Interim Report to Shareholders

For the Quarter Ended March 31, 2006

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MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS
For the Fiscal Quarter Ended March 31, 2006
May 5, 2006

Expressed in United States dollars unless otherwise indicated.

The following discussion and analysis is to be read in conjunction with the unaudited Consolidated Financial Statements for March 31, 2006 and 2005 and related notes which are prepared in accordance with Canadian Generally Accepted Accounting Principles. The Audit Committee of the Board of Directors of the Corporation has reviewed this document pursuant to its mandate and charter.

DESCRIPTION OF BUSINESS & OVERVIEW

Mundoro Mining Inc. (the "Corporation"), a BC registered company whose shares trade on the TSX, is involved in the acquisition, exploration and development of mineral resource properties. The Corporation's current focus is the feasibility stage Maoling Gold Project in Liaoning Province, China in which it first became involved in 1999. The Corporation completed a Pre-Feasibility Study in June 2005 which demonstrated the economic viability of developing a large-scale open-pit mine in Zone 1, one of two identified deposits. In September 2005, the Corporation appointed an international team of engineers and environmental experts to optimize the mine/mill design and to complete a Definitive Feasibility Study ("DFS") which is now underway and expected to be completed early in 2007.

On February 6, 2006 the Corporation announced an increase to the Zone 1 *Indicated* Resource by 26% to 4.8 million ounces gold (161 million tonnes grading 0.92 grams gold per tonne) over the 2004 estimate of 3.8 million ounces contained in 120 million tones with a grade of 0.98 grams per tonne. The 2006 resource estimate, conducted by Golder Associates Pty Ltd., also includes a total of 63 million tonnes grading 0.8 grams gold per tonne (1.6 million ounces) in the Inferred category for Zone 1. Zone 4 contains an additional 158 million tonnes grading 0.9 grams gold per tonne (2.8 million ounces gold) in the *Inferred* Resource category.

Aggregating the new resource estimate for Zone 1 with the pre-existing estimate by AMEC Americas for Zone 4 (2001) produces the following Resource Summary for the Maoling project:

Note: Estimates are those from 2006 unless otherwise indicated.

(0.50 g/t Au cut-off)	Tonnes (millions)	Grade (Au grams/ tonne)	Contained Gold Ozs (millions)
Indicated & Measured Resource			
Zone 1	**161**	**0.92**	**4.8**
Inferred Resource			
Zone 1	63	0.8	1.6
Zone 4 (2001)	95	0.9	2.8
Total Inferred	**158**	**0.9**	**4.4**

Liaoning Tianli Mining Company Ltd. ("Tianli"), the sino-foreign joint venture company operating the Maoling Gold Project, has been operating under a business license that has to be periodically renewed. In spite of a timely application having been submitted for renewal, the business license expired at the end of August 2005. As a result, Tianli's application for renewal of its exploration license, which expired on November 5, 2005, was deferred by the Ministry of Land and Resources in Beijing until the business license is renewed by authorities in Shenyang, Liaoning province. No reason has been given for the delay in issuing this license. The focus of the Corporation's management and advisors in China is the resolution of this issue within Liaoning province. Delays in approvals and in license renewals are not uncommon events in China's rapidly evolving regulatory environment. The process of engagement with appropriate authorities continued during the quarter and the Corporation continues to build awareness of the project and support for a short-term resolution to the matter.

The evolving regulatory regime in China has rendered crucial the need for in-country representation at the highest level. The Corporation has strengthened its government relations capabilities in China, notably with the appointment of Patrick Powers as Vice President, China in November of 2005. Mr. Powers, who spent six years as Vice President, Operations for the US–China Business Council, is an expert on Chinese commercial and political matters and is a fluent Mandarin speaker. He has been aided by Intercedent Limited, a business facilitator that has operated in China since 1991, providing companies with advice on market and policy development. His initial mandate has been to obtain all licenses for the joint venture company while guiding the Corporation's preparation of the applications for all licenses and permits leading to a mining permit for Maoling.

During the quarter, work continued to advance the DFS with Ausenco Limited of Australia as project manager, concentrating on extensive metallurgical testing and mine design. Ausenco has been working with Golder Associates Pty Limited (resource modeling and estimation, mine and tailings facility design, hydrology and geotechnical studies), Sinosphere Corporation (environmental management, community engagement & project permitting) and ENFI (mining permit feasibility study for Chinese regulatory authorities) to prepare the DFS and other documents for the mine permitting process.

On February 14, the Corporation engaged Société Générale Corporate & Investment Banking ("SG") as exclusive project debt advisor for the project. Under the terms of the engagement, SG will advise and assist the Corporation in developing and executing a debt financing strategy to develop Zone 1 and the construction of its production facilities.

Also during the quarter, the Corporation appointed Alan Riles as Chief Operating Officer. Mr. Riles, who's initial focus is to coordinate work on the Definitive Feasibility Study, has over 25 years of international operating management experience in the mining industry. For the last six years he has held key management positions at mining and development operations including Western Metals Resources Ltd.'s Mount Gordon mine in Australia, Rio Narcea Gold Mines' operations in Spain, and most recently as Chief Operating Officer for INCO's Goro Nickel development project in New Caledonia.

Subsequent to the end of the quarter, the Corporation announced that Mr. Robert van Doorn, Mundoro's President, has assumed the role of Acting Chief Financial Officer to replace Mr. A.L. Arias. The Corporation has commenced a process to recruit a permanent Chief Financial Officer.

The Corporation's successful unit offering in October 2005 has provided sufficient financing for the completion of the definitive feasibility study, and for further exploration and ongoing activities in the Maoling area for the next eighteen months. With the exception of interest earned on investments the Corporation does not have revenue and relies upon equity financings to fund its exploration work. The Corporation considers it has sufficient working capital to cover all commitments and planned activities for the next eighteen months, including the completion of the DFS. Additional information relating to the Corporation, including the Annual Information Form, can be found on SEDAR at www.sedar.com and on the Corporation's website at www.mundoro.com.

1) FINANCIAL HIGHLIGHTS

- The consolidated loss for the quarter under Canadian GAAP was $1,444,906 or $0.04 per share compared with a loss of $974,029 or $0.04 per share during the same quarter of 2005, of which $626,887 (2005 - $314,119) was non-cash stock based compensation.

- Total project costs for the quarter were $526,959 compared with $302,537 during the same quarter of 2005, reflecting higher levels of activity in the feasibility phase of the Maoling Gold Project, China.

- During the quarter, the Corporation raised $74,105 from the exercise of stock options, resulting in a total of 37,436,561 shares issued as at March 31, 2006. A total of 4,675,000 warrants and 5,298,500 options remain outstanding, representing potential additional cash resources of $23,547,515 if exercised.

- Income from interest in the quarter amounted to $202,667 compared with $37,096 for the same quarter in 2005.

- The Corporation ended the quarter with $23,042,339 in working capital, compared with $23,847,662 at the end of December 2005.

- The business and exploration licenses of the joint venture company operating the Maoling Gold Project that lapsed last year have not yet been renewed. The Corporation is seeking to renew both licenses as soon as possible.

2) FINANCIAL RESULTS

	3 Months Ended March 31 2006	2005	Change
Interest income	$ 202,667	$ 37,096	$ 165,571
Loss for the Quarter	$ 1,444,906	$ 974,029	$ 470,877
Loss per Share	$ 0.04	$ 0.04	$ -
Total Assets	$ 23,651,782	$ 5,846,472	$ 17,805,310

The higher loss in the 2006 quarter is due to increases in project feasibility costs and administrative expenses as the Corporation continues to advance the Maoling Gold project. Of the administrative expenses, $626,887 or 56% relates to non-cash accounting stock-based compensation charges. Under the Corporation's accounting policy, all exploration and feasibility costs have been expensed until mineral reserves are firmly established and a mining permit issued.

