

MANAGEMENT DISCUSSION AND ANALYSIS

Three months ended 31 December 2005

Nayarit Gold Inc.

Introduction

This management discussion and analysis (MD&A) for Nayarit Gold Inc. (“Nayarit”, or the “Corporation”) is for the three months ended December 31, 2005 (the “quarter”). Readers are advised to read it in conjunction with the financial statements for the fiscal periods referred to herein. All financial reporting of the Corporation is presented in Canadian dollars. Amounts in this MD&A not stated in Canadian dollars are indicated as USD (US dollars) or MXP (Mexican pesos). This MD&A was prepared as of February 17, 2005.

This MD&A may contain forward-looking statements. Forward-looking statements are based on current expectations that involve a number of risks and uncertainties which could cause actual events or results to differ materially from those reflected herein. Forward-looking statements are based on the estimates and opinions of management of the Corporation at the time the statements were made.

The technical description of the Orión Gold Project and the exploration work completed on it has been described in the annual MD&A for the year ended September 30, 2005 and other disclosure of the Corporation. Those earlier disclosures provide additional detail and may be viewed, along with additional information relating to the Corporation itself, on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com and on the Corporation’s website at www.nayaritgold.com. The following table summarizes the news releases made by the Corporation during the quarter and subsequently.

Date of News Release	Title of News Release
2006	
February 02, 2006	Nayarit Gold Inc. - High Grade Gold and Silver system identified on recently acquired "Bonanza I" concession
January 19, 2006	Nayarit Gold Inc. - Multiple gold bearing footwall zones identified; "OMZ FW" high grade gold confirmed on surface
January 09, 2006	Nayarit Gold Inc. - 20.8 gpt gold over 7.0 m in parallel zone at OMZ
2005	
December 13, 2005	Nayarit Gold Increases Mineral Land Position by 41%; Surface Rights Agreement Renewed for Another Year
October 17, 2005	Nayarit Gold Intersects 49.5 Meteres at 1.0 gpt Gold and 24.0 Metres at 1.9 gpt Gold at its Orion Gold Project
September 22, 2005	Nayarit Gold Announces the Appointment of Michael A. Dehn as President & CEO

Table 1. The Corporation’s recent news releases

Mr. Michael P. Gross, P.Geol., is the qualified person for the purposes of the technical information contained herein, pursuant to the requirements of National Instrument 43-101.

Corporation's activities

Nayarit Gold Inc.

Nayarit Gold Inc. is a junior mineral exploration company that was incorporated in November, 2003, and became a public issuer by virtue of its amalgamation with Canhorn Chemical Corporation on May 2, 2005. Management's strategy for building Nayarit Gold into a profitable resource company and maximizing shareholder value is through successful exploration, focusing on cost-effective examination and early drill testing of high quality precious metal targets within prolific mining districts in Mexico.

The Orión Gold Project Properties

The Orión Gold Project in the state of Nayarit on Mexico's west coast is the first such project and an exploration program, including diamond drilling of gold-mineralized zones, commenced there in the third quarter of the Corporation's fiscal year ended 30 September 2005. At 31 December 2005 the Orión Gold Project had a total area of 11,689 hectares (28,885 acres) centred approximately 109 km north-northwest of the city of Tepic, the capital of Nayarit State. The Orión Gold Project consists of five mineral concessions, held through the Corporation's subsidiary Nayarit Gold de Mexico S.A. de C.V. and outlined below.

