

**Energold Drilling Corp.**  
(formerly Energold Mining Ltd.)  
**Form 51-102F1**  
**Management Discussion and Analysis**  
**For the Period Ended March 31, 2006**

---

**Forward-Looking Information**

This management discussion and analysis ("MD&A") contains certain forward-looking statements and information relating to Energold Drilling Corp. (formerly Energold Mining Ltd.) ("Energold" or the "Company") that are based on the beliefs of its management as well as assumptions made by and information currently available to Energold. When used in this document, the words "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to Energold or its management, are intended to identify forward-looking statements. This MD&A contains forward-looking statements relating to, among other things, regulatory compliance, the sufficiency of current working capital, the estimated cost and availability of funding for the continued exploration and development of Energold's exploration properties. Such statements reflect the current views of Energold with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or achievements of Energold to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements.

**Corporate**

The Company is a diamond drilling contractor operating directly and through its subsidiaries, Pac Rim Drilling S.A. (50.01%) ("Pac Rim"), Kluane International Drilling Inc. (50%) and its affiliates ("Kluane"). It also holds mineral exploration properties in Latin America primarily in the Dominican Republic and Mexico both directly and through its equity interest in IMPACT Silver Corp. (formerly IMPACT Minerals International Inc.) ("IMPACT"). The Company's consolidated operations include Pac Rim, Kluane and until June 30<sup>th</sup> of 2005, IMPACT. The Company's interest in IMPACT is currently accounted for on an equity basis. The residual equity interests not owned by Energold in the consolidated entities are recorded either as non-controlling interests or accounts payable, depending upon their nature, in the Consolidated Financial Statements.

**Summary**

Gross drilling revenues for the quarter were \$4.1 million on 32,000m (2005 - \$2.5 million on 20,802m) however the Company recorded only a small profit for the drilling sector for the quarter of \$107,000. This was primarily due to mobilization charges and the lower margins experienced for the drill rigs starting up during the quarter, as well as certain costs incurred in the Mexico division. The Company also accounted for a gain of \$42,000, recognizing its proportion of the earnings sustained by IMPACT in the first quarter of acquisition and reorganization of the Zacualpan silver mines in Mexico, increasing the consolidated quarterly earnings to \$149,000, (2005- earnings of \$239,000).

The Company continues to maintain a strong balance sheet with a net working capital position of about \$14.0 million as at March 31, 2006 an increase of just over \$1.5 million from its net working capital position of \$12.5 million at March 31, 2005. Consolidated group cash and cash equivalents on hand at the end of the quarter are about \$4.8 million. A significant portion of our working capital position reflects our increased investment in drilling supplies inventories to better service our clients needs. Amounts shown as due to a related party and non-controlling interests (i.e. long term indebtedness) decreased to \$5.7 million from \$5.9 million at March 31, 2005. In addition, our balance sheet strength does not reflect the current market value of our equity investment in IMPACT as discussed below under investing activities.

As of this date, the Company has a total of 24 drills either operating or mobilizing and 2 additional drills under construction. The Company has set a number of objectives for the next 12 to 18 months. Energold will be increasing its research and development to continue to keep it ahead of the industry as well as expanding product lines to better serve our clients. The Company anticipates the addition of approximately 6-7 of its Series II and Series III rigs during this period, and plans to penetrate more deeply some existing markets while expanding into at least one new market. Additional heavy rigs will be added only in response to demand.

Commencing in 2004, the Company redirected its exploration efforts, to focus more specifically on silver through its investment in IMPACT, with the acquisition of an option on the Royal Mines of Zacualpan in Mexico. The Company believed that silver represented a unique product both as a store of wealth similar to gold, and as an industrial product in the growing medical and high tech industries. Holding these assets through another public company IMPACT provides Energold the maximum flexibility in asset management.

The Royal Mines of Zacualpan has had five centuries of exploitation, but until recently much of it was limited by technical and financial deficiencies. IMPACT hopes to bring this historic mining district into the 21<sup>st</sup> century, and in doing so create real value for all the stakeholders, including our shareholders. Zacualpan represents multiple exploration opportunities for IMPACT: that of a potentially small but high-grade silver mine; an asset that is sensitive to a rising silver price where historical mining has left large low-grade material; and the exploration potential for new and larger deposits. IMPACT has access to the necessary expertise to fully exploit any exploration success it enjoys there. The Company was fortunate in terms of its timing in acquiring the option to purchase the Zacualpan mining properties. This option was acquired in mid 2004 when silver prices were trading at approximately \$5.00-\$5.50 U.S. per ounce and the property vendor was apparently only breaking even on his mining operations. In recent months almost all metal commodity prices have been rising, including silver which recently has started trading at over \$12.00 U.S. per ounce.