3) RESULTS OF OPERATIONS

Mineral Exploration & Project Feasibility Costs	3 Months Ended March 31		
Mineral Exploration Costs	**2006**	**2005**	**Change**
Core drilling and related costs	$ 17,043	$ 10,591	6,452
Assaying and analytical	68,638	35,446	33,192
Technical Services and Project Management	59,509	184,685	(125,176)
Amortization	7,466	10,879	(3,413)
Shipping, travel, office and all other costs	35,660	60,936	(25,276
Subtotal	188,316	302,537	(114,221)
Definitive Feasibility Studies ("DFS")			
Project Management	44,808	-	44,808
Resource Evaluation	5,625	-	5,625
Engineering	266,597	-	266,597
Environment and Social Impact Assessment ("ESIA")	21,613	-	21,613
Subtotal	$ 338,643	-	$ 338,643
Total	$ 526,959	$ 302,537	$ 224,422

- During the first quarter of both 2006 and 2005 drilling was suspended for the winter season. Costs in this category relate to onsite core and sample management and deferred payments.
- The DFS which commenced in September 2005 has incurred costs of $922,684 to date under Ausenco's supervision as project manager. The ESIA study has accumulated costs $171,542 to date.

Administrative Expenses

	3 Months March 31 2006	2005	Change
Accounting and audit	$ 51,642	$ 37,406	$ 14,236
Amortization	6,980	6,374	606
Corporate communications	114,614	72,837	41,777
Corporate development and governance	62,619	54,504	8,115
Directors' fees	16,363	22,775	(6,412)
Engineering Project Management	-	60,564	(60,564)
Exchange and regulation	32,803	21,438	11,365
Government Relations and Community Support	99,922	18,160	81,762
Office support	148,444	108,486	39,958
Stock-based compensation	626,887	314,119	312,768
Foreign exchange loss (gain)	(39,660)	(8,075)	(31,585)
TOTAL	$ **1,120,614**	$ **708,588**	$ **412,026**

Consistent with the Corporation's growth and with the ongoing activities on the Maoling Project in China, administrative expenses have trended upwards.

The Corporation modified its expenditure reporting for administrative expenses in 2004 to consolidate line item expenses according to administrative activities. This approach is consistent with the fiscal budget plan and longer term forecasts of the Corporation. Individual line item expenditure details and budgets are maintained in support of each activity. Senior management's time is divided among key activities and consequently, management fees may appear under more than one activity.

- Accounting and Audit provide for finance, accounting, taxation, audit services incurred by the Corporation: Stricter regulatory requirements have meant increased accounting and auditor activity. These have contributed to the increase in expenses in the first quarter.

- Corporate Communications provide for the flow of information about the Corporation to all stakeholders: Expenses in the quarter were $41,777 higher than the first quarter of 2005 due to the increasing size and requirements of investor and other stakeholder groups. The scope of communications programs has also grown to include introductions to international investors.

- Corporate Development and Governance activities include among others policy development, strategic planning and oversight of the Corporation's operations: Expenditures during the quarter were $8,115 higher than in Q1 2005 due to higher legal, insurance costs and project debt advisory costs.

- Exchange and Regulatory activities cover filing and listing fees, legal costs of compliance and the services of the transfer agent: Expenditures for Q1 2006 were $11,365 higher than in 2005 due to the increase in the annual filing fees which are based on the number of shares and value outstanding at the end of the previous year. There was an increase of 8,500,000 shares in October 2005 that were issued as part of a unit financing of shares and warrants, leading to an increase in the annual filing fees paid in Q1 2006.

- Government Relations activities are principally related to the Maoling Project development in China including work related to community support. They cover all expenses related to obtaining the various licenses and permits to explore and develop the Maoling Project: Intensive engagement activities during the quarter that focused on resolving the joint venture license renewal delay are responsible for increased expenditures over the same period of 2005.

- Office Support activities include all overhead costs associated with maintaining project and corporate administrative services in Vancouver, Shenyang (joint venture) and Maoling (field office): Expenses in Q1 2006 have increased over 2005 primarily as a result of higher overhead required to support the

Maoling Project development out of the Vancouver and China offices. These costs include additional office spaces and clerical services.

- Stock-based Compensation is a non-cash charge and a fair value estimate, using the Black-Scholes Option Pricing Model applied to the stock options granted to certain employees, consultants and advisors: Charges for the Q1 2006 were higher than 2005 due to a greater number of options vesting in the quarter and the granting of new options to directors, officers and employees.

- Foreign Exchange Losses are non-cash unrealized items arising primarily from the translation of Canadian dollar and Chinese RMB currencies into US dollar consolidated financial statements: The reported gain of $39,660 was due to the strengthening Canadian dollar vis-à-vis the US dollar and to a minor extent, the appreciation of the RMB currency.

4) SUMMARY OF QUARTERLY RESULTS

	2006	2005				2004		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Interest income	$ 202,667	$181,227	$34,139	$34,879	$ 37,096	$36,673	$39,201	$30,944
Project costs	(526,959)	(1,107,766)	(960,030)	(1,116,578)	(302,537)	(692,135)	(1,069,292)	(1,017,238)
Administrative expenses (1)	(493,727)	(969,825)	(360,505)	(289,417)	(394,469)	(556,525)	(166,956)	(302,663)
Stock based compensation (2)	(626,887)	(250,456)	(93,905)	(185,286)	(314,119)	(24,107)	(214,141)	(299,165)
Loss for the period	(1,444,906)	(2,146,820)	(1,380,301)	(1,556,402)	(974,029)	(1,236,094)	(1,411,188)	(1,588,122)
Loss per share basic and diluted	($0.04)	($0.06)	($0.05)	($0.06)	($0.04)	($0.05)	($0.06)	($0.06)

(1) Several transactions coincided in the fourth quarter of 2005 in the areas of government relations, corporate communications, financing, and settlement of litigation that combined to substantially increase administrative expenses.
(2) Stock based compensation expense is a non-cash item.

5) FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

	March 31, 2006	December 31, 2005	Change
Working capital	$23,042,339	$23,847,662	($805,323)
Total Assets	$23,431,635	$24,588,243	($1,156,608)
Cash flow from financing activities	$74,105	$22,609,212	($22,535,107)

During the quarter, the Corporation received $74,105 from the exercise of stock options, resulting in an increase of 90,000 shares issued to a total of 37,436,561 shares as at March 31, 2006. A total of 4,675,000 warrants and 5,298,500 options remained outstanding, representing potential additional cash resources of $23,547,515 if exercised.

Securities Issued During the Period	Amount	Price
Common shares upon exercise of stock options	55,000	C$1.25
Common shares upon exercise of stock options	30,000	US$0.24
Common shares upon exercise of stock options	5,000	C$1.70
Incentive stock options	150,000	C$2.29
Incentive stock options	1,320,000	C$2.30
Securities Issued Subsequent to March 31, 2006		
Common shares upon exercise of stock options	812,500	US$0.16
Common shares upon exercise of stock options	32,500	US$0.24
Common shares upon exercise of stock options	40,000	C$1.25
Common shares upon exercise of stock options	25,000	C$1.70
Incentive stock options	20,000	C$2.67
Cancellation of incentive stock options	(50,000)	C$2.83
Cancellation of incentive stock options	(100,000)	C$2.90
Cancellation of incentive stock options	(75,000)	C$2.30

Outstanding Share Data

	Outstanding Share Options	Outstanding Warrants	Outstanding Common Shares	Share Capital Amount
Balance, March 31, 2006	5,298,500	4,675,000	37,436,561	35,505,158
Stock options granted	20,000	-	-	-
Stock options exercised	(910,000)	-	910,000	315,466
Stock options cancelled	(225,000)	-	-	-
Balance, May 5, 2006	4,183,500	4,675,000	38,346,561	35,820,624

The Corporation considers it has sufficient working capital to cover all commitments and planned activities on the Maoling Project for the next eighteen months. On February 14, 2006, the Corporation engaged Société Générale Corporate & Investment Banking as exclusive project debt advisor for the development of the Maoling Gold Project. Although the intent is to plan and arrange the necessary project debt financing to build a mine at Maoling, there is no assurance that all the required project debt financing will be met.

