



***Interim Financial Statements  
for the Six Months Ended  
January 31, 2006***  
(Unaudited)

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**DESERT GOLD VENTURES INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**January 31, 2006 and July 31, 2005**  
Unaudited - Prepared by Management

	<b>Jan 31</b>	<b>Jul 31</b>
	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	8,389	6,324
Accounts receivable	2,544	5,046
	<u>10,933</u>	<u>11,370</u>
<b>EQUIPMENT</b>	5,815	6,841
<b>RESOURCE PROPERTY INTERESTS (Note 3)</b>	1,664,005	1,412,659
	<u>1,680,753</u>	<u>1,430,870</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	398,378	151,839
<b>PROMISSORY NOTE (Note 6)</b>	471,050	375,303
	<u>869,428</u>	<u>527,142</u>
<b>SHAREHOLDER'S EQUITY (DEFICIENCY)</b>		
<b>SHARE CAPITAL (Note 4)</b>	1,836,410	1,836,410
<b>CONTRIBUTED SURPLUS (Note 5)</b>	1,792,448	1,792,448
<b>EQUITY COMPONENT OF CONVERTIBLE PROMISSORY NOTE (Note 6)</b>	36,048	28,838
<b>DEFICIT</b>	<u>(2,853,581)</u>	<u>(2,753,968)</u>
	811,325	903,728
	<u>1,680,753</u>	<u>1,430,870</u>

"Donald R. Sheldon"  
Donald R. Sheldon, Director

"Eugene Beukman"  
Eugene Beukman, Director

**DESERT GOLD VENTURES INC.**  
**CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT**  
**For The Six Months Ended January 31, 2006 and 2005**  
Unaudited - Prepared by Management

	<b>3 Months Ended Jan 31 2006 \$</b>	<b>3 Months Ended Jan 31 2005 \$</b>	<b>6 Months Ended Jan 31 2006 \$</b>	<b>6 Months Ended Jan 31 2005 \$</b>
<b>EXPENSES</b>				
Amortization	513	130	1,026	260
Audit and accounting fees	15,000	22,250	30,000	37,250
Consulting - fees	-	55,600	4,500	113,350
- stock-based compensation	-	41,267	-	1,008,436
Interest on long-term debt	14,218	-	25,613	-
Legal fees	9,098	1,412	9,098	4,906
Listing and share transfer fees	7,330	6,610	9,412	14,976
Management fees	-	15,000	10,000	30,000
Office and miscellaneous	5,425	14,097	8,139	17,212
Property investigation costs	-	18,144	-	18,145
Rent	1,825	-	1,825	-
Travel	-	8,147	-	8,147
	<u>53,409</u>	<u>182,657</u>	<u>99,613</u>	<u>1,252,682</u>
<b>LOSS BEFORE OTHER ITEMS</b>	(53,409)	(182,657)	(99,613)	(1,252,682)
Write-off of resource properties	<u>-</u>	<u>(193,181)</u>	<u>-</u>	<u>(193,181)</u>
<b>NET LOSS FOR THE PERIOD</b>	(53,409)	(375,838)	(99,613)	(1,445,863)
<b>DEFICIT, beginning of period</b>	(2,800,172)	(2,180,073)	(2,753,968)	(1,110,048)
<b>DEFICIT, end of period</b>	(2,853,581)	(2,555,911)	(2,853,581)	(2,555,911)
<b>BASIC LOSS PER COMMON SHARE</b>	\$ (0.001)	\$ (0.009)	\$ (0.002)	\$ (0.035)

**DESERT GOLD VENTURES INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**For The Six Months Ended January 31, 2006 and 2005**  
Unaudited - Prepared by Management