Because the Company's holdings was approximately 22% of IMPACT at March 31<sup>st</sup> and with the intention of building IMPACT as a stand alone mining company the Company now records IMPACT's activities on the equity basis where its results since June 30<sup>th</sup>, 2005 are recorded as a single line on the Statement of Income and the Balance Sheet rather than fully consolidated. More details about IMPACT's operations and outlook are discussed separately below.

At this time, the Board is reviewing a number of alternatives regarding the balance of the Company's exploration projects in the Dominican Republic that would allow us to continue to develop these assets while minimizing further dilution to Energold. We have already successfully optioned out a number of the projects to technically competent partners.

As alluded to above, with the future of the Company focused on contract drilling, we are continuing to review opportunities to ensure the shareholders realize full value for non-drilling assets.

### **CONTRACT DRILLING**

The contract drilling industry is highly cyclical with a low season in the months on either side of the Christmas holiday period and generally a high season in late summer. This year, activity in the first quarter was quite busy with the Company mobilizing the majority of its rigs during the February and March period.

The two additional rigs in Mexico came on stream only in the last weeks of the quarter resulting in very high costs with little or no revenues for the quarter, and generating an operating loss in Mexico.

While total activity increased, utilization per rig was relatively unchanged as a majority of the increase in meterage drilled related to the addition of new rigs in the field.

Social and political issues are actively interfering with the industry throughout the world and during last year some of our larger projects were delayed or cancelled, despite responsible efforts on our clients' part to address local concerns. Overall, new contracts and requests for tenders suggest that 2006 will be extremely busy. With the first quarter exceeding 32,000 meters drilled and the existing demand for equipment we anticipate the first half of the year will represent record production. With new rigs in place and new ones under construction we hope to capitalize on the continuing demand.

Revenues are generally denominated in US dollars and the Company's margins remain sensitive to foreign exchange variations. Some of our operating costs are US\$ denominated which provides a partial natural hedge against such fluctuations. Nonetheless the relative rise in the value of the Canadian dollar to the US dollar in the past year has had a significant impact on our overall profitability. We estimate that our overall net realized revenues in Canadian dollar terms have been reduced by about \$90,000 to \$120,000 as a result of exchange rate changes during the quarter and this has had a direct impact on our margins and net income.

Historically the first quarter margins tend to be lower than mid year and this year was no exception. We also experienced higher costs in setting up two new rigs in Mexico, the costs of mobilizing a number of rigs in March for projects in April, rising prices for down-hole supplies, and extreme fluctuations in fuel costs.

Although equipment suppliers are also increasing prices, with the increasing demand for drill rigs worldwide it is the shortage of quality crews and down-hole supplies which remain the critical items. To further counteract increasing delays in shipping and customs which has led to excessive downtime, the Company maintains significant satellite inventories in the field. As we advised earlier, the Company commenced expanding its physical and administrative infrastructure to catch up with the significant increase in volume generated over the last year. This includes improved communications systems and warehouse facilities, and increased inventories at a number of strategic locations.

Our investment in drilling supplies inventories to support our operations has increased by more than \$2.8 million in the past twelve months from \$4.4 million at March 31, 2005 to \$7.2 million at March 31, 2006. Part of this increase in inventory carrying value is attributable to higher supplier prices and part is due to our decision to put more inventories into the field to have supplies closer to hand to service our client drilling needs. Because of the man portable nature of our equipment and the need to be self sustaining in remote operating locations; we estimate that we require an investment in inventory of approximately \$300,000 for each new drill that we put into the field.

The Company's equipment is amongst the newest in design and performance, but we continue to redesign our rigs and are now producing a new Series III rig with additional power and pull back while retaining its high degree of mobility. We anticipate that we will build approximately 6 to 8 more of the Series II and Series III rigs during the next eighteen months and we have upgraded a number of others in the field. The Company is continuing to conduct research and development to keep its' equipment on the leading edge technically.

In certain countries we have a market niche that allows us to maintain reasonable margins. Local competition is limited and new competitors from outside are generally unwilling to invest the time and energy to establish themselves in these markets.

We also continue to train personnel from local communities to fill a number of positions, including some positions as drillers. Especially for smaller programs these personnel can substantially reduce our mobilization costs. This also provides an effective statement of our willingness to ensure there are social benefits to the local communities from our activities.

### **Energold Drilling Division (100%)**

In 2005, the Company expanded into Mexico through its 100% subsidiary Minera Monte Plata (de Mexico) de C.V., S.A. Contract drilling in Mexico by Energold complements the exploration activities of IMPACT and enjoys a number of administrative synergies. The Company had two man-portable rigs at the end of the year and during the first quarter mobilized a third man-portable and its recently acquired SS-51 heavy rig to the field. Because of the need to build infrastructure the Company incurred start-up costs in Mexico as well as mobilization costs on the two new rigs. The Company now expects to add two to three more man-portable rigs to this division in 2006 and anticipates that with an increased activity level this operating division should soon begin to make a positive contribution to earnings.

