

EMGOLD MINING CORPORATION
(an exploration stage company)
INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2006 and 2005
(expressed in United States dollars)

The Company's independent auditor has not performed a review of these interim consolidated financial statements.

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EMGOLD MINING CORPORATION

(an exploration stage company)
Interim Consolidated Balance Sheets
(expressed in United States dollars)

	March 31, 2006	December 31, 2005
Assets		
Current assets		
Cash and cash equivalents	\$ 2,006,997	\$ 3,423,939
Accounts receivable	20,208	40,240
Due from related party (Note 4)	65,829	131,224
Prepaid expenses and deposits	158,545	142,300
	2,251,579	3,737,703
Other	6,993	7,019
Equipment	494,986	523,090
Mineral property interests (Note 2)	859,625	859,531
	\$ 3,613,183	\$ 5,127,343
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 262,070	\$ 427,870
Due to related parties (Note 4)	168,283	173,273
	430,353	601,143
Preference shares (Notes 3 and 4)	614,764	613,871
	1,045,117	1,215,014
Shareholders' equity		
Share capital	29,874,576	29,874,576
Preference shares (Note 3)	90,902	90,902
Cumulative translation adjustment	(577,456)	(577,456)
Contributed surplus	2,319,034	2,319,034
Deficit	(29,138,990)	(27,794,727)
	2,568,066	3,912,329
	\$ 3,613,183	\$ 5,127,343

Going concern (Note 1)

See accompanying notes to interim consolidated financial statements.

Approved by the Directors

"Joel D. Schneyer"

"William J. Witte"

The Company's independent auditor has not performed a review of these interim consolidated financial statements.

EMGOLD MINING CORPORATION

(an exploration stage company)

Interim Consolidated Statements of Operations and Deficit

(expressed in United States dollars)

	Three months ended March 31,	
	2006	2005
Expenses		
Amortization	\$ 21,976	\$ 12,235
Accretion of debt portion of preference shares	3,562	3,776
Ceramext™ process research (see Note 7)	329,869	217,137
Exploration expenses (see Note 6)	497,478	405,193
Foreign exchange (gain) / loss	(3,680)	2,963
Finance expense	11,970	10,573
Legal, accounting and audit	17,454	29,687
Management and consulting fees	14,315	6,118
Office and administration	120,276	85,609
Other consulting	28,309	--
Salaries and benefits	201,475	232,366
Shareholder communications	65,594	73,824
Travel	58,769	18,189
	1,367,367	1,097,670
Other expenses and income		
Interest income	23,104	2,841
Loss for the period	(1,344,263)	(1,094,829)
Deficit, beginning of period	(27,794,727)	(22,549,562)
Deficit, end of period	\$ (29,138,990)	\$ (23,644,391)
Loss per share – basic and diluted	\$ (0.02)	\$ (0.02)
Weighted average number of common shares outstanding	65,538,099	47,158,099
Total common shares outstanding at end of period	65,538,099	47,158,099

See accompanying notes to interim consolidated financial statements.

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EMGOLD MINING CORPORATION

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Interim Consolidated Statements of Shareholders' Equity

Three months ended March 31, 2006 and 2005

(expressed in United States dollars)

	Common Shares Without Par Value		Preference Shares	Contributed Surplus	Cumulative Translation Adjustment	Deficit	Total Shareholders' Equity
	Shares	Amount					
Balance, December 31, 2004	47,158,099	\$ 22,819,677	\$ 90,902	\$ 2,128,708	\$ (577,456)	\$ (22,549,562)	\$ 1,912,269
Shares issued for cash:							
Private placement at Cdn\$0.50	18,360,000	7,050,466	--	--	--	--	7,050,466
Stock options exercised	20,000	4,433	--	--	--	--	4,433
Stock-based compensation	--	--	--	190,326	--	--	190,326
Loss for the year	--	--	--	--	--	(5,245,165)	(5,245,165)
Balance, December 31, 2005	65,538,099	29,874,576	90,902	2,319,034	(577,456)	(27,794,727)	3,912,329
Loss for the period	--	--	--	--	--	(1,344,263)	(1,344,263)
Balance, March 31, 2006	65,538,099	\$ 29,874,576	\$ 90,902	\$ 2,319,034	\$ (577,456)	\$ (29,138,990)	\$ 2,568,066

See accompanying notes to interim consolidated financial statements.

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EMGOLD MINING CORPORATION

(an exploration stage company)

Interim Consolidated Statements of Cash Flows

(expressed in United States dollars)

	Three months ended March 31,	
	2006	2005
Cash provided by (used for):		
Operations:		
Loss for the period	\$ (1,344,263)	\$ (1,094,829)
Items not involving cash		
Amortization	43,256	62,433
Accretion of debt component of preference shares	3,563	3,776
Effect of currency translation	(2,643)	(3,324)
Changes in non-cash operating working capital		
Accounts receivable	20,032	(20,670)
Due to/from related parties	60,405	257,205
Prepaid expenses and deposits	(16,245)	21,175
Accounts payable and accrued liabilities	(165,800)	(19,290)
	(1,401,695)	(793,524)
Investing activities:		
Mineral property acquisition costs	(94)	--
Equipment additions	(15,153)	(13,449)
	(15,247)	(13,449)
Decrease in cash and cash equivalents during the period	(1,416,942)	(806,973)
Cash and cash equivalents, beginning of period	3,423,939	1,304,994
Cash and cash equivalents, end of period	\$ 2,006,997	\$ 498,021
Cash and cash equivalents is comprised of:		
Cash and in bank	\$ 764,517	\$ 481,844
Short-term money market instruments	1,242,480	16,177
	\$ 2,006,997	\$ 498,021

See accompanying notes to interim consolidated financial statements

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EMGOLD MINING CORPORATION

(an exploration stage company)

Notes to the Interim Consolidated Financial Statements

Three months ended March 31, 2006 and 2005

(expressed in United States dollars)

The accompanying consolidated financial statements for the interim periods ended March 31, 2006 and 2005, are prepared on the basis of accounting principles generally accepted in Canada and are unaudited, but in the opinion of management, reflect all adjustments (consisting of normal recurring accruals) necessary for fair presentation of the financial position, operations and changes in financial results for the interim periods presented. The consolidated financial statements for the interim periods are not necessarily indicative of the results to be expected for the full year. These financial statements do not contain the detail or footnote disclosure concerning accounting policies and other matters, which would be included in full year financial statements, and therefore should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2005.