	<b>3 Months Ended Jan 31 2006 \$</b>	<b>3 Months Ended Jan 31 2005 \$</b>	<b>6 Months Ended Jan 31 2006 \$</b>	<b>6 Months Ended Jan 31 2005 \$</b>
<b>CASH PROVIDED BY (USED FOR)</b>				
<b>OPERATING ACTIVITIES</b>				
Net loss	(53,409)	(375,838)	(99,613)	(1,445,863)
Amortization	513	130	1,026	260
Interest accreted	1,562	-	2,957	-
Stock-based compensation	-	41,267	-	1,008,436
Write-off of resource properites	-	193,181	-	193,181
	<u>(51,334)</u>	<u>(141,260)</u>	<u>(95,630)</u>	<u>(243,986)</u>
Net changes in other operating accounts				
Accounts receivable	(2,008)	(2,932)	2,502	(3,635)
Prepaid expenses	-	(134,326)	-	(134,326)
Accounts payable and accrued liabilities	182,964	(14,163)	246,539	(119,728)
	<u>129,621</u>	<u>(292,681)</u>	<u>153,411</u>	<u>(501,675)</u>
<b>FINANCING ACTIVITIES</b>				
Issuance of convertible debentures	-	-	100,000	400,000
Issuance of share capital	-	3,000	-	671,000
	<u>-</u>	<u>3,000</u>	<u>100,000</u>	<u>1,071,000</u>
<b>INVESTING ACTIVITIES</b>				
Resource property interest expenditures	(124,965)	(358,989)	(251,346)	(429,794)
Purchase of property and equipment	-	(4,288)	-	(4,288)
	<u>(124,965)</u>	<u>(363,277)</u>	<u>(251,346)</u>	<u>(434,082)</u>
<b>INCREASE (DECREASE) IN CASH</b>	4,656	(652,958)	2,065	135,243
<b>CASH, beginning of the period</b>	3,734	841,406	6,324	53,205
<b>CASH, end of period</b>	\$ 8,389	\$ 188,448	\$ 8,389	\$ 188,448

**DESERT GOLD VENTURES INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For The Six Months Ended January 31, 2006 and 2005**  
Unaudited - Prepared by Management

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**1. NATURE OF BUSINESS AND BASIS OF PRESENTATION**

Desert Gold Ventures Inc. (the "Company") was incorporated on December 1, 2003 as a wholly owned subsidiary of TML Ventures Inc. (TML). On June 3, 2004, a reorganization of TML was completed where the ownership of the Company was transferred from TML to the shareholders of TML.

The Company is a development stage company which is primarily engaged in the exploration and development of mineral properties.

**2. ACCOUNTING POLICIES**

These interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles and follow the same accounting policies and methods of their application as the most recent annual financial statements. These interim financial statements should be read in conjunction with the audited financial statements of the Company as at July 31, 2005.

**3. RESOURCE PROPERTY INTERESTS**

	<b>A</b>	<b>B</b>	<b>2005</b>
	<b>Nevada</b>	<b>South</b>	<b>Total</b>
	<b>\$</b>	<b>Africa</b>	<b>\$</b>
	<u>          </u>	<u>          </u>	<u>          </u>
Acquisition costs, beginning of year	65,575	50,000	115,575
Acquisition costs during period	68,939	-	68,939
	<u>134,514</u>	<u>50,000</u>	<u>184,514</u>
Deferred exploration expenditures	1,479,491	-	1,479,491
	<u>1,614,005</u>	<u>50,000</u>	<u>1,664,005</u>
Deferred exploration, beginning of year	1,297,084	-	1,297,084
Analysis	31,491	-	31,491
Consultants	5,500	-	5,500
Geologist	60,333	-	60,333
Labour	3,424	-	3,424
Office	343	-	343
Renewal and restaking fees	80,917	-	80,917
Travel and accommodation	399	-	399
	<u>182,407</u>	<u>-</u>	<u>182,407</u>
Balance, end of year	<u>1,479,491</u>	<u>-</u>	<u>1,479,491</u>

**DESERT GOLD VENTURES INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For The Six Months Ended January 31, 2006 and 2005**  
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**3. RESOURCE PROPERTY INTERESTS - continued**

a) Nevada

On March 15, 2004, the Company entered into an option agreement to acquire a 60% interest in 501 claims in Pershing County, Nevada U.S.A. Effective June 28, 2005, the option agreement was amended to reduce the Company's interest to 50%. To earn this interest, the Company must incur exploration expenses as follows:

- \$1,250,000 US on or before December 31, 2005, the first anniversary (incurred),
- a further \$750,000 US on or before December 31, 2006, the second anniversary,
- a further \$1,000,000 US on or before December 31, 2007, the third anniversary, and
- a further \$2,000,000 US on or before December 31, 2008, the fourth anniversary.

