

**MOSQUITO CONSOLIDATED GOLD MINES LTD.**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2006**  
**Management Discussion and Analysis (MD&A) Form 51-102F1**

The following management discussion and analysis of the results of operations and financial conditions ("MD&A") for Mosquito Consolidated Gold Mines Ltd. (the "Company" or "Mosquito") should be read in conjunction with the Audited financial statements for the six months ended June 30, 2006 and the related notes therein. The financial information in this MD&A is derived from the Company's audited financial statements prepared in accordance with Canadian generally accepted accounting principles. The effective date of this MD&A is October 27, 2006. Additional information on the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.mosquitogold.com](http://www.mosquitogold.com).

**OVERVIEW**

Business of Mosquito

Mosquito is an exploration stage company engaged in the acquisition, exploration and development of mineral properties of merit in Canada, the United States and Australia with the aim of developing them to a stage where they can be exploited at a profit or to arrange joint ventures whereby other companies provide funding for development and exploitation.

Forward looking statements

Certain information included in this discussion may constitute forward-looking statements. Forward-looking statements are based on current expectations and entail various risks and uncertainties. These risks and uncertainties could cause or contribute to actual results that are materially different than those expressed or implied. The Company disclaims any obligation or intention to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

Trends

The mineral exploration industry has been through a very difficult period with low prices for both precious and base metals. Lack of interest may lead to low market capitalizations and major mining companies found it was easier to grow by purchasing companies or mines rather than explore for them. This, in turn, led to downsizing of major mining company exploration staffs and many professionals took early retirement or left the industry to pursue other careers. As a result of these trends, there are few, good base-metal or gold-silver projects at a late stage of development and a shortage of experienced exploration personnel. With improving metal prices and increasing demand, especially from Asia, supply difficulties may occur in the future and there is a discernible need for good exploration projects based on sound geological work. At the same time, environmental groups have successfully lobbied for more wilderness areas and parks where exploration and mining activities are not allowed. Native groups are actively pursuing land claims and there is a rise of militant national and religious groups in many parts of the world. These issues tend to restrict the areas where mineral exploration and development of new mines can occur. This should make areas permissive to exploration more attractive. As junior companies (many of which are staffed by former large company geologists) find it easier to raise funds, they are beginning to seek properties of merit to explore.

### Risks and uncertainties

The Company is subject to a number of risks and uncertainties, the significant of which are discussed below. Additional risks and uncertainties not presented may also impact the Company's financial results in the future.

### Industry

Mosquito is engaged in the exploration of mineral properties, an inherently risky business. There is no assurance that a mineral deposit will ever be discovered and economically produced. Most exploration projects do not result in the discovery of commercially mineable ore deposits.

### Reserve and mineralization estimates

The estimation of reserves and mineralization is a subjective process and the accuracy of any such estimates is a function of the quality of available data and of engineering and geological interpretation and judgment. No assurances can be given that the volume and grade of reserves recovered and rates of production will not be less than anticipated.

### Gold and metal prices

The price of gold is affected by numerous factors beyond the control of the Company including central bank sales, producer hedging activities, the relative exchange rate of the U.S. dollar with other major currencies, demand, political, economic conditions and production levels. In addition, the price of gold has been volatile over short periods of time due to speculative activities. The prices of other metals and mineral products that the Company may explore all have the same or similar price risk factors.

### Cash flows and additional funding requirements

Mosquito has not commenced operations as yet. If any of the Company's exploration programs are successful and optionees of properties complete their earn-in, the Company would have to provide its share of ongoing exploration and development costs in order to maintain its interest in the projects, or be reduced to a royalty interest. Additional capital would be required to put a property into commercial production. The sources of funds currently available to the Company are the sale of its inventory of gold, sale of marketable securities, sale of equity capital or the offering of an interest in its projects to another party. Although the Company presently has sufficient financial resources to undertake all of its currently planned exploration programs, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be advantageous to the Company.