The Corporation's principal source of liquidity as at March 31, 2006 is cash and cash equivalents and short-term investments of $23,001,835 (2005 - $5,463,175). They are invested in highly liquid investments in R1-Mid and R1-High DBRS rated instruments, with varying maturities of up to one year. The counter-parties are corporations and financial institutions. At March 31, 2006, these instruments were yielding a weighted average interest rate of 3.55% per annum.

The Corporation has no long term debt.

6) CHANGE IN REPORTING CURRENCY

As of December 31, 2005, the Corporation adopted the US dollar as the primary currency of measurement and display for the following reasons:

- Major capital expenditures have been, and are expected to be, predominantly in US dollars as the Maoling project is developed; and
- Gold mining revenues are typically priced in US dollars.

In the consolidated financial statements, the Corporation has translated consolidated amounts previously reported in Canadian dollars using the current rate method in accordance with the guidance of the Emerging Issue Committee (EIC) 130, Change in the Reporting Currency, as follows:

- Assets and liabilities at the rate of exchange in effect at the applicable balance sheet date; and
- Revenues and expense items at the average rates for the period.

Unrealized gains and losses resulting from the translation are accumulated in a separate component of the shareholders' equity and described as a Cumulative Translation Adjustment.

7) THE GOLD MARKET

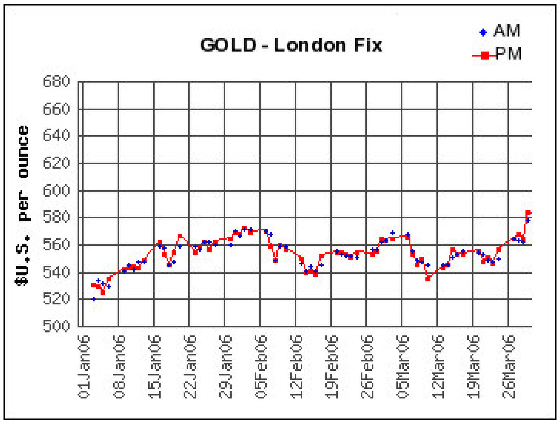

Chart courtesy of Kitco.com

The price of gold has risen in the first quarter of 2006 from $530 at the beginning of January to close at $582 on March 31st. Subsequent to the end of the quarter, it has increased to reach $675/oz in early May.

Many industry commentators believe that the fundamentals for the gold market will remain strong for at least the medium term. If the upward trend in the price of gold continues, the economic attractiveness of Maoling and valuation of the Corporation should further strengthen.

8) ANNUAL INFORMATION FORM

The Corporation's Annual Information Form (AIF) was filed with the British Columbia, Alberta and Ontario securities commissions on March 31, 2006, and is available on SEDAR at www.sedar.com.

9) RISKS AND UNCERTAINTIES

An investment in the securities of the Corporation is speculative due to the nature of the Corporation's business and the present stage of exploration and development of its mineral properties. Risk factors relating to the Corporation could materially affect the Corporation's future results and could cause them to differ materially from the estimates described in forward-looking statements relating to the Corporation. Prospective investors should carefully consider these risk factors along with the other matters set out or incorporated by reference in this interim report.

The following are some of the risks that are associated with the Corporation's business and operations and should be carefully considered by any potential investor in the Corporation's shares:

(a) Limited Operating History

The Corporation is a mineral exploration and development company and has no history of, or current cash flow, revenues and earnings. The Corporation's reserves and resources are estimates and may be greater or less than the actual reserves and resources.

(b) Permits and Approvals

Nearly all mining projects in China require government approval. At the exploration stage of the project the primary licenses under which the Joint Venture operates are a business license and an exploration license. As previously disclosed the Joint Venture's business license expired on August 31, 2005 and the Exploration License expired on November 5, 2005 in spite of applications to extend them having been made in a timely manner. Although delays in the extension and granting of licenses are not unusual in China's evolving regulatory environment, and the Corporation has no reason to believe that the licenses will not be issued, there can be no assurance they will be issued.

In due course, the Joint Venture company will apply for a mining license, which is required before it can extract and process ore from Maoling. There can be no certainty that these or any other permits or approvals required to develop the Maoling Gold Project will be granted in a timely manner, or at all.

(c) Exploration and Development

Resource exploration and development is a speculative business, characterized by a number of significant risks including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits but also from finding mineral deposits that, though present, are insufficient in quantity and quality to return a profit from production. The marketability of minerals acquired or discovered by the Corporation may be affected by numerous factors which are beyond the control of the Corporation and which cannot be accurately predicted, such as market fluctuations, the proximity and capacity of milling facilities, mineral markets and processing equipment, as well as other factors such as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals, and environmental protection, the combination of which factors may result in the Corporation not receiving an adequate return of investment capital.

There is no assurance that the Corporation's mineral exploration and development activities will result in any discoveries of commercial bodies of ore. The long-term profitability of the Corporation's operations will in part be directly related to the costs and success of its exploration programs, which may be affected by a number of factors. Substantial expenditures are required to establish reserves through drilling, and to develop the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major mineralized deposit, no assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operations or that funds required for development can be obtained in a timely manner.

There is no assurance that the TSX will approve the acquisitions of any additional properties by the Corporation, whether by way of option or otherwise.

(d) Results of Prior Exploration Work

In making their resource estimates and producing technical reports thereon, the authors relied on data generated by exploration work previously carried out on the Maoling Property by geologists employed by the Bureau of Geology and Mineral Resources of Liaoning. Due diligence sampling and check sampling resulted in the Corporation gaining confidence in the assay data on which the resource estimates were based. In all cases, the original Chinese data proved to be highly reproducible. There is no guarantee, however, that data generated by prior exploration work on the Maoling Property is 100% reliable and discrepancies in such data not discovered by the Corporation may exist. Such errors and/or discrepancies, if they exist, could impact on the accuracy of the resource estimates.

(e) Uninsurable Risks

In the course of exploration, development and production of mineral properties, certain risks, and in particular, unexpected or unusual geological operating conditions including rock bursts, cave-ins, fires, flooding and earthquakes may occur. It is not always possible to fully insure against such risks and the Corporation may decide not to take out insurance against such risks as a result of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the securities of the Corporation.

(f) Risks Related to China

All of the Corporation’s operations are located in China. China’s economy differs from the economies of most developed countries in many respects, including government intervention; level of development; growth rate; control of foreign exchange; and allocation of resources.

State Ownership

China’s economy has been undergoing a transition from a planned economy to a more market-oriented economy. Although in recent years the Chinese government has implemented economic reforms, reduced state ownership and established sound corporate governance in business enterprises, a substantial portion of productive assets in China are still owned by the Chinese government. In addition, the Chinese government continues to play a significant role in regulating industry by imposing industrial policies. It also exercises significant control over China’s economic growth through the allocation of resources, control of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. The Corporation’s future earnings could be affected if the Chinese government was to reverse recent trends and impose restrictions on the Corporation’s business.

