



**ROMARCO MINERALS INC.**

# M D & A

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MANAGEMENT'S DISCUSSION AND ANALYSIS

- For the period ended June 30, 2011 -

**ROMARCO MINERALS INC.**  
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**FOR THE PERIOD ENDED JUNE 30, 2011**

*The following Management's Discussion and Analysis ("MD&A") of Romarco Minerals Inc. and its subsidiaries ("Romarco", "we", "our" or the "Company") is intended to provide investors with a reasonable basis for assessing the financial performance of the Company as well as certain forward-looking statements relating to its potential future performance. This MD&A is prepared as of August 8, 2011 and should be read in conjunction with the unaudited interim consolidated financial statements and the related notes for the three and six months ended June 30, 2011 and the audited consolidated financial statements for the year-ended December 31, 2010 and the related notes for the year then ended.*

*The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate IFRS, and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has reported on this basis in these unaudited condensed interim consolidated financial statements. Comparative information included in the June 30, 2011 unaudited condensed interim consolidated financial statements and MD&A have been restated in accordance with IFRS. The audited annual financial statements for the year ended December 31, 2010 have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). In this document, the term Canadian GAAP refers to Canadian GAAP before the adoption of IFRS. All dollar amounts referred to in this MD&A are expressed in US dollars unless otherwise indicated.*

**SECOND QUARTER HIGHLIGHTS**

Highlights from the second quarter include:

- Cash balance at June 30, 2011 was \$63 million.
- During the first six months of 2011 directed drilling on areas that were most likely to benefit the mine plan, primarily infill and condemnation drilling. Second quarter exploration drilling continued to define significant mineralization inside the planned permit area within and beyond the current reserve pit boundaries.
  - The drill program returned positive infill and step-out results at Horseshoe and Mill Zone, continuity between South Pit and Ledbetter in a zone now designated as Mustang, step-out mineralization north of Ledbetter and continuity between Snake and Horseshoe.
  - The Company's exploration drilling program is on schedule and budget achieving 49,000 meters of drilling for the three months ended June 30, 2011 and the year-to-date 92,000 meters of drilling represents an increase of 77% over the same period in 2010.
- Hired Michael F. Gleason as Construction Manager and advanced design and engineering for the Haile project.
- Completed construction of Company-owned analytical and metallurgical laboratory on schedule and budget.
- During the second quarter, the Company increased its land position by approximately 10% (986 acres) to 11,011 acres (4,456 hectares) at June 30, 2011.
- Reported \$3.6 million net loss for the three months ended June 30, 2011 and \$8.3 million for the six months ended June 30, 2011.

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- On July 1, 2011, the US Army Corps of Engineers requested the Company complete an Environmental Impact Statement ("EIS") for its Haile Gold Mine project in South Carolina. The EIS is expected to add approximately 12 months to the project schedule proposed in the Company's feasibility study (dated February 10, 2011), primarily as a result of the extended technical review period and the review periods dictated by the EIS schedule. The Company will utilize the additional time to increase exploration drilling and further optimize the project.

## **CORPORATE OVERVIEW**

Romarco Minerals Inc. is an exploration and development company engaged in the acquisition, exploration and development of precious metals mineral properties. Romarco's strategic objective is to become a gold producer through development of its own projects or by acquisition. Romarco's management and Board of Directors are comprised of senior mining executives with extensive experience identifying, developing, financing and operating precious metals deposits in the Americas. The Company is formed under the laws of British Columbia with its head office in Toronto, Ontario.

The Company's flagship property is the Haile Gold Mine ("Haile") in Lancaster County, South Carolina, USA. The Company owns approximately 9,921 acres (4,014 hectares) of land in fee simple at June 30, 2011, including approximately 3,293 acres (1,333 hectares) for regional exploration and has a 100% leasehold interest in an additional 1,070 acres (433 hectares). The Company's interest in the fee simple properties includes surface, water and mineral rights with no associated royalties and is free of all claims and access restriction.

The Company is a reporting issuer in all of the provinces and territories of Canada except Québec and trades on the TSX under the symbol "R".

## **REVIEW OF PROJECTS**

### **Haile Gold Mine, South Carolina, USA**

The Haile Gold Mine is located in Lancaster County, South Carolina and is an approximate one hour drive north of Columbia, South Carolina and one and a half hour drive south of Charlotte, North Carolina. Haile is located in an area with existing infrastructure including paved roads, power, water and housing. Geologically, Haile is situated in the Carolina Slate Belt, which also hosts the past-producing Brewer Gold Mine to the northeast and the past-producing Ridgeway Gold Mine to the southwest.

### ***Business Overview***

On February 9, 2011, the Company announced the completion of an updated feasibility study for the Haile Gold Mine project. The feasibility study was compiled by M3 Engineering & Technology Corporation ("M3") with the participation and contribution of Independent Mining Consultants ("IMC") and AMEC Americas Limited ("AMEC"). Drill data for the feasibility study was as of September 30, 2010 and replaces the feasibility study announced on February 3, 2009. The feasibility study does not include Horseshoe, Snake Deep, West Ledbetter and some portions of the Mill Zone, Small and Champion deposits. The National Instrument ("NI") 43-101 compliant Technical Report was filed on SEDAR ([www.sedar.com](http://www.sedar.com)) on February 22, 2011 and is available on the Company's website at [www.romarco.com](http://www.romarco.com).

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The main highlights of the feasibility study results are shown below. Reference can be made to the press release dated February 9, 2011 or the NI 43-101 Technical Report for more details.

- A low capital cost, low operating cost and high-grade open-pit gold mine
  - Initial capital costs of \$275 million and sustaining capital of \$119 million
  - Average cash cost (after by-product credit) of \$347/oz for the first five years and \$379/oz life of mine
  - Reserve grade of 2.06 grams/tonne
- Proven and probable mineral reserves of 2.0 million contained ounces of gold
- Robust project economics
  - At \$950 gold, pre-tax net present value (NPV) at 0% discount of \$508 million and internal rate of return ("IRR") of 19.6%
  - At \$1,400 gold, pre-tax NPV (0% discount) is \$1,259 million and IRR of 42.3%
- Mine life in excess of 13 years at a mill throughput of 7,000 tons per day ("tpd")
  - First year production of 172,000 ounces of gold
  - First 5 years production average 150,000 ounces gold per year
- Average 83.7% gold recovery
- Life of mine strip ratio of 7.2:1

The geological setting section of the NI 43-101 was written by James Berry, Chief Geologist and Regional Exploration Manager at Haile. John Marek, Professional Engineer ("PE") of IMC reviewed the geology section and is the Qualified Person as defined under NI 43-101. The mineral resources at Haile were developed by IMC and John Marek, PE acted as the Qualified Person for the development of the model and the mineral resource estimate. The feasibility mine plan for the Haile Gold Mine was developed by IMC and John Marek, PE acted as the Qualified Person for the development of the feasibility mine plan.

