

## **GARRISON INTERNATIONAL LTD.**

### **Management's Discussion and Analysis of Financial Condition and Results of Operation**

**March 31, 2006**

Management's discussion and analysis (MD&A) is current to May 15, 2006 and is management's assessment of the operations and the financial results together with future prospects of Garrison International Ltd. ("Garrison" or the "Corporation", as referred throughout). This management discussion should be read in conjunction with the audited financial statements and related notes for the fiscal years ended June 30, 2005 and 2004, prepared in accordance with Canadian generally accepted accounting principles. All figures are in Canadian dollars unless stated otherwise. This discussion contains forward-looking statements that are not historical in nature and involves risks and uncertainties. Forward-looking statements are not guarantees as to Garrison's future results as there are inherent difficulties in predicting future results. Accordingly, actual results could differ materially from those expressed or implied in the forward looking statements. Additional information relevant to Garrison's activities, including Garrison's Press Releases can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

#### **GENERAL**

The Corporation's current focus is on the acquisition and exploration of mineral prospects in China. All costs relating to the Corporation's exploration activities, other than grass-roots exploration, which is expensed as incurred, are capitalized until such time as a decision is made to proceed with the development phase of each project, in which event, the costs will be depleted on the unit of production basis as the estimated total resources are mined. Management of the Corporation reviews the carrying value of each mineral property and if conditions suggest impairment, management may write-down or write-off that project. As a result of these write-downs or write-offs from exploration activities, the net income or loss of the Corporation may be volatile.

The Corporation has incurred losses since inception due to lack of an operating property or other revenue generating activity. Management anticipates that net losses will continue for at least the next three years and thereafter until a project can be put into production.

As a junior exploration company, the Corporation is entirely subject to the cycles in the resource sector and the financial markets for junior companies. The Corporation was inactive since incorporation to mid 2003. In October 2003, with the improvements in the financial markets and the resource sector in general, the Corporation was able to raise funding for reactivation. In July 2005, Garrison was listed on the TSX Venture Exchange (TSX.V) under the trading symbol "GAU".

While it is extremely difficult to predict future events, management is hopeful that the current interest in the resource sector will last for several years and allow the Corporation to finance its continuing exploration and development activities.

#### **THE WUTAI PROJECT**

The Wutai project is located approximately 250 km southwest of Beijing in the northeast portion of the Shanxi Province. The project area as defined by agreement is a 150 km<sup>2</sup> area covering the 38 km long Wutaishan Greenstone Belt. Gold mineralization is shear-zone hosted within an Archean greenstone package with analogies to the prolific greenstone belts of eastern Canada. The Dongyaozhuang mine is exploiting multiple overlapping ore lenses within ductile-brittle deformation zones with a reported head grade of 3.4g/t. Two other prospects with the project area include another shear hosted gold deposit similar to the Dongyaozhuang Mine and a gold bearing banded iron formation which lies adjacent to the greenstone belt. Transfer of two exploration licenses adjoining the Dongyaozhuang mine and a third covering the iron formation-hosted gold mineralization to the joint venture company is in progress. In addition, a 74 square kilometer area covering a significant shear-hosted gold deposit is under application for an exploration license by the joint venture. An orientation geophysical survey consisting of a three-line gradient-array I.P (induced polarization) and magnetic survey, and an orientation soil survey along the same lines was completed in the fall of 2004. These surveys were conducted over the known ore bodies of the

Dongyaozhuang mine in order to determine the character of the geophysical signature of the gold mineralization, as well as its geochemical signature of this gold deposit. The survey results lead to an understanding of the best methods and techniques to apply for the further delineation and exploration of this mineralization in adjoining areas. A soil sampling and ground magnetometer survey was completed earlier this fall, 2005 on the adjoining exploration licenses. These surveys were conducted to delineate extensions of the mineralization and alteration, and to define the most prospective areas for an IP-resistivity survey, ultimately defining drill target locations. Five hundred and thirty-two soil samples were collected on a ridge and spur sampling. Soil samples were collected at 30 meter intervals, with sample lines roughly perpendicular to the general strike of the alteration gold mineralization trend. The samples were submitted to the SGS Labs in Tianjin, China for sample preparation and gold analysis. Samples will also be analyzed for multi-element ICP analysis. The results of this work are pending.