The Company's new SS-51 drill rig is a departure from its traditional man portable rigs. Acquired to service contracts that exceed the capabilities of our man portable units, the SS-51 is one of the most powerful diamond drill rigs in Mexico where it already has its first contract. The SS-51 is operated in conjunction with Suisse Diamond Drilling Ltd. of Smithers, B.C. and will be the start of a new but limited division of heavy rigs for the Company. The SS-51 was acquired in late 2005 but did not enter service in Mexico until early 2006. The majority of the mobilization and set-up of this rig was expensed during the quarter.

The Company is also looking at developing at least one new market in the 2006 year.

Recognizing that Energold is in a service industry, the Company is intent upon expanding its product lines, to build on an already established clientele.

Technical developments are continuing to improve the competitive position of the Company. The recent introduction of our Series III model will provide enhanced depth capabilities. Combined with a new program of redesign and retrofitting older models we anticipate improved performance capabilities from our rigs in the coming year.

### **Kluane International Drilling Division (50%)**

In Ecuador, the Company continued to expand its client base and generated a number of new contracts during the quarter, while drilling additional meters for existing clients. Mineral exploration throughout Ecuador has expanded dramatically over the last eighteen months. The area includes mountainous terrain and areas of heavy forestation, ideal for our approach to exploration. Kluane had four drills in Ecuador and completed in excess of 9,000m in the first quarter and added a fifth drill late in the quarter. Two of the drills are currently being upgraded to 128hp with improved pullback, to increase their capabilities and drilling capacity.

In the Dominican Republic, the Company has three rigs, generally conducting smaller projects with more limited margins. In Guatemala and Nicaragua, we have drilled for a number of clients and have various contracts either under way or scheduled. These countries, while limited in size, represent an excellent opportunity as they have experienced environmental and social issues that our approach can help solve. As a group the level of activity is similar or better than the prior year's experience.

Brazil especially is very suitable for the type of work we specialize in and represents a significant growth opportunity. To increase our service capabilities, we shipped a second drill rig to Brazil in early 2006. The work here tends to be seasonal and whereas the drilling in the first quarter was extremely limited, we currently have two rigs turning with work ahead of them for a considerable period of time.

Kluane is also conducting limited programs for individual clients in Vietnam, and Zambia.

### **Pac Rim Drilling S.A. (50.01%)**

Peru represents an excellent opportunity to develop new business as this mineral rich country develops. However, in spite of the importance of mining in the economy as a whole, critical social and permitting issues delayed certain exploration activities in 2005. The first quarter was slow but with an indication of success for some of its clients, we anticipate that 2006 will be an improvement over 2005.

The Company currently has four drills located in Peru, including our largest version of the modular rigs with the capability of running with 168hp. Peruvian voters are expected to go to the polls in a general election in June of 2006. These election results may, or may not, have a subsequent influence over the pace of mining exploration and drilling activities in Peru.

## **PROJECT AND EQUITY HOLDINGS**

### **IMPACT Silver Corp. (IPT:TSX-V)**

At May 10, 2006, the Company owned 6.6 million shares or approximately 17.5% of the issued and outstanding shares, after giving effect to the shares issued by IMPACT in its two recently completed private placements. This investment which is carried on the Company's balance sheet at \$984,000 has a market value in excess of \$9.5 million based upon market closing prices.

### **Highlights**

- On January 10, 2006, IMPACT closed a private placement for \$2.5 million Canadian.
- On January 16, 2006, IMPACT purchased the Royal Mines of Zacualpan Silver Project in central Mexico. The project includes two operating silver mines, a 500-tonne-per-day processing plant lease and mineral concessions covering 124.5 km<sup>2</sup> over most of the silver district.
- On March 14, 2006, IMPACT announced signing of an option agreement to purchase the 500 tonne per day processing plant plus certain mineral concessions and surface rights for US\$1,140,000 and 100,000 shares at any time before December 2, 2006. IMPACT also announced signing an option agreement to purchase certain mining equipment for US\$500,000 any time before July 16, 2006. (This equipment option agreement was subsequently exercised and closed on May 12, 2006.)
- On April 6, 2006, IMPACT announced the closing of an \$8.03 million financing.

- It is IMPACT's intention to complete the purchase of the processing plant and mining equipment in 2006. With these purchases IMPACT will own all the equipment and surface rights related to its Royal Mines of Zacualpan operations and will have a 100% interest with no underlying royalties in 124.5 km<sup>2</sup> of mineral concessions comprising most of the silver district.
- Extensive exploration is planned for the district with the aim to increase volume and the number of sources for production. This work will include both surface and underground drill programs. A minimum 2000m surface core drilling program commenced on the property in the beginning of May 2006.
- IMPACT plans to grow into a premier producer of silver by expanding and upgrading the Royal Mines of Zacualpan operations and through acquisitions.