In addition, the Company must issue share consideration within 60 days of each anniversary calculated as one share for each \$25 of exploration expenditure incurred during that year. The Company issued 50,850 common shares at a price of \$0.43 per share on March 2, 2006 for the exploration expenditure to December 31, 2005.

All other terms of the agreement remain unchanged.

b) South Africa

On April 27, 2005, the Company entered into a joint venture agreement with Bard Ventures Ltd. ("Bard"), a company related through common directors, to acquire a 50% interest in all uranium rights acquired by Bard in South Africa for payment of \$50,000.

On September 7, 2005, the Company and Bard entered into four agreements for uranium and molybdenum in the Western Cape Province of South Africa, each company having a 50% interest. The agreements cover 28,629 acres. The properties are subject to a payment of R30,000 (\$6,000 CDN) each once the prospector's licenses to conduct exploration are received. The agreements are for 5 years and all properties are subject to 2% royalties's payable on the net proceeds of production on any mining activities on the properties.

**4. SHARE CAPITAL**

a) Authorized

Unlimited Common shares without par value  
10,000,000 Preferred shares issuable in series with rights and restrictions to be determined  
by the directors prior to any issuances

b) Issued and fully paid

	2006		2005	
	Number of Shares	Amount \$	Number of Shares	Amount \$
Common shares				
Balance, beginning of period	44,728,532	1,836,410	38,528,532	621,410
Issued for cash:				
Private placement	-	-	2,800,000	665,000
Warrants exercised	-	-	40,000	6,000
For property	-	-	200,000	70,000
Balance at End of Period	<u>44,728,532</u>	<u>1,836,410</u>	<u>41,568,532</u>	<u>1,362,410</u>

On October 14, 2005, the Company received TSX Venture Exchange approval to extend the expiry date of its 1,400,000 outstanding warrants to October 22, 2006 and to amend the exercise price from \$0.32 to \$0.10.

**DESERT GOLD VENTURES INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**5. CONTRIBUTED SURPLUS**

	<b>2006</b>	<b>2005</b>
	<u>\$</u>	<u>\$</u>
Balance at Beginning of Period	1,792,448	784,012
Additions		
Stock-based compensation	-	1,008,436
Balance at End of Period	<u>1,792,448</u>	<u>1,792,448</u>

**6. CONVERTIBLE PROMISSORY NOTES**

	<b>Liability</b>	<b>Equity</b>
	<b>Component</b>	<b>Component</b>
	<u>\$</u>	<u>\$</u>
Balance at Beginning of Period	375,303	28,838
Convertible promissory notes issued	92,790	7,210
Interest accreted	2,957	-
Balance at End of Period	<u>471,050</u>	<u>36,048</u>

On October 14, 2005, the Company issued convertible promissory notes on the principal amount of \$100,000 due on October 14, 2010 and bearing interest at 10%.

The notes are convertible at the option of the holders into units of the Company at a price of \$0.10 per unit until October 14, 2007, increasing at the rate of 10% per annum in each subsequent year. Each unit consists of one common share and one share purchase warrant entitling the holder to acquire one additional common share at a price of \$0.12.

\$50,000 of the convertible notes were issued to a company controlled by a director.

Application of the provisions of CICA Handbook section 3860 "Financial Instruments" required the convertible promissory notes to be recorded with separate debt and equity components. The debt issued during the period was recorded at its fair value of \$92,790, assuming a fair value interest rate for comparable debt of 12% per annum. The equity component, which is represented by management's estimate of the fair value attributed to the conversion feature, has a carrying value of \$7,210, being the difference between the face amount of the convertible debentures and their fair value as calculated above. The carrying value of the equity component has been recorded as a separate component of shareholder's equity. In addition to the stated 10% interest rate, the Company will record a further interest expense over the term of the debentures equal to \$7,210 resulting from the difference between the stated and fair value interest rates such that the carrying value of the notes will be increased to the face value of \$100,000 at maturity.

