified and sericitized.

There is commonly a rapid transition from weakly to moderately altered trondhjemite to strongly to intensely altered trondhjemite. The strongly to intensely altered trondhjemite and accompanying fabric development represent an alteration and structural envelope surrounding the quartz rich zones which also contain quartz veins and mineralized quartz veins. The alteration and structural envelope varies in width from 2 to 6 metres on either side of the quartz rich zones.

Felsite

Felsite is a massive, fine-grained, pale pink rock containing a few scattered quartz phenocrysts and can be easily mistaken for quartz porphyry. The rock unit has sharp contacts with trondhjemite and altered trondhjemite.

The unit was identified in two shallow (-35° dip) drill holes and cannot be traced through the section. The felsite intersections range from 4 to 6 metres in apparent width.

Mafic Metavolcanic

A mafic metavolcanic rock was intersected in three out of the five shallow (-35 dip) drill holes. The mafic metavolcanic is fine-grained, massive and has a grey-green colour. In one intersection the mafic metavolcanic has sharp contacts with trondhjemite. Where it is in contact with quartz-rich zones and/or altered trondhjemite, it develops a strong foliation.

Apparent widths of the unit range from less than 1 metre up to 7 metres. The rock may represent mafic intrusive dikes that are deformed near quartz veins and related mineralized zones.

Shear Zones

Thin shear zones ranging from less than 0.5 up to 1.5 metres wide and are characterized by a very fine grained, strongly foliated/schistose rock that occurs within altered trondhjemite. The thin shear zones are not traceable between drill holes on cross sections.

Wider shear zones ranging from 1.5 –2 metres represent intensely altered and schistose trondhjemite and occur at the contact with some quartz veins and at some contacts between trondhjemite and altered trondhjemite. The shear zones are not traceable between drill holes on cross sections.

Fault Zones

Fault zones are generally less than 0.5 metres wide and are characterized by the presence of a rusty, muddy gouge and broken core. The fault zones are not traceable between drill holes on cross sections.

Breccia Zones

Breccia zones range from 0.1 up to 1 metre wide and consist of rusty, broken and fractured drill core. These small breccia zones do not display definitive contacts and occur within altered trondhjemites. One breccia zone was traceable between three drill holes on Section 4 (1+35 N) over a dip length of about 40 metres. The breccia zone dips at -80 southwest and occurs in moderately to strongly altered trondhjemite in the hanging wall rocks, about 60 metres southwest of the Main Vein.

Fracture Zones

Only a couple of fracture zones were identified in the drilling. The fracture zones vary from 1 to 3 metres wide and consist of numerous fractures filled with carbonate or quartz-carbonate-tourmaline. The fracturing gives the rock a brecciated appearance.

5. Mineralization and Mineralized Units

A lithological classification system has been developed during the 2009 and 2010 drill programs to better define the mineralized zones. The most dominant mineralized units are Quartz Rich Zones and Mineralized Quartz Veins.

Mineralized Quartz Veins

Mineralized Quartz Veins (MQV) are characterized by veins having sharp contacts with either altered trondhjemite or Quartz Rich Zones (QRZ). There are a few mineralized quartz veins that cut unaltered trondhjemite.

The veins are multi-metallic, commonly containing varying proportions of sphalerite, pyrite, chalcopyrite, galena, and argentite. The veins are composed of grey and white quartz +/- carbonate and often are crudely banded.

Base metal sulphides generally occur as small to coarse blebs, and occasionally as thin seams. Galena also occurs as fine disseminated grains. Small acicular or needle-shaped crystals disseminated within the quartz, are thought to be argentite.

Where the veins are in contact with trondhjemite, the trondhjemite is strongly to intensely altered to sericite and silica, and is accompanied by a strongly developed foliation.

Quartz Sulphide Zones

Quartz Sulphide Zones (QSZ) are characterized by sharp vein contacts, and consist of white and rose quartz containing chloritic clots. They are classified separately from mineralized quartz veins due to their unusually high base metal content, which ranges from 10-15% and consists of coarse blebs of sphalerite, chalcopyrite, pyrite, and galena.

Only one quartz sulphide zone was intersected in the 2010 drill program. The vein has an apparent width of 2.1 metres and occurs in a shallow dipping drill hole (-35^{o}), up dip from a quartz sulphide zone from the 2009 drill program.

Quartz Rich Zones

The predominant mineralized rock unit intersected in the 2010 drilling consists of Quartz Rich Zones (QRZ). Quartz rich zones have a variable character, but generally consist of white to gray quartz containing highly altered trondhjemite inclusions and segments. Quartz content comprises from 50% to 80% of the rock and contain chloritic and sericitic seams.

Quartz rich zones do not have a clearly define contact. In some locations the quartz rich zone is define by a mix of intensely altered trondhjemite, which contains quartz veins, quartz stringers and irregular quartz clots. Mineralized quartz veins often occur at the margins and within the quartz rich zones.

Quartz rich zones are generally weakly mineralized containing disseminated pyrite along with minor amounts of galena, chalcopyrite, sphalerite, and disseminated acicular crystals of argentite. Occasionally, where there is a significant increase in base metal minerals, the unit is referred to as Quartz Rich Mineralized Zone (QRMZ).

The apparent width of quartz rich zones ranges from about 3 to 6 metres. Where the quartz rich zone is in contact with wallrocks, the trondhjemite is strongly to intensely altered and/or foliated.

The quartz rich zone can be traced through each section and define a 'Main Vein' and an East Vein. The Main Vein is the dominant quartz vein system, while the East Vein occurs to the east of the Main Vein and in the footwall rocks. The East Vein appears to merge with the Main Vein with increasing depth. The Main Vein and East Vein are contained within an envelope of highly altered and sheared trondhjemite.

Quartz Veins

Quartz Veins (QV) occur adjacent to quartz rich zones and mineralized quartz veins, as well as independently. The quartz veins are characterized by having sharp contacts with the adjacent rocks. The veins generally consist of white and gray quartz containing inclusions of altered trondhjemite. The quartz veins are weakly mineralized containing a few specks of chalcopyrite and galena and 1-2% disseminated pyrite.

Where the vein is in contact with wall rocks, the trondhjemite is strongly to intensely altered and foliated. A few quartz veins occur in both the hanging wall and footwall rocks to the main mineralized zone (Main Vein) and may represent splay veins.

Quartz-Carbonate-Tourmaline+/-Chlorite Veins (QCT)

Quartz veinlets and stringers containing quartz, carbonate, tourmaline, and occasionally chlorite, occur irregularly within moderately to strongly altered trondhjemite. The veinlets and stringers generally contain disseminated pyrite crystals, but occasionally contain blebs of chalcopyrite and galena. Greater concentrations of QCT veinlets and stringers are associated with more strongly to intensely altered trondhjemite within and adjacent to the main mineralized zone (Main Vein).

6. Geological Drill Hole Cross Sections

A series of preliminary geological cross sections were constructed using the geological drill logs for the McKenzie Gray 2009 and 2010 DDH Programs. Drill holes are projected onto the section view since some drill holes deviate from the 045 azimuth of the section. In some sections this results in abrupt changes in vein location due to changing orientation of the vein systems.

The interpretation of quartz veins and other geological units (i.e. felsite dikes) on a drill section is based on the drill log information such as, the presence of quartz or a quartz rich zones, the angle of the vein contact with the core axis, the presence of the vein on surface, the presence of shearing and alteration adjacent to a vein, and the presence of the quartz vein and other lithologic units in adjacent sections.

The McKenzie Gray Prospect can be classified into a Main Vein system and the East Vein system. The Main Vein has been intersected by drill holes on each section and is characterized by an envelope of sheared and altered trondhjemite. The East Vein occurs to the east of the Main Vein and in the footwall rocks. The East Vein was not intersected by all drill holes on the section and is much more irregular. Mineralized quartz veins carrying significant gold, silver and zinc content are represented by the McKenzie Gray Vein on surface, and appear to be most closely associated with the Main Vein and related structural zone. Both the Main Vein and the East Vein contain quartz rich zones with substantial widths that contain significant silver grades accompanied by minor lead and copper.

MG Section 1: 0+90 N (DDH: Q-MG-10-14, 01, 02, 03 and Q-MG-09-07, 08**)**

The Main Vein is characterized by the presence of Quartz Rich Zones and Mineralized Quartz Veins contained within an envelope of sheared and strongly altered trondhjemite (Figure 5a). This shear/alteration envelope can vary from $<$ 1 metre up to 6 metres from the Main Vein System. The vein system has a pinch and swell nature extending from surface to a depth of about 150 metres, with a dip ranging from -90^{o} near surface to -75^{o} south west at depth. The width of the Quartz Rich Zones ranges from less than 1 metre up to 7 metres, with Mineralized Quartz Veins varying from $<$ 0.5 metres up to 2 metres. There is an apparent split in the Main Vein at shallow depth that is also reflected by the Mineralized Quartz Veins (MG Vein).

The East Vein occurs to the east and in the footwall rocks of the Main Vein. It consists of Quartz Rich Zones containing a large segment of altered trondhjemite. The East Vein System dips at about -60^{o} southwest and extends over a distance of 80 metres from surface and a width ranging from 1 to 5 metres. At 75-metre depth the East Vein appears to merge with the Main Vein.

Mineralized Quartz Veins such as the McKenzie Gray Vein occur independently or at the contacts to Quartz Rich Zones in the Main Vein and appear to extend to a known depth of about 100 metres.

Assay Results

Assays for the Mineralized Quartz Veins range from 6 to 37 g/t Au, 27 to 61 g/t Ag, and up to 1% Zn over approximately a metre width. Quartz Rich Zones range from 12 g/t Ag over 4-5 metres at a 25 metre depth, to 180 g/t Ag over 9 metres at a 140 metre depth (see Table 2 and 3, Figure 5b). Mineralized Quartz Veins are more prominent and have a higher gold tenor above a 100-metre depth. A silver-rich mineralized quartz vein occurs in the footwall rocks, 15 metres northeast of the Main Vein.

MG Section 2: 1+05 N (DDH: Q-MG-10-15, 04, 05 and Q-MG-09-04, 05, 06)

The Main Vein is characterized by the presence of quartz rich zones, quartz veins and mineralized quartz veins contained within an envelope of sheared and highly altered trondhjemite (Figure 6a). The sheared/alteration envelope occurs on both sides of the Main Vein and ranges from 2 to 6 metres in width. The Main Vein is dominated by quartz rich zones containing segments or 'horses' of highly altered and sheared trondhjemite. The vein dips at about -80° southwest and extends over a dip length of about 140 metres.

The East Vein is located about 5 metres east of the Main Vein and in the footwall rocks. It consists primarily of quartz rich zones extending over a distance of 50 metres and appears to pinch-out up and down dip. The vein has a bifurcating nature and dips at about -80° southwest, with a highly variable width ranging from 1 to 5 metres.

