
MANAGEMENTS' DISCUSSION AND ANALYSIS

General

Management's discussion and analysis ("MD&A") has been prepared based on information available to Metallica Resources Inc. (the "Company") as of February 17, 2006. MD&A provides a detailed analysis of the Company's business and compares its 2005 financial results with those of the two previous years. In order to gain a better understanding of MD&A, it should be read in conjunction with the Company's consolidated financial statements. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). For a reconciliation of measurement differences to United States generally accepted accounting principles ("U.S. GAAP"), see Note 13 to the consolidated financial statements. All amounts are in U.S. dollars unless otherwise indicated.

The Company is an emerging gold and silver producer focused on the exploration and development of precious metal rich properties throughout the Americas. The Company has two principal mineral properties: the 100%-owned Cerro San Pedro gold and silver project in Mexico and the 30%-owned El Morro copper-gold project in Chile.

The Cerro San Pedro project contains estimated mineral reserves¹ of 63.0 million tonnes grading 0.58 grams per tonne gold and 23.9 grams per tonne silver at a waste-to-ore ratio of 1.16 to 1. This equates to 1.17 million ounces of gold and 48.4 million ounces of silver. The mineral reserves were estimated using a gold price of \$375 per ounce and a silver price of \$5.77 per ounce, and were prepared by William Rose of WLR Consulting Inc., the Qualified Person, in accordance with Canadian Securities Administrators National Instrument 43-101, "Standards of Disclosure for Mineral Projects".

The El Morro project is subject to an exploration agreement with Falconbridge Limited ("Falconbridge"), formerly Noranda Inc., which allowed for Falconbridge to earn a 70% interest in the project by making, among other requirements, a \$10 million payment to the Company by September 14, 2005. The \$10 million payment was made to the Company on August 31, 2005 and resulted in Falconbridge earning a 70% interest in the El Morro project. The exploration agreement also provides that Falconbridge must complete a feasibility study on the project by September 14, 2007. Falconbridge is responsible for 100% of the cost of preparing the feasibility study.

In September 2005, the Company reported an updated mineral resource² estimate for the La Fortuna deposit at the El Morro project. Using a 0.4% copper cutoff grade, the La Fortuna deposit is estimated to contain indicated mineral resources³ totaling 185 million tonnes grading 0.72% copper and 0.62 grams per tonne gold. In addition, the La Fortuna deposit is estimated to contain inferred mineral resources⁴ totaling 295 million tonnes grading 0.58% copper and 0.44 grams per tonne gold. The mineral resource estimates were calculated independently by Norwest Corporation in collaboration with the Company and incorporated the results from 23 core holes totaling 9,932 meters completed by Falconbridge from late 2004 through early 2005. The Qualified Persons, as defined by Canadian Securities Administrators National Instrument 43-101, responsible for the design and completion of the updated mineral resource estimates are Bruce M. Davis, Fellow - AusIMM and Chief Geostatistician for Norwest Corporation and Mark Petersen, Certified Professional Geologist - AIPG and Exploration Manager for Metallica Resources.

Critical Accounting Policies

The Company's accounting policies are described in Note 2 to the consolidated financial statements. Management considers the following policies to be the most critical in understanding the judgments and

¹ Mineral reserves have been calculated in accordance with National Instrument 43-101, as required by Canadian Securities regulatory authorities. For United States reporting purposes, Industry Guide 7 (under the Securities Exchange Act of 1934, as interpreted by the Staff of the Securities and Exchange Commission), applies different standards in order to classify mineralization as a reserve. The Cerro San Pedro project mineral reserves are classified as such under both Canadian and U.S. regulatory authorities.

² Mineral resources have been estimated at a 0.4% copper cutoff grade. Mineral resources that are not mineral reserves do not have demonstrated economic viability.

³ **Cautionary note to U.S. investors concerning estimates of indicated mineral resources:** We advise U.S. investors that while this term is recognized and required by Canadian regulations, the U.S. Securities and Exchange Commission does not recognize it. U.S. investors are cautioned not to assume that any part or all of mineral deposits in this category will ever be converted into mineral reserves.