**DESERT GOLD VENTURES INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For The Six Months Ended January 31, 2006 and 2005**  
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**7. RELATED PARTY TRANSACTIONS**

Balances	<u>Oct 31, 2005</u> \$
a) Included in accounts payable at period end owing to a company controlled by a director for management fees, office, accounting, advances and interest on convertible promissory note	190,687
b) Included in accounts payable at period end owing to a director and two companies controlled by directors	20,280
c) Convertible promissory notes held by a company controlled by a director	150,000
Transactions	
d) Management fees, office, and accounting charged by a company controlled by a director	42,000
e) Consulting fees paid to a company controlled by a director	4,000
f) Accrued interest incurred on convertible promissory note	7,109

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

**8. SUBSEQUENT EVENTS**

- a) On February 17, 2006, all of the issued common shares of the Company were consolidated on the basis of 8 pre-consolidated common shares for 1 post-consolidated common share.



# ***Management Discussion & Analysis***

***FORM 51-102F1***

***For the Period Ended  
January 31, 2006***

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**Form 51-102F1**  
**Management Discussion and Analysis**  
**For**  
**Desert Gold Ventures Inc.**  
**March 10, 2006**

**For the Period Ended January 31, 2006**

The following management discussion and analysis of the financial position of Desert Gold Ventures Inc. (“**Desert Gold**” or the “**Company**”) should be read in conjunction with the management prepared financial statements for the period ended January 31, 2006 and the audited financial statements for the year ended July 31, 2005.

The accompanying financial statements and related notes are presented in accordance with Canadian generally accepted accounting principles. The Company’s functional currency is the Canadian dollar. Amounts reported in this discussion are in Canadian funds unless otherwise noted.

**Forward Looking Information**

Certain statements contained in the following Management Discussion and Analysis constitute forward looking statements. Such forward looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from actual future results and achievements expressed or implied by such forward looking statements. Readers are cautioned not to place undue reliance on these forward looking statements, which speak only as of the date the statements were made. Readers are also advised to consider such forward looking statements while considering the risks set forth below.

**General**

Desert Gold is a Canadian listed public company with its shares traded on the TSX Venture Exchange (the “Exchange”) under the symbol “DAU”. Desert Gold has one wholly owned subsidiary, Goldbanks Nevada Ventures Inc., which is incorporated pursuant to the laws of Nevada, U.S.A., and is non-trading. Desert Gold is a reporting issuer in British Columbia and Alberta.

Desert Gold is a junior exploration company with no revenues from mineral producing operations. Activities include acquiring mineral resource properties and conducting exploration programs. The mineral exploration business is risky and most exploration projects will not become mines. The Company may offer an opportunity to a mining company to acquire an interest in a property in return for funding all or part of the exploration and development of the property. For the funding of property acquisitions and exploration that the Company conducts, the Company has issued long term debt and depends on the issue of shares from the treasury to investors. These stock issues depend on numerous factors including a positive mineral exploration environment, positive stock market conditions, a company’s track record, and the experience of management.

**Overall Performance**

During the period ended January 31, 2006, the Company raised \$100,000 by issuing convertible promissory notes. The funds raised have funded the Company’s exploration project on its Goldbanks property in Nevada. During the period, the Company spent \$126,381 in Nevada. Exploration activities mostly involved geological studies.

Administrative expenses before stock-based compensation were \$99,613 for the period compared to \$1,252,682 in the 2005 period. The Company incurred costs for consulting, legal and regulatory costs associated with the level of overall corporate activity. The net loss for the period is \$99,613 (\$0.002 per share) compared to \$1,445,863 (\$0.035 per share) in the 2005 period. Stock-based compensation in the amount of \$nil (2005 - \$1,008,436) was recorded during the period in respect of stock options granted. The net loss in 2005 also reflects a write-off of resource properties in the amount of \$193,181.

## **Results of Operations**

The Company incurred a net loss of \$99,613 (2005 - \$1,445,863) during the period ended January 31, 2006 and \$53,409 (2005 - \$375,838) for the quarter. The net loss in 2005 is substantially higher due to the recording of stock-based compensation and a write-off of resource properties. The properties written off were the Amikougami property in Ontario and the Pass property in the Omineca Mining Division of B.C.

Exploration expenditures of \$182,407 were incurred during the period on the Goldbanks property in Nevada.