Mineralized quartz veins carrying varying proportions of base metals are associated with the Main Vein and extend a distance of about 110 metres down dip. The Main Vein is dominated by a high base metal content above 75 metres.

Assay Results

Assays for Mineralized Quartz Veins range from 4.5 g/t to 24.5 g/t Au, 22 g/t to 144 g/t Ag, and 3 to 8% Zn. Quartz Rich Zones range from 10 g/t to 58 g/t Ag over 2 to 9 metres and extend to a known depth of 150 metres (Table 3 and 4, Figure 6b). Gold-rich Mineralized Quartz Veins and Quartz Rich Zones are evident above 100-metre depth. A gold-rich Mineralized Quartz Vein occurs in the hanging wall rocks, 30 metres southwest of the Main Vein.

MG Section 3: 1+20 N (DDH: Q-MG-10-16, 06, 07, and Q-MG-09-01, 02, 03)

The Main Vein has a curvilinear form extending over a dip length of about 120 metres and changing from a -60° dip south west in the upper section to -90° at depth (Figure 7a). The Main Vein ranges from 5 to 13 metres in width consisting primarily of quartz rich zones containing mineralized quartz veins enclosed in an envelope of sheared and highly altered trondhjemite. The envelope of highly sheared and altered trondhjemite varies from 1 to 6 metres on either side of the Main Vein

The East Vein occurs about 5 metres east of the Main Vein in the footwall rocks and exhibits a similar dip angle of about -60° southwest. The vein system consists of quartz-rich zones about 5 to 7 metres in width that pinches-out up and down dip and extends over a distance of about 40 metres. The vein appears to split into two separate veins down dip.

Mineralized quartz veins rich in base metals dominate the upper portion of the Main Vein System above 75 metres, and comprise a lesser component of the quartz rich zone at depth. Mineralized quartz veins also occur in the hanging wall and footwall rocks and may represent splays off the Main Vein.

Assay Results

Both Mineralized Quartz Veins and Quartz Rich Zones are dominated by silver values, which range from 5 g/t to 78 g/t Ag over 4 to 7 metres (Table 2 and 3, Figure 7b). Between 120 and 140 metre depth, the Quartz Rich Zone is mineralized over a 14 metre core length separated by 1-2 metre lower grade intervals. Composite silver assays range from 30 to 78 g/t Ag. A gold-rich Mineralized Quartz Vein occurs in hanging wall rocks, 15 metres southwest of the Main Vein. A silver-rich Mineralized Quartz Vein occurs in footwall rocks about 5 metres northeast of the Main Vein.

MG Section 4: 1+35 N (DDH: Q-MG-10-17, 08, 09, 10 and Q-MG-09-09, 10)

The Main Vein is dominated by the presence of quartz rich zones containing quartz veins and mineralized quartz veins enclosed within an envelope of altered trondhjemite that is strongly foliated (sheared) in the hanging wall over about 2 metres. The Main Vein extends over a depth of about 150 metres and ranges from 2 to 6 metres in width, dipping -70° to -75° southwest (Figure 8a).

The Main Vein is interpreted as splitting into two vein systems below 50 metres that are separated by 2-4 metres of highly altered and sheared trondhjemite. The associated vein occurs east and in the footwall rocks, suggesting that it may be part of the East Vein identified in other sections. This East Vein extends over a depth of about 80 metres and varies from 2 to 5 metres in width dipping at about -70° southwest. At depth the East Vein bifurcates forming two veins, one of which appears to merge with the Main Vein.

Mineralized quartz veins containing sphalerite-galena-chalcopyrite-argentite-pyrite mineralogy (base metal-rich) are most evident above 75 metres; at deeper levels the mineralized quartz veins are dominated by pyrite-galena-argentite +/- chalcopyrite mineralogy. Mineralized quartz veins occur in the hanging wall and footwall rocks and likely represent splay veins related to the Main Vein and associated base metal-rich veins.

Assay Results

Quartz Veins, Mineralized Quartz Veins and Quartz Rich Zones are dominated by high silver assay values. Composite assays range from 11 to 113 g/t over 3 to 6 metres (Table 2 and 3, Figure 8b). Gold-rich Mineralized Quartz Veins are present above 60 metres. A gold-rich Mineralized Quartz Vein occurs in the hanging wall rocks 20 metres southwest of the Main Vein.

MG Section 5: 1+50 N (DDH: Q-MG-10-18, 11, 12, 13 and Q-MG-09-11, 12)

The Main Vein has a pinch and swell form extending down dip over a distance of 140 metres and a width ranging from 1 to 6 metres (Figure 9a). The vein system is steeply dipping ranging between -80^{o} to -85^{o} to the southwest. The vein is characterized by quartz rich zones, quartz veins and mineralized quartz veins which are contained within an envelope of altered and sheared trondhjemite ranging from 2 to 4 metres wide.

The East Vein occurs east of the Main Vein and in the footwall rocks. The vein systems are separated by a section of altered and strongly foliated trondhjemite ranging from 3 to 10 metres wide. At a shallow depth (less than 50 metres), the veins diverge dramatically. At 150-metre depth the two veins appear to merge.

The East Vein is characterized by the presence of quartz rich zones, quartz veins and mineralized quarts veins. The vein system has a curvilinear form with a variable dip ranging from -45^{o} to -80^{o} southwest, extending over a depth of 120 metres and with a highly variable width ranging from 1 to 6 metres.

The Main Vein contains base metal-rich mineralized quartz veins above 50 metres, at depth it is weakly mineralized with pyrite-galena-chalcopyrite. The East Vein is weakly mineralized between 50 and 75 metres, but displays moderate mineralization at depth.

Quartz veins and mineralized quartz veins occur in the footwall rocks and in the altered and sheared rocks separating the Main Vein and East Vein systems.

Assay Results

A gold-rich Mineralized Quartz Vein was intersected at a 100-metre depth with a composite assay of 10.4 g/t Au, 156 g/t Ag, and 4.5% Zn over 0.85 metres (Table 2 and 3, Figure 9b). This is significant in that it indicates the presence of gold-rich Mineralized Quartz Veins at a 100-metre depth. Quartz Rich Zones and Quartz Veins generally have composite silver assay values ranging from 5 to 12 g/t Ag over 1 to 6 metres width. A Mineralized Quartz Vein with minor silver values occurs in the footwall rocks, 20 metres northeast of the Main Vein.

7. Interpretation and Conclusions

Summary

The Main Vein system is persistent within each section and can be reasonably interpreted based on consistent vein contact angles to the core axis, the location and depth of the intercept, and the presence of sheared and altered wallrocks. The Main Vein has a steep -75° dip to the southwest and extends down dip over a known distance of 120 to 150 metres, ranging in average width from 2 to 6 metres.

The Main Vein consists of quartz-rich zones containing inclusions of highly altered trondhjemite and segments or 'horses' of highly altered and sheared trondhjemite. The quartz rich zones are cut by quartz veins and mineralized quartz veins that are enclosed within an envelope of highly altered and sheared trondhjemite ranging from 1 to 6 metres in width adjacent to the vein system.

The East Vein occurs to the east of the Main Vein in the footwall rocks. This East Vein structure is not continuous within a section and tends to pinch-out up and down dip. The East Vein has an average width ranging from 1 to 5 metres and extends down dip an average distance of 40 to 80 metres.

The East Vein is often characterized by a shallow dip ranging from –45 to –60 southwest, and appears to increase in dip and merge with the Main Vein at depth. The East Vein is commonly separated from the Main Vein by a zone of high altered and foliated trondhjemite. There is an increase in the separation distance between the Main Vein and East Vein systems towards the northwest, with the upper portion of the East Vein having a shallower dip.

Quartz Rich Zones related to the Main Vein (and associated East Vein) are pervasively mineralized with silver. This likely reflects the presence of disseminated, fine needles or crystals of argentite noted in the drill logs. The high gold and/or silver and zinc along with moderate values of copper and lead reflect the Mineralized Quartz Veins containing sphalerite, pyrite, chalcopyrite, galena and argentite, which occur within the Main Vein as well as in hanging wall and foot wall rocks near the Main Vein.

Structural Model

The McKenzie Gray Prospect is characterized by an early period of quartz veining and mineralization that resulted in the development of both the Main Vein and East Vein systems (Figure 10). This early mineralizing episode is dominated by the presence of high Ag+/-Pb+/-Cu mineralization in the form of argentite, galena, and chalcopyrite.

This first episode of veining and mineralization was been followed by the emplacement of Mineralized Quartz Veins dominated by Au-Ag-Zn+/-Cu+/-Pb mineralization in the form of sphalerite, argentite, free gold, chalcopyrite, and galena. The McKenzie Gray Vein reflects this second stage of mineralization. The mineralized quartz veins related to this second episode of mineralization appear to occupy the same structural zone as the

Main Vein. Gold, silver, and base metal-rich mineralized quartz veins have been intersected to a depth of 100 metres, indicating that the gold-bearing system is present at depth.

The presence of a highly foliated and altered trondhjemite 'envelope' surrounding the Main Vein system and separating the Main Vein from the East Vein reflects the shear-hosted nature of the quartz vein systems. The structural model suggests that the Main Vein and East Vein are part of a 10-30 metre wide structural zone (Figure 10). The base metal-rich mineralized quartz veins, such as the McKenzie Gray Vein, weave through the quartz rich zones forming splay veins, splitting and merging throughout the structural zone.

Given the structural environment with two stages of mineralization, there is potential for wide silver-rich zones within the early mineralizing system reflected by the Main Vein and East Vein. There is also potential for thinner gold-silver-zinc rich veins related to the second episode of quartz veining and mineralization. The presence of a wide structural zone containing wide quartz-rich zones and veins at a depth of 150 metres, indicates that there is potential to expand the vein system to further depth as well as along strike to the northwest and southeast.

8. Recommendations

The McKenzie Gray Prospect has been delineated in detail to a depth of 150 metres over a 60-metre strike length. Much of the focus of the drilling has been on delineating the higher-grade zone during the 2009 drilling program, and extending the mineralized zone to depth in the 2010 program. No drilling has been completed beneath the bulk sample open pit to the southeast or past the current drill limits to the northwest. With this in mind, the following recommendations are made:

a) Complete two sets of drill fans to the northwest of the current drilling limits, on the baseline at stations 1+65 N and 1+90N. Each fan should be 2 – 3 drill holes drilled at 045° azimuth. The drill holes will test the mineralized zone and moderate IP conductors identified by the JVX Spectral IP survey.
b) Complete two sets of drill fans to the northwest of the current drilling limits, 60 metres southwest of the baseline at stations 1+65 N and 1+90N. Each fan should be 2 – 3 drill holes drilled at 045° azimuth. The drill holes will test the deeper levels of the mineralized zone to about 150 metres.
c) Complete two sets of drill fans to the southeast of the current drilling limits, on the baseline at stations 0+30N and 0+60 N. Each fan should be 2 – 3 drill holes drilled at 045° azimuth. The drill holes will test the mineralized zone beneath the bulk sample open pit.
d) Complete two sets of drill fans to the southeast of the current drilling limits, 60 metres southwest of the baseline at stations 0+30N and 0+60 N. Each fan should be 2 – 3 drill holes drilled at 045° azimuth. The drill holes will test the deeper levels of the mineralized zone beneath the bulk sample open pit to about 150 metres.