IMPACT holds concessions covering most key parts of the Royal Mines of Zacualpan Silver District in central Mexico including two operating mines nominally operating at approximately 200 tonnes per day ("tpd") and a leased mill rated at 500 tpd. The project is located 100km southwest of Mexico City and 25km northwest of the well-known Taxco Silver Mine. Access is by paved highway that runs through the middle of the district. Infrastructure is good throughout the district with gravel road networks, electric power, ample water supplies and a trained work force.

### **Dominican Republic**

Initially, the Dominican Republic was the principal target of the Company's exploration and business activities. The country continues to attract considerable interest from the industry, with the ongoing activities of Barrick and Goldcorp at Pueblo Viejo, and Falconbridge as well as a number of juniors including GoldQuest Mining Corp. ("GoldQuest"), Unigold, Globestar Mining Corp. ("Globestar"), Linear, IMPACT, and Everton. Energold as part of its overall strategy has optioned some of its projects and is currently reviewing how best to enhance the shareholders value in its property holdings there. Over the last twelve months active exploration occurred at both the Longyear and the Centenario projects where each property has been drill tested by our partners GoldQuest using Kluane.

### **Longyear**

A program of 1002.6m of diamond drilling in 14 holes was completed in Spring 2005 by GoldQuest on the Longyear project, 4km west of the Pueblo Viejo gold deposit (15.2 M oz gold resource, Barrick/Goldcorp.) using the Company's drilling division. During the quarter, a second program of approximately the same number of meters was drilled on the property by GoldQuest, results are pending. Goldquest did not complete the balance of the exploration expenditures required under the option agreement and has returned the property to the Company.

### **Centenario**

After completing a 43-101 resource estimate on the original discovery zone at Centenario, GoldQuest has completed a drill program on a new target approximately 7km east, part of which is on the Centenario concession. GoldQuest, for a total expenditure of US\$1.0 million, has the right to earn 60% of the project over three years, and shall have the right to earn to 80% by taking the project to a bankable feasibility study. Upon receipt of a bankable feasibility study Energold may elect to be carried to production or convert its interest to a 2% NSR.

### **OTHER**

#### **Investor Relations**

Over the past twelve months, the Company's officers and employees attended a number of industry and investor conferences in Canada and Latin America on behalf of Energold, Kluane and IMPACT. Energold conducts Kluane's and its own public relations and communications. Energold also assists IMPACT with its day to day investor relations.

In December, Energold engaged Ascenta Capital Partners to assist in its investor relations program. Ascenta receives a monthly retainer of \$5,000 and an option to purchase 150,000 common shares of the Company for \$1.14.

With the recent change in name to Energold Drilling Corp. the drilling group hopes to establish itself as the name plate for its new approach to drilling.

### **Safety, Social and Environmental Policy**

Exploration and drilling create a physical change within the area of work. The Company believes in its responsibility to ensure that it minimizes the environmental impact of its efforts. The development of our drill is a direct successful offshoot of the need to explore with a light footprint using a drill pad size of only 4m by 4m which does not require the construction of roads and complex access.

The rigs however are only a part of the equation. Our employees and contract personnel are aware and continually reminded that environmental issues and safety cannot be compromised.

We work as part of the community whose members must be kept informed of our activities and their concerns addressed. Wherever possible, the local community should participate in the benefits that may flow from the Company's activities. The use of local personnel as driller's helpers and workers fosters direct involvement in the programs conducted by the Company. The Company was a founding sponsor of the Prospectors and Developers Association of Canada "E3" initiative of Environmental Excellence in Exploration.

The Company is actively developing specific policies and regulations to address the above, as well as our ongoing concern for safety. Work being conducted by or on behalf of the Company should be well planned, safe and with a concern for the environment and communities surrounding us. During the last year the Company developed and published a driller's safety manual for its staff and has commenced translating it into Spanish. It has implemented a number of technical courses for its personnel.

## **FINANCIAL DISCUSSION AND ANALYSIS**

### **Risk Factors**

The Company is faced with a number of risks with respect to its contract drilling operations as well as its property exploration activities. Contract drilling is a highly competitive industry, where numerous competitors may tender bids for contracts. The Company's ongoing ability to continue to secure profitable contracts on an ongoing basis is not assured.

#### **Cyclical industry Risks**

The contract drilling industry is reliant on demand from two primary categories of commodities, gold and base metals, while certain industrial minerals may also be tested. Under favourable market conditions rising commodity prices normally spur an increased demand for drilling services, however cyclical down turns in commodity prices can have the opposite effect and the Company could be exposed to an investment in drilling equipment and supplies which might not be able to be utilized to their full capacity.