Government Economic Intervention

The economy of China has experienced significant growth in the past 20 years, but growth has been uneven both geographically and among various sectors of the economy. The PRC government has implemented various measures from time to time to control the rate of economic growth. Some of these measures benefit the overall economy of China, but may have a negative effect on the Corporation. For example, the Corporation's operating results and financial position may be adversely affected by: changes in the rate or method of taxation; imposition of additional restrictions on currency conversion and remittances abroad; reduction in tariff or quota protection and other import restrictions; changes in the usage and costs of state-controlled transportation services; and state policies affecting the gold industry.

Foreign Investment

In China, foreign companies such as the Corporation could be required to work within a framework which is different to that imposed on local companies. However, the Chinese government is opening up opportunities for foreign investment in mining projects and this process is expected to continue, especially with China's entry into the World Trade Organization. However, if the Chinese government should reverse this trend and impose greater restrictions on foreign companies, the Corporation's business and future earnings could be negatively affected.

Gold Sales

Prior to October 2002, all gold producers in China were required to sell their gold to the People's Bank of China. In October 2002 the Shanghai Gold Exchange was established to replace the People's Bank of China's purchase and allocation system. Mining companies that produce gold within China now have three possible classes of buyers: the smelters, the banks, including the People's Bank of China, or the brokers that deal with the aforementioned entities. In addition, producers now obtain world prices for gold through the facilities of the exchange. While this is a major step in the liberalization of gold markets in China there is no guarantee that this liberalization process will continue, as proposed, to the point that gold imports and exports will link freely into the international market.

Repatriation of Local Currency

Mechanisms are currently in place to allow for repatriation of profits and capital from Chinese-based foreign-operated gold mining operations. Foreign mining companies are now repatriating their dividends in foreign currency. While the PRC Government is generally relaxing restrictions on foreign trade and investment, there is no certainty that all future local currency can be repatriated.

Currency Conversion

Foreign exchange transactions under the Corporation's capital account, including principal payments in respect of foreign currency-denominated obligations, continue to be subject to significant foreign exchange controls and require the approval of the State Administration of Foreign Exchange. These limitations could affect the Corporation's ability to obtain foreign exchange through debt or equity financing, or to obtain foreign exchange for capital expenditures. Since 1994, the conversion of RMB into foreign currencies, including C$ and US$, has been based on rates set by the People's Bank of China, which are set daily based on the previous day's PRC interbank foreign exchange market rate and current exchange rates on the world financial markets. Since 1994, the official exchange rate for the conversion of RMB to US$ has generally been stable. Any appreciation of the RMB may adversely affect the Corporation's earnings, through higher foreign currency denominated operating costs. In July 2005 the People's Bank of China widened the exchange rate band within which the RMB is traded with the US dollar. This has resulted in the RMB to US dollar rate moving from 8.28 RMB to approximately 8.03 RMB to 1US$.

Developing Legal System

The Chinese legal system is a system based on written statutes and their interpretation by the Supreme People's Court. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, the Chinese government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. Two examples are the promulgation of the Contract Law of the PRC unifying the various economic contract laws into a single code, which went into effect on October 1, 1999, and the Securities Law of the PRC, which went into effect on July 1,

1999. However, because these laws and regulations are relatively new, and because of the limited volume of published cases and their non-binding nature, interpretation and enforcement of these laws and regulations involve uncertainties. In addition, as the Chinese legal system develops, changes in such laws and regulations, their interpretation or their enforcement may have a material adverse effect on the Corporation's business operations.

(g) Environmental and Safety Regulations and Risks

Environmental laws and regulations may affect the operations of the Corporation. These laws and regulations set various standards regulating certain aspects of health and environmental quality. They provide for penalties and other liabilities for the violation of such standards and establish, in certain circumstances, obligations to rehabilitate current and former facilities and locations where operations are or were conducted. Furthermore the permission to operate could be withdrawn temporarily where there is evidence of serious breaches of health and safety, or even permanently in the case of extreme breaches. Significant liabilities could be imposed on the Corporation for damages, clean-up costs or penalties in the event of certain discharges into the environment or noncompliance with environmental laws or regulations. In all major developments, the Corporation generally relies on recognized designers and contractors, from which the Corporation will, in the first instance, seek indemnities. In addition, the Corporation intends to minimize these risks by taking steps to ensure compliance with environmental, health and safety laws and regulations, and operating to international environmental standards. There is also a risk that the environmental laws and regulations in China may become more onerous, making the Corporation's operations in that country more expensive.

The Maoling Project has received strong support from the communities in which the project is located. As announced in April 2004, the Corporation has become aware of certain concerns in a neighboring prefecture regarding the environmental impact of mining operations in the region. Management is conducting meetings with officials in Liaoning to discuss details of the project's best-practices approach to environmental protection. There is no assurance that future environmental regulations will not adversely affect the Corporation's operations.

(h) Mining Titles

The ability of the Corporation to carry out successful mining activities will depend on a number of factors, one of the most critical factors being the ability of the Joint Venture to obtain tenure to the satisfaction of international lending institutions. While commitments to issue required licenses to the Joint Venture may have been made by the relevant statutory bodies, the issue of any such licenses must be in accordance with the Chinese law and in particular the relevant mining legislation. Conditions imposed by the government, as well as the Chinese mining legislation generally, must also be complied with. No guarantee can be given that these tenures will be granted to the Joint Venture or, if they are granted, that the Joint Venture will be in a position to comply with all conditions that are imposed. Furthermore, while it is common practice that permits and licenses may be renewed or transferred into other forms of licenses appropriate for the ongoing operation, no guarantee can be given that a renewal or a transfer will be granted to the Joint Venture or, if they are granted, the Joint Venture will be in a position to comply with all conditions that are imposed.

(i) Joint Venture

The rights of the Corporation to participate in the Joint Venture are predicated on the Corporation being able to enforce its rights under the series of documents described in detail in the Corporation's AIF, governed by the laws of the PRC. Should it become necessary for the Corporation to seek to enforce its rights under any or all of these agreements, it would need to do so in accordance with the laws of at least China and perhaps other jurisdictions. There can be no assurance that should it become necessary for the Corporation to take such action, it will be possible to obtain the legal remedies that are being sought.

(j) Competition

The mining industry is intensely competitive in all its phases, and the Corporation competes with other companies that have greater financial resources and technical facilities. Competition could adversely affect the Corporation's ability to acquire suitable properties or prospects in the future or to raise funds for such purposes.

(k) Management

The success of the Corporation is currently largely dependent on the performance of its management team. The loss of the services of these persons would have a materially adverse effect on the Corporation's business and prospects. There is no assurance the Corporation can maintain the services of its officers or other qualified personnel required to operate its business.

(l) Fluctuating Metal Prices

Factors beyond the control of the Corporation may affect the marketability of any metals discovered on the property. Metal prices have been subject to material changes in recent years. Changes in metal prices are unpredictable and could materially affect the viability of the Corporation's operations.

(m) Financing Risk

The continued operation of the Corporation will be dependent upon its ability to secure additional financing. There can be no assurance that any such financing can be obtained. If the Corporation is unable to obtain such additional financing, any investment in the Corporation may be lost.

(n) Price Volatility of Publicly Traded Securities

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. It may be anticipated that any quoted market for the common shares will be subject to market trends generally, notwithstanding any potential success of the Corporation in creating revenues, cash flows or earnings. The value of the Corporation's common shares will be affected by such volatility.

