

**Energold Drilling Corp.**  
(formerly Energold Mining Ltd.)  
**Form 51-102F1**  
**Management Discussion and Analysis**  
**For the Period Ended September 30, 2006**

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### **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. ("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**

Group gross drilling revenues for the year to date were \$18.8 million, and for third quarter were \$7.7 million on 140,000m and 56,000m respectively. The Company has already drilled more meters in the first nine months than in any previous fiscal year preceding, and once again set another new record for the production in a quarter. The Company recorded a profit of \$1,197,354 (EPS of \$0.05) for the third quarter, with year to date earnings of \$1,973,846 (EPS of \$0.09). This is the largest profit for a quarter since the company became involved in contract drilling.

Energold has determined to establish itself as the premier socially and environmentally sensitive drilling contractor in the world. In response to world wide demand, especially with regard to our unique niche, the Company is continuing an aggressive program of expansion designed to access new markets for its drills and to increase its market share in current markets. The Company is now firmly established in a number of countries in South America, Mexico and is currently expanding into Argentina and parts of Africa.

This expansion has also resulted in higher than normal costs for the period but in turn is now achieving record levels of production. As margins continue to rise, profits for the group should continue to improve.

The Company continues to maintain a strong balance sheet with a fully consolidated working capital position of about \$17.6 million as at September 30, 2006 and consolidated group cash of about \$7.3 million. Liabilities due to related parties and non-controlling interests increased to a total of \$7.9 million from \$5.9 million at September 30, 2005.

As of this date, the Company has a total of 24 drills, either jointly or wholly owned, in the field two more being mobilized and a further 4 drills under construction. To finance part of this expansion, the Company has entered into a number of longer term contracts with clients who have provided substantial advances to cover new rig construction costs as well as guaranteeing sufficient contracts to amortize the investment.

The Company's exploration efforts, primarily focused on silver in Mexico, are through its investment in IMPACT (6.6 million shares - 17.5%). This year IMPACT raised in excess of \$10.5 million by private placement and acquired the Royal Mines of Zacualpan in the State of Mexico. This acquisition included two operating mines, a mill with a capacity of 500 tpd and control over approximately 125 sq kilometres of highly prospective ground. Zacualpan represents multiple exploration opportunities for IMPACT: that of a small but relatively high-grade silver mine; an asset that is sensitive to a rising silver and now zinc price where historical mining has left large lower-grade material; and the exploration potential for new and larger deposits. IMPACT has commenced an active exploration program at Zacualpan while current operations at the plant are now up to 200 tpd throughput.

Very recently IMPACT announced the optioning of a second silver mill this one located in the prolific silver district of Zacatecas. The acquisition the "Veta Grande Project" includes a 200tpd mill and five mineral concessions.

Both IMPACT and Energold enjoy certain synergies in working in Mexico including sharing logistical and accounting support as well as providing a diamond drill for IMPACT's exploration program.

Holding these assets through another public company IMPACT provides Energold the maximum flexibility in asset management. Energold's investment is carried at approximately \$1.1 million. The current market for IMPACT at \$1.40 is \$9.2 million. More details about IMPACT's operations and outlook are discussed separately below.

With the future of the Company focused on contract drilling 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.

## **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 three quarters were each the busiest in our operating history. This is in direct response to Energold's decision in late 2004 to take an aggressive policy towards expansion. The result has been an increase in operating costs over the last year but with the specific intention of continuing the very dramatic increase in production and firmly establishing ourselves in the market place.

Social and political issues are actively interfering with the industry throughout the world however our unique approach to diamond drilling has generated a positive response from the industry which is trying to address local concerns. Increasing demand for commodities continues to put pressure on the service industry for rigs and the industry as a whole is almost fully employed. Overall, new contracts and requests for tenders suggest that 2006-2007 will continue to be extremely busy. With the first nine months of the year having completed over 140,000m of drilling we are looking at record production for the year. With new rigs in place and new equipment under construction we hope to capitalize on the continuing demand into 2007.

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 change in the value of the Canadian dollar to the US dollar can have a significant impact on our overall profitability.