1. Going concern assumption

These financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going-concern, which implies that the Company will continue realizing its assets and discharging its liabilities in the normal course of business. As at March 31, 2006, the Company has no source of operating cash flow and has an accumulated deficit of \$29,138,990. In addition, the Company has working capital of \$1,821,226 and has capitalized \$859,625 in acquisition costs related to the Rozan, Stewart, Jazz and Idaho-Maryland mineral property interests. The Company had a loss of \$1,344,263 for the period ended March 31, 2006. Operations for the period ended March 31, 2006, have been funded primarily from net changes in working capital balances.

The current financial position and past results of operations indicate that there is substantial doubt about the appropriateness of the going concern assumption.

The Company is in the process of exploring its mineral property interests and has not yet determined whether its mineral property interests contain mineral reserves that are economically recoverable. The Company is also developing and commercializing a system of proprietary technologies for the production of high value ceramic products from siliceous minerals and waste materials. The Company's continuing operations and the underlying value and recoverability of the amounts shown for mineral property interests or development of the proprietary technologies are entirely dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of the mineral property interests and novel technology, and on future profitable production or proceeds from the disposition of the mineral property interests or the new technology.

The Company's ability to continue operations is contingent on its ability to obtain additional financing. Although there are no assurances that management's plan will be realized, management is confident that it will be able to secure the necessary financing to continue operations into the future.

These financial statements do not reflect adjustments to the amounts of assets and liabilities, the reported revenues and expenses and balance sheet classifications that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

The Company's independent auditor has not performed a review of these interim consolidated financial statements.

EMGOLD MINING CORPORATION

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Notes to the Interim Consolidated Financial Statements

Three months ended March 31, 2006 and 2005

(expressed in United States dollars)

2. Mineral property interests

Jazz Property, British Columbia

In April 2004, the Company entered into an option agreement to acquire a 100% interest in the Jazz Property consisting of twenty-four mineral claims (24 units) located in the Nelson Mining Division near Nelson, British Columbia. The property is contiguous to the Stewart Property and covers approximately 600 hectares. Under the terms of the agreement, the Company has agreed to make total cash payments of \$215,000 to the optionor over a ten-year period. Cash payments to March 31, 2006, totalled \$20,000. An additional \$10,000 was paid subsequent to March 31, 2006. In exchange for the above cash payments, the Company will have the exclusive right and option to earn 100% interest in the property, subject only to the payment to the optionor of a 3.0% NSR and the completion of Cdn\$75,000 (completed) in exploration work on the property within 2 years from the date of the agreement. The Company will have the right to purchase 2/3 of the NSR from the optionor for \$1,000,000 at any time up to and including the commencement of commercial production.

Roazan Gold Property, British Columbia

In 2000 the Company entered into an option agreement to acquire the rights to the Roazan Gold Property, a prospect located south of the community of Nelson in the Red Mountain area of southeastern British Columbia. The Company may earn a 100% interest in the property by making stepped payments totalling Cdn\$100,000 (Cdn\$70,000 paid) and issuing 200,000 (200,000 issued) common shares by April 1, 2006. The final payment of Cdn\$30,000 was made subsequent to March 31, 2006, earning the Company their 100% interest in the property. The property is subject to a 3% net smelter returns royalty ("NSR"). The Company has the right to purchase 2/3 of the royalty from the optionor for Cdn\$1,000,000 and has the first right of refusal to purchase the remaining 33 1/3%.

3. Share capital

Authorized:

Unlimited number of common shares without par value

Unlimited number of first preference shares without par value

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EMGOLD MINING CORPORATION

(an exploration stage company)

Notes to the Interim Consolidated Financial Statements

Three months ended March 31, 2006 and 2005

(expressed in United States dollars)

3. Share capital (continued)

Preference shares:

	Number of Shares	Amount
Equity portion of Class A Convertible Preference Shares, March 31, 2006 and December 31, 2005	3,948,428	\$ 90,902
Debt Portion of Class A Preference Shares	March 31, 2006	December 31, 2005
Balance, beginning of period	\$ 613,871	\$ 577,529
Accretion of debt	3,563	16,448
Foreign exchange (gain) / loss on debt	(2,670)	19,894
Balance, end of period	\$ 614,764	\$ 613,871

The Series A Preference shares rank in priority to the Company's common shares and are entitled to fixed cumulative preferential dividends at a rate of 7% per annum. At March 31, 2005, \$158,220 in dividends payable has been accrued and is classified as due to related party.

The shares are redeemable by the Company on 30 days written notice at a redemption price of Cdn\$0.80 per common share, but are redeemable by the holder only out of funds available that are not in the Company's opinion otherwise required for the development of the Company's mineral property interests or to maintain a minimum of Cdn\$2 million in working capital.

The Series A First Preference Shares are convertible into common shares at any time at a ratio of one common share for every four Series A First Preference Shares, which represents an effective conversion price of Cdn\$0.80 per common share. The Preference Shares also have attached a gold redemption feature by which holders may elect at the time of any proposed redemption to receive gold in specie valued at \$300 per ounce in lieu of cash, provided the Company has on hand at the time gold in specie having an aggregate value of not less than the redemption amount.

Stock options:

The Company has a fixed stock option plan for its directors and employees to acquire common shares of the Company at a price determined by the fair market value of the shares at the date of grant. The maximum aggregate number of common shares reserved for issuance pursuant to the plan is 6,553,810 common shares, of which 489,810 stock options are still available to be issued. At March 31, 2006, 6,064,000 stock options are outstanding, exercisable for periods up to ten years. Subsequent to March 31, 2006, 53,000 stock options were exercised at a price of Cdn\$0.10 per share and 100,000 stock options were exercised at a price of Cdn\$0.36 per share.

