

SUR AMERICAN GOLD CORPORATION

AMENDED MANAGEMENT DISCUSSION AND ANALYSIS FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2006

BACKGROUND

This amended discussion and analysis of the financial position and results of operations has been prepared as at May 9, 2007, and should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2006 and 2005 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.

To assist shareholders and potential investors to learn more about the Company and keep up-to-date with its exploration developments, SUR website provides maps and details of its main Philippine Copper Gold Porphyry and Gold projects and its Colombian gold and copper-gold projects.

The SUR corporate logo represents the mineral-rich mountains of Mindanao, Philippines. The yellow colour highlights “gold” and the red colour highlights its copper as it is known as the “red metal”. Further, the curved interior “S” objective is to project “SUR” the Company and its ongoing success in exploration.

Readers are encouraged to visit the site at www.surgoldcorp.com.

COMPANY OVERVIEW

Sur American Gold Corporation (“SUR”) is a junior mineral exploration company engaged in the exploration and development of precious and base metal projects located in the Philippines and in Colombia. Its corporate objective is to advance the exploration of each project to the point where it can be developed economically either by itself or in a development joint venture.

SUR Management and Resources are focused on its systematic exploration at its Comval Copper-Gold Porphyry Deposits and Targets and its T’boli Gold Silver Project located in East Mindanao, the Philippines.

In Colombia, SUR operates through its subsidiary Exploradora la Esperanza SA. The legal representative is Mr Pedro Antonio Marin Rivera, an experienced geologist with substantial knowledge of Colombian Mining Law, Rules and Regulations. The subsidiary company is undertaking a review of activities and prepared and submitted a second stage exploration program at its “Mina Rica Gold-Silver Project” where earlier drilling by the Company in the late

1990's was successful in outlining an area containing potentially economic gold grades. It is also completing and submitting additional information on its other mineral licenses, Gavia and El Tambo and identification of other potential areas.

As of the date of the MD&A, the Company has not earned any production revenue nor has found any proven reserves.

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

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.

PHILIPPINES EXPLORATION PROJECTS UPDATE

Comval Copper-Gold Porphyry Project

Comval Diamond Drilling Program

SUR, through its Philippine affiliates, Batoto Resources Corporation ("BRC") and Philco Mining Corporation ("PMC"), has yet to establish any CIM compliant resources or reserves at its Comval Copper-Gold Porphyry and Gold Deposits and Targets.

On August 7, 2006, the company commenced an initial test drilling program at its Tagpura Copper Gold Porphyry Deposit. This followed Management's decision to conduct a review of operations at the Batoto Gold Target which followed the completion of the initial drill program.

Tagpura Copper-Gold Porphyry System

Previous exploration in the Tagpura Kalamatan Copper Gold Porphyry Belt consisted of about 24,000 metres of core drilling carried out in the 1970's by a local Philippine company which, based on Philippine reporting methods of 1980 established a reserve 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 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. Several of the sources on which the previously referred "reserve estimate" was based have been reviewed by an independent qualified person, Mr. Ian Cooper of Cooper Geological Services Pty Ltd. 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. In April of 2006, Mr. Cooper was appointed as Exploration Manager-Philippines.

Two of the three known copper-gold deposits in the Tagpura Kalamatan Copper Gold Porphyry Belt and the new geophysical discovery at Cadan (formerly West Batoto) have coincident IP and magnetic signatures. 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.

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 targets were identified by past exploration, mainly geophysical surveys conducted in the 1970's.

The Company's objective is to create a National Policy 43-101 compliant resource, to significantly expand known resources and systematically test for copper and gold mineralization around the copper-gold zones where 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 have been noted.

Tagpura Exploration Drilling

From August 7, 2006 to November 12 2006, when drilling was halted for total overhaul of the Longyear 44 drill rig and associated equipment, the Company had completed six ("6") diamond drill holes for a total of 2,464 metres. This was achieved in a total of 102 days at an average of 24.15 meters in a 24 hour period. This is a solid performance and is a reflection of the company and its people operational focus and commitment to continuous improvement.

The Company is also undertaking bench mapping within the former Tagpura open cut and surrounding areas and has also completed a magnetic survey and an orientation geophysical IP line.

Assay results have been received for the first three drill holes at Tagpura. In drill hole TGD-1 strong copper-gold mineralization commenced at 61 metres and continued until 149 metres with the 88 metres so far received averaging 0.92% copper and 0.34g/t gold.

The interval 78 metres to 127 metres (49 metres) averaged an impressive 1.30% copper, 0.40g/t gold and 2.41g/t silver.

