

SUR AMERICAN GOLD CORPORATION

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE FINANCIAL PERIOD ENDED JUNE 30, 2006

Background

This discussion and analysis of financial position and results of operation is prepared as at August 25, 2006, and should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2005 and 2004, of Sur American Gold Corporation (the "Company"). Those financial statements have been prepared in accordance with Canadian generally accepted accounting policies ("GAAP"). Except as otherwise disclosed, all dollar figures included therein and in the following management and discussion and analysis ("MD&A") are quoted in Canadian dollars. Additional information relevant to the activities of the Company can be found on SEDAR at www.sedar.com.

In order to assist shareholders and other potential investors learn more about the Company and keep abreast of developments, the Company has also created a completely new website providing maps and details of its principal Philippine and Colombian gold and copper-gold projects, as well as new exploration targets.

Readers are highly encouraged to visit the site at www.surgold.com. The new corporate Logo represents the gold rich mountains of Mindanao, Philippines, with the red curved interior "S" representing "SUR". Copper is known as the "red metal".

Company Overview

The Company is a junior mineral exploration company engaged in the exploration and development of precious and base metals in projects located in the Philippines and Colombia with the aim of developing them to a stage where they can be exploited economically. The Company is currently focusing its financial resources in conducting an exploration program for gold-silver and gold-copper-silver in its Comval and T'Boli Projects in the Philippines and is preparing a second stage exploration program at its Mina Rica gold-silver project in Colombia where earlier drilling by the Company in the late 90's was successful in outlining a large area containing potentially economic gold grades.

As of the date of the MD&A, the Company has not earned any production revenue nor has found any proven reserves, but has successfully completed a long term trial mining and metallurgical test program. The program, which terminated in late October, 2005, confirmed that the gold mineralization at Batoto is likely to be able to be treated by a conventional CIP plant and/or by heap leaching.

The Company is a reporting issuer in British Columbia and Alberta and trades on the TSX Venture Exchange ("TSXV") under the symbol "SUR".

Passing Away of Company Director

Subsequent to the end of the period Company Director Garry J Clark, passed away in Brisbane, Australia.

Garry, aged 65 years, joined the Board of SUR in 2003 when SUR acquired the Philippine assets of Sabena Limited and was instrumental in the ongoing corporate and technical direction of the company and its exploration activities.

Garry was a geology graduate of New England University, NSW, Australia, and had more than 40 years' experience in the Australian mining industry including more than 12 years' experience in Malaysia and the Philippines.

Garry, despite his long illness, remained steadfastly immersed and focused on the Company, and it is this that manifested the man and reinforced the strong and enduring spirit of this genuine human being. This spirit will continue to provide a huge incentive for the Company's team to realize Garry's dream of, and confidence in, the discovery of major ore deposits in the Company's gold-silver and copper-gold-silver project areas.

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.

Exploration Projects Update

T'boli Gold-Silver Project, South Cotabato, Philippines.

At T'boli, TMC has an inferred resource of 2.6 million tonnes grading 5.5g/t gold and 21g/t silver which is National Policy 43-101 compliant.

No exploration work was conducted at T'boli during the period but a new exploration/production tunnel called the Clark Tunnel in recognition of the contribution of Garry Clark to the geological understanding and development of T'boli commenced in order for the Company to develop underground sites for drill rigs in order to increase the status of the current inferred resource to an indicated/measured resource and with a corporate goal to expand the current resource of 420,000 ozs of gold and 1,600,000 ozs of silver to more than 1 million ozs of gold equivalent.

In order to gain a greater understanding of the metallurgy, the Company is currently investigating several options to process the mineralization that is expected to be intersected from both the Clark Tunnel and from associated development around and along the various mineralized zones.

Further exploration work at the nearby Lam Asam Epithermal gold-silver system, immediately south of the currently defined resource, is expected to resume in the next quarter. Average vein grades in this area are very high, often in excess of 1000 g/t silver and 30g/t gold.

The T'boli gold-silver deposit is a typical epithermal quartz-carbonate hot spring system in which high grade gold and silver mineralization occurs within continuous diatreme related breccias often with spectacular grades. A photo of one of these high grade zones is displayed on the Company's new website www.surgold.com in the T'boli project section. This particular sample returned 656g/t gold and unknown silver.