Concession	Area (ha)	Nayarit Gold Ownership
Orión	528	100%
El Magnifico	7,650	100%
La Estrella	146	Option to acquire 100%
Bonanza I	200	100%
Reese	3,165	100%

Table 2. The Corporation's mining property holdings as at 31 December 2005

Future production from the Orión concession is subject to a 3.5% net smelter royalty, which may be purchased at any time for USD250,000 and granting a 10% net profits interest. The La Estrella concession may be acquired for aggregate payments of USD1,450,000 over six years, with an initial payment of USD25,000 and annual payments on each anniversary of 28 November 2003 (year one – USD50,000; year two – USD75,000; year three – USD100,000; year four – USD100,000; year five – USD100,000; year six – USD1,000,000). The next La Estrella option payment to be made is that for year three, due by 28 November 2006. The El Magnifico, Bonanza I and Reese concessions are not subject to any royalty or other agreements. The 200 hectare (494 acre) Bonanza I concession was acquired during the quarter, as disclosed in the news release dated December 13, 2005, under the Mexican government's lottery system for disposing of concessions forfeited by previous owners for non-payment of mining duties. The Bonanza I concession lies within the boundaries of the El Magnifico concession. The 3,165

hectare (7,821 acre) Reese concession was staked contiguous with the southeast quadrant of the El Magnifico concession, also during the quarter. Exact locations can be seen on Nayarit's web site.

General Geology

The Sierra Madre Occidental metallogenic province, in which the Orión Gold Project is located, is one of the world's largest epithermal precious metal terrains and hosts most of Mexico's gold and silver deposits. The general geology of the Orión Gold Project area is characterized by Early to Mid-Tertiary volcanic rocks, locally affected by shallow, fine-grained to porphyritic intrusive rocks. This assemblage is typical and extends through the Sierra Madre Occidental, eastern Sonora, and western Chihuahua, Durango, Sinaloa and Nayarit states. A more complete description of the geological setting may be found in the 2004 Technical Report by Behre Dolbear, available with the Corporation's documents filed on SEDAR. The Orión Gold Project area contains several well mineralized and altered, northwest-southeast and east-west trending, structures locally characterized by silicified pyrite-gold rich breccias and precious metal quartz veins that also contain varying amounts of silver.

Exploration History

The structurally hosted gold mineralization of the Orión Main Zone ("OMZ") is the most explored structural zone in Nayarit's Orión Gold Project and lies within the La Estrella concession, close to the boundary with the Orión concession. It displays physical characteristics of a high grade gold, quartz-adularia, epithermal vein system. The premier example of this type of deposit in Mexico is Tayoltita, a district that is reported to have produced 9.2 million ounces of gold at a grade of 8 gpt gold. During 2005 the Corporation investigated and explored the OMZ by sampling of outcrops and diamond drilling. In the early 1990's Lac Minerals investigated the property with 18 reverse circulation drill holes, surface sampling, geochemical soil sampling and magnetic and IP geophysical surveying. In the mid-1980's the Mexican government's *Consejo de Recursos Minerales Subdireccion Tecnica* (the "Consejo") investigated the OMZ by sampling at surface and in underground workings that consisted of a crosscut and drift on one level, and by an adit. The Corporation's surface sampling results were first disclosed in a July 11, 2005 news release and results from the first six diamond drill holes were disclosed in a July 21, 2005 news release.

Exploration during and subsequent to the Quarter

During the quarter a more comprehensive news release on October 17, 2005 disclosed the results of the remaining 12 diamond drill holes and reviewed the result's Nayarit's surface work and the Lac reverse circulation holes in relation to Nayarit's 18 drill holes.

Throughout the quarter and continuing in the second quarter, one principal focus of the Corporation's exploration activities was an intensive effort to locate, digitize and compile all the available datasets collected through exploration work on the OMZ. This work resulted in a January 9, 2006 news release disclosing a summary of its review and analysis of the Consejo data. Another news release, on January 19, 2006, related the significant aspects of the Consejo, Lac and Nayarit datasets including many new Nayarit surface samples. The emerging picture of the OMZ remains that of a southeast trending, steeply northeast dipping, structural zone containing gold mineralization. The host structure can be traced at surface for approximately 800 meters and a gold-bearing portion has been outlined underground over widths of several

meters and along a strike length of about 60 meters. The depth and strike extent of the gold-bearing part of the zone, and the nature and orientation of mineralization controls, remain to be determined through additional exploration work. But more importantly, the compilation work also identified multiple sub-parallel zones of gold mineralization in the structural footwall to the OMZ, with surface samples and some drilling intersections showing concentrations of additional gold-bearing material up to 400 meters southwest of the OMZ and apparently striking sub-parallel to it. Follow-up exploration is needed on these zones before they can be properly characterized.