9. References

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Figure 1: Nipigon Area Joint Venture Property General Location Map

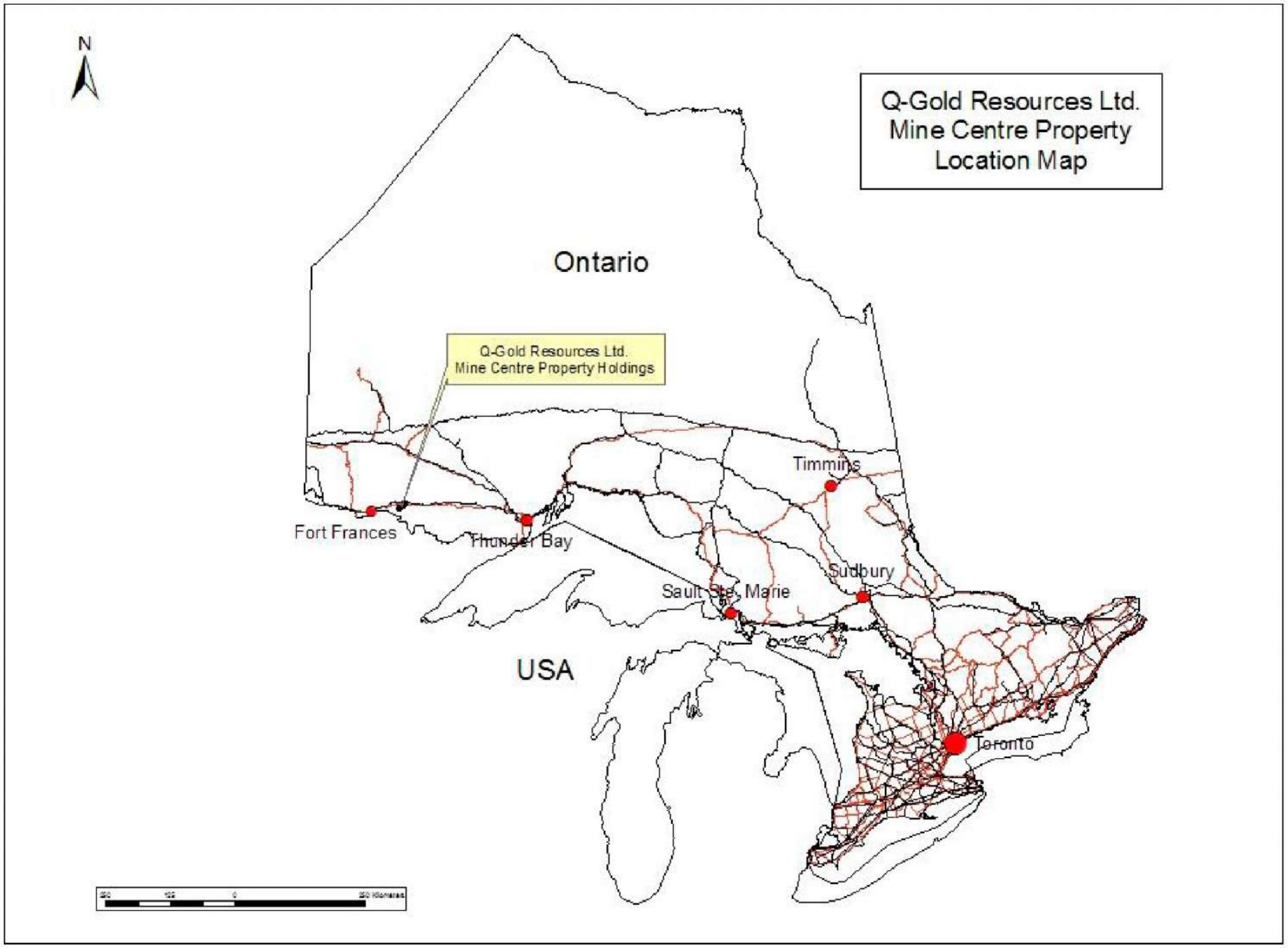

Figure 2: Nipigon Area Property: Mine Centre Regional Geology Map

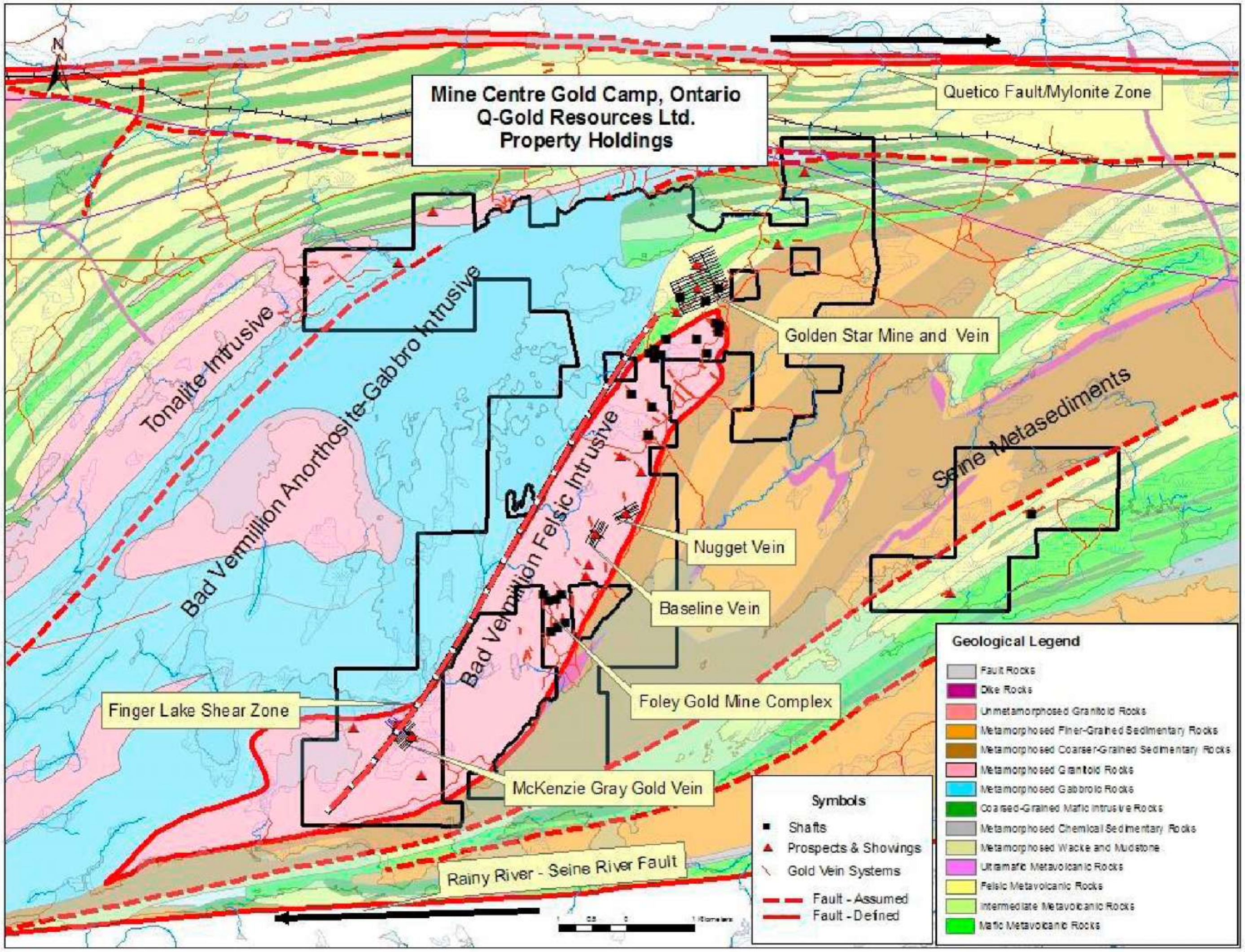

Figure 3: Detailed Geological Map, Mackenzie Gray Prospect (after Gliddon, 1992)