Although equipment suppliers are also increasing prices, with the increasing demand for drill rigs worldwide margins have stabilized and are starting to improve. 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. Our investment in drilling supplies inventories to support our operations has increased by approximately \$2.0 million in the past twelve months from \$5.6 million at September 30, 2005 to \$7.6 million at September 30, 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 at 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.

Crews remain a significant bottleneck in our expansion as it requires trained personnel with additional social skills to work in remote locations. 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.

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 included improved communications systems and warehouse facilities, and increased inventories at a number of strategic locations. We also experienced the costs of establishing Energold in Mexico and two new markets including the necessary infrastructure.

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 pullback while retaining its high degree of mobility. Current equipment is regularly upgraded to improve performance.

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

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

Energold has taken an aggressive position to expansion and the two newest rigs being mobilized as well as the next four rigs under construction are all 100% owned.

#### **Mexico**

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 in Mexico at the end of last year and during the first quarter mobilized a third man-portable and its SS-51 heavy rig to the field. Because of the need to build infrastructure the Company incurred excessive start-up costs in Mexico as well as mobilization costs on the two new rigs for the first half. The third quarter production was down from the second quarter as three of the Mexican rigs were being repositioned, however it appears the fourth quarter in Mexico will be extremely busy, with another rig being delivered before the end of the year bringing the total to five.

The Company is anticipating bringing the total in Mexico to approximately 8 rigs in 2007, however it may add additional rigs in response to the increasing demand.

#### **New Markets**

The Company is developing new markets for its services. It has recently mobilized a Series II portable rig to Argentina and has another Series II rig currently working in Madagascar on a project by project basis.

The Company has set a number of objectives for the next 18 months. Energold will continue its research and development to ensure it remains ahead of the industry as well as expanding product lines to better serve our clients. The Company anticipates the addition of a further 5-6 of its Series II and Series III rigs a year, and plans to penetrate more deeply some existing markets while expanding into at least one new market. 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 prototype 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 two years. The area includes mountainous terrain and areas of heavy forestation, ideal for our approach to exploration. Kluane had four drills in Ecuador, added a fifth drill late in the first quarter, and completed in excess of 43,000m in the first nine months. A number of the drills are currently being upgraded to 128hp with improved pullback, to increase their depth capabilities.

In the Dominican Republic, the Company has now four available rigs, conducting a combination of smaller projects and an extensive drill program at the Pueblo Viejo mine, which is jointly owned by Barrick and Goldcorp. In Guatemala and Nicaragua, we have a further two rigs, where we have drilled for a number of clients including Glamis and Meridian 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 drilling approach can help address. Overall 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. Brazil has certain cost and bureaucratic deficiencies which we hope with time to overcome.

Kluane is also conducting limited programs 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. In spite of the first quarter being slow in 2006, the first nine month's meters drilled exceeded the comparable period last year by double. Peruvian voters went to the polls in a general election in June of 2006. These election results appear to have had a positive influence over the pace of mining exploration and drilling activities in Peru and we anticipate the balance of 2006 will continue to be relatively good. This is a very large and competitive market where our clients and projects vary in size and nature.

The Company currently has four drills located in Peru, including our largest version of the modular rigs with the capability of running with 168hp.

## **PROJECT AND EQUITY HOLDINGS**

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

As at September 30th, 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 \$1,095,920 has a market value well in excess of its' carried value.

### **Highlights**

- To date IMPACT has completed financings totalling \$10.5 million Canadian.
- During the first nine months of, 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, mining equipment and mineral concessions covering 125 sq kilometers over 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 surface core drilling program commenced on the property in the beginning of May 2006 and to date has completed over 4,900m of drilling. This work has been carried out by Energold Drilling's Mexican division.

- In July IMPACT announced optioning of a second processing plant (200tpd capacity) (the "Veta Grande Project") as well as five concessions in the Zacatecas mining district.

IMPACT has demonstrated profitability and positive cash flows since the acquisition of the Zacualpan project and plans to grow into a significant producer of silver by expanding and upgrading the Royal Mines of Zacualpan operations, developing the Veta Grande Project and through further acquisitions.

## **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 first quarter of 2006, a second program of approximately the same number of meters was drilled on the property by GoldQuest. 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 2005, Energold engaged a group to assist in its investor relations program. That group received a monthly retainer of \$5,000 and an option to purchase 150,000 common shares of the Company for \$1.14. The relationship was terminated in August of this year, and a new group retained at \$7,000 per month.