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EMGOLD MINING CORPORATION

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Notes to the Interim Consolidated Financial Statements

Three months ended March 31, 2006 and 2005

(expressed in United States dollars)

4. Related party transactions and balances

Related party balances are non-interest bearing and are due on demand, with no fixed terms of repayment, with the exception of preference shares (Note 3).

Balances receivable from (f):	March 31, 2006	December 31, 2005
LMC Management Services Ltd.	\$ 65,830	\$ 131,224
Balances payable to (f):		
Directors, officers and employees	\$ 168,283	\$ 173,273

Related party transactions in these interim consolidated financial statements are as follows:

- (a) Ross Guenther, a director of the Company is the developer of the Ceramext™ process. Under the terms of the agreement, the Company has agreed to pay the following minimum advance royalty payments: \$5,000 per quarter in the year ended December 2005, \$10,000 per quarter in fiscal 2006; \$20,000 per quarter in fiscal 2007; and \$40,000 per quarter thereafter. He is also a consultant at the Idaho-Maryland Property, and received consulting fees of 22,500.
- (b) During the three months ended March 31, 2006, \$205,547 (2005 - \$215,422) was paid in management, administrative, geological and other services provided by LMC Management Services Ltd. ("LMC"), a private company held jointly by the Company and other public companies, to provide services on a full cost recovery basis to the various public entities currently sharing office space with the Company. Currently, the Company has a 25% interest in LMC. Three months of estimated working capital is required to be on deposit with LMC under the terms of the services agreement. There is no difference between the cost of \$1 and equity value, as LMC does not retain any profits in connection with the services it provides.
- (c) Legal fees of \$Nil (2005 - \$25,885) were paid to a law firm of which a director, Sargent H. Berner, was an associate counsel until April 1, 2006.
- (d) Consulting fees of Cdn\$9,000 (2005 - Nil) were paid indirectly to Kent Avenue Consulting Ltd., a private company controlled by a director, Sargent H. Berner. These amounts are included in the services provided in (b) above.
- (e) Lang Mining Corporation ("Lang Mining") is a private company controlled by Frank A. Lang, a director of the Company. Commencing January 1, 2003, and expiring June 30, 2006, the Company agreed to pay Cdn\$2,500 per month to Lang Mining for the services of the chairman of the Company. The Company appointed a new chairman in June 2005, and approved a one-year extension of payments to the Lang Mining contract. Mr. Lang and Lang Mining Corporation are the holders of preference shares, which are described in Note 3.
- (f) Related party balances are non-interest bearing and are due on demand, with no fixed terms of repayment, except for preference shares, which are described in Note 3.

5. Comparative figures

Where necessary, comparative figures have been changed to conform to the current period's presentation.

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EMGOLD MINING CORPORATION

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Notes to the Interim Consolidated Financial Statements

Three months ended March 31, 2006 and 2005

(expressed in United States dollars)

6. Exploration Expenses

	Three months ended March 31,		Year ended
	2006	2005	December 31, 2005
Idaho-Maryland Mine, California			
Exploration costs			
Assays and analysis	\$ 539	\$ 2,934	\$ 5,875
Geological and geochemical	197,849	153,846	762,140
Land lease and taxes	30,270	32,787	130,736
Mine planning	163,925	173,312	459,984
Site activities	103,483	36,568	213,756
Stock-based compensation	--	--	17,858
Transportation	--	1,925	14,551
Incurring during the period	496,066	401,372	1,604,900
Roazan Property, British Columbia			
Exploration costs			
Geological and geochemical	58	314	1,625
Site activities	26	42	155
Incurring during the period	84	356	1,780
Stewart Property, British Columbia			
Exploration costs			
Assays and analysis	--	--	6,425
Drilling	--	--	59,198
Geological and geochemical	1,235	1,873	3,430
Site activities	93	91	5,409
Transportation	--	--	1,061
Assistance and recoveries	--	--	(4,273)
Incurring during the period	1,328	1,964	71,250
Jazz Property, British Columbia			
Exploration costs			
Geological and geochemical	--	1,501	1,862
Assistance and recoveries	--	--	(11,568)
Incurring during the period	--	1,501	(9,706)
Total Exploration Expenses	\$ 497,478	\$ 405,193	\$ 1,668,224

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EMGOLD MINING CORPORATION

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Notes to the Interim Consolidated Financial Statements

Three months ended March 31, 2006 and 2005

(expressed in United States dollars)

7. Ceramext™ Process Research Costs

	Three months ended March 31,		Year ended
	2006	2005	December 31, 2005
Prototypes	\$ 51,668	\$ 43,088	\$ 104,374
Ceramext™ technology royalties and amortization of license fee and bench-scale research facility	10,000	40,263	156,060
Consulting fees	4,435	--	24,784
Consumable materials	9,364	--	51,026
Engineering costs	192,514	101,513	812,923
Marketing and commercialization	4,207	--	351,000
Sample preparation	18,444	12,971	70,190
Site costs	39,237	19,302	160,393
Stock-based compensation	--	--	28,489
Transportation	--	--	10,420
Incurred during the period	\$ 329,869	\$ 217,137	\$ 1,769,659

Engold Mining Corporation
Three Months Ended
March 31, 2006
(expressed in United States dollars, unless otherwise stated)

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Emgold Mining Corporation
Three Months Ended
March 31, 2006
(expressed in United States dollars, unless otherwise stated)

1.1 Date

The effective date of this report is May 29, 2006

1.2 Overview

This Management's Discussion and Analysis ("MD&A") contains certain "Forward-Looking Statements." All statements, other than statements of historical fact included herein, including without limitation, statements regarding potential mineralization and resources, research and development activities, and future plans of the Company are forward looking statements that involve various risks and uncertainties including changes in future prices of gold and other commodities, variations in ore reserves, grades or recovery rates, accidents, labour disputes and other risks associated with mining; delays in obtaining governmental approvals or financing or in the completion of development or construction activities, technological obsolescence, protection of the integrity of intellectual property and other factors.