Late in the quarter, the Mexican exploration team began excavating and rehabilitating the caved portal to the La Estrella mine (OMZ). By mid January rehabilitation work was completed, providing safe access to the underground workings for verification of the sample results obtained by the Consejo and reported in the January 9, 2006 press release. The underground workings were also remapped to collect additional data to help understand the nature and extent of structural controls on the OMZ mineralization.

Following acquisition of the Bonanza I concession during the quarter, Nayarit's reconnaissance exploration team focused on the east / west striking Bonanza structure. The Bonanza structure is one of the structures known from the Corporation's compilation of various datasets to host gold and silver mineralization on the concession and that it exists on the Bonanza I, Orión and El Magnífico concessions, indicating the potential for several kilometers of strike length. Nayarit's reconnaissance team mapped and sampled about 750 meters of strike length plus 75 meters of underground workings, as reported in the February 2, 2006 press release. Mapping and sampling the structure over the remaining 1500 meters on the concession remains to be completed. Reconnaissance work also located the Bonanza structure within the Orión concession and follow-up mapping and sampling is planned.

Reconnaissance work also located the El Carmen structure, a NW striking structure with a one to two meter wide quartz vein containing gold and silver mineralization. Detailed mapping and sampling along this structure is expected to commence in the third fiscal quarter. Mapping and sampling of subparallel structures and outcrops in both the footwall and hangingwall of the OMZ continues during the second quarter, to collect additional data to be used in planning the next phase of diamond drilling for the OMZ and associated structures and mineralized zones.

Overall Performance

The Corporation amalgamated with Canhorn Chemical Corporation, a public issuer, on May 2, 2005. This transaction was accounted for as a reverse take-over with Nayarit as the acquirer. Nayarit was initially formed as a private company in November of 2003. In fulfillment of one of the terms of the amalgamation, Nayarit raised \$2,250,000 through the sale of units which, along with the proceeds of earlier private placements, provided the funds to operate the Corporation and carry out the first phases of its exploration program on the Orión Gold Project. This consisted of an intensive phase of diamond drilling in the year ended September 30, 2005 followed by a continuous phase of prospecting, reconnaissance mapping and sampling of showings along with data acquisition and compilation and new property additions that has continued through the quarter and up to the date of this MD&A. The Corporation's financial resources are expected to provide for a continuation of this level of activity until funding is obtained for further drilling. At present, gold and silver commodity prices are high and there is a

strong degree of interest within the investment community in new ventures like this, but such favourable cycles can be very unpredictable (see Risk Factors).

The Corporation's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles on a going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of the Corporation's business. The application of the going concern concept is dependent on the Corporation's ability to obtain financing to continue its operations. As a mineral exploration company, the Corporation has no present sources of revenue, other than interest earned on cash and short-term money market instruments, in turn derived from the proceeds of issuing share capital. There are no presently quantifiable deposits of minerals known on the mineral exploration properties of the Corporation, and activities of the Corporation on the properties constitute exploratory searches for minerals.

During the quarter the Corporation paid its administrative costs, the costs of adding to its package of exploration properties in Mexico, the costs of carrying out exploration on those properties and other normal course expenditures, out of the proceeds of the previous year's issuance of shares. For the foreseeable future the Corporation will remain dependent on the issuance of further shares to raise funds to carry out its objectives of advancing the exploration on its properties. The ability to successfully raise such funding will depend on the state of the gold and other commodity markets and on the state of equity markets in general as well as the exploration results achieved on the Corporation's properties.