With the recent change in name to Energold Drilling Corp. the drilling group hopes to establish itself as the name plate for its innovative 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 recently published in its annual report 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 maintain 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 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) (Basic)	Diluted Net Income Per Share (Note 1)	Total Assets	Total Long-term Liabilities (Note 2)
3 <sup>rd</sup> 2006	3,445	1,197	0.05	0.05	26,023	7,286
2 <sup>nd</sup>	2,381	627	0.03	0.02	22,893	6,195
1 <sup>st</sup>	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

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 in direct costs. Net revenue for the quarter before that provision would be \$1,414 (2004 - \$1,008).

## Results of Operations

Gross drill revenues and meters drilled for the quarter at 56,000m were up substantially from 2005's third quarter of 31,000 billable meters. Year to date, total billable meters drilled increased by over 52,000 meters from about 88,000 meters in 2005 to over 140,000 meters in the first nine months of 2006. The Company recorded net earnings of \$1,197,000 for the third quarter or \$0.05 per share, basic, compared to \$412,000 or \$0.02 per share in 2005. Year to date earnings in 2006 are \$1,974,000 or \$0.09 per share diluted, compared to \$996,000 or \$0.04 per share, diluted, in 2005. Revenue from drilling contracts, net of direct costs, increased by more than \$1.4 million in the current quarter and by more than \$2.1 million for the year to date compared to similar periods in 2005. As the Company increases its number of wholly owned rigs, and successfully deploys these in the field, it expects its bottom line results to continue to improve.

Drilling activity for the quarter was significantly higher than any previous period reflecting both the increased number of rigs in service and high levels of drilling activity in all markets that the Company services. Drilling in Ecuador continued to represent the Company's biggest current market opportunity area, representing a little over thirty percent of total meters drilled both for the quarter and year to date. Peru has been the next most significant market accounting for a little over eighteen percent of meters drilled in the current quarter and slightly over fifteen percent of meters drilled for the year to date. Compared to the same period in the prior year, the most significant operating increases have occurred in Brazil, the Dominican Republic, Peru Mexico and our operations in Africa. The increased drilling activity in Brazil and Mexico is attributable to additional drills being put into service in those markets. The pickup in activity in Peru and the Dominican Republic is a result of a return to more normal levels of drilling activity in those markets after a comparatively slow period of drilling activity in 2005. Our operations in Africa now include a new, wholly owned, drill rig that we have now put into service in Madagascar. Direct costs were higher as a result of the mobilization expenses incurred in adding additions to our drill fleet. We also experienced an operating loss in Mexico earlier in the year as a result of incurring start-up costs on two new wholly owned drill rigs, recently put into service in that country. Overall margins were also affected by the declining value of the U.S. dollar relative to our Canadian currency since many of our drilling contracts have been quoted in U.S. dollar terms.

### Indirect and Administrative Expenses

Consolidated indirect and administrative expenses for the most recent quarter were \$781,000 or \$60,000 less than the previous quarter and just slightly above the \$758,000 third quarter expense in the prior year. The most significant changes in the period were in the areas of foreign exchange, stock-based compensation, and office salaries and services.

Some of the more significant items comprising indirect and administrative expenses are discussed individually below.

1. During the most recent quarter, the Company recognized a foreign exchange gain of \$3,000 compared to a foreign exchange loss on translation of our foreign working capital of \$279,000 in the third quarter of 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. During the second quarter the value of the Canadian dollar continued to appreciate against the US dollar increasing by almost 4 percent during the quarter. This trend reversed during the late portion of the third quarter accounting for our slight reported gain on foreign exchange. A portion of the companies expenditures are US dollar denominated and represent a partial hedge against US dollar fluctuations but this is not normally sufficient to offset significant changes in relative currency values during the quarter. For the first nine months of the year, our overall revenues have continued to be negatively affected as we experienced total foreign exchange costs of \$333,000 for the nine months to date in 2006 compared to overall foreign exchange translation costs of \$237,000 during the similar 2005 period. Economists and the Bank of Canada are reporting their belief that the Canadian dollar is currently trading close to its "current fair value" with respect to the US dollar. As a result, we would not expect to see

continuing foreign exchange losses of the same magnitude as the first half of 2006 carrying forward into future quarters of the year.