Comval Gold-Silver-Copper Project

Diamond drilling program

The Company, through its Philippine affiliates Batoto Resources Corporation (“BRC”) and Philco Mining Corporation (“PMC”), has yet to establish any resources or reserves at its Comval project as an initial 12,000 metre, 50 hole program commenced in late September, 2005, is still in its early stages. Upon completion of the initial drilling program, the Company may be in a position to commence a resource estimate.

Initial Drilling Program-Clark Area

The results of the three further drill holes were received during the period or shortly after the end of the period.

Drilling Results to Date

Batoto#1 drill hole (-50 degrees to an azimuth of 225 degrees) is located in the eastern portion of the East Batoto Zone. The hole intersected a mined out void between 14-18 metres which from prior mapping by the Company is known to be a grade system of quartz veins known as the Agrix workings. A high grade vein grading 36 g/t gold over a one metre interval was intersected at 101 metres and the final 18 metres of the hole averaged 0.47g/t gold. Sporadic narrow intervals of between 0.5-1g/t gold were intersected throughout most of the hole.

Batoto #2 drill hole (-50 degrees to an azimuth of 160 degrees) was drilled 200 metres to the west of Batoto #1 and intersected 5 wide intervals of leached and oxidized quartz-sericite-pyrite related gold mineralization totaling 68 metres and containing a weighted average grade of 0.83 g/t gold with a range from 0.69g/t to 1.13g/t. Grades such as these are typical of some of the largest bulk mineable gold operations in the world.

BATOTO #2

Azimuth (degrees)	Declination (degrees)		From (m)	To (m)	Interval (m)	Grade (g/t gold)
160	-50		10	105	95	0.63
		Incl.	10	24	14	0.76
		and	27	37	10	0.69
		and	43	67	24	0.78
		and	72	79	7	1.13
		and	92	105	13	0.95

Little or no waste rock is present at Batoto and the mineralization encountered to date is largely oxidized with excellent metallurgy and appears suited to extraction by either CIP or heap leaching.

Even though the hole was not drilled at the optimum angle to test the entire 250-300 metre wide Clark Zone, the results are particularly encouraging.

Significantly, from the point of a potential large size deposit, the gold mineralization in Batoto #2 is particularly evenly distributed, with the highest assay of 2.8 g/t gold and more than 75% of the individual one metre intersections contain gold grades greater than 0.3g/t.

The hole penetrated a total of 95 metres of well mineralized diorite from 10-105 metres until a fault terminated the mineralization. Even though further zones were expected deeper, the Company decided to complete the hole and commence Batoto #3 150 metres to the south.

BATOTO #3

Azimuth (degrees)	Declination (degrees)		From (m)	To (m)	Interval (m)	Grade (g/t gold/t)
320	-50		0	21	21	0.48
		incl	9	19	10	0.65
		and	27	29	2	0.70
		and	101	118	17	0.59

Batoto #3 drill hole was drilled 150 metres to the south of Batoto #2 to a down hole depth of 118 metres and intersected two significant zones of gold mineralization totaling 38 metres. The hole was terminated prematurely due to technical problems whilst in strong gold mineralization and will, if possible, be extended at a later date. The last 11 metres of the hole returned 0.72g/t gold and was part of a longer interval which returned 0.59g/t gold.

The hole also obtained another significant intersection of 21 metres, from the surface to 21 metres, and several narrower zones between the major zones. The mineralization is evenly distributed which is particularly encouraging from a potential bulk mineable perspective.

As with Batoto #2 drill hole, which also returned long intervals of near surface potentially economic gold mineralization with grades similar to many of the bulk mineable gold operations in the world, the mineralization encountered in Batoto#3 is heavily leached and oxidized, thereby creating excellent metallurgical characteristics, and appears suitable for extraction using CIP or heap leaching.

As a result of the encouraging results obtained at this early stage of the large drilling program the Company added a second shift to the current Longyear 44 drill rig in order to accelerate the pace of the program. It is also anticipated that further rigs will be progressively added to the program. Drilling is now continuing around the clock 7 days per week.