⁴ **Cautionary note to U.S. investors concerning estimates of inferred mineral resources:** We advise U.S. investors that while this term is recognized and required by National Instrument 43-101 under Canadian regulations, the U.S. Securities and Exchange Commission does not recognize it. "Inferred mineral resources" have a great amount of uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an inferred mineral resource will ever be upgraded to a higher category. Under Canadian rules, estimates of inferred mineral resources may not form the basis of a feasibility or other economic study. U.S. investors are cautioned not to assume that any part or all of an inferred mineral resource exists or is economically or legally mineable. Under Canadian rules, an "inferred resource estimate" is that part of a mineral resource for which the quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes.

estimates that are involved in the preparation of its consolidated financial statements and the uncertainties which could materially impact its results of operations, financial condition and cash flows.

Use of Estimates

The preparation of the Company's financial statements, in conformity with generally accepted accounting principles, requires that management make assumptions and estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management continually evaluates its assumptions and estimates; however, actual amounts could materially differ from those based on assumptions and estimates.

Management has identified the following critical accounting estimates that could have a material impact on the Company's financial statements:

Mineral Properties and Deferred Costs:

Mineral reserve estimates are imprecise and depend partly on statistical inferences drawn from drilling and other data, which may prove to be unreliable. Future production could differ dramatically from mineral reserve estimates due to differences in actual mineralization and mineralization estimated by sampling, variances in the grade of mineral reserves, increases in mining, processing and reclamation costs, and changes in the market price of gold and/or silver. The Company's mineral reserves are limited to its Cerro San Pedro gold and silver project in Mexico.

Management regularly reviews and evaluates the carrying value of each mineral property for impairment. If the total estimated future cash flows on an undiscounted basis are less than the carrying value of the asset, an impairment loss is recorded and the carrying value of the property is written down to fair value, which is typically the estimated future discounted cash flows. Where estimates of future cash flows are not available and where other conditions suggest impairment, management assesses whether the carrying value can be recovered by considering alternative methods of determining fair value. When it is determined that a mineral property has been impaired, it is written down to its estimated fair value in accordance with the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3063, "Impairment of Long-Lived Assets". As a result of these potential write-offs and write-downs from its exploration and development activities, net income or loss of the Company may be volatile.

An impairment assessment was performed on the Cerro San Pedro project using estimated long-term future gold and silver prices of \$425 per ounce and \$6.54 per ounce, respectively. Estimated long-term gold and silver prices were determined largely from prices used by peers, current market prices, historical price trends and analysts' price expectations.

Accounting for Stock Options:

The fair value of stock options used to calculate compensation expense has been estimated using the Black-Scholes Option Pricing Model with the following assumptions:

	2005	2004	2003
Risk free interest rate (Canada)	3.2 to 3.7%	3.3 to 3.5%	3.6 to 4.4%
Expected dividend yield	0.0%	0.0%	0.0%
Expected volatility of the Company's common shares	65 to 66%	70 to 71%	75 to 87%
Expected life of option	5 years	5 years	5 years

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

Asset Retirement Obligation:

The Company's reclamation and closure cost obligation is calculated using highly subjective assumptions that include the Company's long-term credit-adjusted risk-free interest rate, the long-term inflation rate, the year in which the reclamation obligation is expected to begin and the current estimate of the reclamation obligation. Any changes in these subjective assumptions could materially affect the Company's reclamation and closure cost obligation.

Mineral Properties and Deferred Costs

The Company's current business activity focus is on the exploration and, if practicable, the development of precious metal rich mineral deposits. The cost of acquiring specific mineral properties, and any subsequent exploration, development or other costs that are directly attributable to the properties are capitalized. Exploration expenditures that are incurred prior to the acquisition of a mineral property are expensed. In the event that the Company elects to proceed with the development of a project, capitalized acquisition, exploration and development expenditures will be amortized against future production upon commencement of commercial production, or written off if the properties are sold or abandoned.