The Company is now focusing its efforts on the Goldbanks property in Nevada. The Company has also acquired an interest in uranium rights in South Africa.

### ***Goldbanks – Nevada***

The Company has an option agreement, dated March 15, 2004, with Kinross Goldbanks Mining Company ("Kinross") to acquire a 60% interest in 501 claims in Pershing County, Nevada U.S.A. Effective June 28, 2005, the terms of the option agreement were amended to reduce the Company's interest to 50%. To acquire the option, the Company has made an initial payment of \$50,000 U.S. and must spend \$5 million U.S. in exploration by December 2008, of which \$1,250,000 must be spent by December 2005. Approximately \$1,283,750 US has been incurred as of January 31, 2006.

In addition, the Company will issue share consideration within 60 days of each anniversary, one share for each \$25 of exploration expenditure incurred during that year. The Company issued 50,850 common shares at a price of \$0.43 per share on March 2, 2006 for the exploration expenditure to December 31, 2005.

All other terms of the agreement remain unchanged.

### ***Uranium Rights – South Africa***

The Company has a joint venture agreement with Bard Ventures Ltd. ("Bard"), a company related through common directors, to acquire a 50% interest in all uranium rights acquired by Bard in South Africa for payment of \$50,000.

Bard and Desert Gold will jointly fund exploration expenditure and development of these properties. Bard will be the operator of the projects.

In addition, the Company, in connection with Bard, has entered into four agreements for uranium and molybdenum in the Western Cape Province of South Africa. The agreements cover 28,629 acres. The properties are subject to a payment of R30,000 (\$6,000 Cdn) each once the prospector's licenses to conduct exploration are received. The agreements are for 5 years. No work will be conducted on these properties until these licenses are received.

## **Exploration Update**

### ***Nevada***

The Goldbanks Deposit is a large, concealed, high-level epithermal system, 1,000 x 5,000 feet in plan view, with associated high-grade feeder veins, which represent the conduits for the lower grade gold mineralization. The geological setting is similar to the Ivanhoe and Silver Cloud Districts, Nevada and the McLaughlin deposit, California. The deposit is located in a Tertiary-aged graben and consists of low-sulfidation gold and silver mineralized basal clastics and heterolithic breccia overlain by unmineralized mudstone, opalite, Tertiary alluvium and basalt flows. The Tertiary rocks lie unconformably on Paleozoic

basement rocks where the high-grade feeder veins will be explored within 100 feet of the contact and within the basement sequence of rocks.

Previous drilling consisting of 1,176 drill holes, 1056 reverse circulation and 120 diamond drill holes into the deposit has confirmed the presence of these high-grade, feeder veins near the base of the large, lower grade deposit. High-grade gold feeder veins were first intercepted in reverse circulation drilling with 10 feet grading 8.24 oz/ton gold and 30 feet @ 2.92 oz/ton gold. The true thickness of these intersections is not known due to the fact that the holes are reverse circulation. Follow-up core drilling by Newmont Exploration in 2000 intersected 1.07 oz/ton over 5.5 feet, and 0.477 oz/ton over 2.9 feet, both true thickness in two of the 12 completed holes. Several of these holes intersected the target feeder veins returning lower gold values, which is due to the nugget effect typical of such high-grade gold vein systems.

In late 2004, the Company completed a program that included geological compilation, geological mapping, rock sampling, and a review of all the holes drilled to date to identify the lower basement contact with emphasis on determining the orientation of the feeder veins and the related structures. An airborne magnetic survey was also completed over the deposit to assist in the interpretation. In the first quarter of 2005, the Company completed a Reverse Circulation and Diamond Drilling program to evaluate several areas where higher grade gold feeder veins were indicated by the previous drilling and the aforementioned compilation program. In part as a result of this program and ongoing geological studies, it became apparent that the most prospective area for the development of such feeder veins was at or near the basement contact and that this contact comes closer to surface under the KW Zone and to the north and west. The recently completed surface exploration program of soil geochemistry, prospecting and geological mapping was completed in this area, which also corresponds to an area of soil geochemical anomalies defined by surveys conducted by Kinross. The results of this program will be compiled and will serve to guide the next phase of exploration on the property.