BATOTO # 4 (-60 degrees to an azimuth of 030 degrees but finished at 010 degrees)

The hole was drilled to a down hole depth of 399.1 metres and intersected a total of significant mineralization mainly in the upper portions of the hole. From the surface to 136 metres a total of 5 zones totaling 50 metres and grading 0.42g/t gold were obtained. In addition, a further 28 metres of lower grade mineralization was obtained. Deeper in the hole, two narrow zones totaling 5 metres and grading 1.4g/t were also obtained in addition to a further 40 metres of lower grade mineralization.

BATOTO #5 (-50 degrees to an azimuth of 150 degrees).

The hole was drilled to a depth of 265.1 metres and results have been received for the first 200 metres. From 135 metres to 160 metres (25 metres) a zone of mineralization grading 0.72g/t gold (including 7 metres grading 1.22g/t gold) was obtained. In addition, a further 45 metres of lower grade mineralization was obtained.

BATOTO #6 (-65 degrees to an azimuth of 150 degrees)

The hole was drilled to a downhole depth of 297.2m and no assays have yet been received.

DISCUSSION OF DRILLING RESULTS TO DATE

The test drilling to date has obtained “potentially economic mineralization” in all drill holes of the grade currently being mined by many large bulk mineable heap leach deposits in the world. The Company however cautions that as yet no resources or reserves have been established at Batoto and therefore no economic comparisons to low grade heap leaching operations other than grade similarities is possible at this time.

The Company is currently conducting a major internal review of drilling results achieved, as well as all other surface trench data and geophysical information, prior to drilling the next phase of holes.

Very high grades obtained from extensive surface trenching for several hundred metres to the south west and north east of the current drilling area certainly indicate that drilling should extend into these adjoining areas, as well as new structural zones in the East Batoto area, such as the Tarale area, where very high grade vein systems are known to exist, e.g. 10.7g/t gold over 22 metres (including 54.7g/t gold over 4 metres).

OTHER SIGNIFICANT EXPLORATION RESULTS

Surface exploration work in the form of trenching and mapping discovered further wide zones of high grade gold mineralization along strike from the initial Batoto drilling zone. The latest discovery is a new zone of 9.91g/t gold over 30 metres (including 20.5g/t gold over 14 metres) and this follows another high grade discovery in the Tarale area which is mentioned above. These new discoveries represent major new drilling targets for several hundred metres along strike.

Extensive gold stockwork mineralization, with grab samples grading up to 61g/t gold and associated with highly anomalous disseminated and vein related copper mineralization grading up to 0.3% copper in creeks, were located adjacent to a major geophysical anomaly in the far SW area of the Batoto area (refer to maps on the Company website www.surgold.com). The dimensions of this large geophysical anomaly are currently being defined by Geophysical Consultants Elliot International Pty Ltd.

COMMENCEMENT OF EXPLORATION DRILLING AT TAGPURA COPPER-GOLD SYSTEM

Whilst the Company undertakes a review of the Batoto drilling data obtained to date, the Company decided to embark upon an initial 4-6 hole exploration drilling program at the Company's 7km long Tagpura copper-gold project in Compostela Valley, Eastern Mindanao. Drilling commenced on August 7, 2006. The initial hole was completed on August 21, 2006, at a depth of 300 metres, and Tagpura #2 drillhole commenced on August 25, 2006.

In preparation for the drilling program now underway and proceeding well, the Company is conducting a bench mapping program within the former Tagpura open cut.

Initial results are highly encouraging and include 40 metres grading 1.62% copper, 0.85g/t gold and 4.1g/t silver, some 60-150 metres vertically above where the initial hole is being drilled.

Little or no surface leaching exists at Tagpura and the Company believes that surface trench results are more likely to be indicative of the nature of the subsurface mineralization than in the Clark Zone of East Batoto.

TAGPURA COPPER-GOLD SYSTEM

Previous exploration in the Tagpura Belt consisted of about 24, 000 metres of core drilling carried out in the 1970's by a local Philippine company who established a reserve based on Philippine reporting methods of 1980 of 75.6 million tonnes grading 0.44% copper, 0.5g/t gold and 4g/t silver within three separate deposits.