The magnetometer survey consisted of approximately thirty kilometers of semi-reconnaissance ground magnetic-GPS survey run perpendicular to the general southwest trend of the mineralization. The equipment used was a continuous recording magnetometer-GPS unit and base station taking readings magnetometer and corrected GPS reading at two second intervals. Interpretation of the data outlines multiple continuous linear magnetic anomalies consistent with the readings over the known gold mineralization at the Dongyaozhuang mine. These anomalies will be compared with the results of the soil geochemical results, and zones with coincident gold geochemistry and magnetic anomalies will be the focus of subsequent IP-resistivity surveys and possibly drilling.

### **CRITICAL ACCOUNTING ESTIMATES**

Critical accounting estimates used in the preparation of the unaudited consolidated financial statements include the Company's estimate of recoverable value of its mineral properties and related deferred exploration costs.

These estimates involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control.

If the going concern assumption were not appropriate for these unaudited consolidated financial statements, then adjustments would be necessary in the carrying value of assets and liabilities and the reported net loss.

### **RESULTS OF OPERATIONS**

Garrison incurred a loss of \$672,768 or \$0.018 per share for the nine months ended March 31, 2006 and a loss of \$856,400 or \$0.037 per share for the nine months ended March 31, 2005.

Consulting fees for the nine month period ended March 31, 2006 decreased by \$128,037 to \$199,403 compared to \$327,440 in 2005. The amount is higher in 2005 as amounts are attributed to fees paid for the evaluation of the Company's properties and for the general operation of the company. The current cost level is expected to be maintained.

Professional fees were \$20,738 for the nine months ended March 31, 2006 and \$252,019 in 2005. The amount is higher in 2005 due to the legal fees to prepare the application to obtain the right to list on the TSX Venture Exchange and the preparation of the prospectus.

Travel and entertainment expenses were \$57,487 for the nine month period ended March 31, 2006 and \$141,786 for the same period in 2005. The decrease is attributable to the decline in the number of trips to China by management. The current level of activity is expected to continue.

Shareholder information expenses for the nine month period ended March 31, 2006 were \$22,864 and \$34,528 for the same period in 2005. This amount relates to the costs of issuing press releases, use of transfer agents, and investor presentations and electronic dissemination of information. These costs will continue at this level.

Office and general expenses were \$131,926 for the nine month period ended March 31, 2006 and \$100,627 for 2005. The increase is attributable to higher rent and administrative expenses and higher number of transactions in the current period and the operation of the China office.

The Company wrote-off \$240,350 of deferred exploration costs relating to BaoJiaLu property during the nine month period ended March 31, 2006. Technical review of this property, including geological evaluation and soil sampling, did not support the presence of a bulk-mineable gold target.

### CAPITAL RESOURCES, CAPITAL EXPENDITURES AND LIQUIDITY

The Company had a working capital of \$1,162,123 at March 31, 2006, which is an increase of \$1,656,765 from June 30, 2005's deficit of \$494,642. The increase was attributable to the initial public offering of the Company which closed in July 2005. As of May 15, 2006, the Company had working capital of \$1,082,647.

Cash outlay of \$305,060 was spent on mineral properties for the nine month period ended March 31, 2006, whereas \$651,625 was spent in 2005. These levels of expenditures will probably be maintained in the near future.

The company issued 3,000,000 shares on September 17, 2004 for services rendered in respect of the acquisition of interests in Sino-Foreign joint ventures and underlying Chinese mineral exploration prospects. The shares were valued at \$0.10 and represented an investment of \$300,000 in mineral properties.

During the period ended March 31, 2006, scrip certificates were surrendered totaling to 0.252 of one common share. The value of the scrip certificates surrendered was \$13.

On July 7, 2005, Garrison completed its initial public offering. The offering raised \$2,645,500 by issuing 13,227,500 units, as to 9,977,500 units were pursuant to Garrison's prospectus and 3,250,000 units issued in reliance on private placement exemptions in Quebec. The units were priced at \$0.20 per unit and are comprised of one common share and one common share purchase warrant, each common share purchase warrant entitles the holder thereof to purchase one common share at \$0.30 per share for a period of two years from the date of issuance.

Garrison is dependant on obtaining future financing for the exploration and development of mineral prospects in China and any new projects. There is no assurance that such financing will be available when we require them, or under terms that are favourable to us.