A) Operating Results

The Company has generated net income in two of the last three years principally as a result of foreign exchange gains and income from property payments. The Company does not have any operating mines. Management anticipates that the Company will incur net losses for at least the next year as a result of ongoing general and administrative expenses, exploration expenses, write-downs of mineral properties and deferred costs, and other costs. The Company anticipates that the losses will reverse after it achieves commercial production at its 100%-owned Cerro San Pedro project in Mexico. The Cerro San Pedro project is currently under construction and is expected to be completed by the end of 2006. However, there are no assurances that commercial production from the Cerro San Pedro project will be achieved.

Selected Annual Information

	2005	2004	2003
Total revenues	\$ --	\$ --	\$ --
Net income (loss)	\$ 7,958,798	\$ 1,368,462	\$ (1,715,547)
Total assets	\$ 99,919,884	\$ 90,293,100	\$ 93,353,848
Long-term liabilities	\$ 343,164	\$ 203,818	\$ --
Basic net income (loss) per share	\$ 0.10	\$ 0.02	\$ (0.04)
Diluted net income (loss) per share	\$ 0.10	\$ 0.01	\$ (0.04)

Net income for 2005 of \$7.96 million was primarily due to \$8.35 million of income from property payments and \$1.05 million of foreign exchange gains. Net income in 2004 of \$1.37 million was primarily attributable to an increase in foreign exchange gains from \$0.61 million in 2003 to \$2.17 million in 2004, and an increase in interest income from \$0.16 million in 2003 to \$0.93 million in 2004. The selected annual information has been prepared in accordance with Canadian GAAP. For a reconciliation to U.S. GAAP, see Note 13 to the consolidated financial statements.

2005 Compared with 2004

The Company reported net income of \$7.96 million (\$0.10 per share) for the year ended December 31, 2005 as compared to net income of \$1.37 million (\$0.02 per share) for the year ended December 31, 2004. Significant changes between the 2005 and 2004 income and expense amounts that comprised net income are discussed below.

The Company does not own any interests in producing mineral properties or have any other revenue generating activities; therefore, it does not have any operating income or cash flow from operations. The Company's only significant sources of income are from property payments and interest earned on cash and cash equivalents. Income from property payments increased from \$0.30 million in 2004 to \$8.35 million in 2005. The \$8.05 million increase results from a \$10 million earn-in payment received from Falconbridge in August 2005, which resulted in Falconbridge earning a 70% interest in the El Morro project.

General and administrative expense for the year ended December 31, 2005 totaled \$1.75 million and was \$0.28 million higher than 2004 expenditures of \$1.47 million. The increase was primarily attributable to employee bonus payments totaling \$0.17 million in the current period versus nil in the preceding period.

Stock-based compensation expense increased from \$0.08 million for the year ended December 31, 2004 to \$0.34 million for the year ended December 31, 2005. The \$0.26 million increase was primarily attributable to an increase in stock option grants from 400,000 in 2004 to 880,000 in 2005. In addition, the Company capitalized stock-based compensation expense totaling \$0.09 million in 2005 and \$0.55 million in 2004, as a result of stock options granted to employees at its Cerro San Pedro development project.

Foreign exchange gains of \$1.05 million in 2005 and \$2.17 million in 2004 were principally due to unrealized gains associated with holding large cash balances in Canadian dollars (Cdn\$39.4 million and Cdn\$42.3 million at December 31, 2005 and 2004, respectively), and the strengthening of the Canadian dollar relative to the U.S. dollar in 2004 and 2005. The Cdn\$/US\$ exchange rate at December 31, 2003 was 1.2946 as compared to 1.2048 on December 31, 2004, and 1.1660 on December 31, 2005.

Income tax expense increased from \$0.14 million in 2004 to \$0.15 million in 2005, despite an increase in income before taxes of \$6.60 million in 2005. This was principally due to the recognition of tax loss carryforwards in the current period which offset the taxable gain attributable to the \$10 million earn-in payment received from Falconbridge in August 2005.

