

# **SUR AMERICAN GOLD CORPORATION**

## **MANAGEMENT DISCUSSION AND ANALYSIS FOR THE FINANCIAL QUARTER ENDED MARCH 31, 2007**

### **BACKGROUND**

This Management's Discussion and Analysis of the financial condition and results of operations has been prepared as at May 29, 2007, and should be read in conjunction with the unaudited consolidated financial statements of Sur American Gold Corporation (the "Company") for the three months ended March 31, 2007 and the audited consolidated financial statements for the years ended December 31, 2006 and 2005. The 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 reported in Canadian dollars. Additional information relevant to the activities of the Company can be found on SEDAR at [www.sedar.com](http://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](http://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 the systematic exploration at its Comval Copper-Gold Porphyry Deposits and Targets: the Tagpura-Kalamatan Copper Gold porphyry and the newly discovered Cadan Cooper Gold Porphyry Prospect; and the Tboli Gold Silver Deposit 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.

Mr Pedro Rivera, in association with a local accountant and an attorney experienced in mining law, is finalizing a review of corporate requirements and non-field exploration programs for its projects including “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, “Gavia”, “El Tambo” and a new application for a gold project called “La Serria”. This Review is part of the Strategic Review announced by the Board on March 22, 2007.

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.

## **CHANGES IN MANAGEMENT**

During this quarter two board members resigned and two new members were appointed. Rennie Blair and Alicia Nicholson resigned their positions as officers and directors of the Company and John D Anderson and Brett Taylor were appointed to the Board. The current Board of Directors of the Company are Brett Taylor who is also our President and CEO, Alan S Phillips, Dr Douglas Evans and John D Anderson.

On April 15, 2007, Derick Sinclair, a Chartered Accountant was appointed CFO.

## **DIRECTION**

In March 2007, the Company confirmed its focus is on its Copper Gold Porphyry Projects and its Gold Silver Project in the Philippines that are located in a major mineralized area that hosts the “world class” Indophil Resources NL’s Tampakan Copper Gold Project which has a Measured Resource of 568MT at 0.71% Cu and 0.29 g/t Au and an Indicated Resource of 836MT at 0.58 % Cu and 0.22 g/t Au. Tampakan has an Inferred Resource of 566MT at 0.49% Cu and 0.18 g/t Au.

(reference: Indophil Resources NL, published JORC Code compliant resource, September 30, 2006).

Indophil Resources NL have reported that the Tampakan Copper Gold Project, in all categories stated above, has an in-situ resource of some 11,620,000 tonnes of Copper and some 14,560,000 ounces of gold. This project is now 62.5% owned by Xstrata plc, one of the world's leading mining companies.

The Company has also initiated a Strategic Review of its Colombian assets. This review entails a comprehensive analysis of the Company's mining leases and applications including, field visit and copies of all corporate and exploration documentation being independently verified. The Review is expected to be finalized during the second quarter. The results will be presented to our Board of Directors to determine the most appropriate action on the Colombian Assets to achieve the optimum value for shareholders.

## **NEW OFFICE**

To provide shareholders and investors better access to the Company the Vancouver administration office was relocated to Suite 916, 925 West Georgia St., Vancouver, BC, V6C3L2, Canada. Tel: 604-687-0760 Fax: 604-687-0710 Email: [info@surgoldcorp.com](mailto:info@surgoldcorp.com) Web site: [www.surgoldcorp.com](http://www.surgoldcorp.com).

## **WEBSITE**

The Company's web site is undergoing a redesign and upgrade to improve ease of use and to improve procedures to keep the data current and relevant to our shareholders. The updates will better reflect the assets of the Company and provide shareholders quick access to historical and current information about the Company.

## **EXPLORATION PROJECTS UPDATE**

### **Comval Copper-Gold Porphyry Project**

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

### **TAGPURA COPPER-GOLD PORPHYRY PROJECT**

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](http://www.sedar.com). In April of 2006, Mr. Cooper was appointed as Exploration Manager-Philippines.

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 additional zones of mineralisation.

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 objectives are to create a National Policy 43-101 compliant resource, to significantly expand known resources and to systematically test for copper and 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.

## **TAGPURA DIAMOND DRILLING PROGRAM**

To March 31, 2007, the Company had completed nine holes for a total of 3,669 metres advance.

During the quarter ended March 31, 2007, the Company completed three holes for a total of 1,205 metres advance.

From August 7, 2006 to December 12, 2006, when drilling was halted for total overhaul of the LY 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 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.

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*.