Results of Operations

A number of significant milestones have been achieved by the Corporation since it began active exploration following the amalgamation and related financing in May, 2005.

- The initial 18-hole diamond drilling program on the OMZ confirmed the presence and nature of earlier-reported gold mineralization.
- The general geology and mineral potential of large parts of the original three concessions were outlined better and property-scale structures identified as exploration targets.
- Several more mineralized zones associated with the property-scale structures were located, prospected, mapped and sampled and prospecting for others continued.
- Careful compilation of third party data provided further encouragement for the potential of the OMZ
- Additional, possibly parallel, zones of mineralization requiring further exploration were identified near the OMZ.
- Two additional mineral concessions totalling 3,365 hectares (8,315 acres) were acquired, bringing the total property holdings to 11,689 hectares (28,885 acres).
- The number of mineralized zones constituting targets to be groomed for drill testing has grown with the increased knowledge of the properties derived from the field exploration and the data compilations.

The Consolidated Statement of Operations and Deficit in the related financial statements gives a breakdown of the Corporation's administrative expenses for the quarter, compared to the same period a year earlier. Year over year increases are observed in most accounts and reflect the change in status of the company to an active, public company engaged in a mineral exploration program. To support the exploration activities, new expenses related to managing and promoting the company appear, and basic administrative expenses supporting the company as a public issuer also increased.

During the quarter, a total of \$231,424 (\$95,571 in the quarter ended December 31, 2004) in exploration and property costs was incurred and added to the Deferred Exploration Expense balance, bringing it to \$1,325,432 (compared to \$355,542 a year earlier). The details making up these expenditures are presented, grouped by individual property, in Supplement I to the consolidated financial statements for the three months ended December 31, 2005.

The Corporation's policy, in keeping with the practice of similarly situated participants in the industry is to accumulate the cost of exploration properties and exploration expenditures at cost on the Balance Sheet as "Mining Interests" until a property comes into production. After commencement of production the accumulated costs are depleted on a unit of production basis *pro rata* to the proportion of total reserves and resources mined in any period, thus matching in time the costs of finding and developing the mine with the revenues from the mine. If a property is determined not to be economic but is still retained as an asset, the accumulated value will be written down to the net realizable value of the asset and any excess expensed. If a property with accumulated value is abandoned or sold, its deferred expenses are expensed to operations in the period of such sale or abandonment. Losses incurred since inception are due mainly to general and administrative expenses, which includes professional staff time related to planning and undertaking the current exploration program on the Orión Gold Project. The Corporation anticipates such losses will continue given the nature of its business, until such time as it may bring a mine into production.

Summary of Quarterly Results

The following two-part table sets out key financial data on a quarter by quarter basis from the incorporation date of the Corporation to the end of December, 2005. The effects of the May, 2005 equity financing and increased exploration activity and general administration following it can be readily seen.

Quarter ending	31-Dec-05	30-Sep-05	30-Jun-05	31-Mar-05
Working Capital	519,961	864,465	1,424,104	206,895
Properties and Deferred Exploration	1,325,432	1,094,008	677,242	388,504
Revenue	-	-	-	-
Operating expenses	113,188	142,873	320,634	87,595
RTO costs	-	(5,202)	254,780	0
Stock-based compensation (1)	229,209	510,620	69,000	0
Net loss for period	342,397	(648,291)	(644,414)	(87,595)
Net loss per share	0.01	(0.04)	(0.03)	(0.01)
Average number of shares	25,407,641	25,407,641	20,305,094	8,250,001

