

Management Discussion and Analysis

Nine months ended 30 June 2005

Nayarit Gold Inc.

Introduction

This management discussion and analysis (MD&A) for Nayarit Gold Inc. (the “Corporation”) is for the third quarter ended June 30, 2005. 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 using Canadian dollars are indicated as USD (US dollars) or MXP (Mexican pesos). This MD&A was prepared as of August 20, 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.

Additional information relating to the Corporation is on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com and on the Corporation’s website at www.nayaritgold.com.

Corporation’s activities

Nayarit Gold Inc. is a junior mineral exploration company, formed by articles of amalgamation dated 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 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.

The Orión Gold Project has a total area of 8,323 hectares (20,566 acres) located 109 km north-northwest of the city of Tepic. It is made up of three 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	527	100%
El Magnifico	7,650	100%
La Estrella	146	Option to acquire 100%

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 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 (already paid) and payments on each anniversary date (year one – USD50,000 (already paid); year two – USD75,000; year three – USD100,000; year four –

USD100,000; year five – USD100,000; year six – USD1,000,000). The El Magnifico concession is not subject to any royalty or other agreements.

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 Orión Gold Project contains several well mineralized and altered, northwest trending, gold-bearing structures characterized by silicified pyrite-gold rich breccias and precious metal quartz veins. The Orión Main Zone displays characteristics of a highgrade gold quartz-adularia epithermal vein system, the premier deposit of this type in Mexico being Tayolita, a district that produced 9.2 million ounces of gold at a grade of 8 g/t gold.

Minera Lac de México, S.A. de C.V., a subsidiary of Lac Minerals (USA), Inc. and other parties, conducted an exploration program on the La Estrella and Orión concessions between 1993 and 1994. In spite of achieving generally positive results, that work was discontinued after the merger of Lac Minerals with American Barrick, Inc. Lac Minerals completed 2,461 metres of reverse circulation drilling on La Estrella in 21 holes with an average depth of 117 metres. Lac's drilling intersected a well mineralized and altered gold-bearing zone of silicified breccias and quartz veins in widely spaced holes which included ES94-1 with 16.8 metres of 5.65 g/t gold and ES94-12 with 32.0 metres of 3.25 g/t gold. Based on this work, and the general nature of epithermal gold mineralization, it is expected that fill-in drilling will reveal narrow shoots or corridors of high-grade mineralization within the overall Orión Main Zone. Lac also defined and characterized additional exploration targets comprising geochemical, geophysical and alteration anomalies which they never tested.

The encouragement of this earlier work led to re-assembling the land parcels. Lac's work was reviewed for Nayarit by Behre Dolbear & Company Ltd., and has been summarized in other Nayarit disclosures. Behre Dolbear recommended additional exploration work with the aim of progressively testing grade and continuity of the identified mineral structures and other anomalies within the concessions. In June, Nayarit announced commencement of the current exploration program, including an initial 2,000 metre diamond drilling, mapping and sampling program with an estimated cost of \$775,000. The scope of the mapping and sampling portion of the current exploration program was subsequently expanded following initial drilling results.

Assay results from Nayarit's initial, detailed surface chip-channel rock sampling program, carried out in June, were released in July. Nayarit Gold's systematic surface sampling consisted of 63 chip-channel samples collected across the outcropping portion of the Orión Main Zone at 10 to 25 metres intervals along approximately 800 metres of its interpreted roughly one kilometer of strike length, with individual samples ranging from 1.0 to 10.0 metres long. The sampling confirmed the presence of wide zones of gold-bearing silicified breccias and quartz veins.

Assay results from the first six drill holes, all completed in June, of Nayarit's planned 2000 meter drill program were reported in a July news release. The gold-bearing Orión Main Zone was confirmed. Of particular interest, drill hole OR05-5 intersected 30.2 metres of 2.62 g/t gold that included an interval of 5.1 metres at 11.34 g/t gold. Drill hole OR05-6 intersected 46.6 metres of 2.27 g/t gold that included 4.5 metres at 7.10 g/t gold. Drill hole OR05-6 was drilled under old workings where no previous drilling had been done. Highlighted analytical results from these six holes are given below.