### Exchange rate fluctuations

Fluctuations in currency exchange rates, principally the Canadian/U.S. dollar exchange rate, can significantly impact cash flows. The exchange rate has varied substantially over time. Most of the Company's exploration expenses are in U.S. dollars. Fluctuations in exchange rates may give rise to foreign currency exposure, either favourable or unfavourable, which may impact financial results. The Company does not engage in currency hedging to offset any risk of exchange rate fluctuation.

## Environmental

Mosquito's exploration and development activities are subject to extensive laws and regulations governing environment protection. The Company is also subject to various reclamation-related conditions. Although the Company closely follows and believes it is operating in compliance with all applicable environmental regulations, there can be no assurance that all future requirements will be obtainable on reasonable terms. Failure to comply may result in enforcement actions causing operations to cease or be curtailed and may include corrective measures requiring capital expenditures.

## Laws and regulations

Mosquito's exploration activities are subject to extensive federal, provincial, state and local laws and regulations governing prospecting, development, production, exports, taxes, labour standards, occupational health and safety, mine safety and other matters in all the jurisdictions it operates in. Such laws and regulations are subject to change, can become more stringent and compliance can therefore become more costly. The Company applies the expertise of its management, its advisors, its employees and contractors to ensure compliance with current laws and relies on its land man in Australia and legal council in both Canada and the United States.

## Title to mineral properties

While the Company has investigated title to its mineral properties, this should not be construed as a guarantee of title. The properties may be subject to prior unregistered agreements or transfers and title may be affected by undetected defects. Unresolved native land claim issues in British Columbia and Australia may affect the Company's properties in these jurisdictions in the future.

## Possible Dilution to Present and Prospective Shareholders

The Company's plan of operation, in part, contemplates the financing of the conduct of its business by the issuance of cash, securities of the Company, or a combination of the two, and possibly, incurring debt. Any transaction involving the issuance of previously authorized but unissued shares of common stock, or securities convertible into common stock, would result in dilution, possibly substantial, to present and prospective holders of common stock. The Company may seek a joint venture partner to fund in whole or in part exploration projects. This dilutes the Company's interest in properties it has acquired. This dilution of interest in properties is done to spread or minimize the risk and to expose the Company to more exploration plays but means that any profit that might result from a possible discovery would be shared with the joint venture partner. There is no guarantee that the Company can find a joint venture partner for any property.

## Material Risk of Dilution Presented by of Issuance of Outstanding Share Purchase Options and Warrants and Mineral Property

As of October 27, 2006 there were share purchase options outstanding allowing the holders of these options to purchase 619,000 common shares and share purchase warrants outstanding allowing the holders to purchase 2,200,000 common shares.

Given the fact that as of October 27, 2006 there were 26,902,877 shares of common stock outstanding, the exercise of all of the existing share purchase options and warrants would result in further dilution to the existing shareholders and could depress the price of the Company's shares.

These shares may be issued and could depress the price of the Company's shares.

#### Dependence on management

The Company strongly depends on the business and technical expertise of its management and there is little possibility that this dependence will decrease in the near term.

#### Conflict of Interest

Some of the Company's directors and officers are directors and officers of other natural resource or mining-related companies. These associations may give rise from time to time to conflicts of interest. As a result of which, the Company may miss the opportunity to participate in certain transactions and may have a material, adverse effect on its financial position.

#### Trading Volume

The relatively low trading volume of the Company's shares reduces the liquidity of an investment in the Company's shares.

#### Volatility of Share Price

Market prices for shares of early stage companies are often volatile. Factors such as announcements of mineral discoveries, financial results, and other factors could have a significant effect on the price of the Company's shares.

#### Competition

There is competition from other mining exploration companies with operations similar to those of the Company's. Many of the mining companies with which the Company competes have operations and financial strength greater than that of the Company.

#### Mineral Projects - Canada

##### Mosquito Mine –Cariboo Gold Quartz Mine. Wells B.C.

The Company was created in 1971 with the primary objective of establishing a mining complex on the former producing mines known as Island Mountain Mine and Cariboo Gold Quartz Mine, which are located near Wells B.C. This was accomplished in 1980 when the Mosquito Mine commenced production. The mine operated in a production, development or exploration mode until 1994 when an agreement was reached with International Wayside Gold Mines Ltd. ("WGM"). From 1994 to the present the Cariboo Gold Quartz claims have been actively developed by WGM with the purpose to develop an economically feasible mine.