Canadian standards, including NI 43-101, differ significantly from the requirements of the United States Securities and Exchange Commission ("SEC"), and mineral resource and reserve information contained herein may not be comparable to the similar information disclosed by U.S. companies. In particular, and without limiting the generality of the foregoing, the term "resource" does not equate the term "reserves". Under U.S. standards, mineralization may not be classified as a "reserve, unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made. The SEC's disclosure standards normally do not permit the inclusion of information concerning "measured mineral resources", "indicated mineral resources" or "inferred mineral resources" or other descriptions of the amount of mineralization in mineral deposits that do not constitute "reserves" by U.S. standards in documents filed with the S.E.C. U.S. investors should also understand that "inferred mineral resources" have a great amount of uncertainty as to their existence and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an "inferred mineral resource" will ever be upgraded to a higher category. Under Canadian rules, estimated "inferred mineral resources" may not form the basis of feasibility or pre-feasibility studies except in rare cases. Investors are cautioned not to assume that all or any part of "inferred mineral resource" exists or is economically or legally mineable. Disclosure of "contained ounces" in a resource is permitted disclosure under Canadian regulation; however, the SEC normally only permits issuers to report mineralization that does not constitute "reserves" by SEC standards as in-place tonnage and grade without reference to unit measures. The requirements of NI 43-101 for identification of "reserves" are also not the same as those of the SEC, and reserves reported by Romarco in compliance with NI 43-101 may not qualify as "reserves" under SEC standards. Accordingly, information concerning mineral deposits set

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forth herein may not be comparable with information made public by companies that report in accordance with U.S. standards.

***Permitting***

In the fourth quarter of 2010 the Company submitted applications to the agencies responsible for issuing two of the primary permits required for commencement of operations. The State Mine Operating permit application was submitted to the State of South Carolina Department of Health and Environmental Control ("DHEC"), and the Federal 404 Wetlands permit application was submitted to the US Army Corps of Engineers ("USACE"). On July 1, 2011, after completing its review of the criteria and the submitted information, the USACE advised the Company that an Environmental Impact Statement ("EIS") would be required which the agency can follow with a clear Record of Decision regarding the Federal 404 Wetlands permit.

The EIS is expected to add approximately 12 months to the schedule proposed in the Company's feasibility study (dated February 10, 2011), primarily as a result of the extended technical review period and the public comment and review periods dictated by the EIS schedule.

The Company has held meetings with the USACE to launch the EIS. The Company and the USACE have selected respective project leaders, established weekly communications, and developed a compact schedule for selecting an independent third-party contractor to prepare the EIS for the USACE and move into the scoping process. The USACE requested that the Company recommend a list of engineering firms that are familiar with mining and Federal 404 Wetlands permitting. Several leading engineering firms have responded to Requests for Qualifications ("RFQ's) and the Company anticipates that the USACE will select the third-party contractor and provide notice of the public scoping meetings during the third quarter.

The Federal 404 Wetlands permit is the only Federal permit Romarco requires for the Haile project. Other pending State permits include, but are not limited to, the State Mine Operating permit and the State 401 Water Quality Certification. DHEC is currently conducting a technical review of the applications for these permits. The notice of intent to issue the Federal 404 Wetlands permit must occur prior to the State 401 Water Quality Certification permit and Mining permit being issued.

***Exploration Activities***

On February 3, 2011, the Company announced its 2011 exploration drilling program at Haile of approximately 172,000 meters (564,000 feet), a planned 60% increase over the actual 2010 drilling program of 107,700 meters. The Company has completed 49,000 and 92,000 meters of drilling for the three and six months ended June 30, 2011, respectively. The Company's exploration drilling program is on schedule and budget and the year-to-date 92,000 meters of drilling represents an increase of 77% over the same comparable period in 2010.

At June 30, 2011, Haile had 11 drill rigs in operation (five Company-owned) of which seven were core drill rigs (four Company-owned) and four reverse circulation ("RC") drill rigs (one Company-owned). During the month of April, the Company de-commissioned a Company-owned RC drill rig and expects to operate with 11 drill rigs over the remainder of 2011.

The Company continued to make significant progress in the second quarter of 2011 to better delineate the mineralization within the currently proposed pits, as well as to identify significant mineralized continuity and step

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out beyond the known mineralized zones. The favourable drill results continue to support the possibility of expanding the planned pits as well as further connecting the currently planned individual pits.

On May 2, 2011, the Company announced positive infill drill results at Horseshoe and positive drill results in the western portion of South Pit within the higher-grade area of Mill Zone. In addition, drilling between South Pit and Ledbetter continued to identify mineralization between the two proposed pits as well as mineralization beyond the current reserve pit boundaries and demonstrates additional continuity between these two zones.

On June 29, 2011, the Company announced positive infill drill results at Mill Zone, positive drill results between Ledbetter and South Pit and between Snake and Horseshoe as well as positive step-out drill results at Horseshoe. In addition, exploration drilling north of Ledbetter identified gold mineralization beyond the known Haile resource. The mineral intercepts begin at 290 meters below the surface which is slightly shallower than the planned pit bottom and previously projected northerly extensions of the Ledbetter ore body.

On July 21, 2011, the Company announced positive drill results in a new designated zone called Mustang. The Mustang zone demonstrates that the grade and continuity between South Pit and Ledbetter is increasing and may lead to the merging of the designated pits within this area.

On July 25, 2011, the Company announced a drill result at Horseshoe which is the fourth best drill hole ever completed on the Haile property.

The drilling samples are assayed by Alfred H. Knight Group (formerly Alaska Assay Labs) of Fairbanks, Alaska. The drill cuttings from the reverse circulation drilling are picked up at site and taken to Alfred H. Knight Group's sample prep facility in Spartanburg, South Carolina. Once prepped, the split pulp material is shipped to Fairbanks, Alaska for analysis. Duplicate sample checks are performed by ALS Chemex in Reno, Nevada. Control samples are submitted with the drill samples. The control samples consist of blanks and third party standards. Standards with variance greater than 20 percent warrant that the batch be re-assayed.

***Land Purchases***

During the three-month period ended June 30, 2011, the Company purchased approximately 380 acres (153 hectares) of land at a total cost of \$4.8 million. Of the \$4.8 million, \$3.7 million was spent on 315 acres (127 hectares) related to the Haile project and \$1.1 million was spent on 65 acres (26 hectares) for regional exploration targets. The Company also entered into a lease agreement for regional exploration in North Carolina on 606 acres (245 hectares).

During the six-month period ended June 30, 2011, the Company purchased approximately 3,544 acres (1,434 hectares) of land at a total cost of \$25.8 million. Of the \$25.8 million, \$11.8 million was spent on 919 acres (372 hectares) related to the Haile project, \$11.1 million was spent on 1,860 acres (752 hectares) for four regional exploration targets in South and North Carolina and \$2.9 million on 765 acres (310 hectares) for land to be used for other purposes. The Company also entered into a lease agreement for regional exploration in North Carolina on 606 acres (245 hectares).

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***Development Activities***

During the month of June, the Company substantially completed construction of its previously announced analytical and metallurgical lab on schedule and on budget ("Kershaw Minerals Lab or KML"). The laboratory is currently being commissioned and will commence operation for internal purposes in August. This will improve the planning of future drill holes and add value to the exploration program by increased turnaround time on assay data. Sample lots submitted to KML will include the same number of duplicates, blanks and standards as sample lots submitted to third party labs currently used. Internally, KML will process these lots using industry accepted Quality Assurance /Quality Control protocol consisting of duplicates, blanks and standards to ensure lab results are accurate and reproducible. These are the same procedures used by third party labs. All assays reported to the public will be completed by third party, independent assay laboratories as has been conducted in the past. The laboratory will begin the 17025 accreditation process in September, which will take approximately 18 months to complete. This accreditation process involves development, documentation and approval of control systems and proficiency testing of round-robin samples issued by the Canada Centre for Mineral and Energy Technology ("CANMET"). The lab will be accredited by the Standards Council of Canada.