2004 Compared with 2003

The Company reported net income of \$1.37 million (\$0.02 per share) for the year ended December 31, 2004 as compared to a net loss of \$1.72 million (\$0.04 per share) for the year ended December 31, 2003. Significant changes between the 2004 and 2003 income and expense amounts that comprised net income (loss) are discussed below.

Interest income for the year ended December 31, 2004 increased to \$0.93 million from \$0.16 million in the preceding year. The \$0.77 million increase resulted from higher average invested cash balances in 2004 as a result of a \$61.31 million public equity offering for shares and warrants that closed in December 2003. The Company's only other source of income in 2004 was the receipt of property payments from the sale of its Mara Rosa project totaling \$0.30 million, as compared to \$0.15 million in 2003.

General and administrative expense for the year ended December 31, 2004 totaled \$1.47 million and was \$0.22 million higher than 2003 expenditures of \$1.25 million. The increase was primarily attributable to an increase in business insurance premiums, higher financial advisory services and retainer fees paid to the Company's directors.

Stock-based compensation expense increased from \$0.01 million for the year ended December 31, 2003 to \$0.08 million for the year ended December 31, 2004. The \$0.07 million increase results from the Company's adoption of the CICA Section 3870, "Stock-based Compensation and Other Stock-based Payments" on January 1, 2004, which requires an expense to be recognized in the financial statements for all forms of employee stock-based compensation, including stock options.

The Company terminated its MIMK exploration program and abandoned its remaining MIMK properties in 2004, which resulted in a write-down of mineral properties and deferred costs totaling \$0.08 million in 2004. The Company also abandoned its Los Colorados MIMK exploration property in 2003 resulting in a write-down of mineral properties and deferred costs totaling \$0.70 million in 2003.

Interest expense of \$0.04 million and \$0.45 million for the years ended December 31, 2004 and 2003, respectively, represents interest accretion on acquisition debt relating to the Company's purchase of its former joint venture partner's 50% interest in the Cerro San Pedro project in February 2003. The acquisition debt was paid off in February 2004.

Foreign exchange gains of \$2.17 million in 2004 and \$0.61 million in 2003 are primarily attributable to unrealized gains associated with holding the majority of the net proceeds from the Company's December 11, 2003 public equity offering in Canadian dollars (Cdn\$80.75 million), and the subsequent strengthening of the Canadian dollar relative to the U.S. dollar. The Cdn\$/US\$ exchange rate at December 11, 2003 was 1.3082 as compared to 1.2946 on December 31, 2003, and 1.2048 on December 31, 2004.

Income tax expense increased from a (\$0.01) million income tax benefit in 2003 to \$0.14 million of income tax expense in 2004. The \$0.15 million increase in income taxes in 2004 resulted from approximately \$0.09 million of Canadian withholding taxes on interest earnings from a foreign subsidiary, and approximately \$0.05 million of Mexican income taxes. In the preceding year, Canadian withholding and Mexican income taxes were insignificant.

Summary of Quarterly Results

The summary of quarterly results has been prepared in accordance with Canadian GAAP.

	2005			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Total revenues	\$ --	\$ --	\$ --	\$ --
Net income (loss)	\$ 15,202	\$ 9,663,769	\$ (993,277)	\$ (726,896)
Basic net income (loss) per share	\$ 0.00	\$ 0.12	\$ (0.01)	\$ (0.01)
Diluted net income (loss) per share	\$ 0.00	\$ 0.12	\$ (0.01)	\$ (0.01)
	2004			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Total revenues	\$ --	\$ --	\$ --	\$ --
Net income (loss)	\$ 1,582,433	\$ 1,649,917	\$ (1,174,302)	\$ (689,586)
Basic net income (loss) per share	\$ 0.02	\$ 0.02	\$ (0.01)	\$ (0.01)
Diluted net income (loss) per share	\$ 0.01	\$ 0.02	\$ (0.01)	\$ (0.01)