Mosquito presently has two separate agreements with WGM. In an October 1994 agreement, WGM the right to earn a 50% interest in the Cariboo Gold Quartz claim group. In order to maintain this agreement WGM must spend \$500,000 per year until a bankable feasibility study is presented. This agreement is still in effect.

In a second agreement dated August 22, 2003, Mosquito completed a Property Option Agreement for the Cariboo Gold Project with International Wayside Gold Mines Ltd. This Agreement replaces an earlier agreement between the Parties dated January 25, 1999, as amended by agreement dated January 24, 2002 (collectively the "Previous Option Agreement") pursuant to which the Mosquito granted to Wayside an option to purchase a 50% interest in and

to the Cariboo Gold Quartz mineral claims and a 100% interest in and to the Island Mountain Mineral Claims and the Mosquito Creek Mineral Claims (collectively the Properties)

Wayside will also have the exclusive right to extract at any time prior to the exercise of the Option, a bulk sample (the "Bulk Sample") from the Properties with limits on the tons of ore and ounces of gold mined. Mosquito will be entitled to receive a royalty (the "Bulk Sample Royalty") of 5% of "Net Smelter Returns" (as hereinafter defined) derived from the Bulk Sample. On exercise of the Option, Mosquito's royalty will revert to a 3% Net Smelter Return.

In order to exercise the second agreement Option, Wayside must make the following cash payments to Mosquito:

- \$ 50,000, on the signing of the Agreement (received);
- \$ 450,000 on or before August 31, 2003, (received);
- \$ 500,000 on or before August 31, 2004; (received);
- \$ 500,000 on or before August 31, 2005; (received);
- \$ 500,000 on or before August 31, 2006; (received) ;and
- \$ 3,500,000 on or before December 31, 2006.

#### Brett Claim Group

On January 30, 2003, Mosquito Consolidated Gold Mines Ltd. completed an agreement to acquire a 100% interest in the Brett #1 and Brett #2 mineral claims located in the Vernon Mining District of British Columbia for a consideration of 500,000 shares of the Company.

On May 10, 2004, an Option Agreement between Running Fox Resource Corp. (RUN-TSX) and Mosquito on the Brett Property was entered into. Running Fox was required to issue 200,000 common shares of their Company and spend \$500,000 on exploration expenditures over one year to earn a 50% interest in the Property. Upon earn-in, the Parties were to enter into a Joint Venture Agreement with MOSQUITO being Operator for as long as MOSQUITO maintains a 50% interest. Running Fox earned a 50% in the project in 2004 but at time of writing, a formal Joint Venture agreement has not been prepared. No significant exploration was completed in the past year.

#### Lavery Lake – Red Lake, Ontario

On August 11, 2004 the Company announced the acquisition of a 100% interest of 1156207 Ontario Inc. This corporate entity is the owner of two groups of patented mineral properties known as the "Lavery Property", Red Lake, Ontario and the "Cummins Property", near Larder Lake, Ontario.

The purchase price is \$80,000.00 with the vendor retaining a one percent net smelter royalty (1% NSR). A finder's fee is payable to an arms length party. The agreement is subject to the regulatory approval.

All claims owned by 1156207 Ontario Inc. are patented and include both mineral and surface rights (341 acres).

The most advanced property is know as the "Lavery Property" and is located 1 mile west of the town of Red Lake, Ontario and consists of six (6) patented Claims (KRL 5136-8 and 6979-81) on the boundary between Heyson and Dome Townships.

The property is located within the heavily explored Red Lake gold camp. Several mines have and are still operating in the area, with Goldcorp's Red Lake Mine and Placer Dome's Campbell Red Lake Mine being the most prolific producers at the present time.