(o) Foreign Currency Exchange

The Corporation and the Joint Venture maintain U.S. dollar, Chinese RMB and Canadian dollar accounts. The costs which have been incurred at the Maoling Gold Project to date have principally been denominated in U.S. dollars. Accordingly, the results of the Corporation's operations have been subject to currency exchange risks, particularly to changes in the exchange rate between the U.S. and Canadian dollars. The recent changes to the exchange rate regime in China may also impact the Corporation's currency exchange risk. To date, the Corporation has not engaged in any formal hedging program to mitigate these risks. The fluctuations in currency exchange rates, particularly between the U.S. and Canadian dollars, may significantly impact on the Corporation's financial position and results of operations in the future. See "Risk Factors - Risks Related to China – Currency Conversion".

(p) Residency of Directors, Officers and Others

One of the directors of the Corporation resides outside of Canada. Substantially all of the assets of this person and the Corporation are located outside of Canada. Although the Corporation has appointed an agent for service of process in Canada, it may not be possible for investors to effect services of process within Canada upon the Corporation's directors, officers and experts. It may also not be possible to enforce against the Corporation, certain of its directors and officers, and certain experts, judgments obtained in Canadian courts predicated upon the civil liability provisions of applicable securities laws in Canada.

10) OUTLOOK

The Corporation continues to be focused on advancing the technical and economic modeling of the gold deposits, obtaining all required development permits for and on financing the construction of a mine at the Maoling Gold Project.

The Corporation has positioned itself and the Maoling Gold Project for major advancement in 2006. The Corporation expects to resolve the current joint venture license issues and make definitive progress in completing the DFS over the next year. Other objectives for the coming year include the generation of a detailed project financing plan for the development of Zone 1 deposit and the commencement of work to convert the existing Zone 4 Inferred Resources to the Indicated category to further extend the ultimate mine-life at Maoling.

The market for Mundoro's shares has continued to increase, as has trading liquidity. The Corporation is contemplating a number of strategies to further add to our shareholder base and investor audience.

Qualified Persons
Disclosure of a technical nature in this Annual Report has been reviewed by Colin H. McAleenan, P.Geo. of Vancouver, BC. Mr. McAleenan, Mundoro Mining's Chairman and CEO, is the Corporation's designated qualified person under National Instrument 43-101 regulations with respect to the Maoling Gold Project.

The pre-feasibility described herein was prepared to broadly quantify the Maoling Zone 1 deposit's capital and operating cost parameters, and to further the development of the project. It was not prepared for use as a valuation of the deposits, nor should it be considered to be a final feasibility study. The information contained in the Study reflects various technical and economic conditions at the time of writing that can change significantly over relatively short periods of time. There can be no assurance that the potential results contained in the Study will be realized. Reserves quoted were prepared by AMEC Americas Ltd. under the direction and oversight of Mr. Mark Pearson P.Eng. of Vancouver, BC, an 'Independent Qualified Person' as defined by National Instrument 43-101.

Resource estimation for the Zone 1 area in 2006 was carried out in the Brisbane, Australia office of Golder Associates Pty Limited, an international earth sciences consulting group under the direction and oversight of Dr. Andrew Richmond, MAusIMM, an 'Independent Qualified Person' as defined by NI43-101. The Zone 4 Resource Estimate (2001) was prepared by AMEC Americas and is reviewed in a technical report prepared by Peter Lewis, Ph.D., P.Geo,.

NI43-101 compliant technical reports for the pre-feasibility study and all reserve and resource estimates have been filed on the SEDAR website at www.sedar.com.

Information Concerning Estimates of Measured, Indicated and Inferred Resources
This management discussion and analysis of financial results used the terms "measured resources", 'indicated resources' and 'inferred resources'. The Corporation advises investors that although these terms are recognized and required by Canadian regulations (under National Instrument 43-101 Standards of Disclosure for Mineral Projects), the U.S. Securities and Exchange Commission does not recognize them. Investors are cautioned not to assume that any part or all of the mineral deposits in these categories will ever be converted into reserves. In addition, 'inferred resources' have a great amount of uncertainty as to their existence, and economic and legal feasibility. It cannot be assumed that all or any part of an Inferred Mineral Resource will ever be upgraded to a higher category. Under Canadian rules, estimates of Inferred Mineral Resources may not form the basis of feasibility or pre-feasibility studies, or economic studies except for Preliminary Assessment as defined under 43-101. Investors are cautioned not to assume that part or all of an inferred resource exists, or is economically or legally mineable. Mineral Resources that are not classified as mineral reserves do not have demonstrated economic viability.

Forward-Looking Statements
The statements herein that are not historical facts are forward-looking statements. These statements address future events and conditions and so involve inherent risks and uncertainties, as disclosed under the heading "Risk Factors" in the Corporation's periodic filings with Canadian securities regulators. Actual results could differ from those currently projected. The Corporation does not assume the obligation to update any forward-looking statement.

MUNDORO MINING INC.

Interim Consolidated Balance Sheets
As at March 31, 2006
(unaudited, prepared by management)
(Expressed in United States Dollars)

	March 31, 2006	December 31, 2005
ASSETS		
Current assets		
Cash and cash equivalents (Note 3)	$ 9,679,208	$ 6,461,749
Short-term investments (Note 3)	13,322,627	17,572,727
Accounts receivable	379,966	268,444
Prepaid expenses and deposits	49,834	59,130
	23,431,635	**24,362,050**
Mineral interests (Note 4)	100	100
Equipment and vehicles (Note 5)	220,047	226,093
Total Assets	$ **23,651,782**	$ **24,588,243**
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$ 389,296	$ 514,388
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	35,505,158	35,397,563
Warrants (Note 6 (e))	2,123,527	2,123,527
Contributed surplus (Note 6(f))	2,246,920	1,653,521
Deficit	(17,549,187)	(16,104,281)
Cumulative translation adjustment (Note 2 (g))	936,068	1,003,525
Total Shareholders' Equity	23,262,486	24,073,855
Total Liabilities and Shareholders' Equity	$ **23,651,782**	$ **24,588,243**

Nature of operations (Note 1)
Contingencies and Commitments (Note 9)

Approved by the Directors:

"Patrick Downey"	"Colin H. McAleenan"
Patrick Downey	Colin H. McAleenan

MUNDORO MINING INC.

Interim Consolidated Statements of Operations and Deficit

For three month period ending March 31, 2006 and 2005

(unaudited, prepared by management)

(Expressed in United States Dollars)

	2006	2005
Interest income	$ 202,667	$ 37,096
Mineral Exploration and project feasibility costs (Note 4)	526,959	302,537
Administrative expenses		
Accounting and audit	51,642	37,406
Amortization	6,980	6,374
Corporate communications	114,614	72,837
Corporate development and governance	62,619	54,504
Directors' fees	16,363	22,775
Engineering project management	-	60,564
Exchange and regulation	32,803	21,438
Government relations & community support	99,922	18,160
Office support	148,444	108,486
Stock based compensation (Note 6(f))	626,887	314,119
Foreign exchange loss (gain)	(39,660)	(8,075)
	1,120,614	708,588
Loss for the period	(1,444,906)	(974,029)
Deficit, beginning of period	(16,104,281)	(10,760,539)
Deficit, end of period	(17,549,187)	(11,734,568)
Loss per share - basic and diluted	$ (0.04)	$ (0.04)
Weighted average number of common shares outstanding – basic and diluted	37,400,117	26,219,529

MUNDORO MINING INC.