These estimates are based on historical data, and even though several of the sources on which it was based have been reviewed by an independent qualified person, Mr. Ian Cooper of Cooper Geological Services, the estimate does not comply with CIM standards. Mr. Cooper, in January, 2003, completed a National Instrument 43-101 compliant report in order to support these historical resources. This report was published on www.sedar.com.

Mr. Cooper was recently appointed the position of Exploration Manager-Philippines for the Company.

Until drilling and other detailed exploration is conducted within these deposits, the above mentioned "reserve" estimate is highly speculative, and should only be considered as indicative of the mineralization potential.

Two of the three known copper-gold deposits in the Tagpura belt and the new geophysical discovery at West Batoto have coincident IP and magnetic signature. In the Philippines and elsewhere, a high IP signature invariably indicates a high sulphide content either as pyrite (iron sulphide) and/or chalcopyrite/bornite (copper iron sulphides), whilst high magnetite content usually indicates hydrothermal magnetite, which is often associated with elevated gold values.

This IP/magnetite association certainly holds true at the Tagpura copper-gold deposit which has many similarities to Phelps Dodge Corporations's major Candelaria copper-gold project in Chile who in 2000 reported reserves of 470 million tones grading 0.95% copper, 0.22g/t gold and 3.1g/t silver.

The full extent of the three deposits was never determined, and the Company is optimistic that it can significantly add to the existing size of the various deposits, and discover new large zones.

In addition to the three known deposits, at least three further large targets were identified by historical exploration, mainly by geophysical surveys conducted in the 1970's. Details of the results of this work are provided in the Company's new website.

Apart from the principal goal of creating National Policy 43-101 compliant resources and to significantly expand known resources, the Company will be systematically testing for gold mineralization around the copper-gold zones where it has noted the presence of wide intervals (e.g. 65 metres @1.5g/t gold) of gold mineralization in surface trenches in both quartz veined stockworks and in large iron rich skarn bodies.

The Company envisages a major drilling effort of several 10's of thousands of metres during the next 2-3 years in order to accurately define the extent of the Tapura copper-gold system.

CERTIFICATE OF PRECONDITION

In order to commence detailed exploration, including diamond drilling, the Company required a "Certificate of Precondition" from the National Commission on Indigenous Peoples ("NCIP") Central Office. This certificate was completed and released in early February and confirms earlier agreements between the Company's Philippine affiliates and the local indigenous peoples-the Mandaya-Mansaka tribes.

SAMPLE PREPARATION AND ANALYSIS

All sample preparation is undertaken at the Intertek Ltd Laboratory in Surigao, Northern Mindanao. Intertek is a 9002 Certified Laboratory. Pulverized 200 gram core samples are then sent to 9002 Certified Laboratory of Genalysis in Perth, Western Australia, for analysis for copper, gold and silver. Gold is analysed by the FA 50/SAAS method (fire assay with atomic absorption finish) and copper and silver are analysed by conventional wet chemical methods. Surface trench samples are sent to Intertek's analytical laboratory in Jakarta, Indonesia.

Sample Preparation and Analysis

As the Company intensifies the exploration effort at the Batoto prospect heading into 2006, the need for an internationally recognized sample preparation facility at the exploration site has been recognized.

Accordingly, the Company has approached the world class GENALYSIS Laboratory Ltd, whose headquarters are located in Perth, Western Australia, to finalize an agreement to establish an on site sample preparation facility according to their specifications in respect of layout, establishment and equipment, with all samples being dispatched to the Perth facility for final analysis by fire assay with AAS finish.

It is hoped that this facility will be installed and commissioned at the site of field operations at Comval by the second half of 2006.

In the meantime all sample preparation is being undertaken at the Laboratories of Intertek Ltd in Surigao, Northern Mindanao.

Geophysical Program

West Batoto

The large induced polarization/resistivity geophysical program being undertaken over the West Batoto Zone has now completed 120 line km and is about 80% complete. Following the completion of this program, and the subsequent magnetic survey, and a complete review of the modeled results, planning of further drill sites will be undertaken. The geophysical program is being undertaken under the supervision of Elliot Geophysics International Ltd headed by Dr. Peter Elliot MSc. PhD. M.AusIMM.