Numerous shafts have been sunk in the immediate vicinity and the old Howey and Hasaga mines are located less than 1.5 miles away. These mines produced approximately 640,000 ounces between 1930 and 1950.

The claims were first worked in 1930 with the 15,318 feet of diamond drilling done by Lavery Red Lake Mines Ltd in 1947 and 1950-51. Coin Lake Gold Mines Ltd completed an IP survey in the 1970's. In 1981 Camflo Mines completed 8,661 feet of diamond drilling and a geophysical survey. Finally in 1990 Lavery Red Lake Resources Ltd drilled 2,015 in 4 holes.

Mineralization consists of narrow blue gray quartz veins and veinlets. Two styles of mineralization were identified: the quartz vein/veinlets in an almost east west trending zone drilled in the 1950's with assays ranging from 0.06 oz Au/ton to 1.1 oz Au/ton over a 2 to 3 foot average width (up to 36.8 feet wide). The second style was drilled by Camflo in 1981 into a north-northwest trending diabase dyke, which was traced for a length of 800 feet with widths between 15 to 42 feet (average 25 feet). All drill holes gave results which ranged from 0.04 to 0.185 oz Au/ton over widths up to 7.5 feet (longer widths of lower grade were intersected ranging up to 42 feet). Mineralization was disseminated throughout the dyke and associated with varying amounts of chalcopyrite.

Mosquito feels that the property has the potential to host a significant gold deposit, especially considering its location in the Red Lake Gold Camp. No significant exploration was completed on this project by Mosquito in the past year.

#### Cummings Project – Larder Lake, Ontario

The Cumming Property consists of five patented mineral claims (5) located in McElroy TWP located approximately 10 kms. SW of Larder Lake, Ontario.

The property is located 850 meters from the Cathroy Larder Mine, which yielded approx. 10,000 ounces of gold. The property is underlain by the same units that host the mine. A 60 feet deep shaft is located on the property.

In 1996, a program consisting geological mapping, geochemistry and geophysics (IP, magnetometer, VLF-EM) was completed by McElroy Minerals Inc. A 17 hole-2230 meter diamond drill program was recommended as a result of the program but was not initiated.

The property is still at the grass roots stage with several structural and geophysical targets identified. The property is located within a major gold bearing belt and has structural and geophysical features that indicate the potential for gold mineralization, however insufficient work has been done in order to define the nature, size and extent of any mineralization. No significant exploration was completed on this project by Mosquito in the past year.

#### Intellisano Property – Red Lake Ontario

In June 2005 the Company entered into an Option to Purchase Agreement on four patented claims located in Bateman Township on the eastern shore of Red Lake Ontario. A 100% interest may be purchase by making annual payments totaling \$500,000. A 2% net smelter royalty is

retained by the vendors of which 1% may be purchased for \$1,000,000.00. All claims are patented and include both surface and mineral rights.

Previous work on the property includes shaft sinking, trenching, geochemical survey, sampling and minor drilling. Assay results reported by Placer Dome include a grab sample of .44 oz. gold/ton. No significant exploration was completed on this project by Mosquito in the past year.

#### Statlu Creek Gravel Deposit – Mission B.C.

Deposit consists of 990 hectares located north of the Fraser River approximately 100 kilometers east of Vancouver British Columbia. The gravel supply for the Lower mainland is being depleted at a rapid pace and there is an increasing demand for sand and gravel products from Washington State and California. The need to develop additional sand and gravel supplies is becoming critical. The Statlu Gravel projects represents one of the few areas containing large amounts of clean sand and gravel left within reach of the major cities and the Fraser river

Mosquito has an option to earn a 60% interest in the Statlu Gravel project by funding all costs of the project until such time as a permit and license of occupation allowing sand and gravels to be mined and sold from the property is issued. Once completed project would proceed as a 60-40 joint venture with the owner.