Interim Consolidated Statements of Cash Flows

For the three month period ending March 31, 2006 and 2005

(unaudited, prepared by management)

(Expressed in United States Dollars)

	2006	2005
Cash flows from (used in) operating activities		
Loss for the period	$ (1,444,906)	$ (974,030)
Adjustments for items not involving cash:		
- amortization	6,980	6,374
- stock-based compensation	626,889	314,119
	(811,037)	(653,537)
Change in non-cash working capital:		
- (increase) decrease in accounts receivables	(111,522)	55,924
- decrease in prepaid expenses and deposits	9,296	3,629
- (decrease) in accounts payable and accrued liabilities	(125,092)	(884,324)
	(1,038,355)	(1,478,308)
Cash flows from financing activities		
Proceeds from issuance of shares	74,105	381,290
Share issue costs	-	-
Warrants	-	-
	74,105	381,290
Cash flows provided by (used in) investing activities		
Short-term investments	-	-
Acquisition/adjustments of equipment and vehicles, net	(934)	6,673
	(934)	6,673
Effect of exchange rate changes on cash and cash equivalents	(67,457)	-
(Decrease) increase in cash and cash equivalents	(1,032,641)	(1,090,345)
Cash and cash equivalents, beginning of period	24,034,476	6,553,520
Cash and cash equivalents, end of period	$ 22,934,378	$ 5,463,175
Supplementary cash flow information		
Interest paid	$ -	$ -
Income taxes paid	-	-

1. Nature of Operations

The Company was incorporated on January 10, 1997 under the Business Corporations Act of Yukon, Canada and is in the business of exploration and development of mineral properties. On November 30, 2000, the Company registered as an extra-provincial company under the Company Act of the Province of British Columbia. Effective on June 14, 2005 the Company continued as a corporation in the province of British Columbia.

2. Significant Accounting Policies

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following significant accounting policies:

(a) Consolidation

These consolidated financial statements include the accounts of the Company and its 79% owned joint venture company, Liaoning Tianli Mining Company Ltd. ("Tianli"), incorporated on August 31, 2001 in Liaoning, China. The minority interest (21%) is $ nil as it represents only the profit sharing and working interest. As at December 31, 2005, the joint venture is still in the exploration stage and has not generated any revenue; therefore, the accounts of Tianli are 100% consolidated.

Inter-company accounts and transactions have been eliminated.

(b) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, amount of revenues and expenses reported during the period. Actual results may differ from those estimates.

(c) Mineral Interests

The Company follows the practice of expensing all exploration costs until mineral reserves have been firmly established and a mining permit issued.

(d) Cash and Cash Equivalents

Cash equivalents include those short-term money market instruments which have a term to maturity of 90 days or less when acquired.

2. Significant Accounting Policies (continued)

(e) Short-term Investments

Short-term investments are comprised of highly liquid Canadian dollar denominated, high investment grade instruments, with terms to maturity of up to one year. Short-term investments are carried at the lower of cost or recoverable amount.

(f) Equipment and Vehicles

Equipment and vehicles are carried at cost. Amortization is provided at the following annual rates:

Vehicles	30% Declining balance
Computer	30% Declining balance
Furniture and fixtures	20% Declining balance
Office equipment	20% Declining balance
Leasehold improvements	5 years straight-line

(g) Foreign Currency Translations

As of December 31, 2005, the Company adopted the U.S. dollar for financial reporting. The reasons for the change are as follows: major capital expenditures have been, and are expected to be, predominantly in US dollars; and future gold mining revenues are typically priced in US dollars. In these consolidated financial statements, the Company has translated consolidated amounts previously reported in Canadian dollars using the current rate method in accordance with the guidance of the Emerging Issue Committee (EIC) 130, *Change in the Reporting Currency*, as follows: assets and liabilities at the rate of exchange in effect at the applicable balance sheet date and revenues and expense items at the average rates for the period. Unrealized gains and losses resulting from the translation are accumulated in a separate component of the shareholders' equity and described as a Cumulative Translation Adjustment.

(h) Stock Based Compensation

The Company follows the Canadian Institute of Chartered Accountants (CICA) 3870 "*Stock-Based Compensation and Other Stock-Based Payments.*" Under this standard, all stock option awards require the application of the fair value method. CICA 3870 provides alternative methods of transition for the adoption of the fair value method, and as permitted, the Company has elected the prospective application method, which allows the fair value method to be applied to awards granted, modified or settled on or after January 1, 2003 to employees and directors.

The fair value of stock options is determined by the *Black-Scholes Option Pricing Model* with assumptions for risk-free interest rates, dividend yields, volatility factors of the market price of the Company's common shares and an expected life of the options. The fair value of direct awards of shares is determined by the quoted market price of the Company's stock.

2. Significant Accounting Policies (continued)

(i) Earnings (Loss) Per Share

Basic earnings (loss) per share is computed using the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share is calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury method. The treasury method assumes that proceeds received from the exercise of stock options and warrants are used to repurchase common shares at the prevailing market rate. Diluted loss per share is equal to the basic loss per share because common share equivalents consisting of warrants and options to acquire common shares that are outstanding at March 31, 2006 are anti-dilutive; however, they may be dilutive in the future.

(j) Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, measured using substantially enacted tax rates and laws that will be in effect when the differences are expected to be eliminated.

(k) Long-lived Assets Impairment

Long-term assets of the Company are reviewed when changes in circumstances suggest their carrying value has become impaired. Management considers assets to be impaired if the carrying value exceeds the estimated undiscounted future projected cash flows to result from the use of the asset and its eventual disposition. If impairment is deemed to exist, the assets will be written down to fair value. Fair value is generally determined using a discounted cash flow analysis.

(l) Asset Retirement Obligations

The Company follows CICA 3110 "*Asset Retirement Obligations,*" requiring that the fair value of liabilities for asset retirement obligations be recognized in the period in which they are incurred. A corresponding increase to the carrying amount of the related asset, where one is identifiable, will be recorded and amortized over the life of the asset, using a systematic and rational method. Subsequent to initial measurement, the asset retirement obligations are adjusted to reflect period-to-period changes in liability.

(m) Revenue Recognition

Interest income on cash and cash equivalents and short-term investments is recognized as it is accrued.

3. Cash and Cash Equivalents and Short-Term Investments

Cash and cash equivalents are comprised mainly of Canadian dollar denominated cash balances of $134,369 (2005 - $3,600,078) and $9,544,839 (2005 - $1,804,973) of highly liquid investments in R1-Mid and R1-High DBRS rated money market instruments, with terms to maturity of 90 days or less when acquired. The counter-parties are corporations and financial institutions. At March 31, 2006, these instruments were yielding a weighted average interest rate of 3.55% per annum.

Short-term investments are comprised of Canadian dollar denominated $13,322,627 (2005 – $58,124) of highly liquid investments with similar characteristics and features as the cash and cash equivalents except that they have maturities greater than 90 days when acquired. At March 31, 2006, these instruments were yielding a weighted average interest rate of 3.50% per annum (2005 - 2.09% per annum).

The fair market value of the Company's cash and cash equivalents and short-term investments approximate their carrying values at March 31, 2006 and 2005.

4. Mineral Interests; Exploration and Project Feasibility Costs

On June 10, 2001, the Company entered into a Cooperative Joint Venture Agreement with Liaoning Aidi Resources Company Ltd. ("Aidi"), a company incorporated under the Business Law of Liaoning Province, China and formed the Liaoning Tianli Mining Company Limited Joint Venture ("TJV") Pursuant to the Cooperative Joint Venture Agreement, the Company is required to fund all work on the mining project ("Maoling Project").

