

# **ELECTRA GOLD LTD**

## **MANAGEMENT DISCUSSION AND ANALYSIS THREE MONTH PERIOD ENDED JUNE 30, 2006**

The following discussion and analysis, prepared as of August 31, 2006, should be read together with the First Quarter financial statements for the three month period ended June 30, 2006 and related notes attached thereto, which are prepared in accordance with Canadian generally accepted accounting principles. All amounts are stated in Canadian dollars unless otherwise indicated.

### **Overview**

The Company is in the resource exploration/development and production business. The Company has leased and acquired mineral rights to properties located near Port Hardy on Vancouver Island and near Powell River. These properties are industrial mineral properties containing cement feedstock materials and Kaolin as well as a strong potential for development of base and precious metal deposits optioned to Lumina Copper Corp. The company has been continuously shipping product to a Seattle Cement Plant since October 2003.

The company currently trades on the TSX Venture Exchange under the symbol ELT.

The following is a summary of significant events and transactions that occurred during the quarter. Specifically:

A total of 35,559.97 tonnes were shipped in eight barge loads #51 to 58. Barge #58 was shipped on June 17, 2006.

The Company and its major customer entered into a loan agreement dated April 1, 2004 whereby the major customer agreed to establish a secured loan facility to enable the Company to purchase production equipment. All advances bear interest at 8% per annum and are repayable on the basis of \$1.50 per tonne of product purchased by the major customer starting with Load 28 on May 21/05. Two new trucks and 4 axle trailers were purchased in early 2005.

The Company has received, from the Ministry of Mines, a long term permit dated March 13/06 to mine chalky geyserite up to the amount of 249,000 tonnes per year. This permit approves Electra's five-year Mine Plan and Water Mitigation System.

The Company entered into a Letter Agreement dated February 3, 2005 with Lumina Copper Corp. for the exploration development and mining of mineral resources within the North Island Apple Bay Claims. Lumina may earn a 100% in the property by making a total of \$200,000 in cash payments over time to the Company and upon a production decision, paying an additional \$800,000 in cash or shares. The Company retains the right to explore and exploit the property for non-metallic industrial minerals, and in addition, Lumina grants the right to the Company to explore its Hushamu claims for non-metallic industrial minerals. The Company received its second payment from Lumina on February 3, 2006.

On April 12 the Company announced the acquisition of new claims in the immediate Port Hardy Area covering a sandstone-shale sequence that was diamond drilled and trenched by the company in 2001 and 2002. A bulk sample of this material was previously delivered to a cement producer in the Vancouver Area.

Electra has entered into discussions with another Cement Producer in the Vancouver Area to deliver a blended product of chalky geyserite and sandstone/shale containing lower silica, but slightly higher Na<sub>2</sub>O and K<sub>2</sub>O and higher F<sub>2</sub>O<sub>3</sub>. Preliminary discussions have been held with the District of Port Hardy on a Development Permit for a bulk sample.

On April 25 the Company announced the acquisition of an extensive sedimentary iron deposit northeast of Grande Prairie, Alberta. Preliminary sampling indicates the material assays in excess of 40% Fe<sub>2</sub>O<sub>3</sub>. The area is characterized by outcrops of oolitic sandstone and shale rich in iron, and is part of the Cretaceous Badheart Formation.

Barge load #55 was shipped on May 17, 2006.

A private placement of 1,876,667 units was closed on May 4, 2006 for a total proceeds of \$225,200, of which \$210,760 was received by June 30<sup>th</sup>, 2006 and the balance of \$14,440 on July 10<sup>th</sup>, 2006.

During the quarter ending June 30<sup>th</sup>, 2006, 512,500 warrants were exercised at a value of \$51,250 and 285,261 stock options were exercised at a value of \$28,526.

## Results of Operations

The Company has experienced 11 consecutive quarters of commercial production. The volume of chalky geyselite shipped in the second quarter of 2006 was 35,559.97 tonnes. The first quarter of 2006 had lower revenues as usual since normally cement plants have planned maintenance shut downs in the first quarters of the year and demand for raw materials is lower in the first quarter than for the rest of the year.

Cost of sales in the period \$527,883 (June 30, 2005 \$515,015) can be compared with the sales period of \$487,074 (June 30, 2004 ).

## Selected Financial Information

|   | Six Months Ended June 30, 2006 | Six Months Ended June 30, 2005 | Year Ended March 31, 2005 | Year Ended December 31, 2004 | Year Ended December 31, 2003 |
|---|--------------------------------|--------------------------------|---------------------------|------------------------------|------------------------------|
|   | \$                             | \$                             |                           |                              |                              |
| <b>Revenue</b>  | 1,083,671                      | 1,263,871                      | 2,485,269                 | 1,588,115                    | 502,520                      |
| <b>Income/(Loss) before discontinued operations</b>                             | N/A                            | N/A                            |                           | N/A                          | N/A                          |
| <b>Net Income/(Loss)</b>  | (197,831)                      | 18,909                         | (127,192)                 | (107,478)                    | (817,211)                    |
| <b>Basic and Diluted Income/(Loss) per share before discontinued operations</b> | N/A                            | N/A                            | N/A                       | N/A                          | N/A                          |
| <b>Basic and Diluted Income/(Loss) per share</b>                                | (0.00)                         | 0.00                           | (0.01)                    | (0.01)                       | (0.06)                       |
| <b>Total Assets</b>   | 1,531,570                      | 1,369,361                      | 1,522,235                 | 1,082,213                    | 765,508                      |
| <b>Total Long Term Liabilities</b>  | 810,585                        | 843,921                        | 118,000                   | 57,700                       | -                            |
| <b>Cash Dividends declared per share</b>  | -                              | -                              | -                         | -                            | -                            |