Recently completed work including 7.5 kilometers of seismic refraction surveys indicated the material is 20 to 168 meters in thickness sitting on bedrock. Contouring of the seismic data indicates the presence of a 160 to 170 million ton deposit at the southern end of the property that would be the focus of initial evaluation and study. Discussions have been had with numerous groups with interest in the area these include Chehalis Indian band, BC Forest service, Fraser Valley Regional District, Department of Fisheries and Oceans and Ministry of Mines. All have said they see no reason for the project not to proceed provided all government and environmental issues are addressed.

The next stage in the development involves drilling, preliminary environmental, economic and market viability studies. The proposed program is estimated to cost Cdn\$500,000. The Company has requested a formal agreement with the vendor of the project. Until this formal agreement is completed no further work is contemplated.

#### Mineral Projects - Australia

##### Trikay Deposit

The Deposit is situated in the prolific pre-Cambrian Mineral Belt of northwest Queensland, Australia is located approximately 40 kilometers by road from the famous mining center of Mt. Isa. The pre-Cambrian Mineral Belt is host to a number of well known deposits: the Century (zinc), Mount Isa, Hilton Group, Cannington, Lady Loretta, Dougald River base metal, Ernest Henry and Osborne copper-gold, Tick Hill and Selwyn gold (the latter with copper co-product) and the Mary Kathleen and Valhalla uranium deposits. Mosquito currently holds a 100% interest in an exploration permit covering two kilometer wide by six kilometer long (1,200 hectares) area on the project. To date, two oxide deposits (Copperweed and Rebound) and one large main deposit (Main-Trikay) has been identified.

Previous work on the Trikey Project consists of geological mapping, geochemical and geophysical surveying, the collection of 158 outcrop and trench composite samples, the location of over 6,700 copper bearing outcrops, drilling of 16 shallow rotary percussion holes and

metallurgical testing of the acid leaching characteristics of the oxidized ore. This work was completed over a 10 year period between 1990 and 2000 by the geologist owner. The 158 bulk outcrop-composite samples (not less than 40 kilograms each) were also collected by the previous owner, with an average reported grade of 2.65% copper and 0.5 grams of gold per tonne. Values greater than 1.0% copper (67 samples) concentrate in an area 49 hectares in size, averaged 5.91% copper and 1.85 grams of gold per tonne. Mosquito is proposing to spend C\$650,000 on an exploration program for the Trikey Project, whose primary focus will be to further evaluate the project's mineralized zones. A program of geological mapping and sampling has been completed in October 2006 with additional work planned.

#### Mineral Projects – USA

##### Pine Tree – Nevada

The property consists of 61 claims (510 hectares) located in the Pilot Mountains, Mineral County, western Nevada. Situated five miles east of the town of Mina, Nevada, half way between the cities of Reno and Las Vegas, the Pine Tree Project lies in an area that is host to several active small-scale mines and operations, as well as significant historical past producers. These include the Santa Fe gold mine located approximately 14 miles north of the project, which was operated by Homestake and produced approximately 750,000 ounces of gold between 1988 and 1993 and the Candelaria Mine, located approximately 15 miles to the south of the project, currently owned by Silver Standard Resources, which produced 68 million ounces of silver between 1970 and 1999. The primary target being sought on the project by Mosquito is a large (+200 million ton) copper-molybdenum-rhenium porphyry deposit, with potential gold, silver and tungsten by-products.

Mosquito has an option to purchase the Pine Tree Project through a combination of cash (totaling \$2.0 million) and share payments (totaling 300,000 shares) to the two project vendors. Originally staked in the 1950s, over 2,310 feet of historical underground drifting and 1,492 feet of diamond drilling in two holes were completed on the project at an estimated present day cost of \$1.25 million. Mosquito believes, based on results from the limited past exploration programs on the Pine Tree Project, that previous owners did not recognize the potential for a significantly sized deposit.