Desert Gold is the Operator of the program.

### **South Africa**

Once the Company receives the prospector's licenses, the Company plans to commence an exploration program consisting of mapping and ground geophysics to be followed by drilling. Bard is the operator.

### **Summary of Quarterly Results**

The following table is a summary of selected unaudited financial information for the most recent fiscal periods:

	Revenue \$	Income (Loss) \$	Income (Loss) per share \$
<b>January 31, 2006</b>	Nil	(53,409)	(0.001)
October 31, 2005	Nil	(46,204)	(0.001)
July 31, 2005	Nil	(121,854)	(0.003)
April 30, 2005	Nil	(76,203)	(0.002)
January 31, 2005	Nil	(375,838)	(0.009)
October 31, 2004	Nil	(1,070,025)	(0.026)
July 31, 2004	Nil	(1,108,863)	(0.08)
March 31, 2004	Nil	(351)	(0.00)

The Company was incorporated in December 2003. Fluctuations in the Company's expenditures reflect the seasonal variations of exploration and the ability of the Company to raise capital for its projects. The higher losses in the quarters ending July 2004 and October 2004 reflect the expensing of stock-based compensation and reorganization costs. Stock-based compensation was expensed in the amounts of \$784,012 and \$967,169 in the quarters ending July 2004 and October 2004 respectively. Reorganization costs in the amount of \$176,974 were expensed in the period ending July 31, 2004.

During the second quarter ended January 31, 2005, the Company expensed \$193,181 to write-off mineral properties. The properties written off were the Amikougami property in Ontario and the Pass property in the Omineca Mining Division of B.C.

### **Liquidity**

Financing of operations is achieved by a combination of issuing share capital and shareholder loans. Desert Gold ended the year with a nominal amount of cash. As at January 31, 2006, the Company has a working capital deficit of \$387,445.

During the period ended January 31, 2006 expenditures for operating activities were \$95,630 compared to \$243,986 in 2005.

Desert Gold's investing activities revolve around developing its mineral properties. The Company expended \$251,346 in exploration and acquisition costs during the period ended January 31, 2006 compared to \$429,974 in 2005. The expenditures were incurred on the Company's Goldbanks property in Nevada.

Financing activities generated a cash flow of \$100,000 during the period compared to \$1,071,000 in 2005. The Company raised the \$100,000 by issuing convertible promissory notes. In 2005, the Company raised \$400,000 by issuing convertible promissory notes and a further \$671,000 through a private placement.

Desert Gold intends to reduce its working capital deficiency principally by equity financings. To this end, the Company has announced that it has arranged a non-brokered private placement of 6,200,000 units at a price of \$0.27 per unit.

### **Capital Resources**

The Company's primary capital assets are mineral property assets. The Company capitalizes all costs related to the mineral properties until the properties are abandoned and written-off.

The Company has a mineral property agreement in Nevada. To maintain its interest in the property the Company must meet exploration expenditures as per the option agreement. The Company must spend \$5 million US in exploration on the Goldbanks property by December 2008 to earn its interest of which \$1,250,000 must be spent by December 2005. As of January 31, 2006 \$1,283,750 US has been spent on exploration.

### **Transactions with Related Parties**

Desert Gold entered into a corporate management agreement with D.S. Management Ltd. ("DSM"), a private company controlled by Donald R. Sheldon, a director of the company, pursuant to which DSM provides management, accounting, legal and administrative services, performs various consulting functions on behalf of Desert Gold. DSM has also agreed to make Mr. Sheldon available to serve as the President and CEO of Desert Gold. Commencing on June 3, 2004 and amended on October 1, 2005, Desert Gold pays DSM a monthly fee of \$5,000 for its services and reimburses it for expenses incurred by it on behalf of Desert Gold.

During the period, the Company paid \$4,000 for consulting fees to Beukman & Associates Enterprises Limited (a company owned or controlled by Eugene Beukman). Mr. Beukman, a director of the Company, provides consulting services to the Company on property and legal agreements.

DSM holds \$150,000 of the convertible promissory notes. Interest accrued during the period on these notes is \$7,109.