During the second quarter of 2011 the Company continued advancing Haile Gold Mine project design, engineering and construction with a focus on ensuring high standards for safety, quality and environmental compliance. The Company appointed a construction manager at Haile, Mr. Michael Gleason (see press release dated June 9, 2011) who has more than 30 years of engineering and project management experience at both green field and brown field projects. M3 Engineering & Technology Corporation ("M3"), the organization selected in the 2011 first quarter for engineering, procurement and construction management services for the project, continued basic engineering and significantly advanced design and detailed engineering for grinding and milling equipment. The Company has received competitive quotes and is negotiating final details with major milling equipment suppliers. AMEC Americas Limited was engaged in April 2011 and significantly advanced design and engineering for the tailings and overburden storage facilities.

The Company is working with suppliers to secure key equipment with long-lead times while minimizing near-term cash outlays. A local equipment dealer has provided alternatives for delivery of the majority of the planned mobile mining fleet on a schedule aligned with the expected start-up of project development. As a result of the EIS delay, the Company expects it will incur some additional costs for a local mobile mining equipment dealer to provide delivery flexibility and firm pricing, which will eliminate the risks of significant cost escalation and possible delivery delay. The details of these associated costs are being finalized. The Company is also continuing to evaluate alternatives and opportunities to secure other planned equipment in order to mitigate potential inflation increases.

***Community Relations***

Since the Haile Gold Mine was purchased in 2007, the Company has maintained an active community relations program. The Company supports local and regional activities and sponsors community wide events such as the Gold Rush Days and encourages its employees to be involved in strong community support, reflecting the core values within the organization.

Diane Garrett, President & CEO and David Thomas, Vice-President & General Manager at Haile each received the 2011 Citizen of the Year Award from the Kershaw Chamber of Commerce for dedication and service to the town and community. In addition, Mr. Thomas received the 2011 Community Citizenship Award from the Mining

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Association of South Carolina. These awards are presented annually in recognition of outstanding community participation involving education, volunteerism, and contributions toward quality of life improvements.

Ms. Garrett was recently nominated and appointed to the Charlotte Regional partnership Board of Directors which is responsible for business in 16 counties, including Lancaster County.

**Pinos Gold District, Mexico**

In late 2010 the Company began negotiations to terminate its exploration agreement with the owner of the Pinos Gold District, Mexico property. The termination and release was executed in May 2011.

**Corporate Activities**

At the Company's Annual and Special Meeting of shareholders held on June 8, 2011, shareholders approved each of the matters submitted for vote, including all directors and the Amended and Restated Shareholders Rights Plan ("Plan"). The Plan was approved by 92.82% of those that voted.

On June 13, 2011, the Company announced that effective at the opening of trading on Monday June 20, 2011, the Company was to be included in the S&P/TSX Composite Index. In addition, at the same time, Romarco was also added to the S&P/TSX Global Gold Index and the S&P/TSX Global Mining Index.

As a result of the additional time needed to complete the EIS, the Company extended its agreement with its Financial Adviser, Barclays Capital through June 2013, with the aim of securing project debt financing for a significant portion of the funds to construct and commission Haile's future mining and processing operations.

**OUTLOOK**

**Haile Development**

As noted earlier, completing an EIS in order to obtain the Federal 404 Permit from the USACE is expected to add approximately 12 months to the schedule proposed in the Company's feasibility study. The estimated funding required for the project is approximately \$300 to \$350 million, including initial capital of \$275 million, wetlands mitigation, reclamation bonding, working capital and other start-up costs. While the EIS is being completed, the Company will take advantage of the additional time to increase its focus on exploration drilling, continue metallurgical test work at the Company-owned laboratory with the goal of improving upon current gold recoveries (83.7%), and optimize design and mine planning through additional trade-off studies. The Company will also continue to define underground targets and conduct economic studies on potential underground mining. In addition to the cash on hand (approximately \$57 million at August 8, 2011), the Company will be required to raise funds for the project, and to support its exploration, drilling and land activities.

**Exploration**

With the additional time in the current development schedule, the Company is re-scheduling its exploration priorities. Exploration will now focus mainly on step-out drilling at Haile for the balance of 2011 (50% of the 2011 second half drilling program), while outstanding condemnation drilling will be mainly completed during 2012. The drilling plan for 2011 remains at 172,000 meters.

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In 2011, the Company acquired one regional exploration project in North Carolina, leased one regional property in North Carolina and acquired three regional projects in South Carolina. The Company expects to have its drill permits on the North Carolina properties in August 2011 and commence drilling immediately on them. The Company will be conducting exploration drilling on its regional targets in accordance with its budget. Approximately 25,000 meters or 30% of the second half exploration drilling program will be directed to regional targets. The regional targets have been drilled in the past with positive results. The planned programs are intended to confirm the historical drilling and test for strike and dip extensions of the known mineralization.

The exploration drill targets are as follows:

- 1) Step-out drilling to expand the overall mineralized footprint at Haile; concentrating on the following areas:
  - Mill Zone;
  - Horseshoe;
  - Continuity between Snake and Horseshoe;
  - Snake Deep;
  - Mustang;
  - Easterly extension of the properties beyond Horseshoe;
  - Westerly extension of the property including the Champion and 601 deposits, which are located more than one kilometre west of South Pit; and
  - Selective deep drilling programs to test for additional underground potential.
- 2) Exploration of the five new regional exploration targets (three in South Carolina and two in North Carolina) starting in August 2011.
- 3) Infill drilling focused within the permit area on targets with highest likelihood of converting existing resources into reserves

The Company is actively pursuing strategic property on trend with Haile as well as land positions in regional targets with favourable geology and, in some cases, historical drilling or mining information. Accordingly, the Company expects it will be conducting exploration drilling for several years, throughout the permitting and construction phases and into the production phase at Haile.

### **Economic Studies**

The Company engaged the Snowden Group to complete a NI 43-101 compliant Preliminary Economic Assessment ("PEA") of underground mineralization at Haile. The PEA, which is underway, will study the trade-offs and boundaries of underground and open-pit methods at Haile, develop underground design criteria, perform stope designs, evaluate underground access alternatives, determine mining inventories, develop a preliminary mining schedule, calculate an underground resource, identify underground infrastructure requirements, and construct a financial model. The Company expects the NI 43-101 compliant resource and technical report to be completed and published by the end of 2011.

The Company is planning to complete an updated technical report of resource based on its drill data at Haile through the end of 2011. The Company anticipates publishing the updated NI 43-101 technical report in the first quarter of 2012.

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**RESULTS OF OPERATIONS**

**Summary of Quarterly Results**

For the quarters ended:

	IFRS				Canadian GAAP			
	June 30, 2011	Mar 31, 2011	Dec 31, 2010	Sept 30, 2010	June 30, 2010	Mar 31, 2010	Dec 31, 2009	Sept 30, 2009
<b>(\$000's)</b>								
Interest income	30	72	80	78	67	8	27	26
Exploration expenses	(360)	(153)	(11,127)	(8,935)	(7,358)	(7,700)	-	-
Gain (loss) on derivative warrant liability	-	(2,086)	(4,744)	(14,500)	7,290	(7,308)	-	-
General and administrative	(3,329)	(2,824)	(2,758)	(3,828)	(2,555)	(3,406)	(2,976)	(1,462)
Other	64	237	425	311	(499)	218	91	(193)
Net loss	(3,595)	(4,754)	(18,124)	(26,874)	(3,055)	(18,188)	(3,040)	(1,629)
Loss per share								
Basic and diluted	(0.01)	(0.01)	(0.04)	(0.06)	(0.01)	(0.05)	(0.01)	(0.01)
Total assets	180,150	182,165	169,605	176,298	180,769	58,808	90,688	85,656
Total liabilities	8,958	9,547	38,091	50,269	37,779	50,589	7,097	4,950

The most recent six quarters have been reported under IFRS while the 2009 quarterly results have been reported under Canadian GAAP. The Company's most significant income statement differences reported under IFRS as compared to Canadian GAAP are i) treatment of warrants as a derivative warrant liability under IFRS compared to equity under Canadian GAAP and ii) exploration expenses were capitalized under Canadian GAAP and whereas under IFRS exploration is expensed until an economic feasibility study is produced and the decision to develop the property is made.