In March 2006, the Company, after spending approximately U.S. \$ 600,000, completed the stage 1 program on the property, Work consisted of surface and underground mapping, sampling of all known mineralized zones and showings, cleaning and gaining access to all underground workings and the drilling of five diamond drill holes totaling 4455 feet (1358 meters). Results have confirmed the presence of the previously unrecognized copper-molybdenum porphyry system. In addition the presence of by product elements such as gold silver, rhenium, indium and gallium make this extremely attractive. The Northern most hole (PT06-04) intersected 273.4 meters (897 feet) grading 0.87% Copper equivalent. The program outlined a mineralized zone 850 meters long 1100 meters wide ranging in thickness from 130 to 270 meters. The zone is open in all directions, especially to the north where alteration and mineralization indicate that the northern most hole (PT06-04) is located on the southern edge of the system.

As a result of the success of the stage 1 program the Company is proposing a stage 2 program with a budget of \$1,500,000 to continue drilling to the north and east to follow and thus expand

the thick mineralized zone encountered in stage 1. Construction work has already commenced on building the 3.5 miles of road required for the stage 2 program.

#### CUMO Deposit – Idaho

The Company entered into an option agreement with Kobex Resources Ltd. in January 2005, whereby Kobex may acquire a 100% interest in Mosquito's CUMO Molybdenum Project located in Boise County, Idaho. The terms of the option agreement with Mosquito include staged payments totaling C\$3,812,500, the issuance of common shares (10 million) and minimum work commitments (C\$7.5 million) over a five year period from the date of the agreement.

The CUMO Project is situated in the mountains of south-central Idaho, approximately 15 miles northeast of the town of Idaho City. Good all weather highway and logging roads provide easy access to the project from Idaho City.

Geologically, the CUMO Project is situated along the northeast trending Trans-Challis Structural Zone in a complex assemblage of Tertiary age felsic dykes and stocks that intrude quartz monzonite of the Idaho batholith. Between 1973 and 1981 AMAX drilled 26 holes totaling 30,821 feet and in 1982, produced a computer generated Kriged block model for the project, estimating geological reserves of 1.387 billion tons of 0.093% MoS<sub>2</sub> at a cut-off grade of 0.05% MoS<sub>2</sub>. A higher-grade core zone of 444 million tons of 0.135% MoS<sub>2</sub> at a 0.10% MoS<sub>2</sub> cut-off, was also included in this estimate. It should be noted that any reserve/resource estimate referred to are historic and as such, in accordance to NI43-101, Section 2.4, should be used only as an indicator of the potential of the property. In 1997, the Project was staked by Cumo Molybdenum Mining Inc. who optioned the Project to Mosquito in the fall of 2004. All exploration work is currently being funded by Kobex, as per the terms on the option agreement.

#### Blackpoint - Nevada

Project covers an area of 410 hectares in Eureka County, Nevada, approximately eight miles northeast of the town of Eureka. Situated within the major Battle Mountain-Eureka Gold Trend of central Nevada, the project is located northeast of the past producing Ruby Hill Gold Mine, which produced approximately 135,000 ounces of gold annually between 1997 and 2002. The project hosts a silica-sericite (or "low-sulfidation") epithermal gold system with extensive silica-sericite alteration and scattered gold values, indicating that the observed surface exposure is located in the barren cap part of the system above the high grade gold bearing boiling zone. The proposed target is a typical high grade Carlin type sedimentary-hosted deposit beneath the surface exposed cap rocks.

Past work conducted in the 1980s consisted of surface mapping, sampling and a few short diamond drill holes drilled along the outer edge of the mineralizing system, which failed to intersect any significant gold values. Mosquito is currently in the process of completing its first exploration program on the Blackpoint Project and is proposing a US\$500,000 exploration program, which will consist of aerial photography, geological mapping and sampling and approximately 6,000 feet of diamond drilling. The purpose of the program is to look for a hidden deposit beneath the exposed surface. Drill holes will target the area 250 to 500 meters below the surface in the centre of the system.

Additional information about the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## Results of Operations for the six months ended June 30, 2006, 2005 and 2004

The Company's audited financial statements for the six months ended June 30, 2006 have been prepared in accordance with Canadian generally accepted accounting standards applicable to a going concern which assumes that the Company will continue operations and will be able to realize its assets and discharge its liabilities in the normal course of business. The financial statements do not reflect the adjustments to the carrying values of assets and liabilities that would be necessary if the Company is unable to continue operations or does not receive continued financial support from its shareholders and financial communities.