This MD&A should be read in conjunction with the audited consolidated financial statements of Emgold Mining Corporation for the year ended December 31, 2005, and the unaudited interim consolidated financial statements for the three months ended March 31, 2006. All dollar figures stated herein are expressed in United States dollars, unless otherwise specified.

Emgold Mining Corporation ("Emgold" or the "Company", "We" or "Our") has historically been a mineral exploration company. The Company has a portfolio of mineral exploration projects and is also conducting research and development to assess the viability of fully commercializing the Ceramext™ process which converts mine tailings and other siliceous waste materials to ceramics. Following is a brief summary of its current activities.

- Emgold's loss for the three months ended March 31, 2006 ("Q1 2006") was \$1,344,263 or \$0.02 per share compared to a loss of \$1,094,829 or \$0.02 per share in the three months ended March 31, 2005 ("Q1 2005").
- During Q1 2006, cash used for operations and working capital was \$1,401,695 compared to \$793,524 in Q1 2005.
- Exploration expenditures and acquisition of mineral property interests totalled \$497,478 in Q1 2006 compared to \$405,193 in Q1 2005. Exploration expenditures were incurred on the following mineral properties in Q1 2006: Idaho-Maryland - \$496,066 (2005: \$401,372), Rozan - \$84 (2005 - \$356), Stewart - \$1,328 (2005 - \$1,964), and Jazz - \$Nil (2005 - \$1,501).
- During Q1 2006, the Company spent \$329,869 (2005 - \$217,137) on research and development of the Ceramext™ process. Expenses incurred include prototypes - \$51,668 (2005 - \$43,088); Ceramext™ technology royalties and amortization of licence fee and bench-scale research facility - \$10,000 (2005 - \$40,263); consultants - \$4,435 (2005 - \$Nil); consumable materials \$9,364 (2005 - \$Nil); site costs - \$39,237 (2005 - \$19,302); sample preparation - \$18,444 (2005 - \$12,971); engineering - \$192,514 (2005 - \$101,513); and marketing and commercialization \$4,207 (2005 - \$Nil). The technology licence fee and bench-scale research facility were amortized over a two-year period ending in December 2005.

The Company's primary focus has been and continues to be the exploration and permitting of the Idaho-Maryland Property located near the City of Grass Valley in Nevada County, California, U.S.A.

Engold Mining Corporation
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(expressed in United States dollars, unless otherwise stated)

(the “Project”). Engold has also been conducting research and development related to the Ceramext™ technology because of its potential to provide a tailings and development rock management strategy and possibly contribute a significant revenue stream to the Idaho-Maryland Mine if the mine goes into production. The Company also believes there is a global business opportunity to process a wide range of siliceous waste and other materials to produce high quality ceramic building materials. In return for investing the capital necessary to further develop and commercialize the Ceramext™ technology, the Company has purchased, earned and received the worldwide license for the technology. A royalty will be payable to Ceramext, LLC, a private company owned by a director of the Company, when a positive feasibility study is completed and the process is in commercial production. The Company commenced paying advance royalties in fiscal 2005.

The Idaho-Maryland feedstock including development rock and historical tailings from the Idaho-Maryland Mine has been used to produce high quality ceramic material, as have washed fines from aggregate operations, fly ash and other materials from mining and industrial sites throughout North America. The testing of materials is ongoing in conjunction with equipment design and product development.

The Ceramext™ process appears to be capable of producing high quality ceramics at approximately 30-40% less cost than other conventional ceramic processes.

1.2.1 Idaho-Maryland Mine, California

The Company is continuing with its exploration and permitting of the Idaho-Maryland Property located near the City of Grass Valley in Nevada County, California, U.S.A.

Permitting Process

In California, permitting is a well-defined process where companies work with the local communities and governments throughout the permitting process to define and mediate areas of concern. We believe we have a good working relationship with the local communities and are presently entering the mid-stage of the permitting process.

The main focus of the Company in fiscal 2005 was responding to comments and information requests from the City of Grass Valley (“City”) and preparing permitting applications and relevant supporting documentation as well as delivering public presentations and workshops. The permit applications were deemed substantially complete by the City on May 20, 2005. The process of information exchange will continue throughout fiscal 2006. The work associated with the application process will consume a significant amount of the Company’s resources and there will be associated expenditures as the Company responds to requests made by the City and other County, State and Federal regulatory authorities. The Company’s current estimate is that the permitting process could be completed by June 2007, about 24 months from the date that the Final Applications were deemed substantially complete by the City of Grass Valley. This time estimate has been based on the current schedule prepared by the City’s Environmental Impact Report (“EIR”) consultant and the permitting experiences of previous mining operations located in California, which have ranged from 14 to 24 months.

The Company attends community events including fairs, markets and meetings of local organizations and has conducted community workshops that may be attended by all interested parties. Information about the project is distributed at the community events. Issues of concern to the community are being addressed and communicated to all interested parties at the public workshops and meetings, as well as through local news media, direct mail-outs, circulars and brochures. A website, devoted to the Idaho-Maryland project, www.idaho-maryland.com, provides general project information, permitting documentation and addresses community concerns regarding the expected impact of dewatering existing mine workings, underground development, exploration and the possible operation of a mine on

Engold Mining Corporation
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the community and the environment.

Exploration

Based on historical and current drill data, Engold has identified 26 underground exploration targets, each having the potential to host a sizeable gold deposit. It is important to note that these exploration targets may only be fully defined by underground mining combined with underground exploration drill programs. The Company will need to obtain a Conditional Mine Use Permit ("CMUP") before the existing mine workings can be dewatered and excavation of a decline can be initiated. When the decline excavation begins, the Company intends to start mining for gold from shallow targets as well as to start further underground exploration activities. Subject to the receipt of the CMUP and the availability of funding, these activities are scheduled to commence by Q1 2008 or before.