During the first quarter of 2011, the Company reported the results of its feasibility study at the Haile Gold Mine project and subject to permits and financing will develop the project. Accordingly, the Company began capitalizing the exploration and development costs beginning January 1, 2011. All exploration expenses incurred prior to 2011 were expensed and only land and fixed asset purchases were capitalized.

The Company's warrants are denominated in Canadian dollars and the functional currency of the legal entity in which they were issued is the United States ("US") dollar. Under IFRS, when the currency of the warrants is different than the functional currency of the legal entity in which they were issued, the warrants are accounted for as a derivative warrant liability. The issued Canadian dollar warrants are accounted for as a derivative liability, which are fair valued each reporting period under Black-Scholes. The total gain (loss) on the derivative warrant liability above represents the change in valuation and has a share valuation and foreign exchange component to it. The quarterly losses indicated above resulted from improved share price and a stronger Canadian dollar. The \$7.3 million gain on the derivative warrant liability for the three-month period ended June 30, 2010 was primarily due to a reduction of the Company's share price from C\$1.95 at March 31, 2010 to C\$1.77 at June 30, 2010. In addition, the Canadian dollar weakened by approximately 5% during the three-month period ended June 30, 2010.

Excluding the impact of total stock-based compensation expense, general and administrative expenses over the recent six quarters have been fairly consistent and have averaged \$1.9 million over this period.

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The significantly higher total liability figures during 2010 are primarily due to the derivative liability on outstanding warrants.

**Three months ended June 30, 2011 compared with 2010**

The Company reported a net loss of \$3.6 million (\$0.01 loss per share) for the three-month period ended June 30, 2011 as compared to a net loss of \$3.1 million (\$0.01 loss per share) during the same comparable period in 2010. The \$0.5 million increase in net loss is primarily due to increased general and administrative expenses of \$0.7 million, \$7.3 million gain on derivative warrant liabilities recorded in 2010 compared to \$nil in 2011, partially offset by reduced exploration expenses of \$7.0 million and a \$0.6 million improvement in foreign exchange.

During the first quarter of 2011, the Company reported the results of its feasibility study at the Haile Gold Mine project and subject to permits and financing will develop the project. For purposes of the new policy, all exploration and development costs incurred prior to January 1, 2011, have been expensed while those costs incurred in 2011 to develop the mine plan are capitalized. The \$0.4 million of exploration costs reported during the second quarter is primarily due to costs associated with a leased regional exploration property in North Carolina (\$0.3 million) and \$0.1 million relates to the geologist at Haile who is dedicated to regional exploration. The Haile development expenses capitalized during the three-month period ended June 30, 2011 amounted to \$15.0 million as compared to Haile exploration costs of \$7.2 million expensed during the same three-month period in 2010. Excluding land and capital asset purchases, the total \$8.2 million increase in 2011 expenditures at Haile is primarily due to 1) increased drilling costs of \$2.9 million as eleven drill rigs were operating during the three-month period ended June 30, 2011 as compared to five rigs during the same period in 2010; 2) \$2.1 million increase in incurred environmental and permitting costs; and 3) \$1.1 million increase in feasibility and project development costs.

For the three-month period ended June 30, 2011, the Company recognized \$nil on the revaluation of the warrants, as all outstanding warrants were redeemed on March 3, 2011, as compared to a gain of \$7.3 million for the same period in 2010. The 2010 gain was primarily due to a 9% depreciation in the share price between March 31, 2010 and June 30, 2010 and a 5% depreciation of the Canadian dollar against the US dollar during the same three-month period.

General and administrative expenses were \$3.3 million during the three-month period ended June 30, 2011 as compared to \$2.6 million during the same period in 2010, for an increase of \$0.7 million. The increased expenses were primarily due to higher total stock-based compensation expense of \$0.6 million and increased salaries and benefits of \$0.1 million. The higher stock-based compensation expense of \$0.6 million has two components: 1) as calculated under Black-Scholes, higher non-cash stock-based compensation expense of \$1.3 million. This increase is primarily due to timing as the 2011 annual stock option grant was made during the month of June while the 2010 annual stock option grant was made during the month of July. These annual stock option grants were both made at the Company's Annual General and Special Meeting; and partially offset by 2) \$nil cash-based stock based compensation expense in 2011 compared to \$0.7 million in 2010. The 2010 cash-based stock based compensation expense related to the Stock Appreciation Rights plan introduced in January 2010 which vested on June 9, 2010 (see additional details below).

For the three-month period ended June 30, 2011, foreign exchange gain amounted to \$0.1 million as compared to a \$0.5 million loss in 2010. The Canadian dollar appreciated by approximately 0.5% against the US dollar during the three-month period ended June 30, 2011, while it depreciated by 6% during the same period in 2010.

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**Six months ended June 30, 2011 compared with 2010**

The Company reported a net loss of \$8.3 million (\$0.02 loss per share) for the six-month period ended June 30, 2011 as compared to a net loss of \$21.2 million (\$0.05 loss per share) during the same comparable period in 2010. The \$12.9 million reduction in net loss reflects lower exploration expenses of \$14.6 million, foreign exchange improvement of \$0.6 million partially offset by increased general and administrative expenses of \$0.2 million and an increased loss on derivative warrant liabilities of \$2.1 million.

The \$0.5 million of exploration costs reported in 2011 relate to costs associated with a leased regional exploration property in North Carolina (\$0.3 million), \$0.1 million for a geologist at Haile who is dedicated to regional exploration and \$0.1 million of Pinos wind-up costs. The Haile development expenses capitalized in 2011 amount to \$25.6 million as compared to Haile exploration costs of \$14.7 million expensed in 2010. Excluding land and capital asset purchases, the total \$11.3 million increase in 2011 expenditures at Haile is primarily due to 1) increased drilling costs of \$5.2 million as eleven drill rigs were operating during the six-month period ended June 30, 2011 as compared to five rigs during the same period in 2010; 2) \$2.1 million increase in incurred environmental and permitting costs; and 3) \$1.3 million increase in feasibility and project development costs.

For the six-month period ended June 30, 2011, the Company recognized a loss of \$2.1 million on revaluation of the warrants as compared to \$nil during the same period in 2010. The 2011 loss of \$2.1 million (2010 - \$nil) was comprised of approximately \$1.4 million (2010 - \$nil) related to the fact that the share price increased by C\$0.08 between January 1, 2011 and March 3, 2011 when the outstanding warrants at December 31, 2010 were fully redeemed. The remaining loss of \$0.7 million (2010 - \$nil) was due to foreign exchange as the Canadian dollar strengthened by approximately 2% against the US dollar during this same period. The share price increased by approximately 1% between January 1, 2010 and June 30, 2010, while the Canadian dollar depreciated by approximately 1% during the same period.