The Company believes that it has a competitive advantage through diversifying its operations to a number of areas of the world with high prospects for mineral exploration and development. This necessitates however building up inventories of drilling equipment and supplies in each of those areas in which we operate and maintaining long supply chains in order to maintain and provide an adequate level of service to our drilling clients. Transportation and value added taxes imposed by importing countries can add significantly to the landed cost of drilling equipment and supplies. The cost of building, maintaining, and monitoring control over the utilization of inventory supplies held in remote areas is a significant factor in the cost of business operations. In the event of a sudden downturn of activities related to a particular project, country, or industry sector as a whole it can be more costly and difficult to redeploy this remote inventory to other regions where it can be better utilized.

#### **Reliance on Key Accounts**

From time to time, the Company may be dependent on a small number of customers for a significant portion of its overall drilling revenues and net income. When contracts expire or are terminated there can be no guarantee that the Company will obtain sufficient replacement contracts to maintain its existing revenue and income levels. With the trend towards increased consolidation within the gold and base metal sectors of the mining industry control of major exploration operations is falling into fewer hands. While recognizing the business risk of relying on key clients, the Company's approach to dealing with this risk it is to develop a

reputation for business fairness in pricing its drilling services while providing an outstanding level of service to its clients. The Company also emphasizes the fact that its drilling approach, using man portable drills, is more environmentally friendly and socially responsible in terms of the local population than some alternative drilling approaches that potential clients might otherwise consider using.

#### Workforce Availability

The Company, like all other drilling companies, has been impacted by the shortage of qualified skilled drillers as the industry adjusts from a period of many years of low mining exploration activity to a new cyclical upturn. Drilling is as much an art as a science and it takes considerable time and experience for an individual to become a well qualified driller. The Company is addressing this issue in a number of ways including an effort to hire and train more locally based drillers in the countries in which it operates. This issue however is likely to continue to persist for at least the next several years while the industry trains sufficient new drillers to catch up with the growth in demand for drilling services.

#### Extreme Weather Conditions

The Company operates in a variety of locations and areas in the world, some of which are subject to extreme weather conditions which can have a significant impact on operations. In addition, natural and other disasters could have an adverse financial impact on operations should an incident occur affecting the Company's operations.

#### Foreign Countries and Regulatory Requirements

Contract drilling, mineral exploration and mining activities may be affected in varying degrees by political stability and government regulations relating to the mining industry and foreign investors therein. Any changes in regulations or shifts in political conditions are beyond the control of the Company and may adversely affect its own, or its clients business outlook. Operations may be affected in varying degrees by government regulations with respect to restrictions on production, price controls, export controls, income taxes, expropriation of property, environmental legislation and mine safety. The developing country status or political climate of some of these countries may make it more difficult for the Company or its clients to obtain any required project financing from senior lending institutions because such lending institutions may not be willing to finance projects in these countries due to the possible investment risk.

#### Environmental and Other Regulatory Requirements

The current or future operations of the Company and its clients involving contract drilling, exploration, development activities and commencement of production on their properties require permits from various federal, provincial, and local governmental authorities. Such operations are and will be governed by laws and regulations governing prospecting, development, mining, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. The Company believes it is in substantial compliance with all material laws and regulations, which currently apply to its activities. There can be no assurance, however, that all permits which the Company or its clients may require for drilling exploration, or construction of mining facilities and conduct of mining operations will be obtainable on reasonable terms, or that such laws and regulations would not have an adverse affect on any mining project which the Company might undertake.

Existing and possible future environmental legislation, regulations and actions could cause additional expense, capital expenditures, restrictions and delays in the activities undertaken in connection with any mining operation, the extent of which cannot be predicted. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations. Regulatory requirements and environmental standards are subject to constant evaluation and may be significantly increased, which could significantly adversely affect the business of the Company.

## Permits and Licences

The operations of the Company may require licenses and permits from various governmental authorities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out contract drilling or exploration, development and mining operations on its mineral properties.

## Repatriation of Earnings and Foreign Exchange

There is no assurance that any of the countries in which the Company operates or may operate in the future will not impose restrictions on the repatriation of earnings to foreign entities. The Company may be subject from time to time to foreign exchange controls in countries outside of Canada.

## Currency Fluctuations and Foreign Exchange

The operations of the Company in countries other than Canada are subject to currency fluctuations and such fluctuations may materially affect the financial position and results of the Company. The Company does not currently take any steps to hedge against currency fluctuations although it may elect to hedge against the risk of currency fluctuations in the future. There can be no assurance that steps taken by the Company to address foreign currency fluctuations will eliminate all adverse effects and, accordingly, the Company may suffer losses due to adverse foreign currency fluctuations.

