

# INLET RESOURCES LTD.

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## MANAGEMENT DISCUSSION & ANALYSIS

For the year ended December 31, 2006

**Directors and Officers as at April 30, 2007:**

**Directors:** David Baker  
Earl Terris  
Harvey Lawson

**Officers:** President – David Baker

**Contact Name:** David Baker

**TSX Venture Exchange Symbol:** INL

# INLET RESOURCES LTD.

## MANAGEMENT DISCUSSION & ANALYSIS

For the Year Ended December 31, 2006

### 1.1 Date of This Report

April 30, 2007.

### 1.2 Overall Performance

#### *Description of Business*

Inlet Resources Ltd. (the “Company”) is a publicly listed company that trades on the TSX Venture Exchange (the “Exchange”) under the symbol “INS” as a junior resource company with a focus on acquiring mineral projects that will provide the opportunity to enhance shareholder value.

During the year ended December 31, 2006, the Company consolidated its share capital on a 30 old for 1 new basis. The name of the Company was unchanged.

Effective at the opening January 11, 2006, shares of the Company commenced trading on TSX Venture Exchange under the new trading symbol “INL”. The Company is now classified as a “Resource” company.

### 1.3 Selected Annual Information

The highlights of financial data for the Company for the three most recently completed financial years are as follows:

	<u>December 31,</u> <u>2006</u>	<u>December 31,</u> <u>2005</u>	<u>December 31,</u> <u>2004</u>
(a) Net sales	-	-	-
(b) Loss before extraordinary items			
(i) Total loss	\$365,644	\$647,888	\$571,952
(ii) Loss per share - basic	\$0.08	\$0.31	\$0.30
(iii) Loss per share - diluted	\$0.08	\$0.31	\$0.30
(c) Net loss			
(i) Total loss	\$365,644	\$647,888	\$571,952
(ii) Loss per share - basic	\$0.08	\$0.31	\$0.30
(iii) Loss per share - diluted	\$0.08	\$0.31	\$0.30
(d) Total assets	\$1,123,349	\$564,016	\$935,293
(e) Total long-term liabilities	N/A	N/A	N/A
(f) Cash dividends declared per-share	N/A	N/A	N/A

## 1.4 Results of Operations

### *Discussion of Acquisitions, Operations and Financial Condition*

The following should be read in conjunction with the financial statements of the Company and notes attached hereto.

#### **Mineral Properties**

##### Red Lake Gold Property

During 2003, the Company agreed to acquire a 100% interest in a property consisting of 53 mining claims totaling 830 claim units comprised of 32,800 acres located in the Red Lake area of Ontario. In consideration, the Company paid \$60,000 in cash and issued 66,667 shares.

On December 1, 2003, the Company granted Rampart Ventures Ltd. (“Rampart”) the option to acquire an undivided 60% interest in the Red Lake Gold Property. The Company received an option payment of \$25,000 and 100,000 shares of Rampart valued at \$0.15 per share in the year ended December 31, 2004.

On March 1, 2005, Rampart Ventures Ltd. terminated the option agreement.

Based on the exploration results, there is no future value in the property and, accordingly, the Company wrote off the acquisition costs and exploration expenditures associated with the Red Lake Gold property.

During the year ended December 31, 2006, the Company incurred \$2,437 expenses relating to Red Lake property, which were charged directly to operations.

##### Ungava and Wakeham Property

On February 3, 2003, the Company acquired a 100% interest in the Ungava property located in Quebec, through the delivery of 600,000 shares at \$0.13 per share and the payment of \$100,000. The property is subject to a 1% NSR of which half may be purchased for \$1,000,000.

On August 6, 2003, the Company entered into an Option and Joint Venture Agreement with Goldbrook Ventures Inc. (“Goldbrook”), a related company by virtue of common directors. The Company granted Goldbrook the exclusive right and option to acquire an undivided 80% interest in the Ungava Property, through the delivery of an aggregate 500,000 common shares of Goldbrook and incurring an aggregate of \$3,500,000 of work expenditures on the Property by August 6, 2007.