### SELECTED FINANCIAL INFORMATION

The information below should be read in conjunction with the management's discussion and analysis, the consolidated financial statements and related notes and other financial information.

	<b>Period Ended March 31, 2006</b>	<b>Year Ended June 30, 2005</b>	<b>Year Ended June 30, 2004</b>	<b>Year Ended June 30, 2003</b>
	\$	\$	\$	\$
Total Revenue	-	-	-	-
Loss before extraordinary items	672,768	960,987	658,957	310,829
Loss before extraordinary items per share	0.018	0.012	0.056	0.062
Loss	672,768	960,987	658,957	310,829
Loss Per Share	0.018	0.042	0.056	0.062
Total Assets	2,485,964	1,640,259	1,652,266	10,676
Liabilities	120,088	739,755	90,775	339,814
Cash dividend declared	-	-	-	-

**RESULTS FOR THREE MONTHS ENDED:**

	<b>March 31, 2006</b>	<b>December 31, 2005</b>	<b>September 30, 2005</b>	<b>June 30, 2005</b>
	\$	\$	\$	\$
Total Revenue	-	-	-	-
Loss before extraordinary items	117,848	198,567	356,353	119,890
Net Loss	117,848	198,567	356,353	119,890
Loss Per Share	0.004	0.004	0.009	0.005

	<b>March 31, 2005</b>	<b>December 31, 2004</b>	<b>September 30, 2004</b>	<b>June 30, 2004</b>
	\$	\$	\$	\$
Total Revenue	-	-	-	-
Loss before extraordinary items	87,713	357,177	396,207	310,172
Net Loss	87,713	357,177	396,207	310,172
Loss Per Share	0.004	0.014	0.019	0.026

**OFF-BALANCE SHEET ARRANGEMENTS**

The Corporation does not have any off-balance sheet arrangements.

**RELATED PARTY TRANSACTIONS**

George Cole, was the President and Chief Executive Officer until September 8, 2005 and director, charged the Company \$20,000 for the nine months ended March 31, 2006.

During the nine month period ended March 31, 2006, Kutu Energy Inc. ("KEI") charged the company a total of \$45,000 in respect of the services of James Fairbairn, Chief Financial Officer of the Company. Mr. Fairbairn beneficially owns KEI. These charges were for accounting services. Mr. Fairbairn is retained by the Company pursuant to a consulting agreement.

Jia Yun International ("JYI") charged the Company a total of \$56,000 in respect of the services of Blair Krueger, a director of the Company. Mr. Krueger beneficially owns JYI. Mr. Krueger was retained by the Company pursuant to a consulting agreement.

**CHANGES IN ACCOUNTING POLICIES**

There were no changes in accounting policy as at March 31, 2006.

**FINANCIAL INSTRUMENTS**

The carrying amount of cash and GST recoverable and accounts payable approximates their fair value because of the short-term maturities of these items. The Company enters into transactions to purchase goods and services in the PRC for which the related expenses and accounts payable balances are subject to fluctuations in currency exchange rates. The transactions and balances have been stated in Canadian dollars in accordance with our foreign currency translation policy.

**ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE**

	<b>March 31, 2006</b>	<b>June 30, 2005</b>
Mineral properties		
Capitalized mineral properties and deferred expenditures	\$ 1,203,753	\$ 1,139,043
Expensed development and exploration	-	-
Corporate expenses	\$ 672,768	\$ 960,987
<b>Total Assets</b>	<b>\$ 2,485,964</b>	<b>\$ 1,640,259</b>

	<b>March 31 2006</b>	<b>June 30 2005</b>
	<b>Capitalized</b>	<b>Capitalized</b>
Mineral properties and deferred expenditures		
Acquisition costs	\$ 200,000	\$ 300,000
Geology	53,942	105,460
Assaying	5,856	4,524
Transportation	127,036	138,768
Other	816,919	590,292
	<b>\$ 1,203,753</b>	<b>\$ 1,139,043</b>

	<b>Period Ended March 31, 2005</b>	<b>Year ended June 30, 2005</b>
<b>Corporate Expenses</b>		
Office and general:		
Rent	\$ 20,446	\$ 23,313
Administrative expense	60,417	35,100
Printing and copying	3,301	19,660
Other expense	46,171	36,780
Consulting	199,403	402,155
Professional fees	20,738	244,036
Travel	57,487	116,880
Shareholder information	22,873	39,824
Foreign exchange (gain) loss	1,591	3,093
Write-down of property	240,350	40,146
	<b>\$ 672,777</b>	<b>\$ 960,987</b>