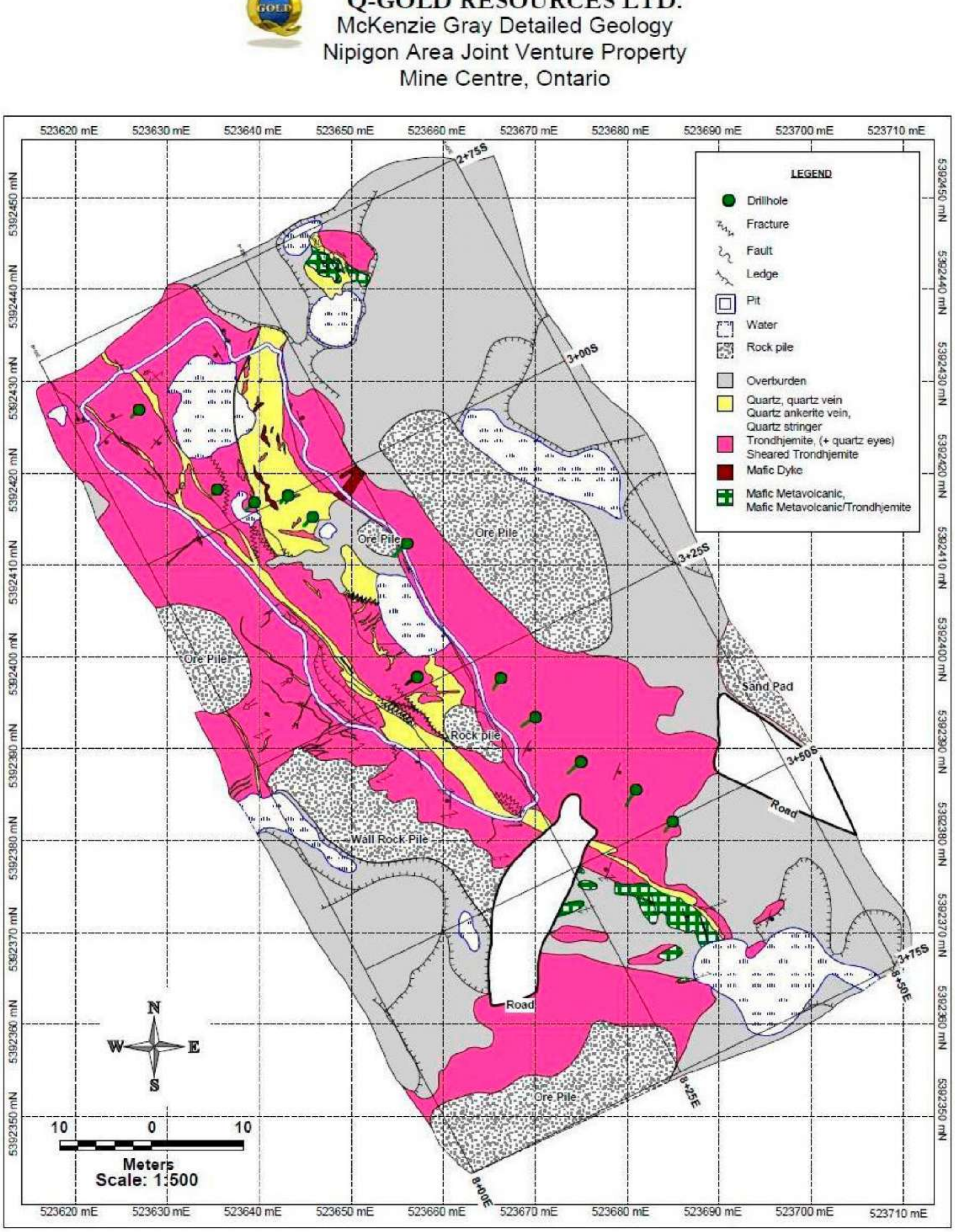

Figure 4: McKenzie Gray DDH Locations and Geological Sections

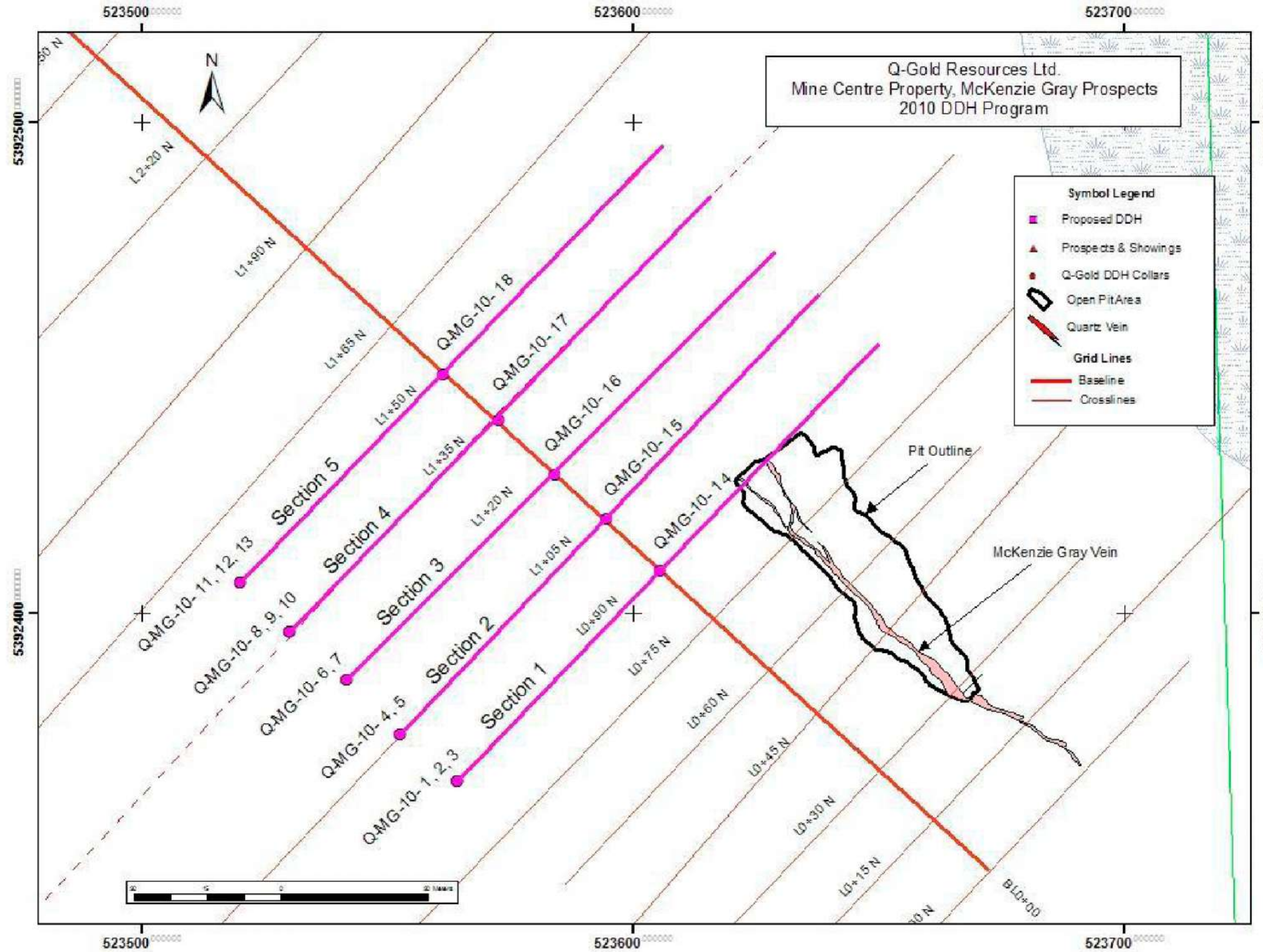

Figure 5a: McKenzie Gray DDH Geological Cross Section 1

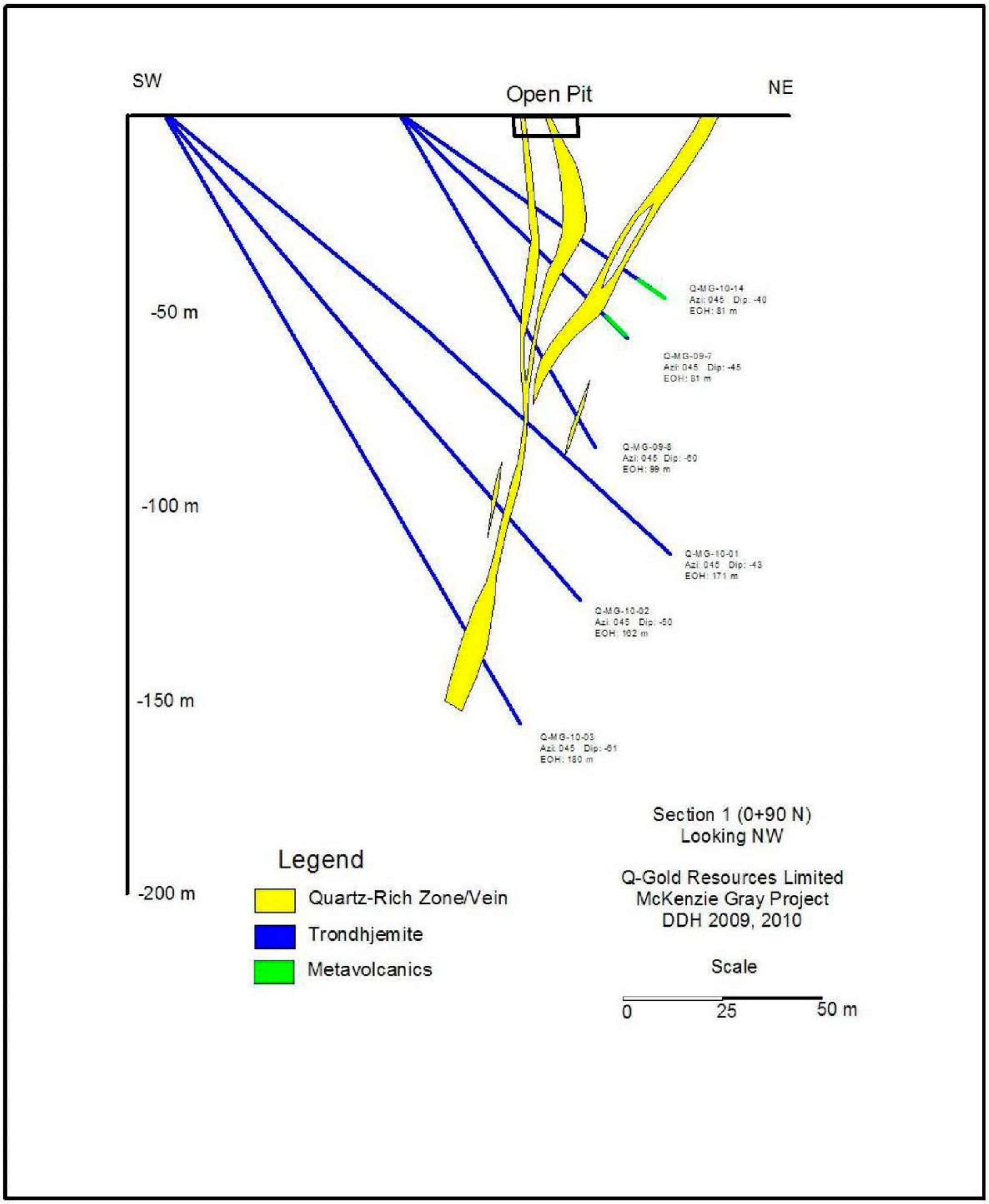

Figure 5b: McKenzie Gray DDH Assay Cross Section 1

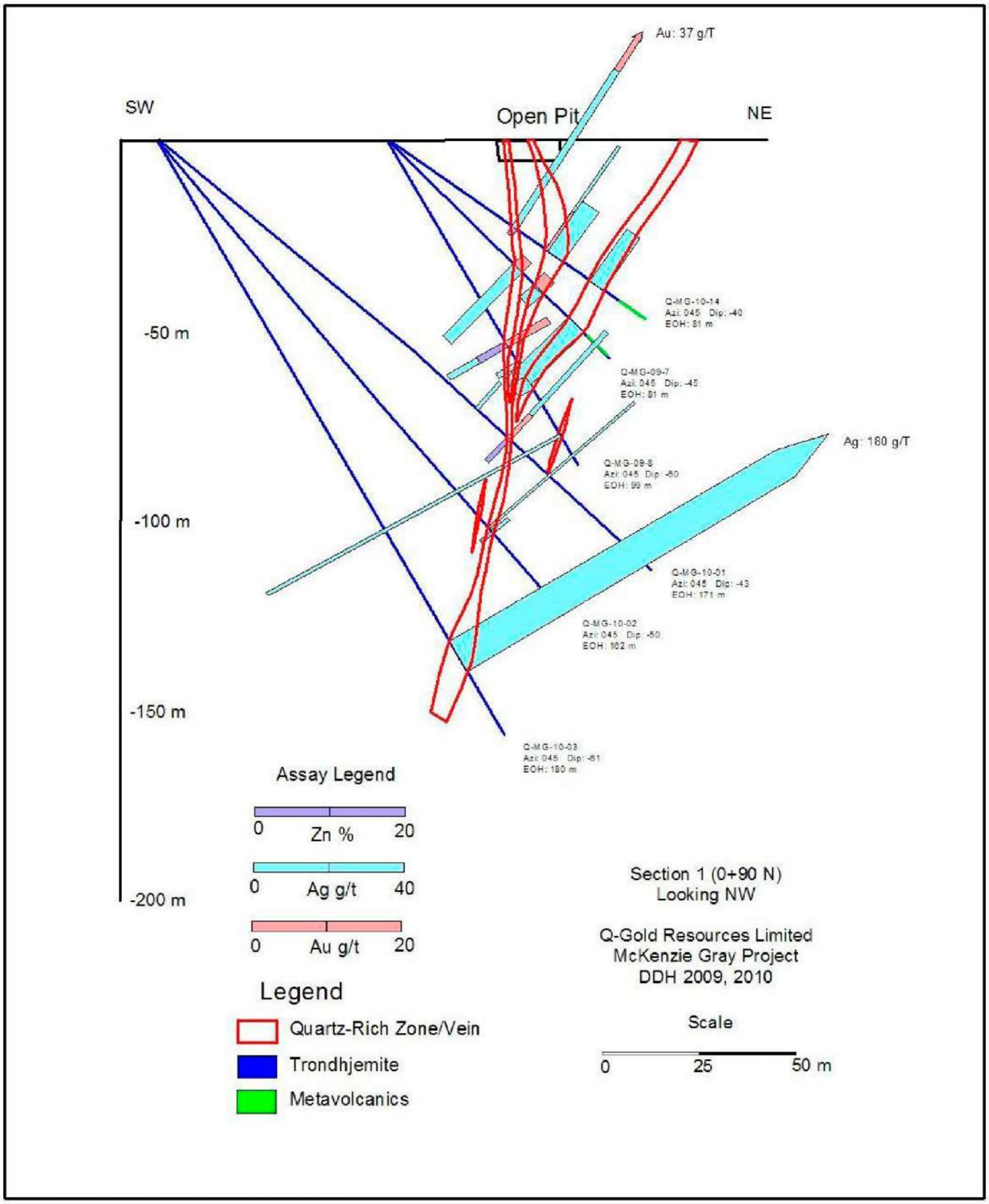

Figure 6a: McKenzie Gray DDH Geological Cross Section 2

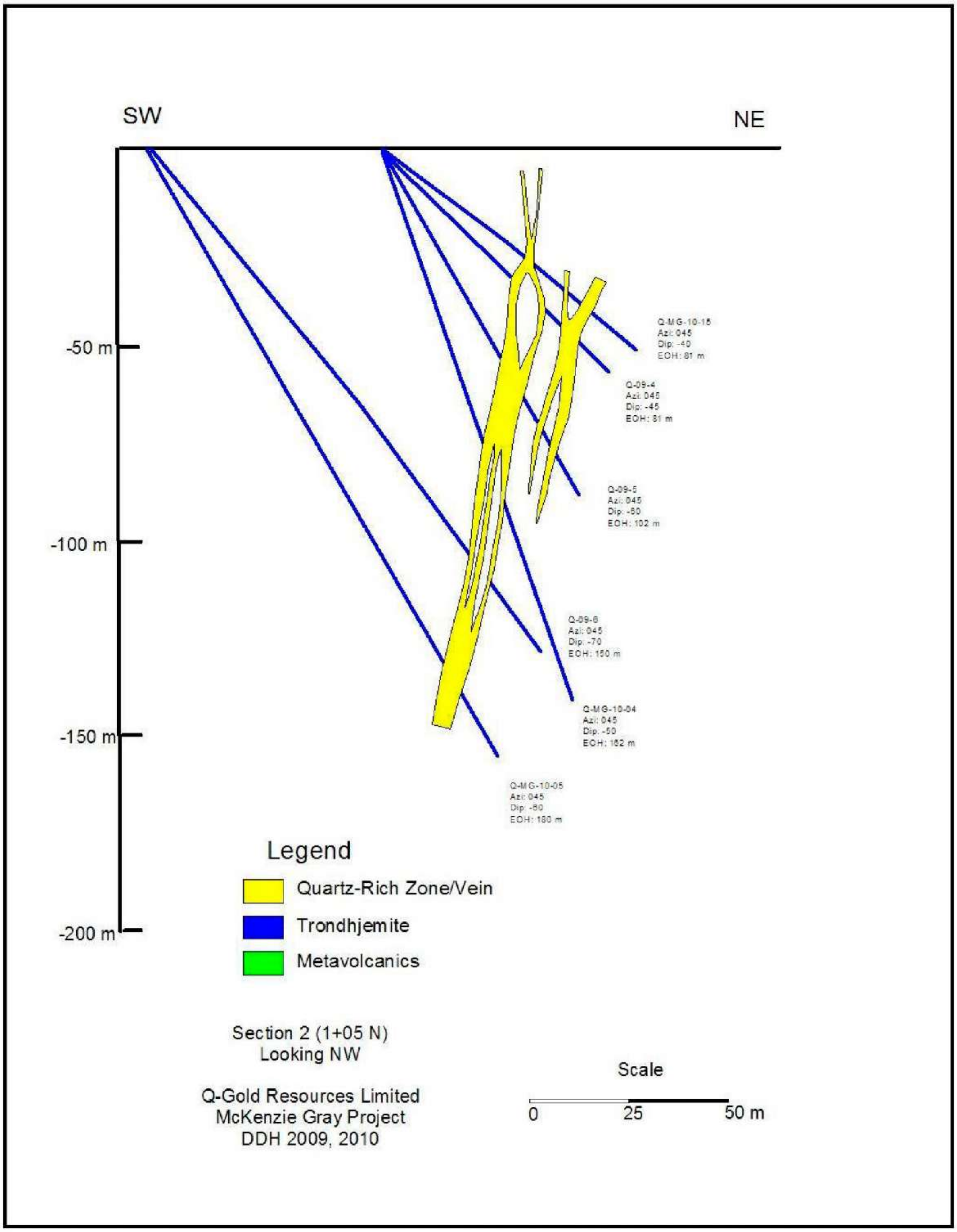

Figure 6b: McKenzie Gray DDH Assay Cross Section 2

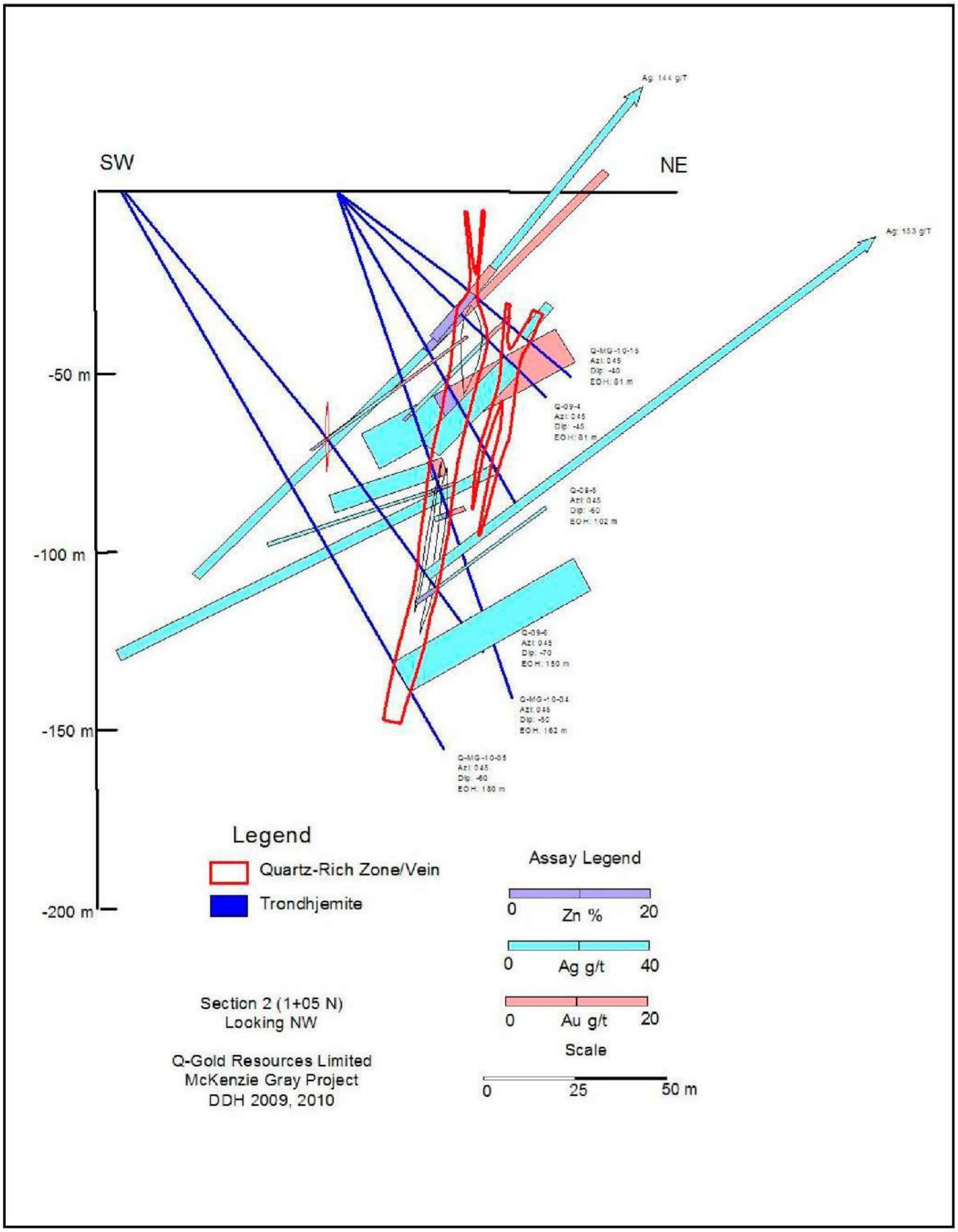

Figure 7a: McKenzie Gray DDH Geological Cross Section 3

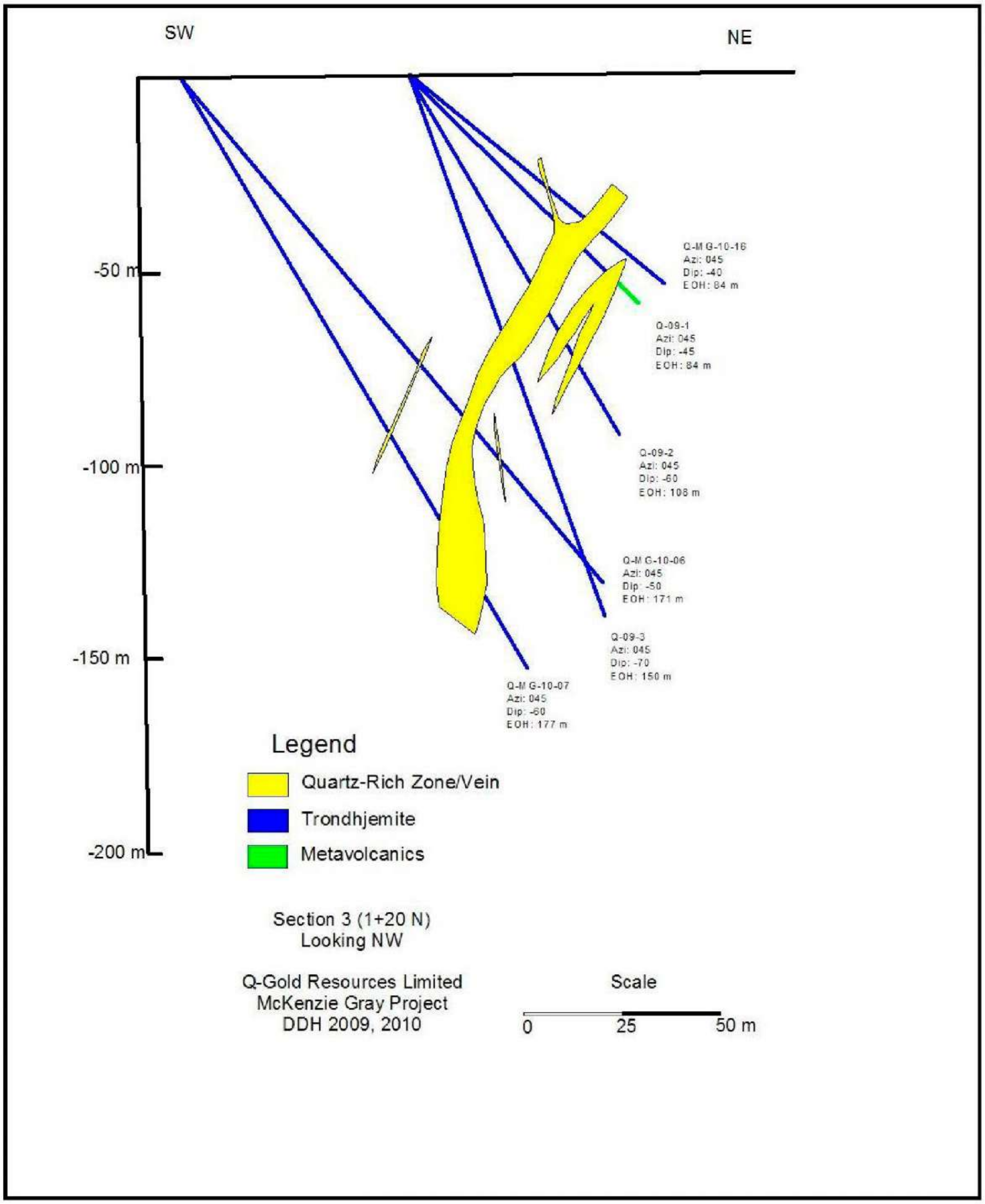

Figure 7b: McKenzie Gray DDH Assay Cross Section 3

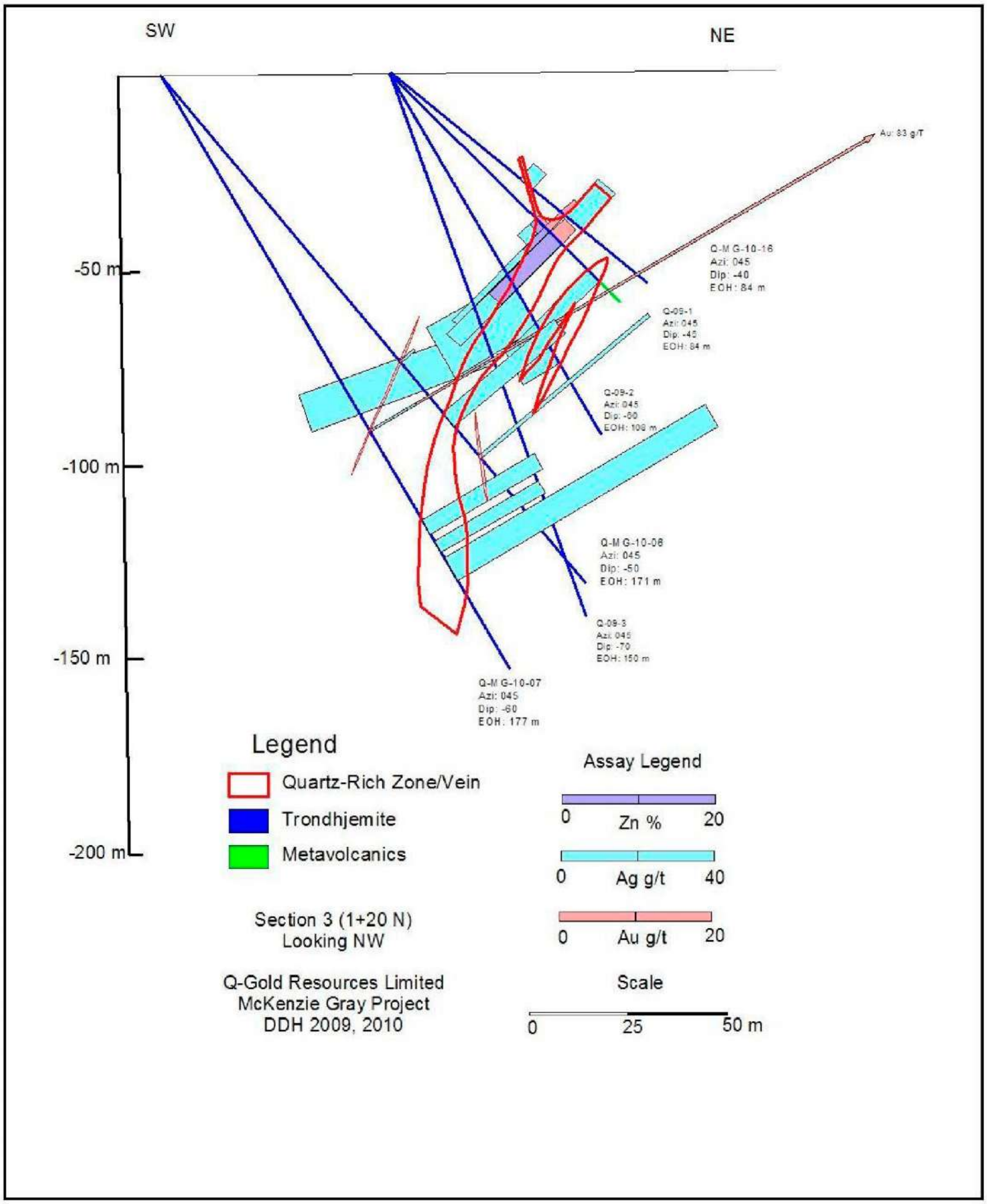

Figure 8a: McKenzie Gray DDH Geological Cross Section 4

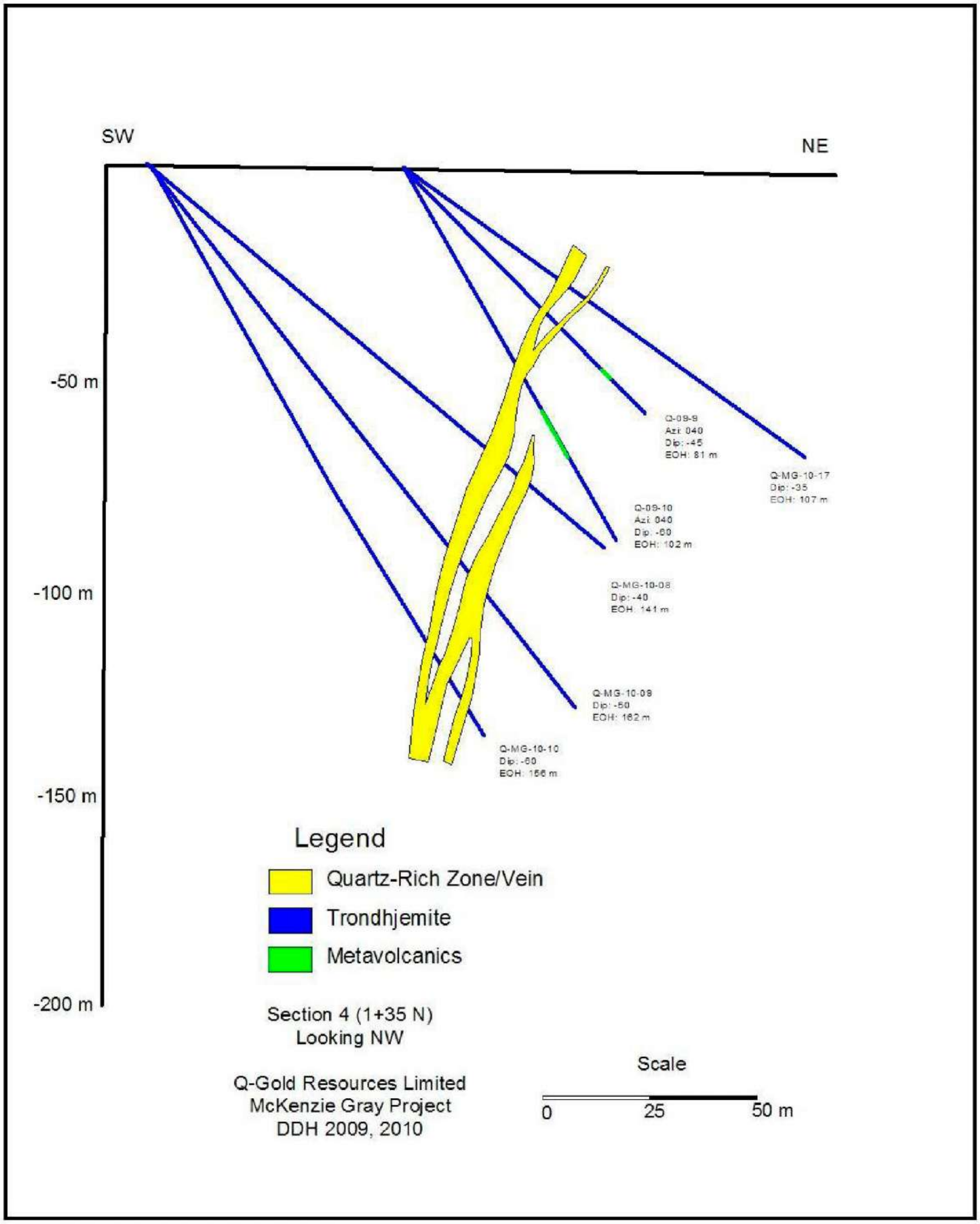

Figure 8b: McKenzie Gray DDH Assay Cross Section 4

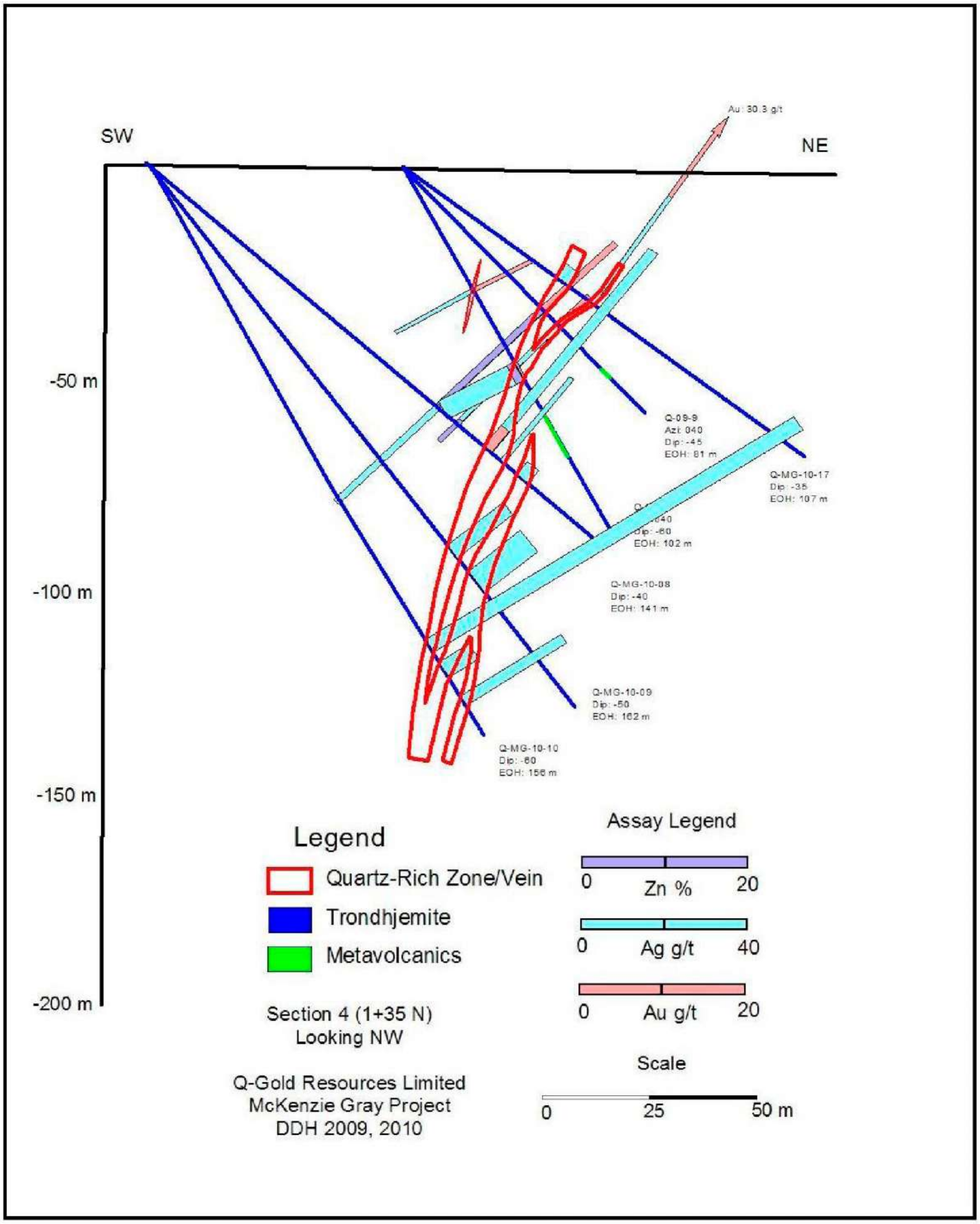

Figure 9a: McKenzie Gray DDH Geological Cross Section 5

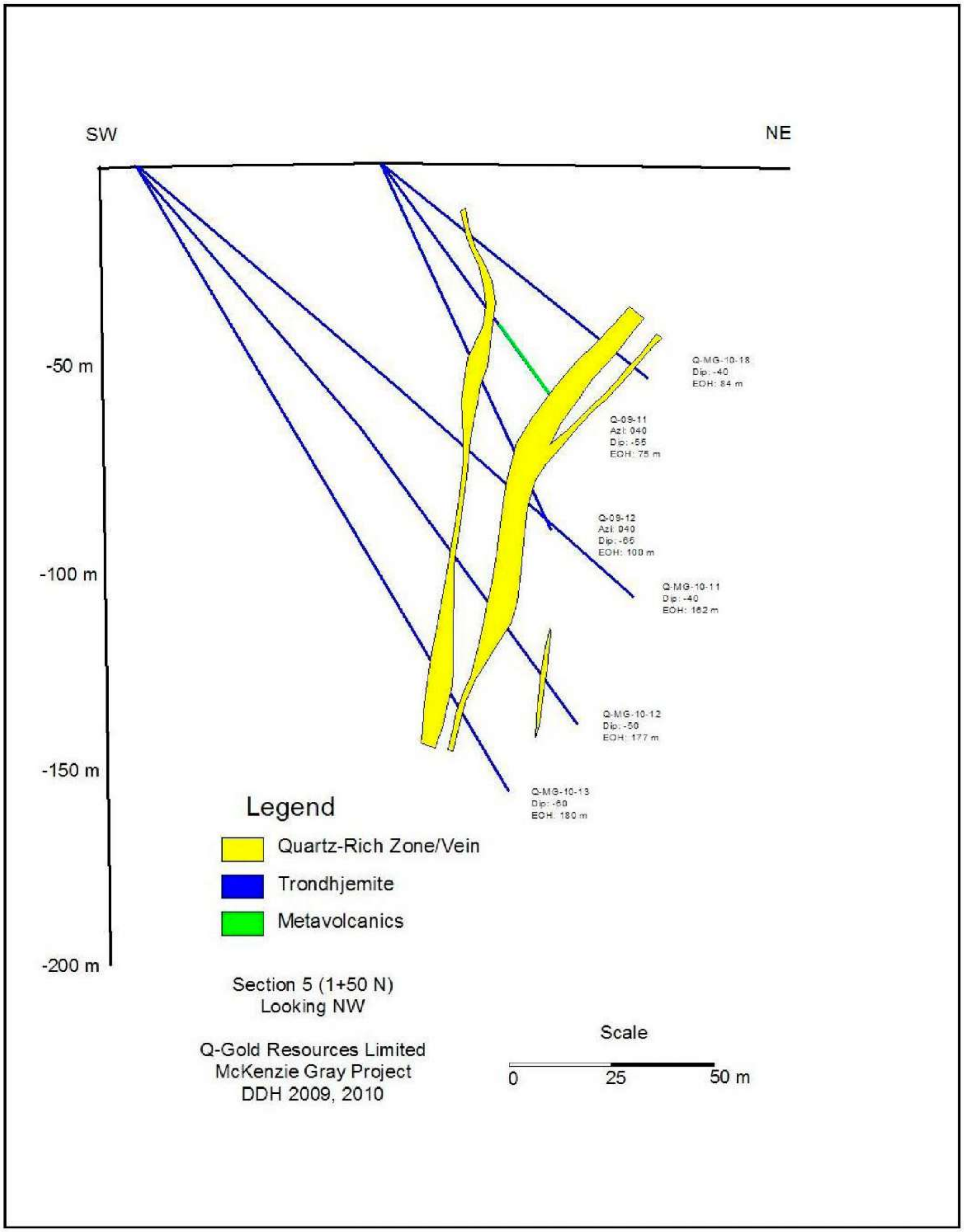