Full results of trenching across the surface trace of the Tagpura #1 drill hole were received. The same zone of mineralization intersected in Tagpura #1 drill hole also occurs in the trench and this averaged 0.74% copper and 0.36g/t gold over an impressive interval of 132 metres. This included a higher grade zone of 46 metres which averaged 1.59% copper, 0.81g/t gold and 3.96g/t silver.

Tagapura Results of Drilling to date

Drill Hole	Declination (degrees)	Azimuth (degrees)	From	To	Intercept (m)	Cu (%)	Au (g/t)	Ag (g/t)
TGD#1	-60	310	1.4	210	208.6	0.45	0.17	0.73
	including		61	149	88	0.92	0.34	1.73
	including		78	127	49	1.30	0.40	2.41
TGD#2	-60	310	2	353	351	0.17	N/A	N/A
	including		170	304	134	0.25	N/A	N/A
	including		232	304	72	0.28	N/A	N/A
TGD#3	-60	310	1.5	468.3	466.8	0.18	N/A	N/A
	including		203	468.3	265.3	0.23	N/A	N/A
	including		359	468.3	109.3	0.32	N/A	N/A
	including		417	468.3	51.3	0.42	N/A	N/A

As of the date of this report, the Company has completed three further holes TGD # 4, 5, and 6 and the total drilling to December 31, 2006 was 2,464 metres. An internal management analysis of *total drilling costs* by the company operated rig is in a range between US\$80 to US\$95 per metre. Most drilling contractors in SE Asia charge between US\$140-200/m for *direct drilling costs*.

Batoto Gold Target – Clark Area

Batoto Results of Drilling 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 36g/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 0.83g/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 Results of Drilling to date

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

Azimuth (degrees)	Declination (degrees)		From (m)	To (m)	Interval (m)	Grade (g/t gold)
		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 encouraging. Significantly, from the point of a potential large size deposit, the gold mineralization in Batoto #2 is evenly distributed, with the highest assay of 2.8g/t gold and more than 75% of the individual one metre intersections contain gold grades greater than 0.3g/t gold.

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 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 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 on a 24/7 basis.

Batoto #3 Results of Drilling to date

Azimuth (degrees)	Declination (degrees)		From (m)	To (m)	Interval (m)	Grade (g/t gold)
320	-50		0	21	21	0.48
		Incl.	9	19	10	0.65

Azimuth (degrees)	Declination (degrees)		From (m)	To (m)	Interval (m)	Grade (g/t gold)
		and	27	29	2	0.70
		and	101	118	17	0.59

Batoto #4 drill hole (-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 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 drill hole (-50 degrees to an azimuth of 150 degrees).

The hole was drilled to a depth of 265.1 metres. From 132 metres to 166 metres (34 metres) a zone of mineralization grading 0.55g/t gold (including 7 metres grading 1.18g/t gold between 142m and 149m) was obtained. A 7m vein zone was also intersected between 202m and 209m and graded 0.4g/t Au. In addition, a further 45 metres of lower grade mineralization was obtained between 68m and 113m.

Batoto #6 drill hole (-65 degrees to an azimuth of 150 degrees)

The hole was drilled to a down hole depth of 297.2 metres and intersected a total of 91 metres of potentially economic gold mineralization grading 0.52g/t gold. The longest intersection was a 51 metre long zone from 234-285 metres and graded 0.53g/t gold (including 15 metres grading 1.17g/t gold-which in turn included 8 metres grading 1.72g/t gold). The additional 40 metres of potentially economic mineralization occurred in zones in the upper portions of the hole between 100-200 metres with widths ranging from 2-11 metres. The highest grade interval was 2.95g/t gold at 263 metres. Significant zinc mineralization was also seen although no assays for zinc have yet been received.

Batoto Summary

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 are possible at this time.

On-going geophysical modeling suggests that the area covered by the Batoto drilling program completed to date is only a small part of a minimum 1,500 metre long and 100-300 wide SW-NE striking Clark Structural Zone (CSZ) characterized by prominent resistivity anomalies. Resistivity anomalies at Batoto are often associated with swarms of quartz veins. Other large zones of high resistivity, sub parallel to the CSZ, have also been outlined by the geophysical program and occur to the north and south of the CSZ.

The strike length covered by the Batoto drilling program has to date covered approximately 200 metres of strike length and, based on the geophysical evidence and known wide vein systems such as the yet to be drilled Patti Vein (15-20 metres wide vein grading 5-8g/t gold which occurs

about 70 metres to the west of Batoto#6 drill hole), strongly suggests that the next phase of drilling should continue to systematically test the large CSZ, not only to the SW, but also in a NE direction towards the old Batoto open cut gold mine.

The Company is currently conducting an 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. This is to ensure optimum operational efficiency across all sectors.