General and administrative expenses were \$6.2 million during the six-month period ended June 30, 2011 as compared to \$6.0 million during the same period in 2010, for an increase of \$0.2 million or 3%. The increased expenses were primarily due to higher salaries and benefits of \$0.3 million and professional fees of \$0.2 million partially offset by lower total stock-based compensation expense of \$0.4 million. The reduced stock-based compensation expense of \$0.4 million is primarily due to \$nil cash-based stock based compensation expense in 2011 compared to \$2.0 million in 2010 partially offset by higher non-cash stock-based compensation expense of \$1.6 million. The 2010 cash-based stock based compensation expense of \$2.0 million related to the Stock Appreciation Rights plan introduced in January 2010, which vested on June 9, 2010 (see additional details below). The higher non-cash stock-based compensation expense of \$1.6 million is primarily due to timing as the Company's 2011 annual stock option grant occurred in June 2011 as compared to July 2010 in the prior year.

For the six-month period ended June 30, 2011, foreign exchange gain amounted to \$0.4 million as compared to a \$0.2 million loss in 2010. The Canadian dollar appreciated by approximately 3% against the US dollar during the six-month period ended June 30, 2011, while it depreciated by 1% during the same period in 2010.

**Changes in financial position**

At June 30, 2011, cash and cash equivalents amounted to \$63.4 million which decreased by \$24.9 million during the quarter ended June 30, 2011 as compared to an increase of \$122.1 million during the same period in 2010. Cash and

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cash equivalents decreased by \$46.3 million during the six-month period ended June 30, 2011 as compared to an increase of \$116.6 during the same period in 2010.

The net cash flows from financing activities amounted to \$0.1 million during the three-month period ended June 30, 2011 as compared to \$134.0 million during the same period in 2010. The 2011 proceeds were due to the exercise of employee stock options while the 2010 proceeds were primarily due to a bought deal common share public offering (\$130.2 million), exercise of warrants and broker warrants and compensation and employee stock options.

The net cash flows from financing activities amounted to \$11.8 million during the six-month period ended June 30, 2011 as compared to \$140.0 million during the same period in 2010. The 2011 proceeds were due to the exercise of warrants (\$11.1 million) and employee stock options (\$0.7 million) while the 2010 proceeds were primarily due to a bought deal common share public offering (\$130.2 million), exercise of warrants and broker warrants (\$6.4 million) and compensation and employee stock options (\$3.4 million).

On April 13, 2010, the Company closed a bought deal common share public offering for aggregate gross proceeds of \$119.6 million (C\$120.2 million) and net proceeds of \$113.3 million. Further, on May 3, 2010, the over-allotment on the bought deal was exercised in full for gross proceeds of \$17.8 million (C\$18.0 million) and net proceeds of \$16.9 million.

During the first quarter of 2011, the Company reported the results of its feasibility study at the Haile Gold Mine project and subject to permits and financing will develop the project. Under the new policy for mineral property interests, all exploration costs incurred prior to January 1, 2011, have been expensed while development costs in 2011 to develop the mine plan are capitalized. Therefore cash used in the 2010 exploration program is included in cash used from operating activities while the cash costs to develop the mine during 2011 are reflected in cash flows from investing activities. To improve comparability, the analysis will combine the two cash flows.

During the three months ended June 30, 2011, cash used in operating activities and investing activities amounted to \$24.9 million as compared to \$11.3 million during the same period in 2010. The \$13.6 million increase in use of cash virtually all relates to Haile and is primarily due to increased land payments of \$4.4 million (\$4.8 million in 2011 as compared to \$0.4 million in 2010), increased capital asset payments of \$2.7 million (\$2.9 million in 2011 as compared to \$0.2 million in 2010) and to the increased drilling program, permitting activities and feasibility and project development costs at Haile.

During the six months ended June 30, 2011, cash used in operating activities and investing activities amounted to \$58.2 million as compared to \$23.0 million during the same period in 2010. The \$35.2 million increase in use of cash virtually all relates to Haile and is primarily due to increased land payments of \$23.2 million (\$25.8 million in 2011 as compared to \$2.6 million in 2010), increased capital asset payments of \$4.4 million (\$4.8 million in 2011 as compared to \$0.4 million in 2010) and to the increased drilling program, permitting activities and feasibility and project development costs at Haile.

## **LIQUIDITY AND CAPITAL RESOURCES**

The Company's sole source of funding has been the issuance of equity securities for cash. Romarco has not generated any revenue from its current operations and does not expect to generate any such revenue in the next twelve-month period.

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During the twelve-month period ended December 31, 2010, the Company generated \$148.2 million from financing activities. Of the \$148.2 million of net proceeds, \$130.2 million was raised on a bought deal common share public offering, \$16.7 million from the exercise of warrants, broker warrants and compensation options and \$1.3 million from the exercise of employee stock options.

During the three-month period ended June 30, 2011, the Company generated \$0.1 million from financing activities from the exercise of employee stock options, which is the only present source of possible cash flow.

The net proceeds from future equity offerings and/or debt arrangements will be used, together with the Company's existing cash resources, to fund the Haile Gold Mine project, land acquisitions, drilling program, working capital and general corporate objectives.

The Company will be required to raise funds for the project, and to support its exploration, drilling and land activities. At August 8, 2011, the Company had cash and cash equivalents totalling approximately \$57 million.

At June 30, 2011, the Company's net working capital (current assets minus current liabilities) was \$57.3 million (December 31, 2010 - \$74.3 million). Excluding the non-cash derivative warrant liability of \$31.1 million, net working capital at December 31, 2010 would have amounted to \$105.4 million. At June 30, 2011, the Company had cash and cash equivalents totalling \$63.4 million compared to \$109.8 million at December 31, 2010. Cash and cash equivalents are primarily held in major Canadian chartered banks and consist of short-term interest bearing deposits with maturity dates of three months or less at acquisition.

### **STOCK APPRECIATION RIGHTS**

The Company had a stock option plan (the "SOP") pursuant to which option grants were made to employees; however virtually all of the shares reserved for issuance under that plan had been consumed in prior grants by September 2009. At the Company's Annual General Meeting ("AGM") in September 2009, the Company proposed amendments to its Stock Option Plan to increase the number of options available for grant to employees. The resolution to approve the amendments to the SOP was withdrawn prior to the meeting due to the fact that it did not receive the requisite support from shareholders. The Company believes that this lack of support was due to a number of reasons, including a leading institutional shareholder services provider publishing a report that recommended that its institutional shareholder clients withhold their support of the plan due to the potential dilution factor of 10.8% being in excess of their guideline of 10%.

As a result, the directors of the Company resolved to adopt an alternative system for compensating employees in a manner other than through stock options and following a thorough review of the alternatives available, the Compensation Committee developed a Stock Appreciation Rights plan (the "SAR's Plan") for use by the Company in order to provide appropriate incentive for the Company's employees. The SAR's Plan was adopted in January 2010. A total of 4,000,000 rights were granted to directors, officers and employees, with each right representing the right to receive payment of an amount equal to the market price of the Company's shares on the date of vesting, less C\$1.02 - representing the approximate market price on the day following the AGM, the date on which such directors, officers or employees would have received a grant of options pursuant to the SOP. The SAR's Plan provided that payment be made to the recipients of rights on June 9, 2010 and the obligations were paid in June 2010. At the Company's AGM in July 2010, shareholders approved the adoption of a new Stock Option Plan. The Company did not adopt a SAR's plan.