In March, 2006, the Company announced the discovery of a near surface major and intense induced polarization (IP) geophysical anomaly at its Batoto Gold Project in Eastern Mindanao, Philippines. A strong magnetic anomaly appears to surround the IP anomaly.

Strong IP anomalies in the Philippines, and elsewhere, invariably indicate a high sulphide content either as pyrite (iron sulphide) and/or chalcopyrite/bornite (copper iron sulphides), whilst a high magnetite content usually indicates hydrothermal magnetite, which is often associated with elevated gold values, with perhaps one of the best example being Freeport's Grasberg copper-gold porphyry deposit in Irian Jaya, Indonesia.

This IP/magnetite association also exists at the Company's Tagpura and Ma-angob copper-gold deposits 4km to the southeast of Batoto, both of which have many similarities to Phelps Dodge's Candelaria copper-gold project in Chile.

The new discovery is located about 2400 metres to the SW of where the Company is undertaking an initial 12,000 metre, 50 hole, core drilling program at East Batoto.

The anomaly is now known to extend for at least 1200 metres in an E-W direction, and 1000 metres in a north-south direction, and is open to the west, southwest, south and perhaps southeast.

The survey also indicates that it extends to at least 500 metres in depth, which is the limit of penetration by the survey and is therefore likely to extend deeper.

The current geophysical survey, which is very large by world standards, commenced in August, 2005, and followed another similar sized geophysical program undertaken by the Company in 2004 to the north of Batoto. The 2004 survey was also successful and was highlighted by the discovery of one large induced polarization anomaly and several smaller anomalies. These have yet to be drill tested.

The on-going IP and magnetic surveys, which are particularly detailed, are being undertaken on a line spacing of only 100 metres, which will greatly assist in the accurate selection of drill targets.

As a result of the discovery of the anomaly, the geophysical team under the supervision of Dr Peter Elliot (MSc. PhD, M.Aus.IMM) principal of Elliot Geophysics International Pty. Ltd, is now concentrating on defining the full extent of the anomaly, so that planning can proceed for further evaluation by geological mapping, trenching, sampling and initial drilling.

East Batoto

By contrast to the new anomaly in the West Batoto Zone, the gold mineralization at East Batoto is defined by much lower IP response, moderate magnetic readings and higher resistivity. The Company believes that the higher resistivity readings may indicate an increase in silica (quartz) concentrations in this area, which certainly appears to be borne out by deeper drilling now taking place.

This is consistent with what has been observed to date in the numerous tunnels, trenches and drill cores at East Batoto where the gold mineralization is associated with a later intense alteration event which appears to have deposited silica and gold and minor sulphides. In addition, the gold mineralizing event appears to have destroyed much of the original magnetite, which is preserved in some of the less mineralized and altered zones.

Community, Environment and Feasibility Study

In order to achieve one of its corporate goals, a feasibility study for an initial small scale CIP plant at Comval was completed during the March quarter, 2005, and submitted to the Philippines Government.

In addition, during the same period, a Memorandum of Agreement (“MOA”) granting “Free and Informed Prior Consent” (“FPIC”) for mineral exploration, development and production at Comval has been signed with local Indigenous Peoples under the auspices of the National Commission on Indigenous Peoples (“NCIP”). The granting of the FPIC is an essential prerequisite to being granted permission to proceed to mining in the Philippines.

A draft Environmental Impact Study (“EIS”) was completed in June, 2005, and submitted for comments to the Environmental Management Bureau (“EMB”). A field visit by the EMB and other Government agencies and local organizations was made in June. A revised EIS was undertaken in September-October, 2005, and a final inspection by the EMB team was undertaken in November, 2005.

Finally, a Certificate of Precondition granted to the Company's Philippine affiliates, Philco Mining Corporation and Batoto Resources Corporation, in March, 2006.

Following a review of this final EIS, it is expected that an ECC will be issued to Batoto Resources Corporation, to be followed by an MPSA (Mineral Production Sharing Agreement).

The source of the mineralization for the small operation will be the numerous high grade gold veins within the Comval project, many of which have returned local grades in excess of 100g/t gold. Timing for construction will depend on the ability to identify sufficient resources to justify construction. The estimated cost of each operation has been estimated at approximately \$Can 700,000, which will be provided by the treasury of the Company.