The Company is planning a future 425,000 ft (130,000 m) underground drill program to test the 26 exploration targets and 200 resource blocks that have been identified. Preliminary metallurgical testing of mineralized drill core samples was initiated in fiscal 2005. This testing will provide data for the permitting process and insight on gold recovery by gravity and cyanide processes that can be used in gold and ceramics process planning.

The Company's geologists are planning a possible Phase 3 surface drill program for late 2006 or 2007, to explore several structures in preparation for underground exploration. Currently there is a shortage of available surface exploration and drilling equipment as well as experienced personnel to complete the work. Permitting to access the underground workings is currently Engold's top priority in order to obtain access to begin the underground drill program.

Advancement Of The Ceramext™ Process

Ceramext™ Process

Engold initially licensed the worldwide rights to the Ceramext™ technology because of its potential to provide a tailings management strategy for the Idaho-Maryland mine while potentially contributing a significant revenue stream to the mine. The Company now believes there is also a global business opportunity to process a wide range of siliceous waste and naturally occurring materials to produce high quality ceramic building materials. The owner of Ceramext LLC is a director of the Company. Advance royalties of \$10,000 per quarter are to be paid to Ceramext LLC in fiscal 2006.

The Company has an ongoing requirement to protect the intellectual property that it is developing as an extension to the existing patented technology and patents pending. The Company maintains a rigorous program to protect its trade secrets while applying for additional global patents. The Company has been offered opportunities to sell its technology and its ceramic materials for commercial use but the Company is not offering its technology and/or the ceramics produced for sale at this time. It has deferred any such sales in deference to the requirements of its intellectual property protection program and will only enter into marketing and research and development agreements and other like arrangements so as not to preclude its ability to continue to file patents to protect its technology.

The Company is also in negotiations with other mining companies and industrial companies who have expressed an interest in using the Ceramext™ technology to treat their tailings and/or waste products under development arrangements. The Company expects to have several Memoranda of Understanding defining development agreements in place with operators in 2006, but as of the date of this report, none have been entered into. The Company has signed a Memorandum of Understanding with a private concern to provide prototype samples for installation testing and marketing.

The Company may receive payments from its development partners against the costs of manufacturing samples produced from the demonstration-scale facility in the research product development phase. It

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is anticipated that the first payments from test production using the Ceramext™ process will be realized late in the second quarter or in the third quarter of fiscal 2006. Scale of production will be limited by the size of the current research and development facility. As the year progresses, test production may migrate to the demonstration-scale facility under development in Grass Valley.

Mineral Property Option Payments and Exploration Programs for Fiscal 2006

Budgeted expenditures on the Rozan, Stewart and Jazz properties for fiscal 2006 total \$250,000, including work programs of \$200,000 and property payments of Cdn\$50,000 and \$10,000, of which the final payment of Cdn\$30,000 was paid on the Rozan property, and a payment of \$10,000 was made on the Jazz property. Both payments were made subsequent to March 31, 2006.

1.2.2 Market Trends

The price of gold has been increasing steadily over the past two years. The average London gold fix in 2005 averaged US\$444.74 per ounce and has averaged US\$587.34 per ounce to May 29 in 2006.

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1.3 Selected Annual Information

The consolidated financial statements have been prepared in accordance with Canadian generally accounting principles and are expressed in United States dollars.

	As at December 31, 2005	As at December 31, 2004	As at December 31, 2003
Current assets	\$ 3,737,703	\$ 1,651,513	\$ 5,909,571
Mineral property interests	859,531	797,956	140,487
Other assets	530,109	499,278	38,766
Total assets	5,127,343	2,948,747	6,088,824
Current liabilities	601,143	458,949	193,050
Notes payable and preference shares	613,871	577,529	517,417
Shareholders' equity	3,912,329	1,912,269	5,378,357
Total shareholders' equity and liabilities	\$ 5,127,343	\$ 2,948,747	\$ 6,088,824
Working capital	\$ 3,136,560	\$ 1,192,564	\$ 5,716,521

	Years ended December 31,		
	2005	2004	2003
Expenses			
Amortization	\$ 61,400	\$ 21,936	\$ 7,739
Ceramext™ research costs	1,769,659	998,631	24,054
Exploration expenses	1,668,224	2,876,046	1,101,225
Legal, accounting and audit	114,557	183,335	119,775
Management and consulting fees	31,582	30,579	21,406
Office and administration	448,357	283,581	32,967
Other consulting fees	68,600	--	--
Salaries and benefits	558,717	310,850	200,281
Shareholder communications	288,216	284,246	188,286
Stock-based compensation	143,979	263,318	1,497,264
Travel	131,770	55,569	38,935
	5,285,061	5,308,091	3,231,932
Other expenses and (income)			
Foreign exchange loss (gain)	8,148	139,455	(62,424)
Finance expense	44,966	41,790	41,860
Accretion of debt portion of preference shares	16,448	17,659	--
Interest income	(109,458)	(60,366)	(6,683)
Loss before income taxes	5,245,165	5,446,629	3,204,685
Income tax recovery	--	--	(44,105)
Loss for the year	\$ 5,245,165	\$ 5,446,629	\$ 3,160,580
Loss per share – basic and diluted	\$0.09	\$0.12	\$0.11
Weighted average number of common shares outstanding	57,782,811	46,794,835	28,862,975

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Exploration expenses:

	Years ended December 31,		
	2005	2004	2003
Idaho-Maryland Property, California			
Exploration costs			
Assays and analysis	\$ 5,875	\$ 70,016	\$ 20,206
Drilling	--	909,625	130,295
Geological and geochemical	762,140	658,920	266,318
Land lease and taxes	130,736	105,907	90,240
Mine planning	459,984	488,817	126,469
Site activities	213,756	369,541	177,731
Stock-based compensation	17,858	126,742	140,834
Transportation	14,551	44,106	35,029
Incurring during the year	1,604,900	2,773,674	987,122
Rozan Property, British Columbia			
Exploration costs			
Assays and analysis	--	3,789	3,988
Geological and geochemical	1,625	(21,929)	47,304
Site activities	155	295	683
Stock-based compensation	--	7,605	8,450
Transportation	--	1,460	75
Incurring during the year	1,780	(8,780)	60,500
Jazz Property, British Columbia			
Exploration costs			
Assays and analysis	--	6,437	--
Drilling	--	58,786	--
Geological and geochemical	1,862	13,176	--
Transportation	--	3,477	--
Assistance and recoveries	(11,568)	--	--
Incurring during the year	(9,706)	81,876	--
Stewart Property, British Columbia			
Exploration costs			
Assays and analysis	6,425	--	592
Drilling	59,198	--	--
Geological and geochemical	3,430	18,985	44,303
Site activities	5,409	312	167
Stock-based compensation	--	7,605	8,450
Transportation	1,061	2,374	91
Assistance and recoveries	(4,273)	--	--
Incurring during the year	71,250	29,276	53,603
Exploration expenses incurred during the year	\$ 1,668,224	\$ 2,876,046	\$ 1,101,225

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Research and development expenses:

	Years ended December 31,		
	2005	2004	2003
Ceramext™ Process Costs			
Prototypes materials for research	\$ 104,374	\$ 173,246	\$ --
Ceramext™ technology royalties and amortization of licence fee and bench-scale research facility	156,060	141,054	--
Consulting fees	24,784	281,506	24,054
Consumable materials	51,026	40,349	--
Engineering costs	812,923	142,800	--
Marketing and commercialization	351,000	--	--
Sample preparation	70,190	27,882	--
Site costs	160,393	100,860	--
Stock-based compensation	28,489	68,440	--
Transportation	10,420	22,494	--
Incurred during the year	\$ 1,769,659	\$ 998,631	\$ 24,054

1.4 Results of Operations

Three months ended March 31, 2006 (“Q1 2006”), compared to three months ended March 31, 2005 (“Q1 2005”)

	Three months ended March 31,	
	2006	2005
Expenses		
Amortization	\$ 21,976	\$ 12,235
Accretion of debt portion of preference shares	3,562	3,776
Ceramext™ process research (see Note 8)	329,869	217,137
Exploration expenses (see Note 7)	497,478	405,193
Foreign exchange loss	(3,680)	2,963
Finance expense	11,970	10,573
Legal, accounting and audit	17,454	29,687
Management and consulting fees	14,315	6,118
Office and administration	120,276	85,609
Other consulting	28,309	--
Salaries and benefits	201,475	232,366
Shareholder communications	65,594	73,824
Travel	58,769	18,189
	1,367,367	1,097,670
Other expenses and income		
Interest income	23,104	2,841
Loss for the period	(1,344,263)	(1,094,829)
Deficit, beginning of period	(27,794,727)	(22,549,562)
Deficit, end of period	\$ (29,138,990)	\$ (23,644,391)
Loss per share – basic and diluted	\$ (0.02)	\$ (0.02)
Weighted average number of common shares outstanding	65,538,099	47,158,099

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Emgold's loss in Q1 2006 was \$1,344,263, or a loss per share of \$0.02, compared to a loss of \$1,094,829, or a loss per share of \$0.02 in Q1 2005.

During Q1 2006 the Company earned interest income of \$23,104 on excess cash balances compared to \$2,841 in Q1 2005. The increase was due to interest earned on higher cash balances held in Q1 2006. Cash balances increased significantly after the closing of a private placement financing late in the second quarter of fiscal 2005.

General and administrative expenses:

Legal, accounting and audit fees decreased from \$29,687 in Q1 2005 to \$17,454 in Q1 2006. Fiscal 2006 legal, accounting and audit costs will likely be higher than fiscal 2005 levels due to increasing regulatory and reporting requirements. This expected increase is not reflected in Q1 2006. The Company now files an Annual Report on a Form 20-F, which results in significant legal and accounting costs relating to the preparation of the document. The 20-F will be filed in Q2 2006. Reviews of internal controls may also be required to be completed in fiscal 2006, further adding to legal, accounting and audit costs.

Office and administration expenses in Q1 2006 of \$120,276 compare to \$85,609 in Q1 2005. These included telephone, courier and other direct costs. Additional employees were hired in Q1 2006, which has contributed to the increase. A portion of rent, telephone and other related expenses is included in exploration expenses and in the Ceramext™ research costs.

Management and consulting fees of Cdn\$2,500 per month are being paid to Lang Mining Corporation, a private company, for the services of the former chairman of the Company and are classified as management and consulting fees. A new chairman was appointed in June 2005, and the management fee will be paid to Lang Mining Corporation until June 2006. Also included in consulting fees in Q1 2006 is Cdn\$9,000 paid to a private company controlled by a director of the Company. There was no comparative expense in Q1 2005.

The Company has hired consultants at a cost to date of \$28,309 to assist the Company in a review of the ceramics industry. The process was started in late fiscal 2005 and continued in Q1 2006.

A foreign exchange gain of \$3,680 in Q1 2006 compares to an exchange loss of \$2,963 in Q1 2005. The debt portion of preference shares is denominated in Canadian dollars and is subject to exchange rate fluctuations. Fluctuations in currency affected operations to a lesser degree in both periods, as most of the Company's funds are now held in United States dollars, and most expenditures by the Company are incurred and paid in United States dollars.

Salaries and benefits of \$201,475 in Q1 2006 compares to \$232,366 in Q1 2005. The decrease in salaries and benefits in Q1 2006 reflects the decrease in the related management, administrative and accounting time related to the processing of transactions, regulatory requirements, and other administration activities. The Company has hired a new Vice President of Engineering and Construction, commencing May 1, 2006. There is no further significant increase anticipated in the complement of staff at the Vancouver offices for fiscal 2006. The existing staffing costs may increase, however, to meet current market conditions due to a shortage of experienced mining professionals and support staff. The number of staff in Grass Valley may increase significantly as the pilot and demonstration plant start continuous operation. Sales of some of the ceramic test products in the future may partially offset the additional labour expense. Costs may also substantially increase as Emgold is actively searching for a Vice President of Operations to be based in Grass Valley, California. These senior management changes may not be fully reflected until the third quarter of fiscal 2006.