The following is a discussion and analysis of the results of operation and the financial condition of the Company for the six month period ended June 30, 2006 and years ended December 31, 2005 and 2004 along with certain factors that may affect the Company's prospective financial condition and results of operations. The discussion and analysis contains forward-looking statements that involve risks and uncertainties. Actual events could differ from those anticipated in these forward-looking statements.

### *Selected Information*

	<b>Six months ended June 30 2006</b>	<b>Twelve months ended December 31, 2005</b>	<b>Twelve months ended December 2004</b>
Net smelters royalty	\$ -	\$ 241,342	\$ -
Consulting	80,743	110,990	78,850
Investor relations	227,421	-	-
Management fees	78,000	156,000	108,000
Professional fees	57,428	52,662	32,876
Stock-based compensation	329,295	-	441,399
Travel and business promotion	63,412	98,594	84,933
Mineral property written off	-	-	81,154
Write down of marketable securities	160,898	-	-
(Gain) on sale of option (CUMO)	(374,249)	(97,918)	-
Net loss for period	(822,266)	(255,250)	(766,178)
Basic and fully diluted loss per share	(\$0.04)	(\$0.01)	(\$0.04)
Working capital, (deficiency)	2,024,145	586,321	(169,980)
Mineral properties and plant and equipment	2,263,805	1,308,892	1,039,091
Shareholder equity	4,345,689	2,009,963	983,963

The loss for the six months ended June 30, 2006 was \$822,266 compared to loss of \$255,250 in year ended December 31, 2005 was primarily due to:

- a. Stock-based compensation expense totaling \$532,716 of which \$329,295 has been recorded for options granted to directors and consultants and stock-based compensation for options granted to investor relations for \$203,421.
- b. Company did not have any net smelter revenues in 2006.
- c. During the period ended June 30, 2006, the Company wrote down its marketable securities to reflect the market value.
- d. The Company wrote down the value of market securities by \$160,898 to reflect the market value of these securities.

Company's cash position during the six months increased by \$1,081,684 mainly due to private placement of \$2,376,000 and \$470,353 cash was used in operations and \$800,464 for exploration expenditures mainly in Pine Tree

### Summary of quarterly results

	30 Jun 06	31 Mar 06	31 Dec 05	30 Sept 05	30 June 05	31 Mar 05	30 Dec 04	30-Sept-04
Net (income) loss	635,338	186,928	371,148	(175,904)	134,474	(74,468)	(655,792)	(81,473)
Gain (loss) per share	\$0.03	\$0.01	\$0.01	(\$0.01)	\$0.01	(\$0.01)	(\$0.02)	(\$0.01)

### Critical Accounting Estimates;

These audited financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of unaudited financial statements for a period necessarily involves the use of estimates which have been made using careful judgement. The significant areas requiring the use of management estimates is recoverability of the mineral property costs, valuation allowance for future income taxes and expected share price volatility for purposes of estimating the fair value of stock options granted. Actual results may differ from these estimates.

#### *Mineral properties*

The Company defers the cost of acquiring, maintaining its interest, exploring and developing mineral properties until such time as the properties are placed into production, abandoned, sold or considered to be impaired in value. Costs of producing properties will be amortized on a unit of production basis and costs of abandoned properties are written-off. Proceeds received on the sale of interests in mineral properties are credited to the carrying value of the mineral properties, with any excess included in operations. Write-downs due to impairment in value are charged to operations. Option payments received in excess of costs incurred are credited to income.

#### *Fair value*

The Company's financial assets and liabilities are cash, marketable securities, note receivable, accounts receivable, account payable and due to related parties. The fair values of these financial instruments are estimated to be their carrying values due to their short-term nature. Cash and cash equivalents includes short-term money market instruments which, on acquisition, have a term to maturity of three months or less and expose the Company to minimal risk.

#### *Stock-based compensation*

The Company has a stock-based compensation plan whereby stock options are granted in accordance with the policies of regulatory authorities.