Batoto: 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. During the period ended June 30, 2006 a new zone of 9.91g/t gold over 30 metres (including 20.5g/t gold over 14 metres) was discovered 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.

High grades in vein systems 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).

During the period under review another high grade vein structure immediately adjacent to the drill hole collars of Batoto # 3 and 4 drill holes was located. This structure returned 4 metres grading 69.2g/t gold. This prominent SW trending vein occurs to the west and outside the area drill tested to date. The vein has very similar characteristics to another strong vein intersected in the Batoto #1 drill hole which returned 1 metre grading 36g/t gold and is believed to be related to the same very high grade gold mineralizing phase.

The Batoto mine, which was in operation during 1980-1981 is known to host the “Main Vein, a 10 metre wide structure grading between 15-25g/t gold over its width and other adjacent lower grade gold stockwork mineralization. This high grade structure was previously confirmed by the Company.

T’boli Gold – Silver Project, South Cotabato, Philippines

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 diatreme related breccias often with grades in excess of 100g/t gold and 500g/t silver.

T’boli has an inferred resource of 2.4 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, progressed 10 metres

towards the North Vein System in order for the Company to create new drill sites closer to the main vein sets.

This is a key part of the corporate goal to expand the known resource by drilling and underground development to more than 1 million ozs and to increase the drill density of the known resource to permit a full feasibility study to commence.

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 1,000g/t silver and 30g/t gold.

A small pilot plant has also been acquired by the Company's Philippine affiliate TMC (Tribal Mining Corporation) and will be modernized to treat the mineralization obtained by the underground development program. A small laboratory will also be added.

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 the 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.

PHILIPPINES GEOPHYSICAL PROGRAM

Cadan (formerly West Batoto Zone)

The large induced polarization/resistivity geophysical program is being undertaken over the Cadan project. To date 157 line km have been completed.

Following the completion of this program, and the subsequent magnetic survey, and a complete review of the modeled results, planning of 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 (now named Cadan) 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 examples 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 Porphyry deposits some five 5km to the east of Batoto.

The anomaly is now known to extend for at least 1,200 metres in an E-W direction, and 1,000 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 Cadan (formerly 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.

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

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.

During the same period, a Memorandum of Agreement (“MOA”) granting Free and Prior Informed 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 Certificate of Precondition was granted to the Company’s Philippine affiliates, Philco Mining Corporation and Batoto Resources Corporation, in March, 2006.

An Environmental Impact Study (“EIS”) was completed in 2005. Following a review of this final EIS, an Environmental Competence Certificate (“ECC”) was issued to Company affiliate Batoto Resources Corporation in November, 2006, and this will be followed by a Mineral Production Sharing Agreement (“MPSA”).

The potential 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.

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 Copper-Gold Porphyry Deposits and Targets.

COLOMBIA EXPLORATION PROJECT UPDATE

In Colombia, SUR operates through its subsidiary Exploradora la Esperanza SA. The legal representative is Mr Pedro Antonio Marin Rivera, an experienced geologist with substantial knowledge of Colombian Mining Law, Rules and Regulations. The subsidiary company is undertaking a review of activities and prepared and submitted a second stage exploration program at its “Mina Rica Gold-Silver Project” where earlier drilling by the Company in the late 1990’s was successful in outlining an area containing potentially economic gold grades. It is also completing and submitting additional information on its other mineral licenses, Gavia and El Tambo and identification of other potential areas.

Results of Operations

During the year ended December 31, 2006, the Company recorded a loss of \$887,552 compared with a loss of \$2,638,221 for 2005, a reduction of \$1,764,236.

The four most significant contributors to the reduction were:

- the write off in 2005 of exploration expenses capitalized in previous years of \$887,059 for which there was no similar expense in 2006;
- the reduction of stock-based compensation in 2006 over 2005 by \$609,029. In 2005, the Company issued 2,150,000 options which were valued at \$981,348. In 2006, the company issued 1,000,000 options valued at \$372,319. The Company uses the Black-Scholes options pricing model to value all options granted to directors, employees or consultants;
- the non-controlling shareholders' interests in our Philippine operations decreased by \$194,698. The decrease was the direct result of foreign exchange gains on the Canadian dollar denominated debt held by the Philippine companies; and
- the reduction in foreign exchange losses in 2006 compared to 2005 of \$94,160 as the Company experienced more favourable foreign exchange rates, particularly with its Philippine operations, where it currently conducts the majority of its operations.

The net impact of all other 2006 expenses, compared to 2005, was an increase of \$20,710. The only notable increase was \$67,111 to salaries and benefits, the result of increases awarded in 2005 being paid for a full year in 2006. No increases were awarded in 2006. The salary increase was offset by the only notable reduction of \$48,917 to regulatory and shareholder costs.