The high quarterly net income (loss) volatility for 2004 primarily resulted from holding large cash balances in Canadian dollars and high fluctuations in Cdn\$/US\$ exchange rates. Net foreign exchange gains (losses) totaled (\$0.59 million), (\$0.90 million), \$1.85 million and \$1.80 million for the first, second, third and fourth quarters of 2004, respectively. The high quarterly net income (loss) volatility for 2005 is also attributable to holding large cash balances in Canadian dollars and high fluctuations in Cdn\$/US\$ exchange rates. Net foreign exchange gains (losses) totaled (\$0.36 million), (\$0.32 million), \$1.58 million and \$0.15 million for the first, second, third and fourth quarters of 2005, respectively. In addition, the Company recognized income from property payments in the third quarter of 2005 totaling \$8.35 million as a result of Falconbridge's \$10 million earn-in payment on the El Morro project.

B) Liquidity and Capital Resources

At December 31, 2005, the Company had \$42.67 million in cash and cash equivalents and working capital of \$42.26 million. The Company believes that it has sufficient cash balances to complete construction of the Cerro San Pedro project. The Company may pursue additional debt or equity financing to cover potential cost overruns and for other corporate projects.

For the years ended December 31, 2005, 2004 and 2003, the Company received net proceeds of \$0.43 million, \$0.76 million and \$71.16 million, respectively, from the sale of equity securities and the exercise of warrants and stock options. Approximately \$70.77 million of the 2003 net proceeds is due to a private placement financing for \$9.46 million that closed in March 2003, and a public equity offering for \$61.31 million that closed in December 2003. A portion of the proceeds from the 2003 equity financings was used to purchase the Company's former joint venture partner's 50% interest in the Cerro San Pedro project, to acquire a related royalty and for working capital. The proceeds will also be used for construction of the Cerro San Pedro project.

The December 2003 public equity offering provided for the issuance of 38.7 million units at a price of Cdn\$2.20 per unit for gross proceeds of Cdn\$85.1 million (US\$61.3 million, net of issue costs). Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase one common share at an exercise price of Cdn\$3.10. The warrants expire on December 11, 2008.

At December 31, 2005, the Company had working capital of \$42.26 million as compared to \$41.52 million at December 31, 2004. The increase in working capital of \$0.74 million was principally due to the \$10 million earn-in payment received from Falconbridge, less \$9.8 million of additions to mineral properties and deferred expenditures.

The Company's cash and cash equivalents increased by \$1.05 million for the year ended December 31, 2005 as compared to a decrease in cash and cash equivalents of \$24.49 million for the year ended December 31, 2004. The \$25.54 million decrease in 2005 cash outflows was primarily attributable to the following: \$11.0 million in acquisition and debt payments in 2004 to the Company's former joint venture partner on the Cerro San Pedro project versus nil in the current period, a decrease in expenditures on mineral properties of \$5.86 million, in the current period and an increase in cash received from property payments of \$9.70 million in the current period.

As of December 31, 2005, the Company had capitalized mineral properties and deferred expenditures totaling \$55.53 million. This amount included \$53.14 million relating to the Cerro San Pedro project, of which \$7.93 million and \$19.75 million was capitalized in 2005 and 2004, respectively, for acquisition and other project related costs.

Capitalized expenditures relating to the El Morro project totaled \$0.02 million at December 31, 2005 as compared to \$1.64 million at December 31, 2004. The \$1.62 million decrease primarily resulted from applying \$1.65 million of deferred costs incurred as of August 31, 2005 against the \$10 million Falconbridge earn-in payment, also received on August 31, 2005. Additions to deferred costs totaled \$0.03 million and \$0.60 million for the years ended December 31, 2005 and 2004, respectively.

Substantially all exploration expenditures on the El Morro project since 2000 have been incurred by Falconbridge pursuant to an exploration agreement that provided for Falconbridge to earn a 70% interest in the project. Although Falconbridge completed its earn-in requirements in August 2005, it remains obligated to complete a feasibility study on the project by September 2007, the cost of which will be borne by Falconbridge. As part of its requirement to complete a feasibility study by September 2007, Falconbridge commenced work on a 26,500 meter drilling program in late 2005 at the La Fortuna area of the El Morro project. In the event that future exploration work is performed on the project, the Company will be responsible for its 30% share of these costs.