As stated above, whilst the high grade operation is an important objective and will assist the Company financially, the major corporate goal of the Company is to aggressively explore and delineate the ultimate extent of its gold-silver-copper.

SUMMARY

Overall the Company's geological objectives and corporate goals are being met, although at a slower pace than originally planned for. The strategy is to have the Company continue its methodical programs, but add resources, in order to accelerate the pace of work and therefore results. This entails placing the current drill rig on two shifts and adding further company owned rigs or bringing in a drill contractor. The addition of a second shift has significantly improved the drilling rate to the extent that a 300m hole can now be completed in two weeks.

Consideration is now being given to acquiring one or two further drilling rigs to accelerate the programs.

Selected Financial Data

(CDN \$ in 000, except per share data)

The following selected financial information is derived from the audited annual consolidated financial statements of the Company prepared in accordance with Canadian GAAP.

	Years ended December 31,		
	2005 \$	2004 \$	2003 \$
Operations:			
Revenues	-	-	-
Income (loss)	(2,638)	(1,442)	(1,227)
Income (Loss) per share	(0.04)	(0.03)	(0.03)
Dividends per share	-	-	-
Balance Sheet:			
Working capital	2,774	1,857	188

Total assets	10,000	5,740	2,855
Total Long-term liabilities	-	-	-

The following selected financial information is derived from the unaudited consolidated interim financial statements of the Company prepared in accordance with Canadian GAAP

	2006		2005			2004			
	Jun 30 \$	Mar.31 \$	Dec 31 \$	Sept 30 \$	Jun 30 \$	Mar.31 \$	Dec.31 \$	Sept.30 \$	June 30 \$
Operations:									
Revenues	-	-	-	-	-	-	-	-	-
Net income (loss)	(192)	(130)	(2,042)	(220)	(263)	(113)	109	(75)	(2)
Income (loss) per share	(0.00)	(0.00)	(0.03)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Dividends per share	-	-	-	-	-	-	-	-	-
Balance Sheet:									
Working capital	1,577	2,294	2,774	2,875	895	1,498	1,857	1,366	1,537
Total assets	9,728	9,997	10,000	10,248	4,828	5,097	5,740	4,688	4,785
Total long-term liabilities	-	-	-	-	-	-	-	-	-

Results of Operations

During the period ended June 30, 2006, the Company recorded a loss of \$321,676 compared with a loss of \$376,522 for the comparable 2005 period.

The difference of \$54,846 was due to decreases in regulatory and shareholders costs of \$42,476, office and miscellaneous \$2,460, rent \$6,875, telephone and fax \$1,502, interest on loans payable \$6,065, foreign exchange loss \$73,271, and non-controlling interest of \$19,733, These decreases were offset by increases in salaries and benefits of \$53,234, legal and professional of \$12,255, travel and accommodation of \$2,126, depreciation and amortization of \$936, bank charges and interest of \$2,915, and interest income of \$13,396.

The increase in interest income is the result of the Company having more funds in its treasury, as compared to the prior year. The increase in salaries and benefits is the result of an increase in salary of the CEO and CFO. The increase in legal and professional is the result of services paid to a consultant to bring our Colombian projects up to date. The increase in travel and accommodation is the result of an additional trip taken by a director during the period as opposed to last year, when he did not travel. The increase in telephone and fax is the result of increased activity, and bank charges and interest is the result of increased activity resulting in more wire transfer costs. Non-controlling Interest is the result of consolidation of the Affiliates

The decrease in regulatory and shareholders' costs is due to a reduction in investor relation's expenditures. The decrease in office and miscellaneous, rent, telephone and fax is the result of

decreased costs compared to last year. Interest on loans payable was reduced as a result of the Company having fully repaid a loan it had. Foreign exchange results from translation of Philippine Pesos into Canadian dollars and consolidation.

Share Capital Transactions

During the period ended June 30, 2006, the Company completed the following share capital transactions:

- 53,738 Warrants were exercised by a director for total cash proceeds of \$34,930
- 100,000, Stock options were exercised by a Director for total cash proceeds of \$40,000.

Financial Condition and Capital Resources

As at June 30, 2006, the company had a working capital of \$1,577,371, as compared to a working capital of \$ 2,774,185 (December 31, 2005) and \$ 894,929 (June 30, 2005).