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Stock based compensation expense related to the stock rights were accrued over the term of the plan based on the estimated total compensation to be paid out at the end of the June 9, 2010 vesting period. The total SAR's vested liability of \$3,033 at June 9, 2010 was paid during the three month period ended June 30, 2010 and there is no remaining liability. For the three month period ended June 30, 2011, the Company recognized stock based compensation related to the SAR's plan of \$nil (2010 - \$988). Of the \$988 recorded during the three month period ended June 30, 2010, the amount of \$672 was recorded to general and administrative expenses and \$316 was recorded to exploration expenses. For the six month period ended June 30, 2011, the Company recognized stock based compensation related to the SAR's plan of \$nil (2010 - \$3,033). Of the \$3,033 recorded during the six month period ended June 30, 2010, the amount of \$2,048 was recorded to general and administrative expenses and \$985 was recorded to exploration expenses.

**RELATED PARTY TRANSACTIONS**

**Key Management and Directors Compensation**

Key management includes the Chief Executive Officer, Chief Financial Officer and the Chief Operating Officer. The compensation expensed to key management and directors for services rendered amounted to \$1.7 million (2010 - \$1.2 million) and \$2.9 million (2010 - \$3.2 million) for the three and six months ended June 30, 2011, respectively.

**CONTRACTUAL OBLIGATIONS AND COMMITMENTS**

**Commitments**

The Company has contractual obligations pursuant to various exploration and corporate agreements as follows:

	Total	Payments due by period			Beyond 5 years
		Less than 1 year	1 - 3 years	4 - 5 years	
(\$000's)					
Operating leases	\$ 2,726	752	1,204	755	15
Equipment (i)	2,628	2,628	-	-	-
Land contracts	1,787	1,787	-	-	-
Other contracts	1,349	1,204	145	-	-
Total	\$ 8,490	6,371	1,349	755	15

(i) A local equipment dealer has secured production slots for the Company for approximately \$32 million of certain mobile equipment. Delivery is scheduled to occur during the fourth quarter of 2011 and the first quarter of 2012. Due to the delay in the development schedule, the Company is currently in discussions with the dealer on various alternatives to ensure the equipment is available when required while minimizing cash requirements. Accordingly, the Company has advised the dealer it would reimburse it for costs incurred if the Company does not take delivery of the equipment, currently estimated at \$0.2 million. The equipment commitment includes the \$0.2 million estimate for mobile equipment.

**OFF BALANCE SHEET ARRANGEMENTS**

The Company has not entered into any off balance sheet arrangements.

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**OUTSTANDING SHARE DATA**

At August 8, 2011, the Company had the following outstanding securities:

- 503,279,275 common shares issued and outstanding;
  
- 17,383,000 stock options to purchase Common Shares at an average exercise price of C\$1.41. At August 8, 2011, 12,290,750 options are vested and exercisable;

**RISKS AND UNCERTAINTIES**

**Financial Capability and Additional Financing**

The Company has limited financial resources, has no source of operating income and has no assurance that additional funding will be available to it for further exploration and development of its projects. Although the Company has been successful in the past in financing its activities through the issuance of equity securities, there can be no assurance that it will be able to obtain sufficient financing in the future to execute its business plan.

**Exploration Risk**

Mineral exploration and development involve a high degree of risk and few projects are ultimately developed into producing mines. There is no assurance that the Company's future exploration and development activities will result in the definition of a body of commercial ore. Whether an ore body will be commercially viable depends on a number of factors including the particular attributes of the deposit such as size, grade and proximity to infrastructure, as well as mineral prices and government regulations, including environmental regulations.

**Resource Estimates**

The mineral resource figures included herein are only estimates and no assurance can be given that any particular level of recovery of gold will be realized. Mineral resources which are not mineral reserves have not demonstrated economic viability. Any material change in the quantity of mineralization, grade or ore to waste ratio, or the price of gold may affect the economic viability of any property held by Romarco. The failure of the Company to achieve its production forecast could have a significant impact on future cash flows and results of operations. Until mined, the quantity of mineral and resource grades can only be considered estimates.

**Environment**

Both the exploration and production phases of the Company's operations will be subject to environmental protection regulations in the jurisdictions in which it operates. Globally, environmental legislation is evolving towards stricter standards and enforcement, more stringent environmental impact assessments of new mining projects and increasing liability exposure for companies and their directors and officers. There is no assurance that future environmental regulations will not adversely affect the Company's operations. In regards to environmental permits, including the approval of reclamation plans, the Company must comply with standards and regulations which may entail additional costs and delays depending on the nature of the activity to be permitted and how stringent are the regulations being implemented by the regulator.

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**Permits**

The Company's current and anticipated future operations, including further exploration and development activities and commencement of production on the Company's properties, require permits from various governmental authorities. There can be no assurance that all permits that the Company requires will be obtainable on reasonable terms, or at all. Delays or a failure to obtain such permits, or a failure to comply with the terms of any such permits that the Company has obtained, could have a material adverse impact on the Company.

**Liquidity**

The development and exploration of the Company's properties will require additional financing. Failure to obtain sufficient and timely financing may result in delaying or indefinitely postponing exploration, development or production on any or all of Romarco's properties. If there is a delay in receipt of any required permits, additional financing will be required to fund operations pending receipt of such permits. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to Romarco.

**Fluctuating Prices**

The Company's revenues, if any, are expected to be in large part derived from the sale of gold and possibly other metals. The price of gold and other commodities has fluctuated widely in recent years and is affected by factors beyond the control of the Company including, but not limited to, international economic and political trends, currency exchange fluctuations, economic inflation and expectations for the level of economic inflation in the consuming economies, interest rates, global and local economic health and trends, speculative activities and changes in the supply of gold due to new mine developments, mine closures as well as advances in various production and use technologies of gold. All of these factors will have impacts on the viability of the Company's exploration projects that are impossible to predict with certainty.

**Currency Risk**

At June 30, 2011, the Company's expenditures are predominantly made in US dollars and any future equity raised is expected to be predominantly in Canadian dollars. The Company conducts the majority of its business in the United States, which uses the US dollar as its primary economic currency. Future project development expenditures are expected to be paid in US dollars. As such, the Company is subject to risk due to fluctuations in the exchange rates between the US and Canadian dollar. The Company does not actively hedge against foreign currency fluctuations.

**Senior Management and Technical Personnel**

The future success of Romarco is largely dependent on the performance of its senior management and technical personnel. Shareholders rely on the experience and expertise of senior management to provide effective leadership and to properly manage the business of the Company. Strong technical skills of our exploration personnel are essential in locating mineral deposits. There is no assurance that Romarco can maintain the services of its senior management or qualified technical personnel to operate the business. The loss of such individuals could have a material adverse effect on the Company's business and prospects.

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**Insurance and Uninsurable Risks**

Exploration, development and production operations on mineral properties involve numerous risks, including unexpected or unusual geological operating conditions, environmental occurrences such as hurricane/tropical storms that could result in damage to or destruction of mineral properties, personal injury or death, environmental damage or delays in mining caused by industrial accidents. It may not always be possible to obtain insurance against all such risks and the Company may decide not to insure against such risks due to cost or other reasons. Insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to companies in the mining industry on acceptable terms.

**Conflict of Interest**

Certain directors of the Company also serve as directors and or officers of other companies involved in the mining sector. Consequently, there exists the possibility that such directors will be in a position of conflict of interest.

Canadian securities law requires that each director of the Company act honestly, in good faith, and in the best interests of the Company and its shareholders. In conflict of interest situations, our directors may owe the same duty to another company and will need to balance the competing obligations and liabilities of their actions, or declare and refrain from voting on any matters in which such directors have a conflict of interest.