## **Mineral Exploration and Development Risks**

In addition to these risks with respect to its contract drilling operations, the Company also faces certain additional risks to those already identified above, with respect to its mineral exploration activities. These include the following:

### Exploration Stage Properties

The Company's properties are in the exploration stage and are without a known body of commercial ore. Development of any of the Company's properties will only follow upon obtaining satisfactory exploration results. The business of exploration for minerals and mining involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. The amounts attributed to the Company's interest in the mineral property as reflected in its financial statements represents acquisition and exploration expenses and should not be taken to represent realizable value. There are no known reserves of ore on the Company's properties and the proposed work programs thereon are exploratory in nature.

### Additional Funding Requirements

Future mineral property acquisitions and exploration programs will require additional financing. If the Company's exploration programs are successful, additional funds will be required to develop the properties and, if successful, to place them into commercial production. The only sources of funds presently available to the Company are from its share of earnings in its contract diamond drilling group, the exercise of outstanding share purchase warrants and stock options, the sale of equity capital of the Company or the sale by the Company of an interest in any of its properties in whole or in part. While the Company may generate additional working capital from its activities in contract diamond drilling and through the development or sale of its properties in whole or in part, there is no assurance that any such funds will be sufficient for operations. There is no assurance that the Company will be successful in raising additional funds or that additional funds can be obtained on terms acceptable to the Company. Failure to obtain additional financing could result in the delay or indefinite postponement of further exploration and the possible partial or total loss of the Company's interest in certain properties.

### Mineral Exploration and Development Risks

Mineral exploration and mining operations generally involve a high degree of risk. Hazards such as unusual or unexpected formations and other conditions are involved. The Company may become subject to liability for pollution, cave-ins and other accidents, environmental hazards, the discharge of toxic chemicals and other hazards. Such occurrences, against which it cannot insure, or may elect not to insure, may delay production, increase production costs or result in liability. The payment of such liabilities may have a material, adverse effect on the Company's financial position.

## Exploration for and Development of Mineral Deposits Is Speculative

The exploration for and development of mineral deposits is a speculative venture necessarily involving substantial risks. There is no certainty that the expenditures to be made by the Company will result in discoveries of commercially viable mineral deposits. Few properties which are explored are ultimately developed into producing mines. Major expenses may be required to establish ore reserves, develop metallurgical processes and construct mining and processing facilities at a particular site. In developing its geological resources, the Company will be subjected to an array of complex economic factors and accordingly, there can be no assurance that feasibility studies will be carried out on any of its properties or that results projected by any feasibility study will be attained in the event that the Company commences production on any of its properties. Effectively, there is no assurance that the current exploration programs planned by the Company will result in a profitable commercial mining operation.

## Title Matters

The Company has taken and will continue to take all reasonable steps, in accordance with the laws and regulations of the jurisdictions in which its properties are located, to ensure proper title of the properties it may acquire in the future, either at the time of acquisition or prior to any major expenditures thereon. This, however, should not be construed as a guarantee of title. There are no assurances that the Company will obtain title. Both presently owned and after-acquired properties may be subject to prior unregistered agreements, transfers, land claims or other claims or interests and title may be affected by undetected defects. In addition, third parties may dispute the rights of the Company to its mining and other interests. The Company will attempt to clear title and obtain legal opinions commensurate to the intended level of expenditures required on areas that show promise. There can be no assurance, however, that the Company will be successful in doing so.

## Metal Prices and Marketability of Minerals

Metal prices fluctuate widely and are affected by numerous factors beyond the control of the Company, including international economic and political trends, expectation of inflation, currency exchange fluctuations, interest rates, global or regional consumption patterns, speculative activities, and worldwide production levels. The marketability of minerals, which may be acquired or discovered by the Company, will be affected by numerous factors beyond the control of the Company. These factors include market fluctuations (including price), the proximity of metal markets and processing equipment, government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, the import and export of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital.

## Competition

Significant and increasing competition exists for the limited number of mineral acquisition opportunities available. As a result of this competition, some of which is with large established mining companies with substantial capabilities and greater financial and technical resources than the Company, the Company may be unable to acquire additional attractive mineral properties on terms it considers acceptable. Accordingly, there can be no assurance that the Company's exploration and acquisition programs will yield any new reserves or result in any commercial mining operation. Contract drilling is a highly competitive industry, where numerous competitors tender bids for contracts. The Company's ongoing ability to continue to secure profitable contracts on an ongoing basis is not assured.