Quarter ending	31-Dec-04	30-Sep-04	30-Jun-04	31-Mar-04
Working Capital	327,313	177,031	224,737	278,447
Properties and Deferred Exploration	355,542	259,791	247,960	193,813
Revenue	-	-	-	-
Operating expenses	54,106	34,021	(437)	7,741
RTO costs	0	0	0	0
Stock-based compensation	0	0	0	0
Net loss for period	(54,106)	(34,021)	437	(7,741)
Net loss per share	(0.01)	0.00	0.00	0.00
Average number of shares	8,000,001	8,000,001	8,000,001	8,000,001

Table 3. Quarterly financial data summary for last eight quarters

Liquidity

During the three months ending December 31, 2005 the Corporation's cash position decreased from \$820,930 to \$423,635. Working capital decreased from \$864,465 to \$519,961. This decrease primarily reflects the continuing exploration program on the Ori3n Gold Project in addition to ongoing administrative and corporate activities required to operate a public company.

Capital Resources

The Corporation has no commitments for capital expenditures, but is required to make certain additional expenditures for Deferred Exploration to keep the concessions making up the Ori3n Gold Project in good standing, including minimum exploration expenditures required by Mexican mining laws, payment of mining taxes calculated on the basis of surface area in the concessions and an option payment on the La Estrella concession. It is anticipated that the exploration work being done and the Corporation's cash resources will be sufficient to satisfy these requirements through the current program. These financial resources will allow the Corporation to meet all its current financial commitments and is expected to allow it to continue its exploration program into the second quarter of fiscal 2006 at a level of activity designed to compile available historical information on the property and prospect new gold-bearing zones to generate attractive targets for future drilling campaigns.

The net proceeds of the earlier private placements are currently being used by the Corporation to fund its mineral exploration programs, as well as for general working capital purposes. The Corporation intends to fund future commitments with cash on hand, or through any other financing alternative it may have available to it at the time in question.

The Corporation's share capital consists of an unlimited number of common shares without par value. The Corporation has no convertible securities outstanding.

The Corporation had 25,407,641 common shares issued and outstanding at December 31, 2005.

The Corporation had Warrants outstanding as of December 31, 2005 as outlined in the following table.

Series	Number	Expiry	Exercise price	To purchase
I	4,000,000	Mar 31, 2006	\$0.10	1 share
II	1,500,000	Dec 31, 2006	\$0.25	1 share
III	3,214,291	Apr 30, 2007	\$0.40 to Apr 30, 2006 then \$0.45	1 share
Sponsor	35,000	Apr 30, 2007	\$0.50	1 share
Compensation	642,857	Apr 30, 2007	\$0.35	1 share plus ½ Series III Warrant

Table 4. Summary of Corporation's warrants

Subsequent to December 31, 2005, a total of 489,286 shares were issued to warrant holders exercising warrants from earlier private placements. 425,000 Series I Warrants were exercised for total proceeds to the Corporation of \$42,500 and 64,286 Series III Warrants were exercised for total proceeds of another \$25,714.

The Corporation's incentive stock option plan allows the granting of options on 4,938,000 shares of which 4,400,000 were granted to directors, officers and consultants on May 18, 2005. Of this total, 250,000 were cancelled in the previous quarter, and a further 50,000 expired, unexercised, during this quarter. Another 266,668 options were cancelled in December, 2005 when the holder left the plan. This leaves 3,833,332 of these options outstanding, good until May 18, 2010 and becoming available as to 1/6 of the total granted at the end of each three months following the original grant of options such that they are all vested and available after November 18, 2006 with an exercise price of \$0.35 per share. Another 800,000 options were granted on September 21, 2005. These options are also good for five years from the date of granting, and vest as to 1/3 on each anniversary of the date of granting such that they are all vested and available after September 21, 2008 with an exercise price of \$0.38 per share. The total of options granted and outstanding under the Corporation's incentive stock option plan at the end of the quarter is thus 4,633,332. No options have been subsequently granted to the date of this MD&A

Off-Balance Sheet Arrangements

The Corporation does not have any off-balance sheet arrangements.