The Company has satisfied its obligations under the Cooperative Joint Venture Agreement. At March 31, 2006 the cumulative registered capital contributions amounted to $2,780,000 (2005 - $2,780,000). In addition, the Company had advanced loans in cash of $789,200 and loans in kind of $5,964,431.

The TJV's business license was not renewed in the normal course by the authorities in Liaoning on August 31, 2005. No explanation for the delay has been received and Company officials are in communication with the appropriate government authorities to expedite the renewal of this license.

Under Chinese mining laws and regulations, exploration licenses have a three year term and have two two-year extensions. The TJV's exploration license for Maoling expired on November 5, 2005, at the end of the first two-year extension, in spite of an application for an extension having been filed on a timely basis. The Ministry of Land and Resources of China deferred the grant of the exploration license to the TJV pending the renewal of the business license. Under Chinese law, the holder of the exploration license has the first right to develop the property.

(Expressed in United States Dollars – except as noted otherwise)

4. Mineral Interests; Exploration and Project Feasibility Costs (continued)

The Company follows the practice of expensing all exploration costs until mineral reserves have been firmly established and a mining permit issued. Exploration costs, including costs associated with the Definitive Feasibility Study ("DFS"), incurred in the first three months of 2006 amounted to $526,959 (2005 - $302,537) are detailed below:

Mineral Exploration Costs	**March 31, 2006**	**March 31, 2005**
Core drilling and related costs	$ 17,043	$ 10,591
Assaying and analytical	68,638	35,446
Technical Services and project management	59,509	184,685
Amortization	7,466	10,879
Shipping, travel, office and all other costs	35,660	60,936
Definitive Feasibility Studies ("DFS")		
Project Management	44,808	-
Resource Evaluation	5,625	-
Mine Engineering	266,597	-
Environment and Social Impact Assessment ("ESIA") Study	21,613	-
Total	$ 526,959	$ 302,537

The DFS costs include the Company's professional geological staff and others retained for services of a geological, metallurgical, environmental, and geotechnical nature. The DFS commenced in September 2005 with the appointment of an integrated engineering team.

5. Equipment and Vehicles

	March 31, 2006	**March 31, 2005**
Cost:		
Computers	$ 63,536	$ 63,873
Furniture and fixtures	23,000	25,379
Office equipment	97,513	112,995
Vehicles	133,272	176,407
Leasehold improvements	36,154	47,211
	353,475	425,865
Less: Accumulated amortization	(133,428)	(92,611)
Net book value	$ 220,047	$ 333,254

6. Share Capital

(a) Authorized: Unlimited number of common shares without par value.

(b) Issued:

-	Shares	Amount
Balance at December 31, 2003	25,131,873	$ 13,891,577
Issued pursuant to Over-Allotment Option	300,000	285,600
Issued pursuant to exercise of warrants	607,606	523,180
Balance at December 31, 2004	26,039,479	14,700,357
Issued pursuant to unit financing arrangement	8,500,000	21,210,943
Fair value transferred to Warrants (Note 6(e))		(2,123,527)
Financing costs associated with unit financing arrangement		(1,457,412)
Issued pursuant to exercise of stock options	526,500	520,156
Issued pursuant to exercise of warrants	2,280,582	2,335,525
Reclassification of contributed surplus on exercise of options		211,521
Balance at December 31, 2005	37,346,561	$ 35,397,563
Issued pursuant to exercise of stock options	90,000	74,105
Fair value of stock options exercised		33,490
Balance at March 31, 2006	37,436,561	35,505,158

Exchange Rate

The unit prices of common shares referred to in notes 6(c) to 6(e) are principally and contractually denominated in Canadian dollars. For the purpose of presenting the fiscal years 2005, 2004, and 2003, the Canadian dollar denominated unit prices have been translated using C$1= US$0.8580, the exchange rate prevailing on December 31, 2005 and for the first three months of 2006 C$1=US$ 0.86616, the average exchange rate for the quarter then.

(c) Stock Options

In March 2005, the Company amended and restated its Stock Option Plan (“the Plan”) whereby the maximum number of shares issuable under the Plan is a rolling number equal to 15% of the issued and outstanding common shares from time to time and also provided that no more than 7,000,000 common shares will be available under the Plan without the Company first obtaining shareholder approval.

In the first three months of 2006, the Company granted stock options to purchase an aggregate of 1,470,000 common shares, to directors, employees, and consultants with exercise prices ranging from $1.98 (C$2.29) to $1.99 (C$2.30) per share, which equal the respective market prices at the time of grant. Of these options, 1,320,000 stock options will fully vest within one year, the balance will partially vest or vest only upon completion of certain performance targets. All stock options granted will expire five years from the date of granting.

In the 2005 fiscal year, the Company granted stock options to purchase an aggregate of 1,030,000 common shares, to directors, employees, and consultants with exercise prices ranging from $2.08 (C$2.42) to $2.61 (C$3.04) per share, which equal the respective market prices at the time of grant. Of these options, 230,000 stock options will fully vest within one year, the balance will partially vest or vest only upon completion of certain performance targets. All stock options granted will expire five years from the date of granting.

(Expressed in United States Dollars – except as noted otherwise)

6. Share Capital (continued)

In the 2004 fiscal year, the Company granted stock options to purchase an aggregate of 992,500 common shares to directors, employees and advisors with exercise prices ranging from $1.29 (C$1.50) to $2.43 (C$2.83) per share which equal the respective market prices at the time of grant. 942,500 stock options have a vesting period of one year, in which 33% is vested immediately, 33% in six months and the remaining 33% in twelve months. These stock options expire five years from the date of the grant. The remaining 50,000 stock options have a vesting period of eighteen months, in which 33% is vested every six months and the stock options expire five years from the date of the grant.

A summary of the status of options granted under the Company's plans as at March 31, 2006, December 31, 2005 and 2004 and the changes during the years then ended are as follows:

	Shares	Weighted Average Exercise Price
Options outstanding at December 31, 2003	2,422,500	$0.71
Granted	992,500	$1.54
Options outstanding at December 31, 2004	3,415,000	$0.95
Exercised	(526,500)	($1.02)
Granted	1,030,000	$2.30
Options outstanding at December 31, 2005	3,918,500	$1.29
Granted	1,470,000	$1.99
Exercised	(90,000)	$0.82
Options outstanding at March 31, 2006	5,298,500	$1.49

As disclosed in Note 2(h), the Company adopted prospectively the fair value method of accounting for stock-based compensation granted to employees and others. Under this method, the Company charged $626,887 in 2006 (2005 - $314,119) of stock based compensation to operations with offset credit to contributed surplus.