**Accounting Policies and Internal Controls**

In 2010, the CICA Handbook was revised to incorporate IFRS issued by the IASB, and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. These interim consolidated financial statements, including comparatives, have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting and IFRS 1, First-time Adoption of IFRS. The preparation of our 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 income and expenses during the year. In order to have a reasonable level of assurance that financial transactions are properly authorized, assets are safeguarded against unauthorized or improper use, and transactions are properly recorded and reported, the Company has implemented and continues to analyze its internal control systems for financial reporting. The Company believes its financial reporting and financial statements are prepared with reasonable safeguards to ensure reliability; however, the Company cannot provide absolute assurance.

**SIGNIFICANT ACCOUNTING POLICIES**

All of the financial information presented herein is expressed in US dollars, unless otherwise indicated.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The Company considers the estimates concerning mineral properties and exploration and evaluation expenditures, stock-based compensation, warrants and asset retirement obligations to be significant.

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- **Mineral Property Interests and Exploration and Evaluation Expenditures**

The Company explores and develops its resource properties. Acquisition costs for land and mineral rights and costs to acquire tangible assets are capitalized. Exploration and project development costs, including costs incurred to determine technical and commercial viability and economic evaluations, are expensed in the period incurred until such time that the reserves are classified as proven or probable ore reserves and the Company has decided to develop the project. Option and lease payments prior to an acquisition decision are expensed. Subsequent development costs of the project will be capitalized and regional exploration costs will continue to be expensed. Once the mine is in production, capitalized development costs will be amortized on a units-of-production basis, based on proven or probable reserves. There may be instances where judgement will be necessary to differentiate between exploration and development costs and the accounting treatment.

- **Stock-Based Compensation**

The compensation cost attributable to stock options granted is measured at the grant date using the Black-Scholes option pricing model to determine fair value. The Black-Scholes option pricing model requires estimates for the expected life of options and stock price volatility which can materially affect the fair value estimate. In addition, under IFRS, the Company is required to estimate the forfeiture rate which impacts the timing of amounts being recorded.

- **Warrants**

The Canadian dollar denominated warrants outstanding during each reporting period are accounted for as a derivative warrant liability which are measured at fair value using the Black-Scholes option pricing model. The Black-Scholes option pricing model requires inputs and the stock price volatility assumption can materially affect the fair value estimate. For the six months ended June 30, 2010, assuming all other variables remained constant, a 10 percentage point increase in the volatility assumption increased the loss on derivative warrant liabilities by \$nil (2010 - \$0.3 million). For six months ended June 30, 2010, assuming all other variables remained constant, a 10 percentage point reduction in the volatility assumption decreased the loss on derivative warrant liabilities by \$nil (2010 -\$0.2 million).

- **Asset Retirement Obligation (ARO)**

Future obligations for an asset retirement obligation, including a provision for statutory, contractual, constructive or legal obligations associated with decommissioning of operations and reclamation costs arising when environmental disturbance is caused by the exploration or development of mineral properties, plant and equipment. Provisions for site closure and reclamation are recognized in the period in which the obligation is incurred or acquired and recorded as a liability based on estimated future cash flows discounted at a credit adjusted risk free rate. The liability is adjusted at each reporting period for changes to factors including the expected amount of cash flows required to discharge the liability, the timing of such cash flows and the credit-adjusted risk-free discount rate.

The liability is accreted to full value over the obligation period through periodic charges to earnings and is recorded to finance expense in the statement of comprehensive loss.

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Assuming that all other variables remain constant, a one percentage point change in the discount rate would result in a liability change of approximately \$110. The estimate also assumes a long term inflation rate. Assuming that all other variables remain constant, a one percentage point change in the long term inflation rate would result in a liability change of approximately \$112.

**CONVERSION TO IFRS**

In 2010, the CICA Handbook was revised to incorporate IFRS issued by the IASB, and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. During 2010, the Company provided updates in the quarterly MD&A's regarding the Company's progress on the conversion from Canadian GAAP to IFRS.

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with IFRS applicable to the preparation of consolidated interim financial statements, including IAS 34, Interim Financial Reporting and IFRS 1, First-time Adoption of IFRS. The accounting policies followed in these condensed consolidated interim financial statements are the same as those applied in the company's interim consolidated financial statements for the period ended March 31, 2011. Subject to certain selected transition elections, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout the current and 2010 comparative periods, as if these policies had always been in effect.

As a result of the conversion to IFRS, significant adjustments have been made to the opening January 1, 2010 balance sheet and material adjustments were made to the 2010 year-end audited balance sheet and comprehensive statement of loss. For the year ended December 31, 2010, total assets decreased by \$59.8 million, total liabilities increased by \$30.8 million and shareholders' equity was reduced by \$90.6 million.

The following summarizes the significant transition elections and decisions made to convert to IFRS and its impact on the financial statements:

**Mineral property interests**

The Company's previous policy under Canadian GAAP of capitalizing exploration expenses is permitted to be continued under IFRS; however, as part of the IFRS conversion, the Company evaluated its accounting policy for exploration and project expenses as part of its conversion to IFRS and elected to change its accounting policy in accordance with the IFRS framework for recognizing an asset. The Company's new policy is to expense exploration and project costs, including costs incurred to determine technical and commercial viability and economic evaluations, until such time that the resources are classified as proven and probable ore reserves and the Company has decided to develop the project. Subsequent development costs of the project will be capitalized and regional exploration costs will continue to be expensed.

During the first quarter of 2011, the Company reported the results of its feasibility study at the Haile Gold Mine project and subject to permits and financing will develop the project. For purposes of the new policy, all exploration costs incurred prior to January 1, 2011, have been expensed. Under the new accounting policy, the December 31, 2010 Mineral Property Interests balance only includes acquisition costs for land and mineral rights relating to the Haile project.

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The restated Mineral Property Interests balance at June 30, 2010 of \$18.3 million resulted from a cumulative adjustment of \$42.3 million from the Canadian GAAP reported figure with Haile accounting for \$40.0 million of the adjustment and Pinos \$2.3 million. The adjustment for the three and six months ended June 30, 2010 amounted to \$7.4 million and \$15.1 million, respectively and was reflected in exploration expenses in these periods.

Effective January 1, 2011, all development costs related to the Haile mine project are capitalized, while all regional exploration costs are expensed. For the three-month period ended June 30, 2011, exploration expenses amounted to \$0.4 million and consisted of \$0.3 million of costs associated with a leased regional exploration property in North Carolina and the costs of a geologist at Haile who is dedicated to regional exploration. For the six-month period ended June 30, 2011, exploration expenses amounted to \$0.5 million and consisted of \$0.3 million of costs associated with a leased regional exploration property in North Carolina, \$0.1 million for a geologist at Haile who is dedicated to regional exploration and \$0.1 million of Pinos wind-up costs. Future exploration costs at regional targets will be expensed.

### **Stock options**

The Company selected the exemption election such that IFRS 2 only applied to those employee stock options which were issued after November 7, 2002 and were unvested at January 1, 2010. With the Company's vesting policy, IFRS 2 only applied to those tranches of stock options issued after July 1, 2008 and which remained unvested at January 1, 2010. On transition to IFRS, management was required to estimate the forfeiture percentage at the grant date for the outstanding share based payments and record the revised accounts against the stock options equity account and deficit. Under Canadian GAAP, the Company was not required to estimate a forfeiture rate.

The estimated forfeiture rate for the 2010 stock option grants was also ten percent. There was no impact on total stock based compensation expense for the three and six month periods ended June 30, 2010.