Figure 9b: McKenzie Gray DDH Assay Cross Section 5

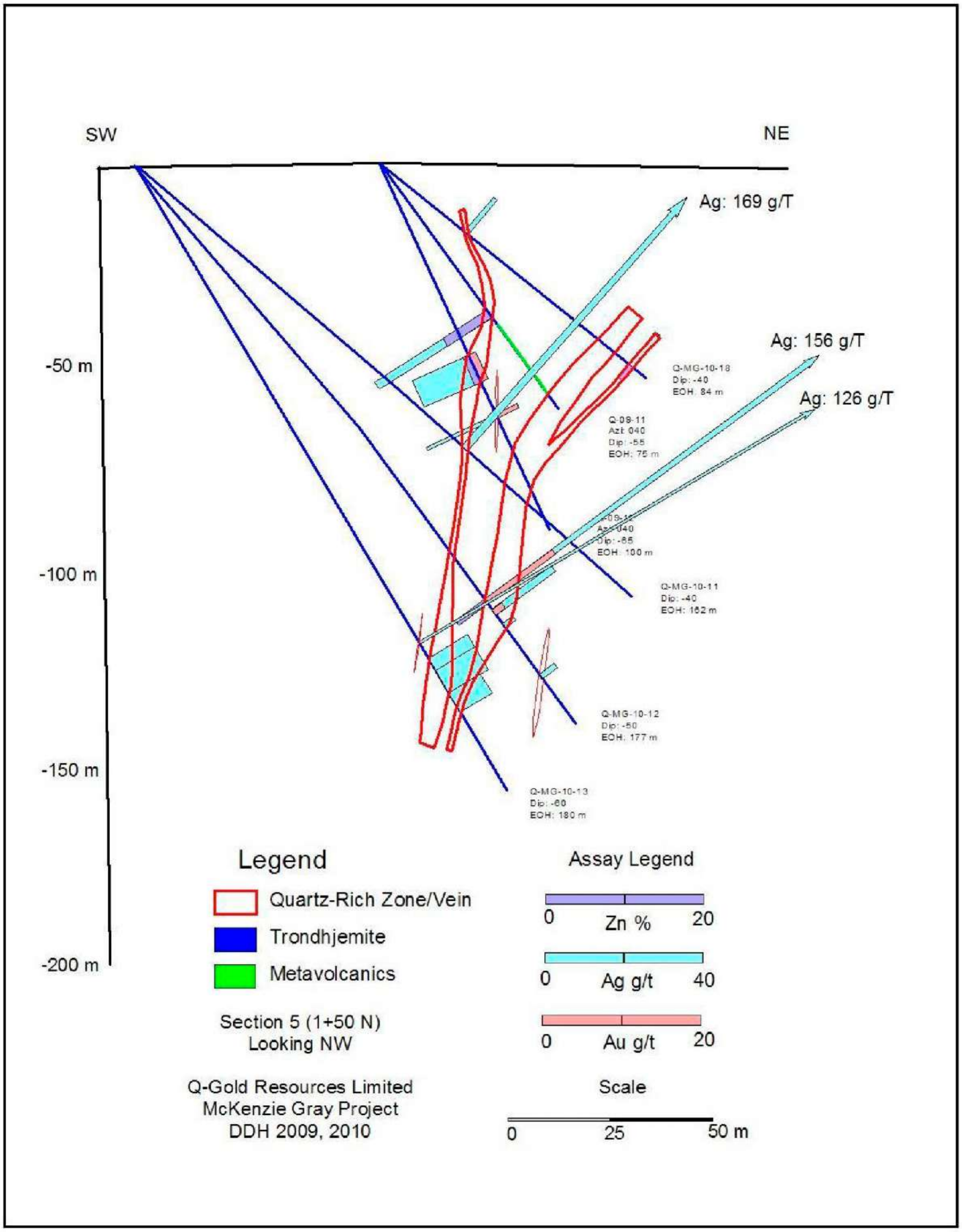

Figure 10: Structural Model: Idealized Cross-Section, McKenzie Gray Prospect

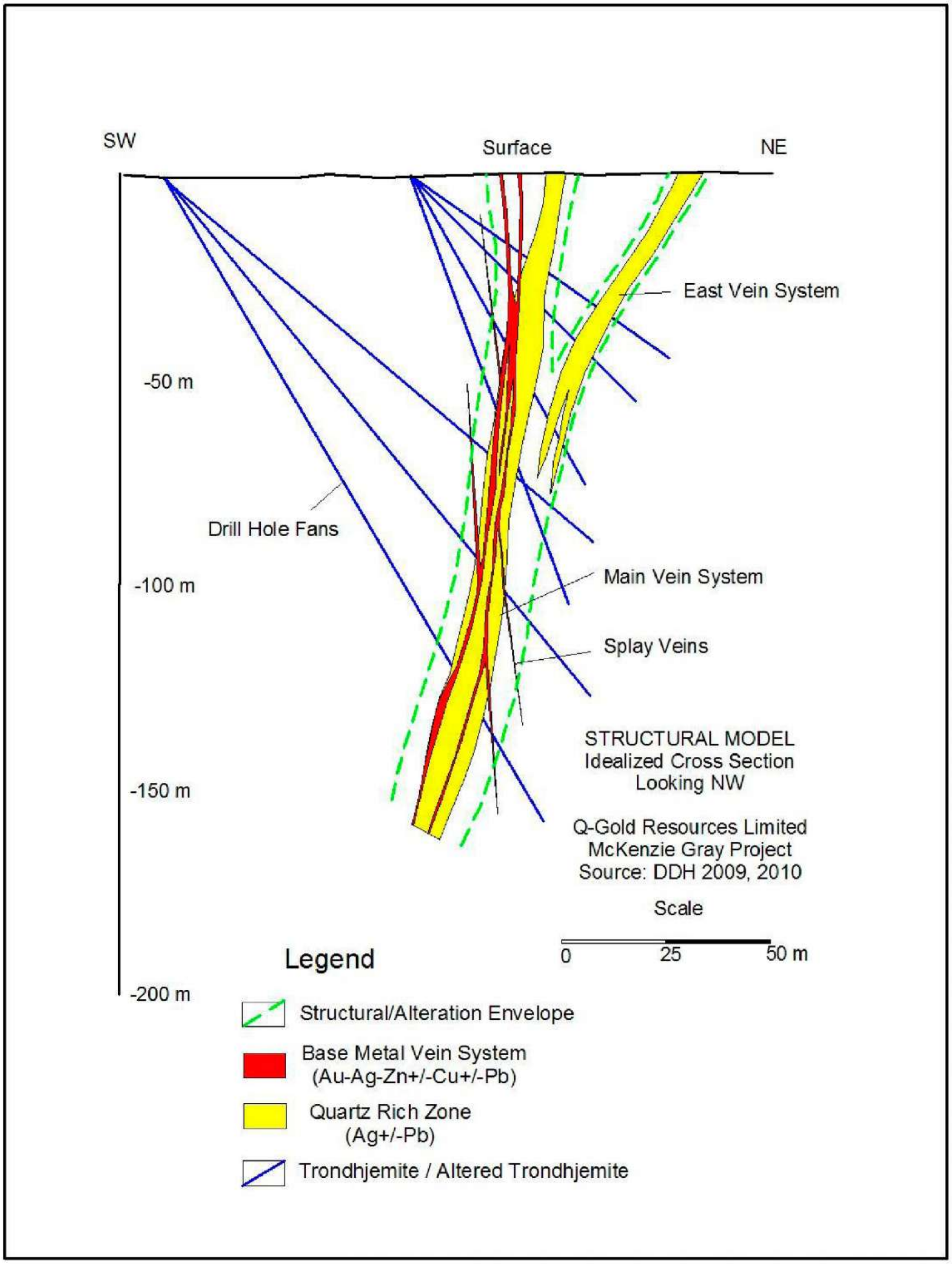

Table 2: MG DDH Program 2010: Composite Assays sorted by drill hole number

DDH	From	To	Length	Description	Classification	Au g/t	Ag g/t	Cu %	Pb %	Zn %
QMG10-01	113.80	114.25	0.45	Quartz-Carb-Tour Veinlets	QSTR	0.21	9.30			0.03
QMG10-01	118.80	119.05	0.25	Mineralized Quartz Vein	MQV	4.27	38.20	0.31	0.12	4.08
QMG10-02	132.00	132.15	0.15	Mineralized Quartz Vein	MQV	1.62	50.10	<0.01	0.34	0.12
QMG10-02	134.00	134.20	0.20	Mineralized Quartz Vein	MQV	<.03	3.30	<0.01	<0.01	2.16
QMG10-03	151.15	160.40	9.25	Quartz Rich Zone	QRZ	0.44	179.79	0.01	0.13	0.19
Including										
QMG10-03	153.65	159.05	5.40	Quartz Rich Zone	QRZ	0.47	293.92	0.01	0.22	0.03
QMG10-04	88.30	88.60	0.30	Quartz-Carb-Tour Vein	QSTR	24.56	22.40	0.40	0.01	2.64
QMG10-04	133.70	136.60	2.90	Mineralized Quartz Vein	MQV	0.31	152.72	0.01	0.30	0.05