The Company applies the fair value method to all grants of stock options after January 1, 2003. All stock options granted are accounted for as a capital transaction at the time of the grant and are reflected as contributed surplus in shareholders' equity. The fair value of options granted is estimated at the date of grant using the Black-Scholes option pricing model incorporating assumptions regarding risk-free interest rates, dividend yield, volatility factor of the expected market price of the Company's stock, and a weighted average expected life of the options. The estimated fair value of the options is recorded over the options' vesting period. Any consideration paid on amounts attributable to stock options is credited to share capital.

#### *Liquidity and Solvency*

The Company completed a non-brokered private placement of 2,200,000 units at \$1.08 per unit for total proceeds of \$2,376,000. Each unit consists of one common share and one share purchase warrant. The share purchase warrant entitles the holder thereof the right to purchase one additional common share at \$1.45 for a two year period. The Company believes it has sufficient funds to enable the Company to meet its ongoing obligations as they become due. But when the Company requires additional funding, the Company will raise additional funds through the market and debt instruments but there can be no assurance the management can raise the required capital.

The Company has no long-term debt.

*Transactions with related parties:*

The Company had the following transactions with parties related to the Company:

	Six months ended June 30, 2006	Year ended December 31, 200	Year ended December 31, 2004
Included in operations:			
Management fees	\$ 78,000	\$ 156,000	\$ 156,000

Any other payments are made as reimbursement of expenses to officers or directors in normal course of business.

*Off-balance sheet items:*

The Company does not have any off-balance sheet items.

*Investor Relations Activities*

Investor Relations activities of the Company consisted of the dissemination of news releases by officers and directors. In addition, management of the Company responded to requests by shareholders and investment dealers for information, and disseminated financial information as required by applicable laws.

The Company plans to proceed with its exploration program and engage in significant Public Relations and Investor Relations activities in the future in order to achieve its long-term goals. On April 5, 2006, the Company entered into a one-year contract with Connect Capital Ltd. ("Connect") whereby Connect would provide corporate and investor relations services. The Company will pay \$8,000 per month and grant 440,000 incentive stock options at a price of \$1.60 per share exercisable over a term of five years.

**Subsequent events**

- a. Subsequent to June 30, 2006, 1,570,000 options were exercised and 50,000 options expired.
- b. Subsequent to June 30, 2006, 60,000 share purchased warrants were exercised.
- c. Subsequent to June 30, 2006, Kobex surrendered all rights and interests in the Cumo Property to the Company. It is the intention of the Company to pursue all its legal options to collect option payments the Company feels should be paid by Kobex.

- d. Subsequent to June 30, 2006, Dr. Mathew Ball PhD, P.Geo. was appointed a Director and Senior Geologist of the Company.
- e. Subsequent to June 30, 2006, the Company initiated exploration programs on the Pinetree, Trice and Cumo Project.

### **Disclosure Controls**

Disclosure controls and procedures have been designed to ensure that relevant and accurate information needed to comply with Company's continuous disclosure obligations is accumulated and summarized to allow timely decisions regarding disclosure and to ensure that the risk of a material error or fraud is minimal. Management has concluded that Company's disclosure controls and procedures, as at June 30, 2006, are effective in ensuring that material information is accumulated and disclosed accurately. Company's management believes that cost-effective disclosure controls, disclosure procedures and internal controls systems can only provide reasonable assurance, and not absolute assurance, that the objectives of the controls and procedures are met.

### **Other requirements:**

#### **Share capital:**

1. Authorized: unlimited number of common shares without par value
2. Common shares issued and outstanding as at October 27, 2006 are 26,902,877 common shares.
3. As at October 27, 2006, there were 619,000 incentive stock options outstanding.
4. As at October 27, 2006, there were 2,200,000 share purchase warrants outstanding

#### ***Cautionary Note Regarding Forward-Looking Statements***

*Certain statements contained in the foregoing Management's Discussion and Analysis and elsewhere constitute forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are advised to consider such forward-looking statements in light of the risks set forth above.*