Drill Hole information			Sample information			
Number	Dip (deg)	Length (m)	From (m)	To (m)	Width (m)	Gold (g/t)
OR05-1	-50	80.0	24.0	30.7	6.7	1.00
OR05-2	-75	132.0	36.0	39.0	3.0	0.60
OR05-3	-65	42.5	12.5	18.5	6.0	1.59
OR05-4	-65	182.0	66.5	69.5	3.0	0.68
OR05-5	-88	230.5	122.0	152.2	30.2	2.62
		includes	138.70	152.2	13.5	5.39
		includes	145.0	150.1	5.1	11.34
		includes	148.6	150.1	1.5	25.90
			180.0	184.0	4.0	2.07
OR05-6	-75	126.5	36.5	83.1	46.6	2.27
		includes	42.5	51.5	9.0	5.43
		includes	42.5	47.0	4.5	7.10
		includes	44.0	45.5	1.5	10.05
		includes	60.0	62.0	2.0	4.66

Note: Widths are drill-intersected core widths and composite widths are width-weighted

Overall Performance

The Corporation amalgamated with Canhorn Chemical Corporation on May 2, 2005 pursuant to the amalgamation agreement outlined in previous disclosure of Canhorn. This transaction is 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 fulfilment of one of the terms of the amalgamation, Nayarit raised \$2,250,000 through the sale of shares which, along with the proceeds of earlier private placements, provided the funds to operate the Corporation and carry out the first round of exploration on the Orión Gold Project.

The Corporation's increased level of activity following the amalgamation is reflected in the quarter when it increased its expenditures on the Orión Gold Project by \$288,738 (which is \$417,451 Year To Date), compared to \$54,147 in the third quarter of 2004 (\$247,960 from inception). This 2005 total includes \$340,569 (\$514,118 since inception) spent on deferred exploration and another \$85,511 (\$171,753 since inception) for land costs. Descriptions of the exploration activities and summaries of results are presented elsewhere in this MD&A.

The Corporation's financial statements have been 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.

Recently, the Corporation has raised funds to pay its administrative costs, the costs of assembling its package of exploration properties in Mexico, its costs in commencing exploration on those properties and other normal course expenditures, through the issuance of shares. In 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.

Selected Annual and Quarterly Information

The following presents certain key financial information which is more fully disclosed in the accompanying financial statements.

Consolidated Balance Sheet Data – June 30, 2005 (unaudited) and September 30, 2004 (audited)

	30 June 2005 (\$)	30 Sept 2004 (\$)
Current Assets	1,593,700	239,655
Current Liabilities	169,596	62,624
Working Capital	1,424,104	177,031
Total Assets	2,272,380	501,300
Exploration Properties and Deferred Exploration Expenditures	677,242	259,791
Long term liabilities	-	-
Shareholders' Equity	2,102,784	438,676
Deficit	996,216	(41,325)

Consolidated Statement of Loss and Deficit Data - Nine Months Ended June 30, 2005 (unaudited) and the period from the date of incorporation November 27, 2003 to June 30, 2004 (audited)

	Nine Months Ended June 30, 2005 (\$)	From Nov 27/03 Incorporation to 30 June 2004 (\$)
Total revenues	-	-
Expenses	786,115	7,304
Net Loss	786,115	7,304
Cash dividend	-	-
Net Loss (Per Share)	0.06	-
Net Loss (Per Share, Fully Diluted)	0.06	-

Note: Net loss per share on a fully diluted basis is the same as net loss per share on an undiluted basis, as all factors which were considered in the calculation are anti-dilutive.

The Corporation had an increase in the value of its current assets in 2005, compared to 2004, as a result of an increase in cash levels following the completion of various financings. Current liabilities were higher in 2005, compared to 2004 as a result of an increase in accounts payable and accrued liabilities, basically resulting from a higher level of operational activity. Working capital increased by the end of the third quarter of 2005, compared to the end of the second quarter 2005 and the end of fiscal year 2004 as a result of various equity financings by

the Corporation. Deferred Exploration Expenditures, the cumulative amount expended on the Corporation's exploration activities, have sharply increased as a result of increased exploration activity utilizing the proceeds of the financings. Expenses in general are up in the three and nine month periods ending June 30, 2005 over the same periods in the previous year as a result of increased levels of activity leading up to and following the amalgamation and commencement of field exploration activity. Also included in Expenses are the fair values for the warrants and options, that also appear as contributed surplus within the Shareholders' Equity number, and costs related to the amalgamation, both of which are not recurring costs.