Assay results have been received for the first six 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, 0.40 g/t gold and 2.41g/t silver.

The drill holes were designed to test geological targets based on recent surface mapping and assay results, re-interpreted 1974 geophysical data and information reporting historic production. When the average for all assays for drill holes TGD-1 to TGD-6 is calculated the grade is 0.20% Cu (2,385 samples no cuts applied). Drilling covers a small area of some 500 by 500 metres with holes to around 400 metres vertical depth, which is a significant volume of mineralised rock and, based on an assumed specific gravity of 3 for the rock, this volume and grade represents, only in the area drilled to date, a “*conceptual or order of magnitude*” tonnage of some 300 million tonnes with a “*conceptual or order of magnitude*” copper metal content of 0.6 million tonnes. It should be noted that the exploration information of “*conceptual or order of magnitude*” tonnage and grades is based on limited exploration information to date and as such does not meet the criteria of a Mineral Resource as defined in the CIM Definition Standards adopted December 11, 2005.

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 3.96 g/t silver.

## DRILLING RESULTS OF TAGPURA DRILL HOLES RECEIVED 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
TGD-4	-60	300	1.3	456.2	454.9	2150	0.22%	0.06
		Inc	94	189	95	4792	0.48%	0.12
		(includes)	97	180	83	5213	0.52%	0.12
		AND						
		Inc	423	456.2	33.2	3135	0.31%	0.08
		(includes)	429	450	21	3540	0.35%	0.09
TGD-5	-60	130	15	450	435	1508	0.15%	0.06

		Inc	85	304	219	2011	<b>0.2%</b>	0.09
		(includes)	85	126	41	5392	<b>0.54%</b>	0.31
		AND						
		(includes)	295	304	9	3145	<b>0.32%</b>	0.1
<b>TGD-6</b>	-60	130	26	434	408	1165	<b>0.12%</b>	0.03
		Inc	26	36	10	2622	<b>0.26%</b>	0.04
		AND inc	256	366	110	1816	<b>0.18%</b>	0.04
		(includes)	332	366	34	2434	<b>0.24%</b>	0.05

As of the date of this report the Company has completed three further holes, TGD # 7, 8, and 9, and the total drilling to March 31, 2007, was 3,669 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*.

### **MAPPING BENCH CHANNEL SAMPLING**

The Company is also undertaking bench mapping within the former Tagpura open cut and surrounding areas including the Tagpura South prospect and the newly discovered Tagpura East prospect. Exploration work has commenced at the Kalamatan Deposit where old adits and tunnels constructed in the 1970's have been reopened and are being mapped and channel sampled

### **GEOPHYSICAL PROGRAM**

The Company has also completed a magnetic survey and an orientation geophysical IP line at the Tagpura Deposit and has, based on the positive results obtained from the orientation work, commenced a detailed systematic IP survey over the Tagpura Deposit . This survey will be progressively extended to cover the Tagpura South prospect, the Ma-angob Deposit and northwards to cover the Kalamatan Deposit and the Kapanawan Prospect.

### **CADAN COPPER GOLD PORPHYRY TARGET**

The large induced polarization/resistivity geophysical program undertaken over Cadan (formerly West Batoto Zone) has completed 157 line km.

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 consulting geophysists 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 (magnetic survey due for completion 2Q).

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 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 Porphyry deposits some five kilometers to the east of Batoto.

The anomaly is now known to extend for at least 1,200 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 considered 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.

## **SAMPLE PREPARATION AND ANALYSIS**

All sample preparation during 2006 was undertaken at the Intertek Laboratory in Surigao, Northern Mindanao, which is a ISO 9002 certified laboratory. From January 2007, all sample preparation was undertaken by McPhar Geoservices (Phil) Inc at its General Santos facility in Southern Mindanao. McPhar is an ISO 9001 certified laboratory.

Drilling samples are pulverized and 200 gram sub samples are sent to Genalysis Laboratories in Perth, Western Australia for analysis using the FA 50/SAAS method (fire assay with atomic absorption finish) for gold, and conventional wet chemical methods for copper.

Channel samples are pulverized and 200 gram sub samples are sent to:

a) during 2006, Intertek Laboratory in Jakarta, which is a ISO 9002 certified laboratory, for analysis using the FA 50 method (fire assay) for gold, and conventional wet chemical methods for copper

and

b) from January 2007, McPhar Geoservices (Phil) Inc Manila laboratory. McPhar is an ISO 9001 certified laboratory. Analysis using the PM3 method (Fire Assay, Gravimetric [0.05 ppm] finish) for gold, and conventional wet chemical method (GA-1) for copper is carried out.