Transactions with Related Parties

As part of the normal business operations of the Corporation, a total of \$31,428 was owing to officers of the Corporation at December 31, 2005, for outstanding management fees and expenses incurred on behalf of the Corporation.

Critical Accounting Estimates

Critical accounting estimates used in the preparation of the financial statements include the Corporation's estimate of recoverable value of its mineral properties and related deferred exploration expenditures as well as the value of stock-based compensation. Both of these estimates involve considerable judgment and are, or could be, affected by significant factors that are out of the Corporation's control.

The factors affecting stock-based compensation include estimates of when stock options and compensation warrants might be exercised and stock price volatility. The timing for exercise of options is out of the Corporation's control and will depend on a variety of factors, including the market value of the Corporation's shares and financial objectives of the stock-based instrument holders. The Corporation used historical data to determine volatility in accordance with the Black-Scholes option pricing model. However, the future volatility is uncertain and the model has its limitations.

The Corporation's recoverability of the recorded value of its mineral properties and associated deferred exploration expenses is based on current market conditions for minerals, underlying mineral resources associated with the properties and future costs that may be required for ultimate realization through mining operations or by sale. The Corporation operates in an industry that is dependent on a number of factors including environmental, legal and political risks, the existence of economically recoverable reserves, the ability of the Corporation and its subsidiaries to obtain necessary financing to complete the development, and future profitable production or the proceeds of disposition thereof. These are more extensively outlined under "Risk Factors".

Financial Instruments and Other Instruments

The Corporation's financial instruments consist of cash, sundry receivables, advances to Canhorn Chemical Corporation and accounts payable and accrued liabilities. Risk management of the cash instrument, consists in placing cash only with institutions of high credit worthiness.

Risk Factors

An investment in the securities of the Corporation is highly speculative and involves numerous and significant risks and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment. Prospective investors should carefully consider the risk factors described below.

Development Stage Corporation & Exploration Risks

The Corporation is engaged in the business of exploration and development for precious and base metals in Mexico. The properties of the Corporation have no established reserves. There is no assurance that any of the properties can be mined profitably. Accordingly, it is not assured that the Corporation will realize any profits in the short to medium term, if at all. Any profitability in the future from the business of the Corporation will be dependent upon developing and commercially mining an economic deposit of minerals, which itself is subject to numerous risk factors. Exploration and development of mineral deposits involves a high degree of financial risk over a significant period of time of which even a combination of careful

evaluation, experience and knowledge of management may not eliminate. While discovery of ore-bearing structures may result in substantial rewards, few properties which are explored are ultimately developed into producing mines. Major expenses may be required to establish reserves by drilling and to construct mining and processing facilities at a particular site. It is impossible to ensure that the current exploration, development and production programs of the Corporation will result in profitable commercial mining operations. The profitability of the Corporation's operations will be, in part, directly related to the cost and success of its exploration and development programs which may be affected by a number of factors. Substantial expenditures would be required to establish reserves sufficient to commercially mine mineral deposits on the Corporation's properties and to construct, complete and install mining and processing facilities in those properties that are actually mined and developed.

No History of Profitability

The Corporation is a development stage company with no history of profitability. There can be no assurance that the operations of the Corporation will be profitable in the future. The Corporation has limited financial resources and will require additional financing to further explore, develop, acquire, retain and engage in commercial production on its property interests and, if financing is unavailable for any reason, the Corporation may become unable to acquire and retain its mineral concessions and carry out its business plan.

Foreign Operations

All of the Corporation's property interests are located in Mexico, and are subject to that jurisdiction's laws and regulations. The Corporation believes the present attitude of Mexico to foreign investment and mining to be favourable but investors should assess the political risks of investing in a foreign country. Variations from the current regulatory, economic and political climate could have an adverse effect on the affairs of the Corporation.