In September 2004, the Company entered into an option agreement to acquire a 100% interest in the Rio Figueroa copper-gold exploration project in Chile. The agreement provides for the Company to make annual option payments over a five-year period beginning September 2004 totaling \$3.5 million, and to incur annual exploration expenditures over a three-year period beginning September 2004 totaling \$1.5 million, in order to exercise the option. As of December 31, 2005, the Company had incurred costs on the project totaling \$1.86 million.

In September 2005, the Company entered into an option agreement that allows it to earn a 65% interest in precious metal rich exploration properties located in Southwest Alaska and the Aleutian Islands by making qualifying aggregate expenditures totaling \$4.75 million over a five-year period beginning September 2005. The Company may increase its interest in individual properties to 70% by completing a pre-feasibility study, and it may further increase its interest in individual properties to 80% by completing a feasibility study. As of December 31, 2005, the Company had incurred costs on the project totaling \$0.48 million.

The Company's contractual obligations for future payments are summarized as follows:

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 Year	1 – 3 Years	4 – 5 Years	After 5 Years
Long-term debt	\$ --	\$ --	\$ --	\$ --	\$ --
Capital lease obligations	--	--	--	--	--
Operating leases	354,468	86,263	113,255	103,300	51,650
Purchase obligations ¹	125,172,000	9,760,000	37,215,000	36,146,000	42,051,000
Other long-term obligations	--	--	--	--	--
Total contractual obligations	\$ 125,526,468	\$ 9,846,263	\$ 37,328,255	\$ 36,249,300	\$ 42,102,650

¹ Purchase obligations include estimated amounts to be incurred by WGI totaling \$111.8 million pursuant to a ten-year contract mining and construction services agreement for the Cerro San Pedro project that was entered into on December 30, 2003. The contract provides that the Company may terminate it at any time prior to the end of the ten-year term, but must pay early termination and demobilization fees to WGI as follows:

Termination Period	Termination and Demobilization Fees
Pre-production	\$11,560,000
Year 1	\$10,160,000
Year 2	\$7,460,000
Year 3	\$4,760,000
Year 4	\$2,960,000
Year 5	\$2,360,000
Year 6	\$2,060,000
Year 7	\$1,660,000
Year 8	\$1,360,000
Year 9	--

It is estimated that approximately \$1 to \$2 million of annual expenditures to be incurred pursuant to the WGI contract will be incurred in Mexican pesos. The US\$/peso exchange rate used in the WGI contract was approximately 10.75. As of February 17, 2006, the US\$/peso exchange rate was 10.54. In addition to the WGI contract, the Company will incur peso denominated costs for fuel, explosives, power, water, salaries and other supplies averaging approximately \$7 million per year. The Company does not currently intend to enter into currency hedging arrangements for its estimated Mexican peso expenditures.

Purchase obligations also include option payments and exploration work commitments totaling \$3.4 million for the Rio Figueroa project, and \$4.3 million for the Southwest Alaska/Aleutian Islands project. In addition, the Company owes \$0.1 million, representing its 30% share of amounts owed to the former owners of certain mining concessions at the El Morro project, within two years of commencement of mining operations, as well as minimum annual royalty payments totaling \$0.85 million that are owed to a former owner of certain mining concessions at the Cerro San Pedro project.

The reclamation obligation for the Cerro San Pedro project, based on the Company's September 2003 feasibility study, is estimated to be \$4.3 million. The Company has agreed to fund this obligation during mine operations; however, negotiations with the relevant Mexican governmental agency to determine the interim funding requirements have not yet been finalized.

The Company entered into an agreement with a Mexican governmental agency to provide approximately \$0.36 million for reforestation of land in the area surrounding the proposed Cerro San Pedro mine that is not owned or leased by the Company. Although the timing for funding this commitment has not been finalized, it is anticipated that the \$0.36 million will be funded by the Company over a period of approximately twelve years.