<b>Outstanding Share Data</b>	<b>May 15, 2006</b>	<b>March 31, 2006</b>	<b>30-Jun-05</b>
Issued and outstanding common shares	37,170,057	37,170,057	23,902,557
Outstanding options to purchase common shares	555,000	555,000	1,965,000
Outstanding warrants to purchase common shares	14,575,250	14,575,250	7,710,000

**DIVIDENDS**

The Corporation has neither declared nor paid any dividends on its Common Shares. The Corporation intends to retain its earnings, if any, to finance growth and expand its operation and does not anticipate paying any dividends on its Common Shares in the foreseeable future.

**RISKS AND UNCERTAINTIES****Business Risk**

The development and exploration of the Corporation's properties may require substantial additional financing. Failure to obtain sufficient financing may result in delaying or indefinite postponement of exploration, development or production on any or all of the Corporation's properties or even a loss of property interest. There can be no assurance that additional capital or other types of financing will be available if needed, or that, if available, the terms of such financing will be favourable to the Corporation. The Corporation may also require additional financing. See

the Prospectus dated May 30, 2005, for a much more comprehensive explanation of the risks. This can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

The exploration for and development of mineral deposits involves significant risks which even a combination of careful evaluation, experience and knowledge may not eliminate. In addition, few properties which are explored are ultimately developed into producing mines. There is no certainty that the expenditures made by the Corporation towards the search and evaluation of mineral deposits will result in discoveries of commercial quantities of ore.

The Corporation's entitlement to carry on business in China is dependant upon the issuance and renewal of business licences for the joint ventures. There is no assurance the licences will be issued, or if issued, renewed upon expiry.

The Corporation's operations are subject to receiving and maintaining permits from appropriate governmental authorities in China. There is no assurance that delays will not occur in connection with obtaining all necessary renewals of such permits for the existing operations or additional permits for any future changes to operations.

Other than the President, Peter Fritz, the directors and officers of the Corporation will not be devoting all of their time to the affairs of the Corporation. However, they will be devoting such times as is required to effectively manage the Corporation.

#### **Commodity Risk**

The marketability of mineralized material, which may be acquired or discovered by the Corporation, will be affected by numerous factors beyond the control of the Corporation. These factors include market fluctuations in the prices of minerals sought, which are highly volatile, the proximity and capacity of natural resource markets and processing equipment, and government regulations as well as other factors, the effect of which cannot be accurately predicted. Future mineral prices cannot be accurately predicted and a severe decline in the price of minerals being produced could result in the suspension of mining operations by the Corporation.

#### **Currency Risk**

Exchange rate fluctuations may adversely affect the Corporation's financial position and results. However, to date the Corporation's primary activities have not resulted in material exposure to foreign currency risk.

#### **Political Risk**

The Corporation's operations are to be conducted in the PRC and consequently, the Corporation's operations are exposed to various levels of political, economical and other risks and uncertainties. Changes in mining or investment policies or shifts in the political attitude in China may adversely affect the Corporation's operations or profitability. The Chinese legal system is a system based on written statutes and their interpretation by the Supreme Peoples Court. These laws and regulations are relatively new, (1979); consequently as the Chinese legal system develops, changes in laws and regulations may have a material effect on the Corporation.

### **OUTLOOK**

Due to the presence of a PLA installation on or near the Baojialu property, the likelihood of an exploration license and/or a mining license being approved for use by the Sino Foreign Joint Venture has significantly decreased.

### **MANAGEMENT'S RESPONSIBILITY**

Management is responsible for all information contained in this report. The unaudited financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include amounts based on management's informed judgments and estimates. The financial and operating information included in this report is consistent with that contained in the unaudited consolidated financial statements in all material aspects.

Management maintains internal controls to provide reasonable assurance that financial information is reliable and accurate and assets are safeguarded.

External auditors, appointed by the shareholders, have independently examined the financial statements for the year ended June 30, 2005, and performed the tests deemed necessary to enable them to express an opinion on these consolidated financial statements.

The Audit Committee has reviewed the unaudited consolidated financial statements with management. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

May 15, 2006

James N. Fairbairn, C.A. - Chief Financial Officer