QMG10-04	139.70	139.85	0.15	Mineralized Quartz Vein	MQV	0.30	38.40	0.01	0.15	3.26
QMG10-05	151.50	160.90	9.40	Quartz Rich Zone	QRZ	0.11	57.84	0.01	0.05	0.02
Including										
QMG10-05	151.50	158.15	3.95	Quartz Rich Zone	QRZ	0.24	123.93	0.01	0.10	0.02
QMG10-06	113.40	118.60	5.20	Quartz Rich Zone	QRZ	0.21	30.81	0.02	0.03	0.13
QMG10-06	127.85	128.15	0.30	Mineralized Quartz Vein	MQV	0.08	55.90	<.01	0.04	<.01
QMG10-07	106.60	106.75	0.15	Mineralized Quartz Vein	MQV	82.82	14.00	0.30	0.03	0.01
QMG10-07	132.95	136.65	3.70	Quartz Rich Zone	QRZ	0.20	33.92	0.01	0.01	0.01
QMG10-07	138.95	142.35	3.40	Quartz Rich Zone	QRZ	0.04	30.03	0.01	0.02	0.01
QMG10-07	144.10	151.15	7.05	Quartz Rich Zone	QRZ	0.28	77.78	<.01	0.22	0.03

QMG10-08	103.65	106.20	2.55	MQV+QRZ+Alteration	MQV+QRZ	2.98	61.34	0.05	0.12	2.82
QMG10-08	109.20	110.30	1.10	Mineralized Quartz Vein	MQV	0.55	25.64	0.07	0.01	1.12
QMG10-08	114.30	118.00	3.70	QRZ + Alteration	QRZ	0.09	11.16	<.01		
QMG10-09	114.70	118.30	3.60	Quartz Rich Zone	QRZ	0.07	17.62	<.01	<.01	0.03