2. Accounting, audit and legal fees increased during the quarter by about \$89,000 in 2006 from the comparative period to \$141,000 in 2006 (2005- \$52,000). The largest component of this cost increase relates to our audit fees and includes a correction, for an under provision for audit fees in 2005, which when billed to us came in much higher than expected and for a catch up provision to put in place a higher accrual for anticipated 2006 audit fees. While our audit fees increased significantly due to increased financial reporting and regulatory requirements, our legal expenses decreased primarily due to the deconsolidation of IMPACT. In 2005, private placement financing activities contributed to higher legal fees than in 2006. Overall, comparing the first nine months of 2006 to the similar period in 2005, our total accounting, audit, and legal costs are almost identical during this period at about \$224,000 for the year to date.

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. We had expected our insurance costs to increase by approximately twenty percent in 2006 compared to 2005 as a result of higher levels of overall corporate activity and insurance premium pressures. While we have experienced recent cost increases in our insurance policies these increased policy premium costs will not start to show up in our financial statements until the fourth quarter.

4. Investor relations, promotion and travel costs almost doubled in the recent quarter from the same time period a year ago, but overall they are still lower for the first nine months of 2006 compared to the first three quarters of 2005. Approximately 50% of these costs relate to industry conferences, and marketing efforts on behalf of the Company's drilling activities. During the third quarter, the Company terminated a contract with one investor relations firm and appointed a new investor relations firm, on a monthly retainer to handle some of its investor relations activities. 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 has increased by about \$71,000 for the first nine months in 2006 to \$194,000 compared to \$123,000 for the similar period in 2005. These costs are likely to continue to increase, although at a lesser rate, as the Company continues to upgrade its office systems capabilities and to expand its activities into new markets and to add office and warehouse facilities overseas.

6. Reported management fees and consulting, and office salaries and services together increased by about \$119,000 for the first nine months of 2006 compared to the first nine months of 2005. In total these costs amounted to \$728,000 for the first nine months of 2006 compared to \$609,000 for the similar 2005 period or approximately \$243,000 per quarter in 2006 compared to \$203,000 per quarter in 2005. The actual increase in cost per quarter is somewhat greater than this since the 2005 comparative figures included some costs related to the administration of IMPACT prior to its deconsolidation as at June 30, 2005. In 2005, an amount of \$75,000 was accrued and paid as a bonus to directors and officers during the first nine months of 2005. For 2006, as disclosed in note 10a to our third quarter financial statements, an accrual was made in the third quarter for \$100,000 to be paid to directors and officers. This accrual accounts for the significant increase in these costs reported in the third quarter compared to the second quarter of this year.

In fact, management fees, consulting costs, and office salaries have risen significantly in 2006 compared with 2005 because of the need to hire additional staff in Energold to support the growth of our business. 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 the 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. Overall, these staff cost increases are fully supported by the growth of our business.

7. During the first nine months of 2005 the Company recognized the value of stock options granted in the amount of \$406,000 to directors, officers and employees of both Energold and IMPACT, \$79,000 of which were expensed in the third quarter of 2005. During the first nine months of 2006 there has been no comparable grant thus accounting for a decrease in reported stock-based compensation expense for the year to date of about \$373,000. The only expense of this nature recorded in 2006 has been an expense of \$11,000 recognized each quarter attributable to a grant of options to an investor relations firm whose contract was terminated in August. The options issued to this firm, for which accounting rules required us to recognize a theoretical opportunity cost, expired unexercised thirty days following the termination of our contract with that firm. Regrettably, accounting reporting rules do not allow us to reverse the stock option expense that has already been charged to earnings. Year to date, the reduction in stock-based compensation expense of \$373,000 has gone a long way to offset the increase in all other costs reported for the first nine months of 2006 compared to the similar period in 2005. As a result, our overall reported costs for the first nine months of 2006 for indirect and administrative expenses have risen by less than two percent compared to the similar 2005 period, whereas our revenues from drilling contracts, net of direct costs, have increased by forty five percent during this same time period.