On July 30, 2004, the Company announced that it had reached an agreement with Goldbrook Ventures Inc. (“Goldbrook”) whereby Goldbrook will acquire all of the Company’s interest in the Wakeham Property (the “Property”) comprised of approximately 74,280 acres in the Raglan area of northern Quebec. As consideration, Goldbrook delivered 3,000,000 common shares to the Company valued at \$141,839.

This Agreement replaces the option previously granted to Goldbrook by the Company to earn up to an 80% interest in the Property. The Wakeham Property is subject to a 1-per-cent net smelter return royalty on any mineral production from the Property. Goldbrook has the option to purchase one-half of this royalty for \$1 million.

During the year ended December 31, 2005, the Company wrote off the \$1 nominal value of the property. The Company no longer has any interest in claims.

#### Broken Hill-Leo property

On September 26, 2006, the Company announce that it has entered into an option agreement with Timer Explorations Inc. (“Timer”) (TSX-V:TES), a related company by virtue of common directors, to acquire a 50% interest in the Broken Hill-Leo property, located approximately 150 kilometers north-north east of Kamloops, British Columbia.

The property comprises 133 claims (3,325 hectares) located near the village of Avola, and covers a 9-kilometer strike extent of carbonate stratigraphy with numerous zinc-lead-silver showings and occurrences. In June 2005 Timer conducted a 5-hole drill program to test two of several occurrences (the Vista and Paulter showings), which resulted in narrow intercepts of zinc mineralization being drilled, including 5.88% zinc over a drill width of 0.83m. The claims are located approximately 15 kilometers west of the Ruddock Creek property where Selkirk Metals Corp. (TSX-V: SLK) recently announced a drill hole intercept of 15.79% zinc and 3.33% lead over 14.05 meters.

Under the terms of the Option Agreement, the Company must complete an initial \$50,000 work program prior to December 31, 2006 (incurred \$49,938 as at December 31, 2006) and a further \$150,000 work program by August 31, 2007 to earn the 50% interest in the claims. The initial program will consist of mapping, soil/rock sampling, trenching and ground geophysics to further explore the known showings and define new target areas for drilling.

#### **Exploration and developments updates**

Trenching is planned at the Dennis and Mike showings to further establish the extent of the mineral showings, in addition to soil geochemistry and magnetometry. Results will be reported in the next quarter.

## *Discussion of Operations and Financial Condition*

### **Results of Operations**

The loss for the twelve months ended December 31, 2006 was \$365,644 as compared with a loss of \$647,888 for the twelve months ended December 31, 2005. During the twelve months ended December 31, 2006, the Company recognized \$8,800 non-cash loss in value of short term investment. The Company also incurred expenses in the following categories:

- Shareholders' communication fees and travel and promotion expenses decreased due to the less involvement in trade shows and conferences during the year;
- Rent, telephone and office expenses decreased by \$46,946;
- Legal fees increased by \$15,500
- Consulting and administration fees increased due to the increased activities of the Company.
- A non-cash stock based compensation expense is recorded in the amount of \$121,816 during the year

The details of the expenses discussed above are as follows:

	31-Dec-06	31-Dec-05	Increase/ (Decrease)
Accounting fees	\$ 13,070	\$ 27,850	\$ (14,780)
Audit fees	17,420	12,478	4,942
Amortization	4,799	1,440	3,359
Consulting & administration	87,061	57,691	29,370
Interest & bank charges	950	1,104	(154)
Legal fees	17,980	2,480	15,500
Management fees	48,250	35,700	12,550
Property expenses	2,437	-	2,437
Property investigation	-	34,061	(34,061)
Rent, telephone, office expenses & services	35,492	82,438	(46,946)
Shareholders' communication fees & expenses	30,373	89,613	(59,240)
Transfer agent & regulatory filing fees	27,262	41,859	(14,597)
Travel & promotion	6,930	65,123	(58,193)
Office expenses recoverable	-	(141,360)	141,360
Stock based compensation	121,816	-	121,816
<b>Total General &amp; administrative</b>	<b>\$ 413,840</b>	<b>\$ 310,477</b>	<b>\$ 103,363</b>

