

# TINKA RESOURCES LIMITED

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE SIX MONTHS ENDED MARCH 31, 2006

### Background

This discussion and analysis of financial position and results of operation is prepared as at May 25, 2006 and should be read in conjunction with the unaudited interim consolidated financial statements and the accompanying notes for the six months ended March 31, 2006 and audited consolidated financial statements and the accompanying notes for the years ended September 30, 2005 and 2004 of Tinka Resources Limited (the "Company"). The consolidated 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 Project*

The Company has 12 claims totalling 8,100 hectares. Luminaria is located 30 km south of Barrick's 7 million ounce Pierina gold mine and 270 km north of Lima. The gold mineralization at Luminaria is hosted by an altered granodiorite that intrudes sediments of the Goyllarisquizga Group at an altitude between 3,200 m and 3,600 m.

Surface channel sampling and pitting results identified gold mineralization within a "manto" horizon covering an area of about 230 m by 270 m that averaged 7 g/t Au over an average depth of 2 m. A geophysical program at Luminaria was also completed and a six hole drill program was commenced in November. The first stage of the diamond drill program targeted the northern chargeable bodies identified by the geophysical program, and four holes were drilled for a total of 1,175 m. The geophysical anomalies have been attributed to pyritic black shales and altered porphyry. No significant assay values were returned.

Two further drill holes were completed targeting the known surface gold mineralization. Hole LDD5 targeted a fault zone in the known area of surface mineralization and intersected a 6 m mineralized section of silicified biotite diorite between 60 m and 66 m depth. This 6 m interval averaged 3.3 g/t Au and included a 2 m section that ran 5.82 g/t Au. The Company believes the intersection, which is approximately the true thickness of the zone, is a continuation of the surface mineralization dipping from east to west at an angle of approximately 45 degrees. Hole LDD6 was drilled south of LDD5 and targeted a geophysical anomaly but no significant assay values were returned. The Company will retain Luminaria for further evaluation.

ii) *Colquipucro Project*

The Company has staked 34 claims totalling 2,079 hectares in the Department of Pasco approximately 190 km NE of Lima and 65 km NW of Cerro de Pasco. The Colquipucro mining district lies some 25 km northwest of the famed Cerro de Pasco and Colquijirca Pb-Zn-Cu mines, and 35 km east of the Raura mine, a Cu-Pb-Zn-Ag skarn deposit mined since 1958. The project is 25 km SW of Buenaventura's high grade 150 million oz Uchucchacua silver mine.

A first field visit identified numerous gossanous mantos and veins over an area of 20 sq km within a sequence of limestone, shale and carbonaceous sandstone. Two dominant vein orientations were identified with widths up to 1 m, containing galena, sphalerite and pyrite as the principal sulphide minerals. Mapping identified propylitic alteration associated with intrusives northeast of the vein and gossanous occurrences, suggesting a mineralizing intrusive source may exist nearby.

Reconnaissance sampling of vein and mantos has yielded strong base metal and silver anomalism with lesser gold values. Mineralogy is not known at this time. A 1 m X 2 m panel sample of oxidized and pyritic rock yielded 64 g/t Ag, 0.7 % Pb and 0.4% Zn; a 0.5 m wide channel sample from a quartz vein returned 460 g/t Ag, 12.3% Pb, 1.9% Zn and 0.2 g/t Au. Two grab samples taken from old mine dumps ran 500 g/t Ag each, 1.8% and 1% Pb, 0.8% and 0.1 % Zn, respectively. From 41 rock chip and soil samples, Ag values ranged from trace to 500 g/t, Au from trace to 0.2 g/t, Pb from trace to 12.3%, and Zn from trace to 1.9%.

The Company will re-visit the property to perform further evaluation.

iii) *Chunumayo Project*

The Company has staked 900 hectares, known as the Chunumayo Project, located in the Department and Province of Huancavelica, Peru.

The Chunumayo Project lies within the richly mineralized Castrovirreyna-Julcani mining district, 20 km south of the town of Huancavelica and 250 km southeast of Lima. The property is situated only 14 km from the Julcani Mine, which has produced in excess of 81 million ounces of Ag and 0.2 million ounces of Au, at grades of approximately 590 g/t Ag, 1.2 g/t Au, 0.9% Cu, 0.6% Pb, 0.5% Zn.

