Management's Discussion and Analysis

Golden Valley Mines Ltd.

For the year ended December 31, 2005

Introduction

The following is management's discussion and analysis of the financial condition and results of operations of Golden Valley Mines Ltd. (the "Company") for the year ended December 31, 2005. This discussion and analysis should be read in conjunction with the audited financial statements for the year ended December 31, 2005 and the related notes thereto. All figures are in Canadian dollars unless otherwise noted.

Nature of Operations

Golden Valley Mines is a mining exploration company, whose assets include approximately 130 exploration properties located in: i) the Abitibi Greenstone Belt (Ontario and Québec); ii) the James Bay, Mistassini and Otish regions of northern Québec; iii) the Nunavik (Ungava and Labrador) region of northern Québec; and iv) the Athabasca Basin of Saskatchewan.

Golden Valley Mines' exploration strategy is based on three principles: (a) majority ownership during the initial early stage exploration program; (b) wide variety of commodities; and (c) drill testing of priority anomalous targets.

The 90 Abitibi properties are comprised predominately of gold and/or base metals prospects located in Québec and Ontario. Golden Valley Mines exploration strategy consists of an approach designed to reduce exploration risk, and increase the probability of exploration success, through the systematic and sequential exploration of a large number of properties. Preliminary work (gridding, prospecting, geophysical and/or geochemical surveys, reconnaissance mapping) is completed on one property while diamond drilling of up to five prospective targets is being completed on another.

In December 2004, Golden Valley Mines acquired an interest in the Cheechoo gold property, located in the vicinity of Virginia Gold Mines Éléonore gold discovery in James Bay, Québec, and in 2005 Golden Valley increased its land position on the project to 535 square kilometers.

One of the Golden Valley Mines' objectives is to conduct basic exploration, including initial diamond drilling, while the Company owns the properties 100%. In instances where the exploration results are less than conclusive (such as when favourable geological conditions are encountered, with no significant discovery) the Company will typically seek partners (other public companies) to conduct follow-up exploration programs and continue the exploration effort. In most of these agreements, Golden Valley Mines continues to act as operator. In this manner, the Company reduces dilution and expenditures, continues exploration on these same properties with larger budgets than its own initial investment (most of the agreements allow the partner to earn-in to properties by spending exploration funds over three to four years), and the Company acquires securities (shares or cash) from its partners in addition to the exploration funding. This allows Golden Valley Mines to focus on other early-stage, 100%-owned properties while partners fund more expansive joint venture and remote projects.

During 2005, Golden Valley Mines acquired 57 new projects, and is now seeking exploration partnerships for the Marymac nickel-copper-PGE project in Nunavik, Québec, the Shoot Out Nickel-Copper-PGE project in Québec, the Bijoux diamond venture, located in the James Bay/Nunavik region of Québec, the Beartooth Uranium property in the Athabasca Basin, Saskatchewan, the Mistassini and Otish Uranium properties in Québec, and for several of its Abitibi projects in Québec and Ontario.

Selected Annual Information

	2005	2004	2003
Total Revenue	20,000	156,156	Nil
Net income (loss)	(625,345)	(492,108)	(317,442)
Basic and diluted net loss per share	(0.02)	(0.02)	(0.01)

Results of Operations

In 2005, the Company reported a net loss of $625,345, compared to losses of $492,108 in 2004 and $317,442 in 2003. This change is due mostly to a decrease in revenue from property option agreement and exploration joint ventures.

Revenues

Golden Valley Mines did not complete any new exploration option agreements in 2005, and accordingly, revenue generated from property options decreased from $41,910 in 2004 to nil for 2005. Income from geological fees decreased from $114,246 in 2004 to $20,000 in 2005, primarily due to the termination of the Shoot Out third party options and exploration programs prior to the start of the 2005 exploration season. The Company is actively seeking partners to continue the project. Interest income totaled $21,873 in 2005, a decrease from the previous two fiscal years ($64,397 in 2004 and $41,449 in 2003). Interest income fluctuates from year to year, depending on the Company's cash balance, and interest rates. As at December 31, 2005, the Company held publicly traded securities having a market value of $164,642 and a book value of $110,142, comprised of common shares of third party optionees issued to the Company in accordance with the terms of certain property option agreements. During 2005, the Company realized investment gains on these shares of $25,645, compared to $17,074 in 2004.

Non-Exploration Expenditures

Administration expenses increased slightly from $741,179 in 2004 to $773,884, largely as a result of an increase in advertising and exhibition expenses ($118,673 in 2005, $50,004 in 2004, and $11,573 in 2003).