QMG10-09	123.00	129.60	6.60	Quartz Vein	QV	0.12	15.42	<.01	<.01	0.01
QMG10-10	129.80	133.25	3.45	Quartz Vein	MQV	0.44	112.49	<.01	0.18	0.01
Including										
QMG10-10	132.15	133.25	1.10	Mineralized Quartz Vein	MQV	1.36	295.69	<.01	0.55	0.01
QMG10-10	136.40	140.10	3.70	Quartz Rich Zone	QRZ	0.02	7.84	<.01	<.01	0.02
QMG10-10	145.95	148.90	2.95	Quartz Vein	QV	0.06	27.75	<.01	<.01	0.02
QMG10-11	105.50	105.95	0.45	Mineralized Quartz Vein	MQV	0.20	168.60			0.30
QMG10-12	138.50	139.35	0.85	Mineralized Quartz Vein	MQV	10.41	156.14	0.36	0.17	4.46
QMG10-12	141.00	142.45	1.45	Mineralized Quartz Vein	MQV	1.40	17.98	0.09	0.04	0.16
QMG10-12	145.10	146.35	1.25	Quartz Rich Zone	QRZ	0.34	3.16			0.33
QMG10-12	161.00	162.50	1.50	Quartz Vein	QV	0.35	4.60			0.12
QMG10-13	136.60	136.90	0.30	Quartz Vein	QV	0.27	126.3			<0.01
QMG10-13	141.75	145.10	3.35	Quartz Vein	QV	0.03	11.79			0.01
QMG10-13	145.10	151.70	6.60	Quartz Rich Zone	QRZ	0.04	11.77			0.01