Recent mapping and prospecting of the claim area discovered a series of low-sulphidation epithermal vein/stockwork occurrences developed within limestone of the Pucara Group and overlying Tertiary-age volcanic rocks. Both rock sequences are host to mineralization in the district. Extensive areas of silification, brecciation and alteration with associated veins were located and sampled. Twenty-one grab samples taken within an area of 3.3 km by 1 km ranged from <0.2 g/t Ag to 595 g/t Ag and averaged 70 g/t Ag, <0.005 g/t Au to 2.4 g/t Au and averaged 0.2 g/t Au. Pb averaged 0.35% and Zn averaged 0.8%.

As a result of these initial anomalous results, the field crew will return to the Chunumayo Project in 2006 to undertake further surface sampling.

iv) *Mercedes Project*

The Company has four claims totalling 2,759 hectares in the Department of Ancash approximately 240 km north of Lima. The property lies within the Central Peru base metal district and 22 km south west of the Mitsui Mining Company's Huanzala mine (22 m at 10.6% Zn, 4.7% Pb, 164 g/t Ag) located in the same sedimentary sequence found on the Mercedes property. The Mercedes claims also lie 21 km west north west of the Mitsui Mining Company's Palca mine (15 m at 10% Zn, 2% Pb, 75 g/t Ag).

Base metal skarn, vein and carbonate replacement bodies form the principal target styles on the property. Sedimentary rocks of the lower Cretaceous Oyón Formation, consisting mostly of carbonaceous shale, and the Goyllarisquisga Group, comprising sandstone, shale, quartzite and slate, have been intruded by granodiorite bodies which locally form skarn and vein deposits.

The Company's field personnel conducted a preliminary assessment of the property in early February, at which time the area was mapped at 1:25,000 scale and 44 rock and 8 stream sediment samples were collected over an area of 6.5 km north-south by 4 km east-west. Three areas of mineralization each over 1.5 km by 1.5 km have been identified on the property to date.

Multi-element analyses indicate an anomalous relationship between Ag, arsenic, Pb and Zn. Samples taken by the Company's personnel yielded from trace amounts to 131 g/t Ag and from trace amounts to 1.97% Pb. A sample taken from a silicified zone across a 1.5 m width in the southern area of the property contained galena and sphalerite and assayed 1.97% Pb and 131 g/t Ag. Other anomalous samples taken in the northern area assayed 7, 15, and 24 g/t Ag, and 0.1%, 0.13% and 0.44% Pb over 1 m, 4 m, and 1 m widths respectively. All samples come from fractured and silicified quartzites. The Company will perform further evaluation during 2006.

v) *Tibillos Project*

The Company has staked an area of intrusive-hosted copper mineralization located along the coastal batholith in the Ayacucho Department and province of Lucanas, Peru. The property consists of three claims totaling 2,900 hectares. The Tibillos Project lies within a belt along the coast of Peru which contains several porphyry copper deposits.

Recent reconnaissance work yielded stream sediment and grab rock samples anomalous in copper from an area underlain by quartzite and andesite porphyry intruded by diorite and granodiorite. Further detailed mapping and sampling will be conducted during 2006.

***Pampa Project, 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 gold and silver 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 later in 2006.

## 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 2006		Fiscal 2005				Fiscal 2004	
	Mar. 31 \$	Dec. 31 \$	Sept. 30 \$	Jun. 30 \$	Mar. 31 \$	Dec. 31 \$	Sept. 30 \$	Jun. 30 \$
<b>Operations:</b>								
Revenues	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Expenses	(116,036)	(105,105)	(106,376)	(125,162)	(282,274)	(69,635)	(70,559)	(151,246)
Other items	(6,595)	18,845	(123,986)	4,742	(97,065)	(19,377)	4,910	(317,770)
Net loss	(122,631)	(86,260)	(230,362)	(120,420)	(379,339)	(89,012)	(65,649)	(469,016)
Basic and diluted loss per share	(0.01)	(0.01)	(0.07)	(0.01)	(0.04)	(0.01)	(0.01)	(0.05)
Dividends per share	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
<b>Balance Sheet:</b>								
Working capital	445,141	923,418	1,263,896	1,459,708	1,591,962	942,361	1,186,332	1,309,261
Total assets	1,636,208	1,763,633	1,881,819	2,008,818	2,036,599	1,440,372	1,403,559	1,724,269
Total long-term liabilities	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

## Results of Operations

During the six months ended March 31, 2006 ("2006"), the Company reported a net loss of \$208,891 (\$0.01 per share), compared to a net loss of \$468,351 (\$0.04 per share) for the six months ended March 31, 2005 ("2005"). The \$259,460 decrease in loss is mainly attributed to the \$189,650 stock based compensation recorded in 2005.