### Summary of Quarterly Results (Canadian \$ 000's except per share amounts)

Quarter	Net Revenues	Net Income (loss)	Net Income per Share (Note 1)	Fully diluted Net Income Per Share (Note 1)	Total Assets	Total Long-term Liabilities (Note 2)
1 <sup>st</sup> 2006	1,162	149	0.01	0.01	21,515	5,722
4 <sup>th</sup> 2005	540 (Note 3)	(94)	0.00	0.00	20,524	5,408
3 <sup>rd</sup>	1,957	412	0.02	0.02	19,862	5,376
2 <sup>nd</sup>	1,865	345	0.02	0.01	21,097	6,647
1 <sup>st</sup>	997	239	0.01	0.01	20,057	5,937
4 <sup>th</sup> 2004	(665) (Note 3)	95	0.00	0.00	16,165	5,462
3 <sup>rd</sup>	2,252	794	0.05	0.04	13,947	5,632
2 <sup>nd</sup>	2,304	408	0.03	0.02	13,331	4,737
1 <sup>st</sup>	1,504	493	0.03	0.03	11,375	1,874

#### Notes:

- 1: These numbers have been rounded to 2 decimal places.
- 2: Total long-term liabilities include non-controlling interest on consolidation, and the long-term portion due to a related party.
- 3: Net revenue for the fourth quarter is calculated as gross revenues less direct costs. At the 2005 year end, a fee to the non-controlling interest in Kluane was made for \$874 (2004 - \$1,673) and included indirect costs. Net revenue for the quarter before that provision would be \$1,413 (2004 - \$1,008).

### Results of Operations

The Company ceased consolidating IMPACT as of June 30, 2005 due to a number of factors including a decline in the percentage shareholding interest held by Energold. This resulted in recording the expenses incurred in IMPACT during the quarter on a single line basis rather than on a line by line basis as was done for the first six months of 2005. As a result its expenses for the first quarter 2006 were not included in the consolidated expenses but rather included in the earnings figure as a single line amount of \$42,000 as the income for the quarter. The balance sheet no longer consolidates the respective assets and liabilities of IMPACT and instead records the Company's net interest as an investment in IMPACT.

Gross drill revenues and meters drilled for the quarter were 32,379m up substantially from 2005's first quarter of 20,802. The Company incurred earnings of \$149,000 or \$0.01 per share compared to \$239,000 or \$0.01 per share in 2005.

Drilling activity for the quarter was significantly higher than any previous first quarter, a significant portion of the increase related to Mexico. Direct costs were higher as a result of the mobilization expenses incurred on the drill fleet and the operating loss in Mexico as a result of start-up costs of two new rigs. Overall margins were also affected by the declining US\$.

Consolidated indirect and administrative expenses for the period were \$551,000, an increase of \$95,000 from \$456,000 in the prior year.

Items contributing to the increase in expenses are discussed individually below.

1. The Company recognized a foreign exchange loss of \$60,000 in 2006 compared to a foreign exchange gain of \$13,000 in 2005. The international industry generally works in US dollars and as the US dollar fluctuates against the Canadian dollar, the stated values of the Company's foreign working capital, including significant inventories, are affected. A portion of the companies expenditures are US\$ denominated and represented a partial hedge against US\$ fluctuations.

2. Accounting, audit and legal fees decreased by about \$37,000 in 2006 from the comparative period to \$30,000 in 2006 (2005- \$67,000). While audit fees increased due to regulatory requirements, legal decreased primarily due to the deconsolidation of IMPACT. In 2005, private placement financing activities contributed to higher legal fees than in 2006, also included in the 2005 costs is about \$29,000 of costs related to IMPACT's financings and due diligence involving mineral activities in Mexico during the period.
3. Insurance expense reflects pressure on premiums in general and the size of the Company's activities. As part of its efforts to avoid the impact of some of the more extreme insurance premium increases, the Company has a policy of insuring its drilling rigs and drilling supplies for physical loss, only while being physically transported.
4. Investor relations, promotion and travel costs declined by about \$17,000 to a total of about \$41,000 in 2006 from a total of around \$58,000 in the comparative period. However in 2005 approximately \$25,000 related to the activities of IMPACT to improve market awareness, as a result expenses related to Energold and its drilling activities have actually increased by \$9,000. Approximately 50% of these costs relate to industry conferences, and marketing efforts on behalf of the Company's drilling activities, and a further \$15,000 related to a current contract with an investor relations firm. Going forward, we would anticipate that these costs will continue to increase as the Company expands its operations and incurs higher costs in servicing its customer and investor base.
5. The cost of office and sundry increased to about \$72,000 in 2006 (2005 - \$ 47,000). This level of costs is anticipated to be maintained as the Company continues to upgrade its computer services and communication systems, and to add office and warehouse facilities overseas.
6. Management fees and consulting, and office salaries and services increased by about \$33,000 from the prior year to a total of about \$191,000 in the first quarter 2006. Part of this increase reflected the mandated stock exchange requirement to split the role of Chief Executive Officer and Chief Financial Officer which roles, up until mid year 2005 had both been performed by the Company's CEO. This requirement led the Company to hire Richard S. Younker M.B.A., C.A., CMC, who was appointed as a new chief financial officer of the Company in the fall of 2005. The Company also hired an individual to act as an Operations Manager to develop and improve Energold's drilling services capacity and capabilities. As a result of these senior hires and the need to hire other support staff we expect that the Company's staff support costs in 2006 will be significantly greater than the costs incurred in 2005. Further increases are expected as a result of additional staff requirements to service drill contracts, and to conduct project reviews for Energold.
7. For the 2005 calendar year, the Company recognized the value of stock options granted in the amount of \$643,802 to directors, officers and employees of both Energold and IMPACT, there was no comparable grant. In the first quarter of 2006, there was an expense of \$11,000 attributable to a grant of options to an investor relations firm. This represents a reduction of \$15,000 in such expense from the first quarter of 2005.
8. Amortization expense increased to \$91,000 from \$59,000 in 2005, due to the heavier investment in capital equipment.
9. During the period the Company earned about \$26,000 (2005- \$24,000) in interest income on its cash accounts. Taxes increased to about \$115,000 from about \$9,000 in the prior period. This primarily related to taxes paid by offshore subsidiaries.