Shareholder communications costs of \$65,594 in Q1 2006 compare to \$73,824 in Q1 2005. Shareholder communication costs will continue to be a significant expense due to the increased shareholder and investor interest in the Company and the related costs of informing shareholders, the

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financial community and potential new investors about the Company's activities. These costs include dissemination of news releases, transfer agent, regulatory and filing fees as well as fees associated with the maintenance of the Company's website.

Effective July 1, 2004, Emgold retained the Los Angeles area firm of Michael Baybak and Company, Inc. ("MBC") to conduct investor relations programs oriented towards institutional investors on behalf of the Company. The agreement may be terminated at any time. The Company has been paying MBC a monthly fee of \$5,000. In Q1 2006, a total of \$35,000 was paid to MBC, compared to \$35,000 in Q1 2005. This includes fees and reimbursement of expenses, including fax and email distributions.

The Company also paid \$12,244 to High Visibility Public Relations for public relations services in Q1 2005 compared to \$Nil in Q1 2006. The contract with High Visibility was terminated effective December 31, 2005.

In November 2005, Emgold appointed Michael E. O'Connor as Manager, Investor Relations. Mr. O'Connor is a full-time employee of LMC Management Services Ltd. ("LMC") and is providing services on an on-going basis to the Company through an existing LMC/Emgold services agreement. The Company is paying LMC for Mr. O'Connor's services from its current working capital, and his salary is included in salaries and benefits.

Travel expense increased from \$18,189 in Q1 2005 to \$58,769 in Q1 2006, as travel, air and hotel accommodation costs have increased in general. Management and personnel attended the PDAC in Toronto on March 2006. Significant travel expenses were also incurred related to the search for management personnel. Fiscal 2006 travel costs are likely to remain at least at the fiscal 2005 level.

Current and planned activities for 2006 include further testing, and preparation of patent applications, analysis and determination of products and product aesthetics based on marketing studies, and testing and development of additional methods for creating ceramic materials.

The Company has a five-year lease and option to purchase the Idaho-Maryland property. The current lease commenced on June 1, 2002, and expires on May 31, 2007. All payments required under the lease have been made to date.

1.5 Summary of Quarterly Results

The table below provides, for each of the most recent eight quarters, a summary of exploration costs on a project-by-project basis and of corporate expenses.

	Ceramex TM Process	Idaho- Maryland Property, California	Rozan Property, British Columbia	Stewart Property, British Columbia	Jazz Property and Others	General and administrative expenses (Note 1)	Loss per Quarter	Quarterly Loss per share
2004								
Second Quarter	385,462	858,618	2,529	11,173	--	374,247	1,614,209	0.03
Third Quarter	170,690	778,252	15,689	16,065	24,350	465,915	1,457,999	0.03
Fourth Quarter	228,108	433,954	(27,646)	1,198	57,526	505,698	1,198,243	0.03
2005								
First Quarter	217,138	401,372	355	1,964	1,501	475,340	1,094,829	0.03
Second Quarter	374,325	305,580	1,433	40	226	651,362	1,290,315	0.02
Third Quarter	508,812	338,200	(107)	13,123	30	425,897	1,260,160	0.02
Fourth Quarter	669,384	559,748	99	56,123	(11,463)	364,141	1,599,861	0.02
2006								
First Quarter	329,869	496,066	84	1,328	--	540,020	1,344,263	0.02

Note 1: General and administrative expenses do not include interest revenue, or the write-down or recovery of mineral property interests.

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Variations between quarters are primarily affected by the Company's activities and progress on its exploration and permitting of the Idaho-Maryland Property and research on the Ceramext™ process.

1.6 Liquidity

Historically, the Company's sole source of funding is and has been the issuance of equity securities for cash, primarily through private placements to sophisticated investors and institutions. The Company has issued common shares in each of the past few years, pursuant to private placement financings and the exercise of warrants and options.

Investing Activities

As at March 31, 2006, Emgold has capitalized \$859,625 representing acquisition costs associated with the acquisition of its mineral property interests in California and British Columbia. The Company acquired equipment with a cost of \$15,153 in Q1 2006, while amortization of \$43,257 on equipment was recorded in Q1 2006. As a result, book value of \$494,986 at March 31, 2006, compares to \$523,090 at December 31, 2005.

1.7 Capital Resources

At March 31, 2006, Emgold's working capital, defined as current assets less current liabilities, was \$1,821,226, compared to \$3,136,560 at December 31, 2005. The Company's continued operations are dependent upon the Company's ability to obtain sufficient financing to carry on planned operations.

At March 31, 2006, the Company had 65,538,099 common shares issued and outstanding and 3,948,428 Class A preference shares, which are convertible to 987,107 common shares. Dividends deemed to have been paid could also result in dilution of approximately 214,000 shares at December 31, 2005.

Additional financing will be required in fiscal 2006 in order for the Idaho-Maryland project and the Company to move forward as scheduled.

1.8 Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

1.9 Transactions With Related Parties

Related party balances are non-interest bearing and are due on demand, with no fixed terms of repayment, with the exception of preference shares.

Balances receivable from (f):	March 31, 2006	December 31, 2005
LMC Management Services Ltd.	\$ 65,830	\$ 131,224
Balances payable to (f):		
Directors, officers and employees	\$ 168,283	\$ 173,273

Related party transactions in these consolidated financial statements are as follows:

- (a) Ross Guenther, a director of the Company is the developer of the Ceramext™ process. Under the terms of the agreement, the Company has agreed to pay the following minimum advance royalty payments: \$5,000 per quarter in the year ended December 2005, \$10,000

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per quarter in fiscal 2006; \$20,000 per quarter in fiscal 2007; and \$40,000 per quarter thereafter. He is also a consultant at the Idaho-Maryland Property, and received consulting fees of \$22,500 in each comparative period.