Messrs. Sheldon and Beukman are also directors of Bard Ventures Ltd. from which the Company optioned an interest in the Paul Syfer 437 property.

### **Proposed Transactions**

The Board of Directors of the Company received shareholder approval at the Company's annual meeting of shareholders (held on January 11, 2006) for a proposed share consolidation on the basis of one new share to be issued for every eight old shares held, or such lesser number as may be determined by the Board. The Board believes that the Company's ability to conduct the equity financing required for its operations is contingent upon, among other things, a consolidation of its outstanding common shares.

Effective February 17, 2006, all of the issued common shares of Desert Gold were consolidated on the basis of eight pre-consolidated shares for one post-consolidated share.

### **Critical Accounting Estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of impairment of assets and useful lives for depreciation and amortization. Financial results as determined by actual events could differ from those estimates.

### **Changes in Accounting Policies including Initial Adoption**

The Company has not made any changes to its accounting policies subsequent to its most recently completed fiscal year as at July 31, 2005.

### **Risks and Uncertainties**

The Company's principal activity is mineral exploration and development. Companies in this industry are subject to many and varied kinds of risks, including but not limited to, environmental, metal prices, political and economical.

The Company has no significant source of operating cash flow and no revenues from operations. None of the Company's mineral properties currently have reserves. The Company has limited financial resources. Substantial expenditures are required to be made by the Company to establish reserves.

The property interests the Company has an option to earn an interest are in the exploration stages only, are without known bodies of commercial mineralization and have no ongoing mining operations. Mineral exploration involves a high degree of risk and few properties, which are explored, are ultimately developed into producing mines. Exploration of the Company's mineral properties may not result in any discoveries of commercial bodies of mineralization. If the Company's efforts do not result in any discovery of commercial mineralization, the Company will be forced to look for other exploration projects or cease operations.

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters.

The Company's functional currency is the Canadian dollar. All current exploration occurs within the U.S.A. There is significant foreign exchange risk to the Company.

## Share Data – Post-Consolidation

The authorized capital of the Company consists of an unlimited number of common shares and 1,250,000 Preferred Shares. As of the date of this report, there are 5,641,917 common shares and there are no Preferred Shares issued and outstanding. There are 47,266 common shares held in escrow.

Pursuant to the Company's Stock Option Plan, the Company may issue up to 1,033,713 options to purchase common shares of the Company. In August 2005, 2,500 options granted to an employee were cancelled. Currently, 970,000 options to purchase common shares are in reserve.

The following table summarizes options that have been granted by the Board of Directors of Desert Gold under the Stock Option Plan and that are outstanding at the date of the date of this report.

<u>Category</u>	<u>Date of grant</u>	<u>Aggregate Options granted</u>	<u>Exercise price</u>	<u>Expiry Date</u>
Options held by executive officers	March 23, 2004	200,000	\$2.00	June 3, 2009
	October 25, 2004 <sup>(1)</sup>	156,250	\$2.40	October 25, 2009
Options held by directors who are not also executive officers	March 23, 2004	193,750	\$2.00	June 3, 2009
	October 7, 2004 <sup>(1)</sup>	62,500	\$2.40	October 7, 2009
	October 25, 2004 <sup>(1)</sup>	70,000	\$2.40	October 25, 2009
Employees, as a group, who are not also executive officers or directors	March 23, 2004	37,500	\$2.00	June 3, 2009
	October 7, 2004 <sup>(1)</sup>	31,250	\$2.40	October 7, 2009
Consultants	October 25, 2004 <sup>(1)</sup>	187,500	\$2.40	October 25, 2006
	October 26, 2004 <sup>(1)</sup>	31,250	\$2.40	October 26, 2006
TOTAL		<u>970,000</u>		

### NOTES:

(1) These options vest as to 15% on the date of grant, an additional 15% every three months thereafter until the 18th month when the remaining 10% will vest.

At the date of this report, there are Warrants entitling the holders to acquire in aggregate up to 175,000 Desert Gold Shares at a price per share of \$0.80 on or before October 22, 2006.

### OTHER

Additional information relating to the Company's operations and activities can be found by visiting the Company's website at [www.desertgold.ca](http://www.desertgold.ca). You may also access the Company's disclosure documents through the Internet on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com).