Government Regulations

The Corporation's exploration operations are subject to government legislation, policies and controls relating to prospecting, development, production, environmental protection, mining taxes and labour standards. For the Corporation to carry out mining activities, exploitation licences must be obtained and kept current. There is no guarantee that the Corporation's exploitation licences would be extended or that new exploitation licences would be granted. In addition, such exploitation licences could be changed and there can be no assurances that any application to renew any existing licences will be approved. The Corporation may be required to contribute to the cost of providing the required infrastructure to facilitate the development of its properties. The Corporation will also have to obtain and comply with permits and licences which may contain specific conditions concerning operating procedures, water use, waste disposal, spills, environmental studies, abandonment and restoration plans and financial assurances. There can be no assurance that the Corporation will be able to comply with any such conditions.

Market Fluctuation and Commercial Quantities

The market for minerals is influenced by many factors beyond the control of the Corporation such as changing production costs, the supply and demand for minerals, the rate of inflation, the inventory of mineral producing corporations, the international economic and political environment, changes in international investment patterns, global or regional consumption

patterns, costs of substitutes, currency availability and exchange rates, interest rates, speculative activities in connection with minerals, and increased production due to improved mining and production methods. The metals industry in general is intensely competitive and there is no assurance that, even if commercial quantities and qualities of metals are discovered, a market will exist for the profitable sale of such metals. Commercial viability of precious and base metals and other mineral deposits may be affected by other factors that are beyond the Corporation's control including particular attributes of the deposit such as its size, quantity and quality, the cost of mining and processing, proximity to infrastructure and the availability of transportation and sources of energy, financing, government legislation and regulations including those relating to prices, taxes, royalties, land tenure, land use, import and export restrictions, exchange controls, restrictions on production, as well as environmental protection. It is impossible to assess with certainty the impact of various factors which may affect commercial viability so that any adverse combination of such factors may result in the Corporation not receiving an adequate return on invested capital.

Mining Risks and Insurance

The Corporation is subject to the risks normally encountered in the mining industry, such as unusual or unexpected geological formations, cave-ins or flooding. The Corporation may become subject to liability for pollution, damage to life or property and other hazards of mineral exploration against which it or the operator of its exploration programs cannot insure or against which it or such operator may elect not to insure because of high premium costs or other reasons. Payment of such liabilities would reduce funds available for acquisition of mineral prospects or exploration and development and would have a material adverse affect on the financial position of the Corporation.

Environmental Protection

The mining and mineral processing industries are subject to extensive governmental regulations for the protection of the environment, including regulations relating to air and water quality, mine reclamation, solid and hazardous waste handling and disposal and the promotion of occupational health and safety which may adversely affect the Corporation or require it to expend significant funds.

Capital Investment

The ability of the Corporation to continue exploration and development of its property interests will be dependent upon its ability to raise significant additional financing hereafter. There is no assurance that adequate financing will be available to the Corporation or that the terms of such financing will be favourable. Should the Corporation not be able to obtain such financing, its properties may be lost entirely.

Conflicts of Interest

Certain of the directors and officers of the Corporation may also serve as directors and officers of other companies involved in gold and precious metal or other natural resource exploration and development and consequently, the possibility of conflict exists. Any decisions made by such directors involving the Corporation will be made in accordance with the duties and obligations of directors to deal fairly and in good faith with the Corporation and such other companies. In addition, such directors declare, and refrain from voting on any matters in which such directors may have a conflict of interest.

Disclosure Controls

The Corporation's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the Corporation's disclosure controls and procedures, including adherence to the Disclosure Policy adopted by the Corporation. The Disclosure Policy requires all staff to keep the Disclosure Committee fully apprised of all material information affecting the Corporation so that they may evaluate and discuss this information and determine the appropriateness and timing for public release. Access to such material information by the Disclosure Committee is facilitated by the small size of the Corporation's senior management and regular communication between them.

The Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the Corporation's disclosure controls and procedures as of December 31, 2005, have concluded that the Corporation's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Corporation and its subsidiaries would have been known to them.