Excluding stock-based compensation and Part XII taxes, all categories of administrative expenses rose in 2005, owing to an increase in the level of business activities in 2005, comprised of exploration, promotion, the management of existing property options, and the marketing expenses for new property option arrangements. In 2005, fewer stock options were granted than in 2004 (968,000 in 2005 compared to 1,776,000 in 2004), and accordingly, stock-based compensation expenses decreased significantly from $285,432 in 2004 to $105,634 in 2005. Rent and office expenses increased slightly from $109,034 to $120,403, and management fees, amortization of property and equipment and amortization of deferred organization expenditures remained the same. The Company registered a bad debt in 2005 of $36,273 for unpaid geological fees charged to a third-party optionee in 2004.

In an effort to broaden shareholder awareness, Golden Valley Mines enhanced its corporate development through increased corporate communications and better publicity of the Company's exploration activities. The intent of this effort is to ensure financings are conducted at the best possible terms, in the best interest of the Company and its shareholders. Accordingly, advertising and exhibition expenses more than doubled from $50,004 to $118,673 in 2005. Investor Relations expenses, a component of professional fees, have increased from $9,390 in 2004 to $72,417 with the engagement of two investor relations consultants, Renmark Financial Communications Inc., and Tydewell Consulting Inc. Travel expenses have increased correspondingly, to $35,844 in 2005. Additionally, stock-based services expenses have doubled as a result of an increase in the number of stock options granted to consultants in 2005 compared to 2004.

Exploration Activities and Expenditures

At the end of the 2005 fiscal year, total investments in mineral properties increased to an aggregate $6,193,704. By year-end 2005, Golden Valley Mines has drilled a total of 90 targets on 20 properties in the Abitibi Greenstone Belt Project. The Company's 130 property interests in Québec, Ontario and Saskatchewan include the new 2005 land acquisitions in the Urban-Barry Greenstone Belt, prospective for Gold, as well as for molybdenum and uranium (Abitibi-Témiscaminque, Otish and Mistassini regions in Québec). Several other gold and base metal properties were expanded as a result of initial exploration work and on-going in-house project generation activities. Additionally, during 2005, Golden Valley acquired the right to earn up to an 85% interest in nine gold/base metal properties in the Abitibi region of Québec and Ontario, by incurring $1,000,000 on any one or all of the properties. The only property optioned to a third party during 2005 from the Abitibi group of properties was the Broker's Fee Prospect and the optionee did not incur expenditures during 2005.

Highlights for the 2005 Exploration programs focused on a three phase program on its James Bay properties, starting with a Fugro DIGHEM airborne survey, followed by a lake-bottom sediment sampling survey where 440 lake-sediment samples were collected, and thirdly by a 34 field day ground reconnaissance program resulting in the collection of 418 rock samples. Twenty-seven (27) of the first 418 rock gram samples (or 6%) collected on the project assayed 0.1 g/t gold or better. The highest grade of mineralization returned assay values of 3.98 g/t gold and 1.73% copper.

There was no field exploration work conducted on Golden Valley Mines' Nickel-Copper-PGE projects in Nunavik, Québec in 2005 (Marymac and Shoot Out). Exploration on the Shoot Out project in 2004 consisted of camp construction, general exploration and prospecting, and 2,492 meters of diamond drilling on West Shoot Out, and 1,811 meters of drilling at East Shoot Out. The West Shoot Out program focused on delineating the known sulphide mineralization at the Alpha and India showings, and the East Shoot Out program focused on exploring two prospective ultramafic bodies, namely the SO-4 and SO-6 sills.

	Dec 05	**Sept 05**	**June 05**	**March 05**	**Dec 04**	**Sept 04**	**June 04**	**March 04**
Total revenues	**4,000**	**Nil**	**16,000**	**Nil**	156,156	Nil	Nil	Nil
Net gain (loss)	**27,839**	**(184,761)**	**(228,422)**	**(240,001)**	37,420	(200,788)	(175,924)	(152,816)
Basic and diluted net gain (loss) per share	**0.001**	**(0.007)**	**(0.008)**	**(0.009)**	0.001	(0.007)	(0.007)	(0.006)

Over the past eight quarters, expenses have gradually and consistently increased reflecting a corresponding consistent increase in exploration and corporate development activities. Revenues are expected to occur sporadically over future quarters as the revenue generated by option agreements and project operator expenses are tied to milestone dates under option and exploration agreements, which may be augmented, altered, or cancelled with little notice.

Financial Condition

Liquidity and Capital Resources

Working capital as at December 31, 2005 was $1,578,290, compared to $2,013,444 as of December 31, 2004.In February, 2005 the Company completed a private placement financing in its partner, Sirios Resources Inc., in the amount of $157,500, in consideration for 1,500,000 units of Sirios (one common share and one warrant exercisable at $0.15 for two years). In November 2005 the Company closed three of its own private placements, for aggregate gross proceed of $1,518,950, and on December 29, 2005 the Company received $588,882 from the closing of a non-brokered flow-through financing. An additional $12,500 was realized from the exercise of stock options in 2005.