Related Party Transactions

In May 2005, the Company entered into a consulting agreement with a director of the Company to provide technical advisory services at the rate of \$1,000 per day plus out-of-pocket expenses. The Company incurred technical advisory fees pursuant to this agreement totaling \$9,000 in 2005.

In December 2004, the Company entered into a six-month consulting agreement with a director of the Company to provide technical advisory services. The agreement provided for a minimum monthly retainer fee of \$2,500 for up to three days of consulting services per month, plus out-of-pocket expenses. The Company incurred technical advisory fees pursuant to this agreement totaling \$2,500 in 2004 and \$22,000 in 2005.

In June 2004, the Company entered into a consulting agreement with a director of the Company that provides for corporate advisory services at the rate of \$600 per day plus out-of-pocket expenses. The Company incurred corporate advisory fees pursuant to this agreement totaling \$12,000 in 2004 and \$21,000 in 2005.

In October 2004, the Company entered into a consulting agreement with a company controlled by an individual, who became a director of the Company on June 9, 2005, to provide management services for the Company's Cerro San Pedro project. The agreement, as amended, provides for consulting fees of \$6,250 per month. Consulting fees incurred pursuant to this agreement totaled \$72,500 in 2005.

Evaluation of Disclosure Controls

Management carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Canadian Securities Administrators Multilateral Instrument 52-109, "Certification of Disclosure in Issuer's Annual and Interim Filings") as of December 31, 2005. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company to satisfy its continuous disclosure obligations, and are effective in ensuring that information required to be disclosed in the reports that the Company files is accumulated and communicated to management as appropriate to allow for timely decisions regarding required disclosure.

Outstanding Share Data

As of February 17, 2006, the Company has issued one class of common shares and has a total of 83,454,464 shares outstanding. The Company also has 19,350,000 common share purchase warrants outstanding, each of which is exercisable for one common share at an exercise price of Cdn\$3.10 through December 11, 2008. Stock options outstanding as of February 17, 2006 total 2,440,000 and are exercisable for common shares at prices ranging from Cdn\$0.83 per share to Cdn\$2.54 per share.

Corporate Outlook

In February 2006, the Company received notification from Secretaria de Defensa Nacional ("SEDENA") that the restriction on its 2006 explosives permit that prohibited the use of explosives on land communally owned by Ejido Cerro de San Pedro had been removed. As a result of this development, the Company has recommenced full-scale mine construction at its Cerro San Pedro project during the first quarter of 2006. It is anticipated that construction will be complete by the end of 2006. The September 2003 feasibility study for the project, prepared by WGI, reflects a capital cost estimate of \$28.2 million, plus \$3 million for working capital. The Company is working with WGI to update the capital cost estimate for the project.

As discussed herein under "Item 4. Information on the Company, D) Property, Plant and Equipment - The Cerro San Pedro Project, Mexico - Environmental - Environmental and Other Permit Status" and "- Surface and Water Rights Acquisition" in the Company's Annual Report on Form 20-F, various lawsuits have been filed against Mexican governmental authorities seeking nullification of various permits and licenses that have been granted to the Company with respect to its Cerro San Pedro project. For further information, please see the foregoing Item 4 discussion as well as "Item 8. Financial Information. A) Consolidated Financial Statements and Other Financial Information - Legal Proceedings".

In regards to the El Morro project, Falconbridge is obligated to complete a feasibility study on the project by September 2007, the cost of which will be borne by Falconbridge. In the event that exploration work is performed at the El Morro project, the Company will be responsible for its 30% share of these costs.

The Company estimates that 2006 expenditures on its Rio Figueroa, Southwest Alaska/Aleutian Islands and other exploration projects will be approximately \$1.3 million. This estimate could materially change depending on the Company's ability to acquire satisfactory exploration projects, progress of work programs on its projects and market conditions.