Consulting fees for the current period include services related to corporate and administration, shareholder communications, and computer and website. Shareholder communication fees consist of the fees paid to the Company spokespersons who handle all shareholder calls, maintain the company mailing list, and handle all company mail-outs. The Company also retains a consultant for maintenance of the Company's website. Filing and transfer agent fees include fees paid to the TSX Venture Exchange and the B.C. and Ontario Securities Commissions, SEDAR filings, and fees paid to Computershare Trust Company of Canada and the Minister of Finance.

### **Investor Relations Activities**

The Company currently has no formal arrangements with respect to investor relations. During the period, the Company responded to investor inquiries and conducted shareholder and investor mailouts. The

Company has assigned spokespersons responsible for responding directly to all investor inquiries and for conducting shareholder and investor mailouts. (See above for costs related to shareholder communications).

### **Financings, Principal Purposes & Milestones**

In January 2006, the Company completed a post-consolidation non-brokered private placement involving the issuance of 2,000,000 units (the “Units”) at a price of \$0.225 per Unit, for gross proceeds of \$450,000 less finders’ fees of \$12,194 for net proceeds of \$437,806. Each Unit is composed of one post-consolidated common share of the Company and one transferable common share purchase warrant. Each Warrant is exercisable into one additional post-consolidated common share of the Company for a period of two years from the closing date of the Private Placement at an exercise price of \$0.30. The proceeds from the offering will be added to working capital and will be used for general and administrative expenses and to investigate new opportunities for the Company.

In August 2006, the Company completed a non-brokered private placement and had issued 2,000,000 units of the Company (the “units”) at a price of \$0.20 per unit, for gross proceeds of \$400,000.00. Each unit is composed of one common share (a “Share”) of the Company and one transferable common share purchase warrant (the “Warrant”). Each Warrant is exercisable into one additional common share of the Company (“Warrant Share”) for a period of two years from the closing date of the private placement at an exercise price of \$0.265. The Shares and Warrant Shares are subject to a four month hold period expiring on December 25, 2006. There was no finder’s fee paid in connection with this private placement. The proceeds from the offering will be added to working capital and will be used to investigate other opportunities for the Company.

### 1.5 Summary of Quarterly Results

The following is a summary of the Company’s financial results for the eight most recently completed quarters:

	Q4 31-Dec-06	Q3 30-Sept-06	Q2 30-Jun-06	Q1 31-Mar-06
Net Income (loss)	(\$174,201)	(\$71,226)	(\$47,127)	(\$73,090)
Per Share	(0.03)	(0.02)	(0.01)	(0.02)
	Q4 31-Dec-05	Q3 30-Sept-05	Q2 30-Jun-05	Q1 31-Mar-05
Net Income (loss)	(\$313,699)	(\$110,562)	(\$121,169)	(\$102,458)
Per Share	(0.15)	(0.05)	(0.06)	(0.05)

## *Discussion*

For the year ended December 31, 2006, please refer to Section 1.4 “*Results of Operations.*”

During the quarter ended December 31, 2005, the Company wrote off its mineral properties in the amount of \$306,123.

### 1.6 Liquidity

The Company has no revenue generating projects at this time. The Company’s historical capital needs have been met by equity subscriptions. The Company will require additional financing to fund any property acquisitions as well as exploration programs on any properties it acquires. As at December 31, 2006, the Company’s working capital was \$1,045,992 (compared to \$401,805 at December 31, 2005). The ability of the Company to successfully acquire and develop properties in the resource sector is conditional on its ability to secure financing when required. The Company proposes to meet any additional financing requirements through the exercise of outstanding stock options and warrants, or arranging other equity financing, and/or finalizing a joint venture agreement with a partner(s) who will be able to assume the costs of recommended exploration programs. In light of the continually changing financial markets, there is no assurance that funding by equity subscriptions or finding a joint venture partner will be possible at the times required or desired by the Company.