A $300,000 convertible debenture expired on November 15, 2005, Golden Valley Mines re-paid the principal in full to the holder by the issuance of 1,000,000 common shares and 500,000 warrants exercisable at $0.35 until December 15, 2006 and thereafter at $0.40 until December 15, 2007. Interest on the debenture totaled $54,086, which was satisfied in full by the issuance of an aggregate 204,741 common shares. Further, the Company issued 1,500,000 warrants to a vendor as partial consideration for the acquisition of additional property interests in the James Bay region of Québec.

The Company has sufficient liquidity to conduct its exploration commitments for 2006. The non-flow-through portion of working capital will cover the Company's general and administrative expenses in 2006, provided that no extraordinary circumstances arise. The flow-through reserve of $588,882 will cover the Company's obligations under its agreements with Sirios Resources Inc. for the 2006 exploration program on the Cheechoo venture in Quebec. Expenditures in excess of the $588,882 will be incurred on the Abitibi project, which should result in a Québec exploration tax credit on those expenses.

As an exploration stage company, with a limited revenue stream, the Company budgets exploration and administrative expenses, and closely monitors its general and administrative expenses, its investments and cash position.

Fourth Quarter

All the financings completed by the Company in 2005 occurred in the last quarter. The Company's 36-month debenture expired on November 15, 2005, which the Company repaid through the issuance of 1,000,000 common shares and 500,000 warrants (See Financial Condition – Liquidity and Capital Resources, above).

On November 15, 2005 the Company issued 80,000 common shares as a finders fee to an arms length party in respect of two properties optioned by the Company to a third party optionee. The Company received shares and a work commitment from the optionees on two Abitibi properties.

Transactions with Related Parties

In 2003 Golden Valley was granted an option to acquire a 100% interest in the Shoot Out Property (Shoot Out East and Shoot Out West) from two officers of the Company that indirectly held title to the property prior to Golden Valley completing its Qualifying Transaction in 2002. Golden Valley has vested in its 100% interest, subject to a 3% NSR royalty held by the optionors.

During the fiscal year ended 2005 the Company acquired the right to earn up to an 85% interest in a group of nine Abitibi properties from Kalahari Resources Inc. Kalahari had previously acquired these properties from two vendors, one of which is an officer of the Company, and the underlying agreements are subject to an NSR (3% to 3 ½%) and a balance of cash payments, $50,000 of which was paid by the Company in 2005.

As well, Golden Valley acquired additional property interests in the James Bay region of Québec from Canadian Royalties Inc., and certain officers, directors, and shareholders of Golden Valley are also officers, and or directors or shareholders of Canadian Royalties Inc.

Outlook

Golden Valley Mines exploration plans for 2006 have been described in further detail in the Company's 2005 Annual Report. The Company's principal objectives are related to the Abitibi project, the Cheechoo/James Bay project, and various other grassroots exploration efforts. The capital markets for exploration companies remain strong due to continued strength in the commodities prices of the Company's principal exploration targets such as base metals, gold, uranium, molybdenum and diamonds. These markets could remain strong for one or more years. Golden Valley Mines ability to option exploration properties for third party exploration, and fund its own exploration projects is correlated to the strength of commodities markets and the exploration and mining sectors, and accordingly, is considered to have a healthy outlook for the near term.

Risks and Uncertainties

The exploration and development of mineral deposits involves significant and other risks over an extended period of time, which even a combination of careful evaluation, experience and knowledge may not eliminate, and few properties which are explored are ultimately developed into producing mines. The long-term profitability of the Company's operations will be in part related to the cost and success of its exploration programs, which may be affected by a number of factors out of the Company's control, such as commodity prices, the availability of skilled personnel, qualified vendors, and critical equipment.

Substantial expenditures are required to establish reserves through drilling, to determine the technical and economic feasibility of mining and extracting them, and, if warranted, to develop the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major mineralized deposit, it is impossible to ensure that the current or proposed exploration programs on properties in which the Company has an interest will result in profitable mining operations.

Additional Information

The disclosure required pursuant to National Instrument 58-101 – *Disclosure of Corporate Governance Practices* has been made by the Company in its Management Information Circular dated April 24, 2006 which will be accessible via the Internet for public viewing on the System for Electronic Document Analysis and Retrieval by May 1, 2006 at www.sedar.com.

Additional information about Golden Valley Mines, may be obtained from the Company's website at www.goldenvalleymines.com or on SEDAR at www.sedar.com.

Forward Looking Statement

"All statements other than those of a historical nature are 'forward-looking statements' that may involve a number of unknown risks, uncertainties and other factors. There can be no assurance that such statements will prove to be accurate, and actual results and future events could differ materially from those anticipated in such statements."