## Liquidity & Solvency

The Company has financed its operations to date primarily through the issuance of common shares, exercise of stock options and the sale of chalky geyselite to cement companies. The Company continues to seek capital through various means including the issuance of equity and/or debt.

The financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to deliver a satisfactory product, raise adequate financing and to lower production costs to realize overall corporate profitability in the future coupled with lower corporate expenses.

|                              | June 30, 2006 | June 30, 2005 |
|------------------------------|---------------|---------------|
| Working capital (deficiency) | (277,610)     | 8,512         |
| Net loss                     | (197,831)     | 18,909        |

As at June 30, 2006 the Company held \$333,279 of cash in treasury and net income for the period of (\$197,831).

Net cash used for investing activities for the period ended June 30, 2006 was (\$101,899) compared to net cash used by investing activities of (\$339,626) during the period ended June 30, 2005.

Financing activities provided cash of \$290,536 during the period ended June 30, 2006 compared to \$529,968 for the period ended June 30, 2005.

### Summary of Quarterly Results

|  | Year Ended December 31, |           |          |           |          |         |          |          |
|--|-------------------------|-----------|----------|-----------|----------|---------|----------|----------|
|  | 2006                    |           | 2005     |           |          |         | 2004     |          |
|  | Q2                      | Q1        | Q4       | Q3        | Q2       | Q1      | Q4       | Q3       |
|  | \$                      | \$        | \$       | \$        | \$       | \$      | \$       | \$       |
| <b>Revenue</b>                                   | 658,936                 | 425,276   | 632,659  | 588,810   | 646,948  | 616,852 | 653,500  | 364,061  |
| <b>Net Income/(Loss)</b>                         | (63,568)                | (134,263) | (21,891) | (124,210) | (50,460) | 69,369  | (13,116) | (80,480) |
| <b>Basic and Diluted Income/(Loss) per share</b> | (0.00)                  | (0.00)    | (0.01)   | (0.01)    | (0.01)   | 0.00    | (0.01)   | (0.00)   |

### Capital Resources

The Company has sufficient funds to meet its operational expenses for 2006 and cover anticipated administrative expenses throughout the year. It will continue to focus on the chalky geyserrite production at its PEM100 Quarry site in Port Hardy and lowering administrative expenses. A research and development program at the Lang Bay property is underway!

### Related Party Transactions

The Company paid or accrued management fees of \$6,000 (June 30, 2005 - \$9,000) to an officer of the Company of which \$5,000 was transferred from accrual to allow the officer of the Company to exercise stock options. The Company accrued geological fees of \$13,850 (June 30, 2005 - \$5,154) to the Company's president that were included in deferred exploration costs. Royalties totaling \$14,224 (June 30, 2005 - \$7,547) and \$5,742 (June 30, 2005 - \$Nil) of general expenses, were paid or accrued to the President and a company controlled by the President.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

### Financial Instruments

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities, and amounts due to related parties. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

### Share Data

As at June 30, 2006:

a) Authorized share capital: 100,000,000 common shares without par value;

- b) Shares issued and outstanding: 26,070,186 common shares; Capital stock: \$13,524,125;
- c) 1,805,783 stock options at an average price of \$0.13 per share.
- d) 4,276,667 warrants convertible to one common share at an average price of \$0.14 per warrant.

### **Subsequent Events**

Mr. Eric Sauvé was appointed Chief Financial Officer at the Annual General Meeting held on June 30, 2006.

Three new Directors, Salman Jamal, Lana Eagle and Fran Jinnouchi were elected to bring the total number of Directors to 6.

Barge Load #63 was shipped on August 18, 2006, totaling 4,741.1 tonnes.

### **Outlook**

The Company's continuing focus will be on sustained production of chalky geyselite at the PEM100 Quarry in Port Hardy. The possible development of a docking port located on the west side of the island will contribute to the reduction of hauling cost for the product. The Company is also working with its major customer in pricing of the chalky geyselite to facilitate the sharing of administrative costs. Based on results of current production and new product development, the Company remains confident that production will be met for all outstanding orders.

### **Caution Regarding Forward-looking Information**

Statements in this report that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties, which could cause actual results to vary considerably from these statements. Readers are cautioned not to put undue reliance on forward-looking statements.

Additional information related to the Company available for view on SEDAR at [www.sedar.com](http://www.sedar.com).