8. Amortization expense for the third quarter of 2006 increased to \$135,000 from \$86,000 in the third quarter of 2005, due to the heavier investment in capital equipment and the increased number of drills in the Company's operations. For the year to date, amortization expense has increased by approximately \$100,000 or forty percent over the prior year, below the rate of our overall increase in drilling revenues, noted above.

#### Other Income (Expenses)

1. During the quarter the Company earned about \$51,000 (2005- \$27,000) in interest income on its cash accounts.

2. 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 income net of expenses incurred in IMPACT during the quarter on a single line basis as \$37,000 of other 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. The Company's overall share of IMPACT's income for the year to date is \$154,000.

3. Withholding and other taxes increased to about \$341,000 for the first nine months of this year from about \$119,000 in the similar period of 2005. These amounts primarily relate to taxes paid by offshore subsidiaries. The amounts incurred on a quarterly basis may vary significantly from quarter to quarter depending upon decisions made by management to repatriate earnings as well as the timing of local tax payments imposed by foreign jurisdictions.

#### Liquidity and Capital Resources

Consolidated cash and cash equivalents at the end of the quarter were \$7,340,000 an increase of \$1,930,000 from \$5,410,000 as at December 31, 2005, and an increase of \$2,300,000 from the June 30th second quarter. Accounts receivable at September 30, 2006 at \$5,299,000 are approximately \$1,953,000 higher than at year end and \$520,000 greater than the balance outstanding at June 30, 2006. The amount outstanding reflects the increase in drilling activity that took place in the third quarter when billable meters drilled increased by approximately eight percent compared to the second quarter of the year. The first quarter 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. Activity then generally increases in our second quarter, peaks in the third quarter and then declines in the fourth quarter. At the same time ongoing general and administrative costs are relatively insensitive to short term declines in activity.

Group working capital at September 30, 2006 now exceeds \$17.5 million compared to \$13.6 million at December 31, 2005 and \$15.3 million at June 30th, 2006. Approximately forty five percent of the working capital is invested in inventories essential for servicing and maintaining the Company's drilling activities in the various markets in which it operates. Because the Company operates primarily in foreign offshore markets where normal credit facilities are not available to it, the Company must be its own financier holding cash resources on hand to fund the long lead times for ordering and obtaining drilling supplies and equipment and funding the mobilization costs and working capital requirements of the business during slow periods in order be able to operate and finance the working capital requirements of the business during peak operating periods. During the quarter, the Company maintained its investment in property, plant, and

equipment at a similar level to the prior quarter, with equipment amortization expense slightly reducing the overall balance sheet carrying value of the equipment inventory almost all of which relates to drill rigs. The major portion of the cost of equipping and outfitting a drill for field service is accumulated under inventories.

Monies owed to related parties 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 November 20, 2006

	# of Shares	Exercise Price	Expiry Date
Issued and outstanding common shares at November 20, 2006	22,235,352		
Employee and consultant stock options	650,000	\$ 0.16	April 29, 2007
	1,150,000	\$ 1.20	May 3, 2010
Fully Diluted at November 20, 2006	24,035,352		

### **Transactions with Related Parties**

The Company currently has a three year employment contract (expiring April 1, 2008) with one director and officer for fees of \$15,250 per month. During the nine months ended September 30, 2006, salary in the amount of \$137,250 was accrued or paid to this director and officer (2005-\$129,000). The Company also accrued or paid \$69,113 in fees to another officer (2005-\$18,000). Salary of \$70,200 (2005-\$66,450) was accrued or paid to an individual related to a director. In addition, \$100,000 (2005-\$75,000) was accrued during the third quarter as a bonus to directors and officers of which \$75,000 (2005- \$56,250), is to be paid in the form of 81,519 shares of the Company at \$0.92 per share.

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.

In May 2005, the Company issued 50,000 shares at a price of \$1.15 per share to a director and officer in relation to a private placement. The shares issued were subject to a four month hold period and the value of \$57,500 was shown as share issue costs.

During the nine months ended September 30, 2006, legal fees in the amount of \$28,742 (2005 - \$68,109) were accrued or paid to a firm related to a director.

During the nine months ended September 30, 2006, fees in the amount of \$533,554 (2005 - \$183,020) were charged to IMPACT for contract drilling services performed in Mexico.

### **Changes in Accounting Policies**

The consolidated financial statements for the period ended September 30, 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  
November 20, 2006