Management's Discussion and Analysis

Golden Valley Mines Ltd.

For the second quarter ended June 30, 2006

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 second quarter ended June 30, 2006. This discussion and analysis should be read in conjunction with the unaudited financial statements for the second quarter ended June 30, 2006 and the related notes thereto. All figures are in Canadian dollars unless otherwise noted.

Nature of Operations

Golden Valley Mines is a mineral exploration company, whose assets include approximately 138 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) exploring for a wide variety of commodities; and (c) drill testing of priority 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 entered into an option agreement to acquire an interest in the Cheechoo gold property located in the vicinity of the Goldcorp Éléonore gold discovery in James Bay, Québec. In 2005 Golden Valley entered into an additional option agreement to increase 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, but 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 expensive joint venture and remote projects.

Golden Valley Mines is actively 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, and for several of its Abitibi projects in Québec and Ontario.

Selected Quarterly Information as at June 30

	June 30, 2006	June 30, 2005	June 30, 2004
Total Revenue	54,000	16,000l	Nil
Net income (loss)	(213,751)	(468,423)	(328,740)
Basic and diluted net loss per share	(0.006)	(0.017)	(0.012)

Results of Operations

As at June 30, 2006, the Company reported a net loss of $213,751 compared to losses of $468,423 as at June 30, 2005. This change is due mostly to an increase in revenue from property option agreements, a gain on disposal of a property as well a favourable return on the Company's short-term investments.

Revenues

Revenue generated from property options increased from nil in 2005 to 50,000 for the same period in 2006. Interest income totaled $14,129 in 2006, a decrease from the previous first quarter-ended June 30, 2005 ($16,823). Interest income fluctuates during this period from year to year, depending on the Company's cash balance, and interest rates. As at June 30, 2006, the Company held publicly traded securities having a market value of $834,123 and a book value of $463,808, comprised of common shares of third party optionees issued to the Company in accordance with the terms of certain property option agreements. During the second quarter ended June 30, 2006, the Company realized investment gains on these shares of $12,708, compared to nil during the same period in 2005.

The Company realized a gain on the disposal of a property of $100,000. Given that the transaction was not considered to be in the normal course, this gain is presented in the "Other Income" section of the Earnings and Deficit Statement.

Non-Exploration Expenditures

The Company's administrative expenses for this quarter increased slightly, with the exception of salaries, rent and office expenses ($13,565 compared to $27,654 in 2005) and stock-based compensation ($9,021 compared to $25,228 in 2005) compared to the same period in 2005: The increase in advertising and exhibition expenses ($62,957 compared to $37,691 in 2005) is due to an increase in promotional expenses related to a higher level of promotional and shareholder relations activity. Accordingly, professional fees almost doubled from $53,130 to $90,776, and traveling, also increased by 80% (from being $13,595 to $24,881 in 2006) due to investor relations expenses, a component of professional fees. Stock-based compensation decreased significantly ($9,021 compared to $25,228 in 2005) as a result of fewer stock options granted in the second quarter ended June 30, 2006, compared to that in 2005. Management fees remained unchanged ($9,750).

Exploration Activities and Expenditures

At the end of the second quarter ended June 30, 2006, total investments in mineral properties increased to an aggregate $6,654,440. The Company's 138 property interests (204,000-Ha) in Québec, Ontario and Saskatchewan include new 2006 land acquisitions in the Abitibi Greenstone Belt, considered prospective for gold and for base metals. Several other existing gold and base metal properties have been expanded as a result of initial exploration work and on-going in-house project generation activities.

Active exploration programs undertaken during the second quarter included three diamond drill programs, and geophysical and prospecting at several other properties.

Drilling was completed on the Hunter Mine Group Prospect, a gold and VMS property located along the border of Duparquet and Destor Townships, approximately 34 kilometres north of the city of Rouyn-Noranda. Field work was completed late in 2005, drilling commenced subsequent to the first quarter. The drill program evaluated three separate targets representing potentially separate volcanogenic massive sulphide (VMS) and/or gold mineralizing events. No significant assays were received. As well, no significant results were returned from a 3-drill hole program completed at the Golden Jet Prospect situated in Duparquet Twp., Québec).

Diamond drill programs were also conducted during the second quarter at the Riverside and Bogside NW Prospects, both located in the Cadillac area of northwestern Québec. Assays remain pending.

Geophysical surveys were conducted at the Ducros Sill option (Ducros Twp., Québec), Lockout Prospect (Clericy Twp., Québec), and Cheechoo "A" Prospect in James Bay as well as the Bench Depth Prospect in Matachewan, Ontario.

