

# TINKA RESOURCES LIMITED

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE MONTHS ENDED DECEMBER 31, 2004

### Background

This discussion and analysis of financial position and results of operation is prepared as at February 23, 2005 and should be read in conjunction with the unaudited interim consolidated financial statements and the accompanying notes for the three months ended December 31, 2004 and 2003 and the audited consolidated financial statements and the accompanying notes for the years ended September 30, 2004 and 2003 of Tinka Resources Limited (the "Company"). Those financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Except as otherwise disclosed, all dollar figures included therein and in the following management discussion and analysis ("MD&A") are quoted in Canadian dollars. Additional information relevant to the Company's activities, can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

### Company Overview

The Company is a junior mineral exploration company engaged in the acquisition and exploration of precious metals on mineral properties located in Peru with the aim of developing them to a stage where they can be exploited at a profit or to arrange joint ventures whereby other companies provide funding for development and exploitation. As of the date of this MD&A, the Company has not earned any production revenue, nor found any proved reserves on any of its properties. The Company is a reporting issuer in British Columbia and Alberta and trades on the TSX Venture Exchange ("TSXV") as a Tier II issuer, under the symbol "TK" and on the Frankfurt Exchange under the symbol "TLD".

### Forward Looking Statements

Certain information included in this discussion may constitute forward-looking statements. Forward-looking statements are based on current expectations and entail various risks and uncertainties. These risks and uncertainties could cause or contribute to actual results that are materially different than those expressed or implied. The Company disclaims any obligation or intention to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

### Exploration Projects

#### *Sierra Exploration Alliance, Peru*

In June 2004, the Company entered into an agreement with Sierra Peru Pty Ltd. ("Sierra"), a privately held Australian corporation at arms-length to the Company, to form an exploration alliance to define gold and silver targets throughout Peru. The agreement provides the Company with the right of first refusal on all targets defined by Sierra for a period of two years.

To date Sierra has identified a number of prospects for the Company, as follows:

i) Luminaria Prospect

Field crews have returned to the mineralized Rurimarac Hill gold zone at the Luminaria Project and are excavating and sampling pits along the extent of the known stratabound mineralization. These pits are located systematically on the soil sampling grid announced November 26, 2004 and January 10, 2005. As reported, a total of 269 soil samples were collected on a grid measuring roughly 1,800 metres by 300 metres. Anomalous gold values ranging from 0.02 g/t to 1.86 g/t are associated with anomalous copper, lead and arsenic values within an area 1,400 meters by 300 metres. The geochemically anomalous area is still open to the east and partially open to the west; geological mapping and soil sampling suggest that the mineralized area is faulted-off along the western edge of the grid.

In the first program, reported November 26, 2004, twenty-five pits were dug within the zone of interest to a maximum depth of 4 metres located within an area of about 270 metres by 100 metres. The pits intersected the Chimu formation and bottomed in strongly altered diorite intruding the overlying quartzites. Vertical channel samples in the pits ranged from 1.2 g/t gold to 24.6 g/t gold with an average of 7 g/t gold over 2 metres.

The reported analytical results and calculations were reviewed by John Nebocat, P.Eng., a "Qualified Person", who has not yet visited the Luminaria Project area but will be examining it and conducting regional mapping in February 2005.

The Company has staked an additional claim covering a further 800 hectares which brings the total area at the Luminaria Prospect to 4,300 hectares. The new claim lies along the western boundary of the existing Luminaria claims and overlies the same sedimentary rock sequence that is the focus of exploration at Luminaria. Historical data, held by Sierra, shows rock chip grab samples that include 10 g/t Au, 4.4 g/t Au, 3.1 g/t Au, and 0.4 g/t Au. No work in this new area has been undertaken by the Company and these results have yet to be verified.

## ii) Demetrio Project

The Company has staked five claims totalling 5,000 hectares, known as the Demetrio Project. The project is located between the Peruvian departments of La Libertad and Cajamarca, within the Pataz mining district, 510 km north of Lima. The Demetrio Project lies along a structural trend at the northern end of the Pataz mining district, home to several operating high grade gold mines including the substantial Poderosa, Horizonte and Retamas operations.

Production from this area has come from about 16 underground mines where grades typically vary between 7 and 15 g/t Au and locally reach up to 120 g/t Au. In 1996, reconnaissance exploration in the vicinity of the Demetrio Project, by a private Peruvian company, located four gold mineralized areas with artesinal workings across an area of 9 km by 5 km. Thirty-six unconfirmed grab samples from these zones of mineralization returned average grades between 1.5 and 7.0 g/t Au.