Share Capital Transactions

During the period ended December 31, 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.

During December 2006 the company collected \$1,155,000 from investors that participated in a private placement which was completed on January 12, 2007. The private placement involved the issuance of 3,300,000 units at \$0.35 per unit for gross proceeds of \$1,155,000. Each unit consisted of one common share and one common share purchase warrant. The warrant entitles the holder to purchase an additional common share at a price of \$0.50 during the first 12 months and for \$0.65 during the second 12 months. All securities under this private placement have a four-month hold period expiring May 12, 2007.

Financial Condition and Capital Resources

As at December 31, 2006, the company had working capital of \$1,327,834 (2005 \$2,774,185).

The company raised \$1,229,930 through the sale of its shares and invested \$2,240,537 on the exploration of its Philippine properties described below, \$90,008 to purchase capital assets and used a further \$405,200 for operating activities.

Through its subsidiaries and the Philippine affiliates, the Company has interests in certain permits and licenses to explore and develop mineral properties located in the Philippines and incurred exploration and development costs that have been capitalized as described below:

Exploration and development costs capitalized in 2006.

	Panag, Suriganon and Tagpura	Batoto	T'Boli	Total
Assaying	50,032	20,444	-	70,476
Community development	25,023	28,468	13,380	66,871
Consultants	106,513	319,690	76,072	502,275
Depreciation and amortization	133,383	5,771	6,263	145,417
Drilling costs	305,232	-	-	305,232
Exploration and mineral processing	63,501	100,503	-	164,004
Field supplies and miscellaneous	125,019	484,502	134,675	744,196
Geological	88,068	-	-	88,068
Transportation and travel	43,487	92,351	18,160	153,998
	940,258	1,051,729	248,550	2,240,537

Exploration and development costs capitalized in 2005.

	Panag, Suriganon and Tagpura	Batoto	T'Boli	2005 Total
Assaying	14,253	17,871	3,062	35,186
Community development	14,467	8,235	13,593	36,295
Consultants	126,159	258,436	78,911	463,506
Depreciation and amortization	42,772	1,069	6,162	50,003
Drilling costs	104,497	60,119	-	164,616
Exploration and mineral processing	20,985	107,945	24,031	152,961
Field supplies and miscellaneous	123,293	162,493	76,015	361,801
Geological	65,302	171,212	63,138	299,652
Taxes, licenses and fees	7,030	4,460	9,371	20,861
Transportation and travel	48,171	85,621	25,455	159,247
	566,929	877,461	299,738	1,744,128

The Company currently has sufficient working capital to fulfill its planned drilling expenditures and field work on the Philippine Properties and meet normal administration costs of running the Companies.

Significant Accounting Policies

Amortization

Amortization of capital assets is calculated on a straight-line basis at the following annual rates:

Buildings	4%
Transportation and plant equipment	20 to 30%
Office furniture and equipment	10 to 33%
Vehicles	20%

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 and subsequent periods, 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

All amounts due from directors were settled in 2006. Included in accounts payable and accrued liabilities is \$87,010 (2005 \$139,614) payable to directors and a corporation controlled by a director. During the year, gross rent of \$24,000 (2005 \$24,000) was paid to a former officer and director.

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 year ended December 31, 2006, the Company's expenditures for investors' relations amounted to \$32,860. 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 December 31, 2006, there were 81,410,352 (2005 81,256,614). The increase of 153,738 is the result of directors exercising warrants and stock options for cash of \$74,930.

As at December 31, 2006, there were 7,732,500 stock options 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.

At December 31, 2006 the company had collected \$1,155,000 from investors that participated in a private placement which was completed on January 12, 2007. On January 12, 2007, the Company issued 3,300,000 common shares and 3,300,000 warrants to purchase a common share at a price of \$0.50 during the first 12 months and for \$0.65 during the second 12 months. All securities under this private placement have a four-month hold period expiring May 12, 2007.

Disclosure Controls and Internal Controls Over Financial Reporting

Management of the Company has implemented and continues to add to disclosure controls in order that timely appropriate public disclosures are made. As the Company grows, the necessity to implement more formal controls also grows. Management has evaluated the effectiveness of the Company's disclosure controls and procedures as required by Canadian securities laws. Based on that evaluation, they have concluded that, as of the end of the period covered by this Management's Discussion and Analysis, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings) and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws and that material information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

The Company's management is also responsible for establishing and maintaining internal control over financial reporting. These controls were designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for

external purposes in accordance with Canadian GAAP. There have been no changes in the Company's internal control over financial reporting during the year ended December 31, 2006.