General and administrative expenses decreased by \$130,768 from \$351,909 during 2005 to \$221,141 during 2006. Specific expenses of note are as follows:

- The Company has been engaged in an ongoing 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 \$18,000 during 2006 (2005 - \$16,250).
- During 2006 the Company reimbursed \$6,000 (2005 - \$5,375) to Tumi Resources Limited ("Tumi"), a public company with common directors, for shared office personnel and \$1,726 (2005 - \$nil) for other costs. During 2005, the Company also paid \$5,000 for consulting services provided by a director of the Company.
- Management fees of \$42,000 during 2006 (2005 - \$30,000) was paid to the Company's President in his capacity as such.
- During 2006 the Company paid \$12,650 (2005 - \$8,725) for accounting and administration services provided by Chase Management Ltd. ("Chase") a private company owned by a director of the Company. In addition, the Company paid \$2,700 (2005 - \$2,700) to Chase for office space provided.
- Travel and related costs decreased by \$19,040, from \$36,650 during 2005 to \$17,610 during 2006. During 2005, the Company's President traveled to Peru several times to oversee the Company's ongoing exploration programs. There were fewer trips conducted in 2006.
- Corporate development costs increased by \$3,975, from \$5,172 during 2005 to \$9,147 during 2006. The increase is attributable to increased advertising in trade magazines.
- Office costs decreased by \$5,661, from \$16,010 during 2005 to \$10,349 during 2006. During 2005, the Company incurred significant costs for supplies and miscellaneous furnishings of an office.
- General exploration increased by \$54,945, from \$13,554 during 2005 to \$68,499 during 2006 as a result of reviewing and evaluating potential mineral properties in Peru.
- Stock based compensation of \$10,700 was recorded in 2006 relating to the vesting of stock options granted previously and granting of 20,000 stock options. During 2005, the Company recorded \$189,650 as stock based compensation on the granting of 655,000 stock options.

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 institution. During 2006, the Company reported interest income of \$7,119 as compared to \$5,730 during 2005.

During the six months ended March 31, 2006, the Company incurred \$621,338 for mineral property interests expenditures, comprising of \$432,981 on the Luminaria Prospect, \$276 on the Chunumayo Prospect, \$45,007 on the Tibillos Project and \$148,358 for IVA tax and staking costs on other prospects.

No financings were conducted by the Company during 2006. In 2005, the Company raised \$959,250 from the exercise of warrants and stock options.

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

As at March 31, 2006, the Company had working capital of \$445,141. In May 2006, the Company completed a private placement of 4,190,000 units to raise gross proceeds of \$1,257,000. The Company now 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, 2005 audited consolidated financial statements.

### **Changes in Accounting Policies**

The Company has no proposed changes in accounting policies.

### **Transactions With Related Parties**

- (a) The Company incurred the following expenditures to directors and corporations controlled by directors of the Company during the six months ended March 31, 2006 and 2005:

	2006	2005
	\$	\$
Management fees	42,000	30,000
Accounting and administration	12,650	8,725
Rent	2,700	2,700

- (b) During the six months ended March 31, 2006 the Company reimbursed \$6,000 (2005 - \$5,375) and \$1,726 (2005 - \$nil) to Tumi Resources Limited ("Tumi") for shared office personnel and other costs, respectively. Tumi is a public company with certain common directors.

The above transactions have been recorded at the exchange amounts which is the amount agreed to by the related parties.

## **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 current rate of \$3,000 per month. During the six months ended March 31, 2006, the Company paid \$18,000 to Mr. Nicolaas.

## **Outstanding Share Data**

The Company's authorized share capital is unlimited common shares with no par value. As at May 25, 2006, there were 18,614,012 issued common shares and 1,756,000 stock options outstanding, at exercise prices ranging from \$0.25 to \$0.50 per share expiring between August 8, 2006 and May 23, 2009 and 2,095,000 warrants outstanding with an exercise price of \$0.40 per share in year one, expiring on May 8, 2007 and \$0.60 per share in year two, expiring on May 8, 2008.