Risk Factors and Other

The discovery, development and acquisition of mineral properties are in many instances unpredictable events and involve numerous risks as those described under "Item 3. Key Information, D) Risk Factors" in the Company's Annual Report on Form 20-F. Readers are encouraged to give careful consideration to these risk factors which include: risks associated with the Company's history of net losses and the uncertainty of obtaining additional financing for mineral exploration and development activities; risks inherent in the mining industry; risks associated with estimates and forecasts of mineral reserves, mineral resources and production timing and activities; operational and environmental risks; the risk of failure to achieve production or cost estimates; risks of development, construction and mining operations; risks relating to hedging; risks of changes to applicable government regulations relating to the mining industry or to their application or shifts in political conditions in foreign countries; risks of fluctuations in mineral prices and foreign currency exchange rates; risks associated with labor disruptions; risks associated with the repatriation of earnings; the risk of loss of key management employees; risks of competition from larger more established mining companies; risks of adverse rulings from lawsuits and other legal proceedings; and the inability to economically or fully insure against certain risks.

The Company has certain operating and other permits that require periodic renewal with governmental and regulatory authorities. In addition, the Company is required to comply with existing permit conditions and to obtain additional permits prior to commencing mine operations at its Cerro San Pedro project. Although the Company believes that it is currently in full compliance with its permits, and although its permits have been renewed by governmental and regulatory authorities in the past, there are no assurances that the applicable governmental and regulatory authorities will renew the permits as they expire, or that pending or future permit applications will be granted. In the event that the required permits are not granted or renewed in a timely manner, or in the event that governmental and regulatory authorities determine that the Company is not in compliance with its existing permits, the Company may be forced to suspend or cease its development or operating activities. Risks relating to legal proceedings include various lawsuits that have been filed against governmental agencies seeking to nullify various permits and licenses that have been granted to the Company with respect to its Cerro San Pedro project. Refer to "Item 4. Information on the Company. D) Property, Plant and Equipment - The Cerro San Pedro Project, Mexico - Environmental - Environmental and Other Permit Status" and "- Surface and Water Rights Acquisition" and "Item 8. Financial Information. A) Consolidated Financial Statements and Other Financial Information - Legal Proceedings" for details of current legal actions pending in the Company's Annual Report on Form 20-F.

In August 2004, the Company received notification that a Federal Court nullified the Company's Manifestacion de Impacto Ambiental ("MIA") for its Cerro San Pedro project. The MIA is the Mexican equivalent of an Environmental Impact Statement or mining permit in the United States. The Federal Court concluded that the MIA had violated various environmental and other laws. In August 2005, an Appeals Court revoked the August 2004 MIA nullification ruling and sent the case to an Administrative and Fiscal Court for further review. In December 2005, the Administrative and Fiscal Court ruled that the government agency that issued the MIA must issue the Company an amended MIA within four months that conforms to current environmental and other laws.

In June 2005, the Company received a Temporary Occupancy and Right of Way Authorization for the Cerro San Pedro project from the Federal Mining Bureau. This authorization provides the Company with federally mandated surface rights access to its mineral rights over the life of the mine, and overrides the various rulings and appeals in the Agrarian Court that challenged the Company's surface rights access.

Forward-looking Statements

This document contains statements, which, to the extent that they are not recitations of historical fact, constitute "forward-looking statements" within the meaning of Section 27A of the United States Securities Act of 1933 and Section 21E of the United States Securities Exchange Act of 1934, and are intended to be subject to the safe harbor protection of those provisions. Such statements include, but are not limited to, projections of production, cash costs, start-up of any new project, results of exploration efforts and any other information about the future business and prospects of the Company. In certain cases, forward-looking statements can be identified by the use of words such as "could", "expect", "believe", "estimate", "anticipate", "project" and similar expressions and statements relating to matters that are not historical facts. All forward-looking statements in this document involve risks, uncertainties and other factors, including those described under the heading "Item 3. Key Information, D) Risk Factors" in the Company's Annual Report on Form 20-F. These may cause the actual results or performance of the Company to be materially different from any future results or performance expressed or implied by such forward-looking statements. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, results or events not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.