Options Outstanding					**Options Exercisable**		
Range of Exercise Prices	**Number Outstanding**	**Weighted Average Remaining Contractual Life (years)**		**Weighted Average Exercise Price**	**Number Exercisable**		**Weighted Average Exercise Price**
$ 0.16	812,500	0.08	$	0.16	812,500	$	0.16
$ 0.24	95,000	1.08	$	0.24	125,000	$	0.24
$ 1.07	995,000	2.65	$	1.07	1,050,000	$	1.07
$1.29 - $1.65	796,000	3.24	$	1.46	784,335	$	1.46
$2.08 - $2.36	580,000	4.03	$	2.17	225,517	$	2.20
$2.40 - $2.61	550,000	4.36	$	2.46	222,014	$	2.53
$1.98 - $1.99	1,470,000	4.89	$	1.99	440,000	$	1.99
	5,298,500	3.27	$	1.49	3,659,366	$	1.19

(Expressed in United States Dollars – except as noted otherwise)

6. Share Capital (continued)

The weighted average fair value of the options granted in first three months of 2006, fiscal years 2005 and 2004 was estimated at $1.19 (C$1.37), $1.24 (C$1.44) and $0.73 (C$0.85) respectively, by using the *Black-Scholes Option Pricing Model* with the following weighted average assumptions:

	March 31, 2006	Dec. 31, 2005	Dec. 31, 2004
Risk-free interest rate	4.02%	3.25%	3.25%
Dividend yield	0.00%	0.00%	0.00%
Price volatility	67.83%	58.24%	57.50%
Expected lives (in years)	5	5	4
Number of common shares	1,470,000	1,030,000	992,500
Grant / Exercise price	$1.99	$2.30	$1.54
Calculated fair value per share	$1.19	$1.24	$0.73

Option-pricing models require the use of highly subjective estimates and assumptions including the expected stock price volatility. Changes in the underlying assumptions can materially affect the fair value estimates and therefore, in management's opinion, existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

(d) Public Offering

In October 2005, the Company issued 8,500,000 units, each unit consisting of one common share and one-half common share purchase warrant, at $2.53 (C$2.95) per unit for net proceeds of $19,753,531, after deducting share issue costs of $1,457,412. Of the net proceeds, $17,630,004 was allocated to common shares and the remaining $2,123,527 was allocated to the warrants. Each whole warrant entitles the holder to purchase one common share at a price of $3.43 (C$4.00) for a period of two years following October 6, 2005. If the common shares trade at a volume-weighted average price of not less than $4.29 (C$5.00) for 15 consecutive trading days during the term of the warrant, then the warrants must be exercised within 15 business days after notice by the Company of that event, failing which they will expire. If all outstanding warrants are exercised, the Company would issue an additional 4,250,000 common shares.

(e) Warrants outstanding as at March 31, 2006:

Number of Warrants	Exercise Price Per Warrant	Expiry Date
4,250,000	$3.43	October 5, 2007
425,000	$2.53	October 5, 2007
4,675,000		

Each warrant entitles the holder to acquire one common share of the Company.

(Expressed in United States Dollars – except as noted otherwise)

6. Share Capital (continued)

As disclosed in Note 2(h), the Company adopted prospectively the fair value method of accounting for stock-based compensation granted to employees and others. The fair value method was also applied to warrants granted to the underwriters in the public offering mentioned in Note 6(d) above as part of their compensation. Under this method, the Company charged $308,246 of the fair value of the 425,000 warrants (exercise price $2.53 (C$2.95) per share) to operations with offset credit to contributed surplus. The $308,246 was charged to stock based compensation. With respect to the warrants attached to the unit financing referred to in Note 6(d) above, the Company credited $2,123,527 of the fair value to Warrants with offset to share capital.

(f) Contributed Surplus

Balance, December 31, 2003		$ 330,115
Amount expensed in the period		691,161
Balance, December 31, 2004		1,021,276
Amount expensed in the period		843,766
Amount exercised in the period		(211,521)
Balance, December 31, 2005		$1,653,521
Amount expensed in the period		723,758
Amount exercised in the period		(38,665)
Balance, March 31, 2006		$2,338,614

The stock-based compensation charged to the consolidated statements of operations and deficit during the period consists of the following:

	March 31, 2006	**March 31, 2005**
Stock options granted (Note 6(c))	$ 723,758	$ 430,000
Warrants issued (Note 6(e))	-	-
	$ 723,758	$ 430,000

7. Related Party Transactions

The Company is related to other companies through common directors or officers. Any transactions with related parties are all in the normal course of business. In consideration for services provided by certain directors or companies controlled by them, the Company paid the following fees according to pre-established contracts.

	March 31, 2006	**March 31, 2005**
Geological / Project management services	$ 8,304	$ 75,712
Management fees	27,355	32,488
	$ 35,659	$ 108,200

The above transactions have been recorded at amounts agreed to by the transacting parties, the exchange amounts.

(Expressed in United States Dollars – except as noted otherwise)

8. Income Taxes

	2005	2004
Future income tax assets:		
Losses and resource pools	$ 4,887,000	$ 2,903,000
Share issuance costs	602,000	299,000
Other	12,000	8,000
Total future income tax assets	5,501,000	3,210,000
Less valuation allowance:	(5,501,000)	(3,210,000)
Net future income tax assets	-	-

The reconciliation of income taxes at the statutory rate to the income tax expense (recovery) is as follows:

	2005	2004
Loss before income taxes	$ (6,058,000)	$ (5,042,000)
Expected tax recovery at 34.87% (2004-35.62%)	(2,112,000)	(1,796,000)
Increase (reduction) in income taxes resulting from:		
Stock-based compensation	294,000	246,000
Expiry of losses	175,000	246,000
Share issuance costs	(517,000)	-
Foreign exchange rate and tax rate differences	(249,000)	(129,000)
Losses and other deductions for which no benefit has been recorded	2,291,000	1,435,000
Other	118,000	(2,000)
Income tax expense	-	-

The Company's Canadian non-capital loss carry-forwards are estimated at $4,793,000 (2004 - $3,550,000) and China net operating loss carry-forwards are estimated at $8,799,000 (2004 – $3,900,000).

9. Contingencies and Commitments

(a) Litigation

In 2004 fiscal year, the Company reported having filed a claim against a former senior officer and director of the Company for the misappropriation of funds and equipment totaling $33,000 and the defendant had filed a counterclaim for $48,750 owed to him. In January 2006, the claim and counterclaim were settled out of court for a non-material cash amount and the Company directed the release of 93,750 shares owned by the defendant but held by the courts as potential set-off against the claimed indebtedness.

(Expressed in United States Dollars – except as noted otherwise)

9. Contingencies and Commitments (continued)

(b) Office Lease

The Company has signed leases for office space in Vancouver for a term of up to three years ending on June 30, 2007 and in Beijing, China for a term of up to two years ending on March 14, 2008. The Company pays base rent and its proportionate share of the operating costs. The obligations remaining under these leases are as follows:

	2006	2007	2008
Vancouver	$69,684	$34,842	-
Beijing	44,349	56,020	11,671
Total	$114,033	$90,862	$11,671

(c) Consulting Contracts and Employment Agreements

The Company has entered into agreements with five of its senior officers through which in the event of a defined change of control and under certain circumstances, the Company may be liable for termination fees and salaries. The total maximum obligation under these agreements is $1,148,019. These agreements have terms ranging from indefinite to two years.

(d) Definitive Feasibility Study ("DFS")

With the formation of a team to complete the DFS, the Company has entered into engineering consulting agreements with certain key contractors whose work is estimated to cost $4,170,000. The contracts have allowed for earlier cancellation without termination cost by one month's notice if the Company, after assessment of its business needs, finds that the work is no longer required.

(e) Exclusive Project Debt Advisor

On February 14, 2006, the Company engaged Societe Generale Corporate & Investment Banking ("SG") as exclusive project debt advisor for the development of the Maoling Gold Project in China. Under the terms of the engagement, SG will advise and assist the Company in developing and executing a financing strategy including the arrangement of a syndicate of financial institutions as prospective lead arranger(s) for the debt component of the project financing.

10. Financial Instruments

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

(Expressed in United States Dollars – except as noted otherwise)

The carrying value of cash and cash equivalents, short-term investments, accounts receivable, and accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments.

11. Geographical Information

The Company's business is considered as operating in one segment and the geographical division of the total assets of the Company is as follows:

	2006	**2005**
Canada	$33,126,967	$5,419,805
China	171,902	426,667
	$33,298,869	$5,846,472

12. Comparative Figures

Certain 2005 comparative figures have been reclassified to conform with the financial statement presentation adopted for 2006.