The Laboratories mentioned above provide independent analytical services to the company on normal commercial terms.

### **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 Instrument 43-101 compliant.

During March 2007, the Company's Philippine affiliate, Tribal Mining Corporation ("TMC") completed and submitted its documentation for renewal of the two year exploration period under its approved Mineral Production Sharing Agreement ("MPSA") No 090-97-XI. This was submitted to the Government Authorities in March. 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 1000 g/t silver and 30g/t gold.

A small pilot plant has also been acquired by TMC and will be modernized to treat the mineralization obtained by the underground development program. A small laboratory will also be added.

### **COLOMBIA**

Mr Pedro Rivera, in association with a local accountant and a attorney experienced in mining law, is finalizing a review of corporate requirements and non-field exploration programs for its projects, including "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, "Gavia", "El Tambo" and a new application for gold called "La Serria". This Review is part of the Strategic Review announced by the Board on March 22, 2007.





## **Results of Operations**

During the quarter ended March 31, 2007, the Company recorded a loss of \$108,355 compared with a loss of \$130,091 for 2006, a reduction of \$21,736.

The most significant contributor to the reduction was the result of a stable foreign exchange rate between Canada and the Philippines as compared with 2006.

## **Share Capital Transactions**

During the quarter ended March 31, 2006, the Company completed the following share capital transactions:

- 4,000,000, Stock options were cancelled.
- 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 that expired on May 12, 2007.

## **Financial Condition and Capital Resources**

As at March 31, 2006, the Company had working capital of \$736,349 (December 31, 2006 \$1,327,834).

The Company invested cash of \$483,238 (Q1 2006 \$390,410) and recognized non-cash expenses being amortization of assets of \$40,229 (Q1 2006 \$35,176) and miscellaneous non cash expenses of \$1,424 (Q1 2006 \$Nil) on the exploration of its Philippine properties described below, no capital assets were purchased in the quarter (Q1 2006 \$40,427), and used a further \$42,951 (Q1 2006 \$100,556) 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 Q1 2007 and Q1 2006.**

	Panag, Surigano and Tagpura	Batoto	T'Boli	March 31, 2007 Total	March 31 2006 Total
Assaying	45,483	71,137	-	<b>116,620</b>	<b>11,071</b>
Community development	3,963	7,504	4,333	<b>15,800</b>	<b>9,838</b>
Consultants	45,888	62,622	22,235	<b>130,745</b>	<b>131,035</b>
Depreciation and amortization	36,600	1,923	1,706	<b>40,229</b>	<b>35,177</b>
Drilling costs	58,770	-	-	<b>58,770</b>	<b>63,581</b>
Exploration and mineral processing	27,214	3,995	5,422	<b>36,631</b>	<b>50,284</b>
Field supplies and miscellaneous	30,357	15,595	21,668	<b>67,620</b>	<b>87,550</b>
Geological	24,510	-	-	<b>24,510</b>	<b>16,349</b>
Transportation and travel	20,816	7,006	6,144	<b>33,966</b>	<b>20,701</b>
	293,601	169,782	61,508	<b>524,891</b>	<b>425,586</b>

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**

#### **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.

## **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.

## **Shareholder information**

As at March 31, 2007, there were 84,710,352 (December 31, 2006 81,410,352) common shares outstanding. On January 12<sup>th</sup> the Company completed a private placement of 3,300,000 units at \$0.35 per unit for gross proceeds of \$1,155,000. Each unit consists 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 had a four-month hold period that expired on May 12, 2007.

On May 11, 2007, the Company announced that subject to regulatory acceptance, the Company has arranged a non-brokered private placement consisting of up to 5,000,000 units ("Units") at a price of \$0.20 per Unit for gross proceeds of up to \$1,000,000. Each unit will consist of one

common share and one non-transferable share purchase warrant. Each warrant will be exercisable for an additional common share of the Company for a period of 12 months from closing at a price of \$0.30 per share. The gross proceeds from the private placement will be used for ongoing exploration on the Company's Tagpura-Kalamatan and Cadan properties in the Philippines and to provide the Company with additional working capital.

As at March 31, 2007, there were 3,732,500 stock options outstanding and exercisable, with exercise prices ranging from \$0.11 to \$0.60 per share. In addition, there were 9,550,000 warrants outstanding with an exercise prices ranging between \$0.50 of \$0.75 per share.

### **Internal Controls Over Financial Reporting**

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 during the first quarter ended March 31, 2007, that have affected the Company's internal control over financial reporting.