Total stock based compensation expense over the life of a stock option grant is the same under either IFRS or Canadian GAAP; however, under IFRS there is a requirement to estimate a forfeiture rate, which will result in stock based compensation to be lower as the options vest and higher once vested.

### **Warrants**

As noted earlier, the Company's warrants are denominated in Canadian dollars and the functional currency of the legal entity in which they were issued is the US dollar. Under IFRS, when the currency of the warrants is different than the functional currency of the legal entity in which they were issued, the warrants are accounted for as a derivative warrant liability. The issued Canadian dollar warrants are accounted for as a derivative warrant liability which are measured at fair value each reporting period under Black-Scholes.

The Company has warrants which were converted from broker compensation options that were issued to underwriters as a cost of the March 3, 2009 equity offering ("broker warrants"). As a result, these broker warrants are not recorded as a derivative liability and are accounted for under IFRS 2 as they were under Canadian GAAP. These broker warrants were fully converted from compensation options and exercised during the second quarter of 2010 which resulted in \$nil balance at June 30, 2010.

At each reporting period during 2010, the Company re-valued the Canadian dollar denominated derivative warrant liability using Black-Scholes and translated into US dollars at the period end foreign exchange rate. The liability

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change between reporting periods for these outstanding warrants were recorded through earnings. As warrants are exercised, immediately before their exercise, the liability on these warrants are re-measured and the valuation change is recorded in the income statement. Upon exercise, the re-measured warrant liability on these warrants is reversed to \$nil and an offsetting entry is recorded to share capital.

At June 30, 2010, the warrant liability amounted to \$32.7 million which represented a decrease of \$22.0 million from the January 1, 2010 liability figure. The \$22.0 million liability reduction was primarily due to the warrants exercised during the period which reduced the outstanding number of warrants from 44,612,746 at January 1, 2010 to 29,300,001 at June 30, 2010. The \$22.0 million liability reduction was offset by an increase to share capital of \$22.0 million, which represented the cumulative loss on the exercised warrants, and a total six-month period loss of \$nil million. An additional adjustment for the exercised warrants of \$0.7 million was recorded to reduce share capital and increase broker warrants. The \$0.7 million figure represented the value assigned to the exercised broker warrants during the six month-period ended June 30, 2010 under Canadian GAAP.

**Asset retirement obligation**

The most significant difference for the Company in calculating the asset retirement obligation under IFRS as compared to Canadian GAAP is when there are upward adjustments to the undiscounted liability. Under Canadian GAAP, increases in the liability are separately identified and discounted using the credit-adjusted risk free rate in effect at the time of adjustment. Based on the Company's 2010 asset retirement liability estimates, the changeover had no impact on the asset retirement obligation until the 2010 year-end balance. The impact on converting to IFRS was to reduce the December 31, 2010 balance by \$0.3 million

**FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

The Company's financial instruments primarily consist of cash and cash equivalents (classified as loans and receivables), accounts receivable (classified as loans and receivables), reclamation bonds (classified as loans and receivables), accounts payable and accrued liabilities (classified as other financial liabilities) and derivative warrant liability (classified as held for trading). The fair values of these financial instruments approximate their carrying values. The Company has not used any hedging or any other financial derivatives.

**INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS**

Management, including the President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), is responsible for designing, establishing, and maintaining a system of internal controls over financial reporting ("ICFR") to provide reasonable assurance that the all information prepared by the Company for external purposes is reliable and timely. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS.

The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately reflect the transactions of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could

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have a material effect on the Company's Financial Statements. Due to its inherent limitations, internal control over financial reporting and disclosure may not prevent or detect all misstatements.

The CEO and CFO have evaluated whether there were changes to the ICFR during the three and six months ended June 30, 2011 that have materially affected, or are reasonably likely to materially affect, the ICFR. The conversion to IFRS from Canadian GAAP impacts the way we present our financial results. We have evaluated the impact of the conversion on our accounting and financial reporting systems to enable the reporting of historical Canadian GAAP information related to our initial IFRS adoption and for future periods to be reported under IFRS. Our internal and disclosure control processes have not required significant modification as a result of our adoption to IFRS. As a result, no such significant changes were identified through their evaluation.

**ADDITIONAL RISKS**

Certain statements in this document, including statements which may contain words such as "outlook", "anticipate", "project", "target", "believe", "estimate", "expect", "intend", "should", "scheduled", "will", "plan", and similar expressions and statements related to matters that are not historical facts, are forward-looking statements. These forward-looking statements relate to, among other things, Romarco's business strategy, financial results, future plans, timing, results of exploration and related expenses, property acquisitions, mine development, industry expectations, and general economic, business and political conditions. All forward-looking statements in this document are based on management's beliefs, intentions and expectations with respect to future events. Such forward-looking statements involve known and unknown risks and uncertainties, including those set out below under the headings Risks and Uncertainties and Additional Risks and described in greater detail under Risk Factors in Romarco's Annual Information Form ("AIF"), which may cause the actual results, performances, or achievements of the Company to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. In light of the many risks and uncertainties that may cause future results to differ materially from those expected, the Company cannot give assurances that the forward-looking statements contained in this document will be realized. Forward-looking statements are not guarantees of future performance.

Although Romarco has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as of the date of this MD&A based on the opinions and estimates of management, and Romarco disclaims any obligation to update any forward-looking statements, whether as a result of new information, estimates or opinions, future events or results or otherwise. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

In addition to those risks and uncertainties described elsewhere in this document, the Company is subject to the following risks and uncertainties which are described in greater detail in the Company's AIF:

- The Company's gold exploration and development properties may not be successful, are highly speculative in nature, and may not result in the development of a producing mine.
- Gold price volatility may adversely affect the Company.
- Romarco's resources and reserves are estimates based on interpretation and assumptions and may yield less mineral production under actual conditions than is currently estimated.

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- Assumptions regarding the need for further financing and uncertainties related to the cost, timing or availability of such financing.
- Romarco's operations will require further capital.
- Romarco requires various permits to conduct its current and anticipated future operations, and delays or a failure to obtain such permits, or a failure to comply with the terms of any such permits that Romarco has obtained, could have a material adverse impact on Romarco.
- Exploration and development activities have inherent risks and are subject to conditions or events beyond Romarco's control, which could have a material adverse effect on Romarco's business.
- Actual capital costs, sustaining capital costs, engineering and construction schedules, operating costs and expenditures, production schedules, and economic returns may differ significantly from those Romarco has anticipated.
- Romarco's operations are subject to government regulations and environmental laws.
- Risk associated with reclamation activities and availability and amount of financial assurance for reclamation.
- The risk that Romarco's title to properties could be challenged.
- Increased competition could adversely affect Romarco's ability to attract necessary capital funding or acquire suitable producing properties or prospects for mineral exploration in the future.
- Romarco may be subject to legal proceedings.
- There can be no assurance that Romarco will successfully acquire additional mineral rights.
- Romarco may experience difficulty attracting and retaining qualified management and technical personnel to meet the needs of its anticipated growth, and the failure to manage Romarco's growth effectively could have a material adverse effect on the Company's business and financial condition.
- The Company has a limited operating history and no history of earnings, positive cash flow or dividend payments.
- The Company's insurance coverage does not cover all of its potential losses, liabilities and damage related to its business and certain risks are uninsured or uninsurable.
- General economic conditions may adversely affect Romarco's growth and profitability.
- Romarco's directors and officers may have conflicts of interest.

Additional information related to Romarco is available on the Company's website at [www.romarco.com](http://www.romarco.com) or on SEDAR at [www.sedar.com](http://www.sedar.com).