The Company is encouraged by the indications of sediment-hosted gold over such a large area in this highly prospective terrain and the Company plans to have geologists on the ground in March 2005 to systematically sample and map the area to determine its full potential.

### *Pampa Prospect, Peru*

The Company has staked ten claims, totaling 7,000 hectares, in the Puquio district of central - southern Peru. The project is located within the Ayacucho Department, 25 km northwest of the village and mine of San Juan de Lucanas, and approximately 400 km southeast of Lima. All the claims lie within the Southern Peru Epithermal Gold-Silver Belt and were acquired following a regional prospecting and ASTER interpretation program.

The Pampa Project claims (Pampa, Pampa 1, Pampa 2) of 2,500 hectares, were staked to secure a high sulphidation epithermal target with strong alunite, silica and iron oxide alteration, associated with this style of mineralization. The Pampa claims lie on the northern end of the controlling structures of the recently closed San Juan de Lucanas mine. Reconnaissance exploration of the Pampa project has identified a 2 x 2 km area of argillized, silicified and ferruginous volcanics. Preliminary grab sampling of these volcanics has returned consistently anomalous Au and Ag values.

The Vado Project claims (Pampa 3, Pampa 4, Pampa 5) of 1,500 hectares, cover the northern and southern extensions of alteration associated with the Anta intrusive stock, 12 km north of the San Juan de Lucanas mine.

Claims that comprise the Chincheja Project (Pampa 6, Pampa 7, Pampa 8, Pampa 9) total 3,000 hectares, and cover a series of alunite, kaolinite, iron oxide and silica alteration anomalies in structural settings conducive to the formation of gold - silver mineralization.

Alteration mapped at the Pampa Project shows similarity to the low sulphidation epithermal deposits of the region. Systematic mapping and sampling will begin soon.

## Pancoy Prospect, Peru

A geological and rock chip sampling program was completed in December 2004 on the Pancoy Prospect. Results were obtained in January 2005, and yielded insufficient results for the Company to continue with exploration of the Pancoy Prospect. Accordingly, in January 2005, the Company terminated the option agreement and returned the Pancoy Prospect to the vendor.

### Selected Financial Data

The following selected financial information is derived from the unaudited consolidated interim financial statements of the Company prepared in accordance with Canadian GAAP.

	Fiscal 2005	Fiscal 2004				Fiscal 2003			
	Dec. 31 \$	Sept. 30 \$	Jun. 30 \$	Mar. 31 \$	Dec. 31 \$	Sept. 30 \$	Jun. 30 \$	Mar. 31 \$	
<b>Operations:</b>									
Revenues	-	-	-	-	-	-	-	-	
Net income (loss)	(89,012)	(65,649)	(469,016)	(107,550)	(34,376)	(138,389)	(22,088)	(71,546)	
Basic and diluted loss per share	(0.01)	(0.01)	(0.05)	(0.01)	(0.01)	(0.06)	(0.01)	(0.05)	
Dividends per share	-	-	-	-	-	-	-	-	
<b>Balance Sheet:</b>									
Working capital	942,361	974,530	1,186,332	1,309,261	449,530	258,091	169,495	82,551	
Total assets	1,440,372	1,354,045	1,403,559	1,724,269	736,875	400,265	251,343	128,907	
Total long-term liabilities	-	-	-	-	-	-	-	-	

### Results of Operations

During the three months ended December 31, 2004 ("2004"), the Company reported a net loss of \$89,012 (\$0.01 per share), an increase of \$54,636 from the net loss of \$34,376 (\$0.01 per share) for the three months ended December 31, 2003 ("2003"). The increase in loss in 2004 was attributable primarily to a general increase in costs as a result of increased exploration and corporate activities.

As the Company is in the exploration stage of investigating and evaluating its mineral property interests it has no revenue. Interest income is generated from cash held with the Company's financial institutions.

During 2004, the Company recorded expenses of \$69,635 compared to \$31,080 in 2003. The \$38,555 increase is attributable to a number of factors. In 2003, the Company was working towards a restructuring of its business activities and reactivation of its listing on the TSXV. Funds and corporate activities were limited. Administration and general expenses in 2004 reflects the Company's current operating levels. Specific expenses of note during 2004 are as follows:

- i) The Company has been engaged in an active program in communicating with its investors and investment community. The Company retained Mr. Nick Nicolaas to provide investor relations activities on behalf of the Company. Mr. Nicolaas was paid \$7,500 in 2004. In addition, during 2004, the Company participated in two investment conferences. The Company paid \$3,506 for corporate development and \$14,506 for travel and related cost.
- ii) The Company paid \$5,000 for consulting provided by a director of the Company and reimbursed \$5,375 to Tumi Resources Limited, a public company with common directors, for shared office personnel.
- iii) Management fees of \$15,000 paid to the Company's President in his capacity as such.
- iv) The Company recorded a non-cash charge of \$1,800 for stock-based compensation calculated on the vesting of previously granted stock options.