The increase in working capital is mainly the result of share issuance by way of private placements, exercise of stock options and the exercise of warrants.

Anticipated capital and exploration expenditures, as well as administration costs during the next 6 to 8 months, are anticipated to total \$ 1.2 million. The Company currently has sufficient working capital to fulfill its planned budgeted work programs during that period. These expenditures would include drilling expenditures and field work on the Philippine Properties, as well as normal administration costs of running the Companies.

Changes in Accounting Principles

Stock-based Compensation

Effective January 1, 2003, the Company adopted the fair value method of accounting for all employee and non-employee stock-based compensation under the amended recommendations of the Canadian Institute of Chartered Accountants Handbook, Section 3870, Stock-based Compensation and Other Stock-based Payments.

Under the fair value method, stock-based compensation expense is recognized at the time of award with an offsetting increase in contributed surplus.

Consolidation of Variable Interest Entities

In June 2003, the Canadian Institute of Chartered Accountants issued Accounting Guideline 15, *Consolidation of Variable Interest Entities*, which addresses the consolidation of interests in variable interest entities by the enterprise that is the primary beneficiary. A variable interest entity is an entity that does not have sufficient equity investment at risk to permit it to finance its activities without additional subordinated financial support, or whose equity investors lack the characteristics of a controlling financial interest. The primary beneficiary of a variable interest entity is the enterprise that is obligated to absorb the majority of the expected losses, if any, the expected residual returns, or both.

Accounting Guideline 15 applies to interim periods beginning on or after November 1, 2004. The Company has adopted this guidance as of January 1, 2005, and as such, the Company's December 31, 2005, consolidated financial statements, include the financial position and operations of the Philippine corporations in which the Company holds a 40% equity interest, as the Company has determined that it holds variable interests in these corporations and is the primary beneficiary.

The effect on the Company's financial statements is material as the investments in and advances to affiliates, as well as any interest income on the advances, were eliminated upon consolidation. As of January 1, 2005, the assets and liabilities of the Philippine corporations are reflected in the Company's consolidated financial statements.

Transactions with Related Parties

Included in amounts receivable and advances is \$ 12,763 (December 31, 2005 - \$1,519) due from a director.

Included in accounts payable and accrued liabilities is \$ 91,196 (December 31, 2005 - \$139,614) payable to directors and an employee and corporations controlled by directors. Of this amount \$89,039 is due to an employee for past loans made to the Company, and the remaining \$ 2,157 is due to a director for expenditures and expenses incurred on behalf of the Company.

During the period ending June 30, 2006, gross rent of \$ 12,000 (December 31, 2005 - \$24,000) was paid to directors of the Company.

Risks and Uncertainties

The company is in compliance with all material regulations applicable to its exploration activities. Existing and possible future environmental legislation, regulations, and actions, could cause additional expense, capital expenditures, restrictions, and delays in the activities of the Company, the extent of which can not be predicted. Before production can commence on any properties, the Company must obtain regulatory and environmental approvals. There is no assurance that such approvals can be obtained on a timely basis. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations.

The Company's mineral properties are located in the Philippines, and consequently are subject to certain risks, including currency fluctuations and possible political and economic instability which may result in the impairment or loss of mining title or other mineral rights, and mineral exploration and mining activities may be affected in varying degrees by political stability and governmental regulations to the mining industry.

Investor Relations Activities

During the period ended June 30, 2006, the Company's expenditures for investors' relations amounted to \$ 17,585. They are included in regulatory and shareholders costs and relate to expenditures for updating the website and the wire distribution of the Company's news releases and costs associated with designing and printing of Company brochures.

Outstanding Share Data

The Company's authorized share capital is an unlimited number of shares without par value. As at June 30, 2006, there were 81,410,352 compared to 81,256,614 shares outstanding at December 31, 2005. The increase is the result of the exercise of warrants and stock options. As at June 30, 2006, there were 7,092,500 stock options outstanding, which were outstanding and exercisable, with exercise prices ranging from \$0.11 to \$0.60 per share. In addition, there were 6,250,000 warrants outstanding, which will expire on August 16, 2007, with an exercise price of \$0.75 per share.