Results of Operations

The following table sets out a breakdown of the Corporation's administrative expenses for the periods indicated:

	Three Months Ended June 30, 2005 \$	Three Months Ended June 30, 2004 \$	Nine months Ended June 30, 2005 \$	27 Nov 2005 incorporation to June 30, 2004 \$
Administration & Corporate Secretarial fees	1,900.00		1,900.00	
Filing fees	2,436.20		2,436.2	
Insurance	11,280.78		11,819.78	
Office & General Expenses	15,160.00	311.90	20,431.66	412.03
Professional fees	59,978.77		128,658.48	7,700.00
Travel	10,908.69		22,482.85	
Rent	3,270.00		9,810.00	
Shareholder Information	168,548.36		168,548.36	
Transfer Agent	7,120.34		7,120.34	
Advertising	15,989.53		15,989.53	
Payroll	23,903.96		72,948.06	
Amortization	138.00		416.00	
Interest income	(0.36)	(748.04)	(226.23)	(808.50)
Total:	320,634.27	(436.14)	462,335.03	7,303.53

Shareholder Information and Advertising expenses during the quarter include the increased costs of preparing and disseminating investor and media relations related literature, as a result of becoming a public issuer. Similar costs did not occur in prior periods. Roughly similar amounts can be expected to be incurred for this by the end of the current year or the first quarter of the ensuing fiscal year. A portion of the payroll and professional fees costs relate to planning and supervision of the field exploration program.

Deferred Exploration Expenditures incurred for the Orión Gold Project during the three month (third quarter) and nine month (Year to Date) periods ended June 30, 2005 are presented in the table below, with comparisons to the equivalent periods in 2004. Until the most recently completed quarter exploration expenditures comprised the costs of acquiring, reviewing, digitizing and analyzing historical data on the Orión Gold Project area and planning the exploration work program currently underway. In the quarter just completed, the costs of implementing that exploration start to be included, including the costs of the diamond drilling, sampling and surface mapping and all related expenses.

Deferred Exploration and Property costs	Three Months Ended June 30, 2005 \$	Three Months Ended June 30, 2004 \$	Nine months Ended June 30, 2005 \$	27 Nov 2005 incorporation to June 30, 2004 \$
Acquisition			85,511.00	84,743.15
Exploration	288,737.38	120,643.90	340,568.83	148,436.44
IVA (Mexico VAT)			(8,629.00)	
Total	288,737.38	120,643.90	417,450.83	233,170.59

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 "Exploration Properties and Deferred Exploration" 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 June, 2005. The effects of the May, 2005 equity financing and increased exploration activity and general administration following it can be readily seen.

Quarter ending	30-Jun-05	31-Mar-05	31-Dec-04	30-Sep-04
Working Capital	1,424,104	206,895	327,313	177,031
Properties and Deferred Exploration	677,242	388,504	355,542	259,791
Revenue	-	-	-	-
Operating expenses	320,634	87,595	54,106	34,021
RTO costs	254,780	0	0	0
Stock-based compensation	69,000	0	0	0
Net loss for period	(644,414)	(87,595)	(54,106)	(34,021)
Net loss per share	(0.03)	(0.01)	(0.01)	0.00
Average number of shares	20,305,094	8,250,001	8,000,001	8,000,001

Quarter ending	30-Jun-04	31-Mar-04	31-Dec-03
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Working Capital	224,737	278,447	1
Properties and Deferred Exploration	247,960	193,813	0
Revenue	-	-	-
Operating expenses	(437)	7,741	0
RTO costs	0	0	0
Stock-based compensation	0	0	0
Net loss for period	437	(7,741)	0
Net loss per share	0.00	0.00	0.00
Average number of shares	8,000,001	8,000,001	1

Liquidity

During the nine months ending June 30, 2005 the Corporation's cash position increased from \$126,548 to \$1,488,749. Working capital increased from \$177,031 to \$1,424,104. This increase reflects the closing of the financing on May 2, partially offset by the exploration program currently underway on the Ori3n Gold Project.

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.

The net proceeds of the 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 all 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 June 30, 2005. There have been no shares issued subsequent to June 30, 2005.

The Corporation has Warrants outstanding as of June 30, 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	May 2, 2007	\$0.35	1 share plus ½ Series III Warrant

The Corporation also approved an incentive stock option plan totaling 4,938,000 shares of which 4,400,000 were granted to directors, officers and consultants. These options are good until May 18, 2010 and become 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.

Off-Balance Sheet Arrangements

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

Transactions with Related Parties

Payment of an outstanding amount of \$48,046 owed by Canhorn was made to Great Horn Inc. following the amalgamation. Great Horn is related to the Corporation by virtue of a member of its management also being a member of the management of the Corporation.

Financial Instruments and Other Instruments

As noted in the notes to the financial statements, the Corporation's financial instruments consist of cash, sundry receivables, prepaid expenses, and accounts payable and accrued liabilities. Risk management of the cash instrument, consists in placing cash only with institutions of high credit worthiness.

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 June 30, 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.