### 1.7 Capital Resources

During the year ended December 31, 2005, the Company wrote off its mineral property in the amount of \$306,123. The Company entered into an option agreement with Timer Explorations Inc. (“Timer”) to acquire a 50% interest in the Broken Hill-Leo property, located approximately 150 kilometers north-north east of Kamloops, British Columbia., as detailed in Section 1.4 “*Results of Operations.*”

### 1.8 Off Balance Sheet Arrangements

There are no off-balance sheet arrangements to which the Company is committed.

### 1.9 Transactions with Related Parties

The Company retains the services of certain directors and officers. Management fees, regulatory fees, and corporate and administration fees are as follows:

Expense	Twelve months ended Dec. 31,	
	2006	2005
Management fees	\$ 48,250	\$ 35,700
Consulting fees - shareholders communication	30,625	7,500
Corporate services	1,500	18,000
Deferred explorations	-	8,800
<b>Total</b>	<b>\$ 80,375</b>	<b>\$ 70,000</b>

In 2006, management fees of \$48,250 (2005 - \$35,700, and \$6,300 deferred exploration costs) were paid to the president, who is also a director, of the Company. Consulting fees related to shareholders' communication of \$30,625 (2005 - \$7,500) were paid to a company controlled by the spouse of the president. Corporate services fees of \$1,500 (2005 - \$18,000) were paid to a former director, and \$Nil (2005 - \$2,500) in exploration costs were also paid to a director.

At December 31, 2006, accounts payable and accrued liabilities included \$924 (2005 - \$924) due to a director of the Company and \$223 (2005 - \$2,764) was owing to a company with common directors for expenses paid on behalf of the Company.

At December 31, 2006, accounts receivable include the offices expenses paid on behalf of companies with common directors and management in the amount of \$1,404 (2005 – \$1,404).

At December 31, 2006, prepaid expenses include \$9,108 paid to companies controlled by a director for future management fees and other expenses.

#### 1.10 Fourth Quarter – 2006

The fourth quarter results do not differ significantly from other quarters.

#### 1.11 Proposed Transactions

None.

#### 1.12 Critical Accounting Estimates

N/A

#### 1.13 Changes in Accounting Policies

N/A

#### 1.14 Financial and Other Instruments

The carrying value of cash and cash equivalents and accounts payable approximate their fair values due to the short maturity of those instruments.

## 1.15 Other

### *Disclosure of Outstanding Share Capital (December 31, 2006)*

	Number	Book Value
Common Shares	6,141,817	\$14,387,126

### *Summary of incentive stock options:*

Number of Shares	Expiry Date	Exercise Price Per Share
91,115	July 7, 2009	\$3.00
<u>523,000</u>	November 30, 2011	\$0.24
614,115		

### *Summary of warrants outstanding:*

Number of Shares	Expiry Date	Exercise Price
172,333	May 31, 2007	\$3.00
26,667	June 8, 2007	\$3.00
2,000,000	January 20, 2008	\$0.30
2,000,000	August 24, 2008	\$0.265
<u>4,199,000</u>		

### *Disclosure Controls*

Management has designed disclosure controls and procedures, or has caused them to be designed under its' supervision, to provide reasonable assurance that material information relating to the Company, is made known to management by others within those entities, particularly during the period in which the annual filings are being prepared. Management has also designed such internal control over financial reporting, or has caused it to be designed under management's supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of the financial statements for the year ended December 31, 2006, in accordance with Canadian Generally Accepted Accounting Principles. There has been no change in the Company's disclosure controls and procedures or in the Company's internal control over financial reporting that occurred during the most recently completed year that has materially affected, or is reasonably likely to materially affect, the Company's disclosure controls and procedures or internal control over financial reporting.

The Chief Executive Officer and Chief Financial officer of the Company have evaluated the effectiveness of the Company's disclosure controls and procedures in place as at December 31, 2006. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer of the Company concluded that the design and operations of these disclosure controls and procedures were effective.

### *Additional information*

Additional information relating to the company is on SEDAR at [www.sedar.com](http://www.sedar.com).