### **Liquidity and Capital Resources**

Consolidated assets and liabilities for March 31, 2006 do not include those of IMPACT, whereas the comparative figures for March 31, 2005 do. Consolidated cash and cash equivalents at the end of the quarter were \$4,756,000 down from \$5,410,000 as at December 31, 2005. This traditionally is the low period for cash in the cycle, as mobilization costs and new capital expenditures are not offset by receipts from client billings. At the same time ongoing general and administrative costs are relatively insensitive to short term declines in activity.

Working capital now exceeds \$14.1 million compared to \$13.6 million at December 31, 2005 or \$12.5 million at March 31, 2005. During the quarter, the Company invested a further \$405,000 in property, plant, and equipment almost all of which related to new drill rigs. The balance of the cost of equipping a drill is accumulated under inventories.

Monies owed to a related party are due from the Company's subsidiary Kluane International Drilling Inc. and are unsecured, non-interest bearing and without specific repayment terms. Currently, management has not determined the exact repayment terms over the next five years because repayment will be dependent upon the cash flow generated from operations in Kluane, subject to other cash flow requirements in the same period.

### **Outstanding Share Data**

The following common shares and convertible securities of the Company were outstanding at May 10, 2006:

	# of Shares	Exercise Price	Expiry Date
Issued and outstanding common shares at May 10, 2006	21,433,833		
Employee and consultants stock options	740,000	\$ 0.15	June 14, 2006
	650,000	\$ 0.16	April 29, 2007
	1,150,000	\$ 1.20	May 3, 2010
	150,000	\$ 1.14	December 21, 2006
Warrants	1,200,000	\$ 1.50	September 30, 2006
Fully Diluted at May 10, 2006	25,323,833		

### **Transactions with Related Parties**

The Company currently has a three year employment contract with one director and officer for fees of \$15,250 per month. Fees and salary in the amount of \$46,000 were accrued or paid to this director and officer in 2006 (2005-\$38,000). The Company also paid \$13,000 in fees to another officer (2005-Nil). Salary of \$23,000 (2005-\$21,000) was accrued or paid to an individual related to a director.

In March 2004, two directors and officers acquired 870,000 units of a 1.0 million unit private placement of the Company at \$0.70 per unit. Each unit consisted of one common share and one-half share purchase warrant. One warrant entitles the holder to purchase an additional share of the Company until March 11, 2006 at a price of \$0.75 per share. In the first quarter of 2006, prior to expiry, all 490,000 outstanding warrants were exercised.

During the three months ended March 31, 2006, legal fees in the amount of \$4,000 (2005 - \$24,000) were accrued or paid to a firm related to a director.

### **Changes in Accounting Policies**

The consolidated financial statements for the period ended March 31, 2006 followed the same accounting policies and methods of application as in the prior year's annual financial statements.

### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the period reported. Significant estimates that involve highly subjective assumptions by management include the Company's estimate of stock-based compensation expense and its assessment of its mineral property values as well as its estimate of the appropriate allowance for inventory obsolescence. Actual results could differ from those reported.

### **Off-balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

**Financial Instruments and Other Instruments**

Energold's financial instruments consist of cash and short-term deposits, restricted cash, accounts receivable and accounts payable. Unless otherwise noted, it is management's opinion that while Energold is exposed to interest, currency or credit risks arising from the financial instruments the fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation.

**Additional Information**

Additional information relating to Energold is on SEDAR at [www.sedar.com](http://www.sedar.com).

On behalf of the board of directors,

"Frederick W. Davidson", President, CEO  
May 10, 2006