- (b) During the three months ended March 31, 2006, \$205,547 (2005 - \$215,422) was paid in management, administrative, geological and other services provided by LMC Management Services Ltd. ("LMC"), a private company held jointly by the Company and other public companies, to provide services on a full cost recovery basis to the various public entities currently sharing office space with the Company. Currently, the Company has a 25% interest in LMC. Three months of estimated working capital is required to be on deposit with LMC under the terms of the services agreement. There is no difference between the cost of \$1 and equity value, as LMC does not retain any profits in connection with the services it provides.
- (c) Legal fees of \$Nil (2005 - \$25,885) were paid to a law firm of which a director, Sargent H. Berner, was an associate counsel until April 1, 2006.
- (d) Consulting fees of Cdn\$9,000 (2005 - \$Nil) were paid indirectly to Kent Avenue Consulting Ltd., a private company controlled by a director, Sargent H. Berner. These amounts are included in the services provided in (b) above.
- (e) Lang Mining Corporation ("Lang Mining") is a private company controlled by Frank A. Lang, a director of the Company. Commencing January 1, 2003, and expiring June 30, 2006, the Company agreed to pay Cdn\$2,500 per month to Lang Mining for the services of the chairman of the Company. The Company appointed a new chairman in June 2005, and approved a one-year extension of payments to the Lang Mining contract. Mr. Lang and Lang Mining Corporation are the holders of preference shares, which are described below.
- (f) Related party balances are non-interest bearing and are due on demand, with no fixed terms of repayment, except for preference shares, described below.

Preference Shares

Mr. Frank A. Lang and Lang Mining Corporation (collectively "Lang") were major creditors of the Company as a result of advances made over a prolonged period in providing financial support to the Company. In 2002, the Company entered into an agreement with Lang to issue 3,948,428 Series A First Preference shares in full satisfaction of an aggregate Cdn\$789,686 of indebtedness owing to Lang. Terms of the preferred share issuance are described below.

The Series A First Preference Shares rank in priority to the Company's common shares and are entitled to fixed cumulative preferential dividends at a rate of 7% per annum. At March 31, 2006, \$158,220 has been accrued in accounts payable in relation to the 7% fixed cumulative preferential dividends.

The shares are redeemable by the company at any time on 30 days written notice at a redemption price of Cdn\$0.80 per common share, but are redeemable by the holder only out of funds available that are not in the Company's opinion otherwise required for the development of the Company's mineral property interests or to maintain a minimum of Cdn\$2 million in working capital.

The value of the convertible preference shares was split into a debt component and an equity component. This resulted in \$90,902 being included in equity. The balance of \$574,342 is the 'principle' value included in the debt component of preference shares. Accretion and foreign exchange on debt act to increase the total debt component of preference shares to \$614,764 at March 31, 2006.

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The Series A First Preference Shares are non-voting unless and until the Company fails for any period aggregating two years or more to pay dividends, in which case they will carry one (1) vote per share at all annual and special meetings of shareholders thereafter.

1.10 Fourth Quarter

Not applicable.

1.11 Proposed Transactions

There are no proposed asset or business acquisitions or dispositions before the board of directors for consideration, other than those in the ordinary course of business or as described in items 1.6 or 1.7 above.

1.12 Critical Accounting Estimates

As at March 31, 2006, the Company was a venture issuer.

1.13 Critical accounting policies and changes in accounting policies

None

1.14 Financial Instruments and Other Instruments

None

1.15.1 Other MD & A Requirements

See the unaudited consolidated financial statements for the three months ended March 31, 2006 and 2005.

1.15.2 Additional Disclosure for Venture Issuers Without Significant Revenue

- (a) capitalized or expensed exploration and development costs

See Item 1.4 in this Quarterly Report.

- (b) expensed research costs

See Item 1.4 in this Quarterly Report.

- (c) deferred development costs

Not applicable.

- (d) general administrative expenses

The required disclosure is presented in the Statements of Operations.

- (e) any material costs, whether capitalized, deferred or expensed, not referred to in (a) through (d)

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None.

1.15.3 Disclosure of Outstanding Share Data

The following details the share capital structure as of May 29, 2006, the date of this MD&A, subject to minor accounting adjustments:

Outstanding share information at May 29, 2006

(a) **Authorized Capital**

Unlimited number of common shares without par value.
Unlimited number of preference shares without par value.

(b) **Issued and Outstanding Capital**

65,691,099 common shares are issued and outstanding.

3,948,428 Series A First Preference shares.

Stock Options Outstanding

Exercise Price (Cdn\$)	Number Outstanding	Expiry Date
\$0.30	145,000	April 21, 2007
\$0.25	20,000	January 15, 2009
\$0.25	150,000	June 11, 2009
\$0.10	441,000	October 12, 2011
\$0.60	150,000	August 18, 2013
\$1.00	2,805,000	November 19, 2013
\$1.00	150,000	June 16, 2014
\$0.90	2,130,000	July 12, 2014
\$0.36	160,000	June 28, 2010
	6,151,000	

Warrants Outstanding

Number of Warrants	Exercise Price	Expiry Date
3,480,000	Cdn\$0.70	May 3, 2007
14,880,000	Cdn\$0.70	June 10, 2007
18,360,000		

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Other Information

Controls and Procedures

As of December 31, 2005, we carried out an evaluation, under the supervision and with the participation of our President and Chief Financial Officer of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our President and Chief Financial Officer have concluded that our disclosure control and procedures are effective to ensure that information required to be (a) disclosed is recorded, processed, summarized and reported in a timely manner and (b) disclosed in the reports that we file or submit is accumulated and communicated to our management, including our President and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Approval

The Board of Directors of Emgold Mining Corporation has approved the disclosure contained in the Interim MD&A. A copy of this Interim MD&A will be provided to anyone who requests it and can be located, along with additional information, on the SEDAR website at www.sedar.com.

Caution on Forward-Looking Information

This MD&A includes forward-looking statements, such as estimates and statements that describe the Company's future plans, objectives or goals, including words to the effect that the Company or management expects a stated condition or result to occur. Since forward-looking statements address future events and conditions, by their very nature, they involve inherent risks and uncertainties. Actual results in each case could differ materially from those currently anticipated in such statements.