- v) Effective January 1, 2004, the Company commenced paying \$450 per month rent for office space from Chase Management Ltd. ("Chase") a private company owned by a director of the Company. During 2004, the Company paid \$1,350 to Chase.

During 2004 the Company incurred \$78,877 for mineral property exploration expenditures, comprising of \$48,435 for a soil sampling program on the Luminaria Prospect, \$23,081 for a geological and rock chip sampling program on the Pancoy Prospect and \$7,361 attributed to other properties.

### **Financial Condition / Capital Resources**

As at December 31, 2004, the Company had working capital of \$942,361. Subsequent to December 31, 2004, the Company received a further \$664,065 from the exercise of warrants and stock options. The Company believes that it currently has sufficient financial resources to undertake by itself all of its anticipated exploration activities and ongoing level of corporate activities for the ensuing year. However, exploration activities may change due to ongoing results and recommendations or the Company may acquire additional mineral properties, which may entail significant funding or exploration commitments. In the event that the occasion arises, the Company may be required to obtain additional financing. The Company has relied solely on equity financing to raise the requisite financial resources. While it has been successful in the past, there can be no assurance that the Company will be successful in raising future financings should the need arise.

### **Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

### **Proposed Transactions**

The Company has no proposed transactions.

### **Critical Accounting Estimates**

A detailed summary of all the Company's significant accounting policies is included in Note 2 to the September 30, 2004 audited consolidated financial statements.

### **Changes in Accounting Policies**

The Company has no proposed changes in accounting policies.

### **Transactions With Related Parties**

During the three months ended December 31, 2004 the Company:

- i) paid \$1,675 for accounting and administration services and \$1,350 for office rent provided by a corporation controlled by a director of the Company;
- ii) paid \$15,000 to the President of the Company for management services;
- iii) paid \$5,000 for consulting services provided by a director of the Company; and
- iv) reimbursed \$5,375 to Tumi Resources Limited, a public company with common directors, for shared office personnel.

### **Risks and Uncertainties**

The Company competes with other mining companies, some of which have greater financial resources and technical facilities, for the acquisition of mineral concessions, claims and other interests, as well as for the recruitment and retention of qualified employees.

The Company is in compliance in all material regulations applicable to its exploration activities. Existing and possible future environmental legislation, regulations and actions could cause additional expense, capital expenditures, restrictions and delays in the activities of the Company, the extent of which cannot be predicted. Before production can commence on any properties, the Company must obtain regulatory and environmental approvals. There is no assurance that such approvals can be obtained on a timely basis or at all. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations.

The Company's mineral properties are located in Peru and consequently the Company is subject to certain risks, including currency fluctuations and possible political or economic instability which may result in the impairment or loss of mining title or other mineral rights, and mineral exploration and mining activities may be affected in varying degrees by political stability and governmental regulations relating to the mining industry.

### **Investor Relations Activities**

The Company provides information packages to investors; the package consists of materials filed with regulatory authorities. The Company updates its website ([www.tinkaresources.com](http://www.tinkaresources.com)) on a continuous basis. The Company has retained Mr. Nick Nicolaas to provide market awareness and investor relations activities at a rate of \$2,500 per month. During the three months ended December 31, 2004, the Company paid \$7,500 to Mr. Nicolaas.

### **Outstanding Share Data**

The Company's authorized share capital is 100,000,000 common shares with no par value. As at December 31, 2004, there were 10,959,462 issued common shares compared to 10,297,912 shares outstanding at September 30, 2004, reflecting the issuance of 661,550 common shares on the exercise of warrants. As at December 31, 2004, there were 1,017,100 stock options outstanding and exercisable, with exercise prices ranging from \$0.25 to \$0.45 per share. In addition there were 4,760,950 warrants outstanding, with exercise prices ranging from \$0.20 to \$0.60 per share. More information on these instruments and the terms of their conversion are set out in Note 5 to the December 31, 2004 unaudited interim consolidated financial statements.