QMG10-13	151.70	157.10	5.40	Quartz Vein+Alt Trondhjemite	QV+AT	0.17	8.87			0.02
QMG10-14	38.90	40.00	1.10	Mineralized Quartz Vein	MQV	36.63	60.76	0.82	0.20	1.11
QMG10-14	49.80	50.70	0.90	Quartz Rich Zone	QRZ	5.97	32.8	0.1	0.04	0.74
QMG10-14	50.70	55.30	4.60	Quartz Rich Zone	QRZ	0.10	16.55	<.01	0.01	<.01
QMG10-14	63.40	67.40	4.00	Quartz Vein + Alteration	QV+AT	0.08	19.70			<.01

QMG10-15	45.50	47.60	2.10	Mineralized Quartz Vein	MQV	4.49	143.99	1.35	0.25	8.07
QMG10-15	63.60	65.40	1.80	Quartz Rich Zone	QRZ	0.015	9.87			0.01
QMG10-16	43.10	47.00	3.90	Quartz Veins & Stringers	QV+STRG	0.02	4.42	0.01	<0.01	0.31
QMG10-16	58.20	63.75	5.55	Quartz Rich Zone	QRZ	0.07	12.07	0.01	0.01	0.01
QMG10-17	44.70	48.65	3.95	Quartz Rich Zone	QRZ	0.10	3.87	0.01	<.01	0.05
QMG10-17	47.80	48.65	0.85	Quartz Rich Zone	QRZ	0.38	13.35	0.03	<.01	0.03
QMG10-17	56.00	56.25	0.25	Quartz-Carbonate Vein	QCV	30.28	32.40	0.58		0.10
QMG10-18	26.00	28.25	2.25	Quartz Stringers	QSTR	0.02	10.57	<0.01	0.02	0.06
QMG10-18	82.50	82.90	0.40	Quartz Rich Zone	QRZ	0.07	10.10			1.61