Exploration activities on the James Bay properties during the six month period ended June 30, 2006 have been focused on a multiphase program consisting of linecutting and geophysical surveys at the Cheechoo "A" Prospect, followed by geological mapping and sampling. Additional linecutting, geophysical surveys, and prospecting are planned or underway also at the Cheechoo "B", "C", Sharks, and Top Corner Prospects. A property wide airphoto survey has also been completed to assist in planning of traverses, mapping, prospecting and logistical operations.

New property acquisitions included the PDAC Prospects consisting of 4 properties, 49 claims (2,355-Ha) located within four townships.

The Company announced a Uranium joint venture on its Beartooth Island Prospect southwest of Uranium City, Saskatchewan. Under the terms, Ditem Explorations Inc. ("Ditem") may earn an initial 50% interest by funding $1,000,000 in exploration over 3-years. In the fourth year of the agreement, Ditem may then earn an additional 10% interest by completing $2,000,000 in additional exploration. Ditem may then earn an additional 6% (66% aggregate) by completing a bankable feasibility prior to 2016. Golden Valley will act as the operator of the joint venture. As part of this transaction, Golden Valley was issued 2,000,000 share purchase warrants of Ditem allowing the Company to acquire 2,000,000 common shares of Ditem at a price of $0.10 per share for 2-years (March, 2008). The Corporation exercised 1,000,000 warrants during the six month period ended June 30, 2006. The Company, as operator, commenced the program during the six month period ended June 30, 2006 by engaging Fugro Airborne Surveys to conduct approximately 1100-km of survey on the Beartooth Island Prospect using the MEGATEM II system.

Golden Valley acquired, by staking, the Malartic CHL Prospects consisting of two groups of mining claims. Both groups were subsequently dealt to Osisko Exploration Ltd. Osisko acquired a 100% interest in one group, subject to a 2% NSR in favour of the Company, in consideration for a cash payment of $100,000. The second group option allows Osisko to earn a 70%-interest in the property in return for cash payments of $150,000 ($35,000 at signing) and a four-year work commitment totaling $2,000,000 ($200,000 in the first year).

Finally, the Company announced that it entered into an agreement with Quinsam Capital Corporation on the Arbade-Richore Prospect near Matachewan, Ontario whereby Quinsam may earn a 51%-interest by making a cash payment of $10,000, issuing 400,000 shares of Quinsam, amd completing $1,000,000 in exploration expenditures over 3-years (including $200,000 over the first 12-months).

Subsequent to the completion of the six month period ended June 30, 2006, the Company was granted an option to earn a 100% interest in the Island 27 Prospect located in the Kirkland Lake – Larder Lake Break near Matachewan, Ontario. The Corporation made a cash payment of $25,980, and will vest in a 100% interest, subject to a 2% NSR, upon incurring $100,000 in exploration expenditures prior to December 31, 2007.

	June 06	March 06	Dec 05	Sept 05	June 05	March 05	Dec 04	Sept 04
Total revenues	39,000	15,000	4,000	Nil	16,000	Nil	156,156	Nil
Net gain (loss)	(75,462)	(138,289)	27,839	(184,761)	(228,422)	(240,001)	37,420	(200,788)
Basic and diluted net gain (loss) per share	(0.002)	(0.004)	0.001	(0.007)	(0.008)	(0.009)	0.001	(0.007)

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 increased from $1,578,290 as at December 31, 2005 to $1,819,222 as at June 30, 2006. As of June 30, 2006, an unspent balance of $185,299 in flow-through funds remained. During the period, $254,635 was raised through the exercise of warrants and options.

As at June 30, 2006, the Company had sufficient cash liquidity to carry out 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 $185,299 will cover the Company's obligations under its agreements with Sirios Resources Inc. and Canadian Royalties Inc. for the 2006 exploration program in the James Bay area of Québec.

The Company, as Operator in respect of Ditem's Beartooth Island exploration program, received $153,350 from Ditem for the purposes of commencing the 2006 exploration program.

Given that the Company is a small corporate entity focused on exploration, with a limited revenue stream, the Company budgets exploration and administrative expenses, and closely monitors its general and administrative operating costs, its investments, as well as its cash position.

Contractual Obligations

		Payments due by period	
Obligation	$Total	1 year	More than 1 year
Flow-through exploration expenditures	$185,299	$185,299	-
Property Options/Purchase[1]	$2,700,000	$500,000	$2,200,000

Notes

(1) The following details the balance of optional expenditures by the Company should it elect to maintain the property options, as optionee of the various properties in which the Company is earning an interest:

a. $800,000 over the next three (3) years to earn up to an 60% interest from Sirios Ressources Ltd. on the Cheechoo Prospect;

b. $800,000 over the next three (3) years to earn up to 60% interest in the Sharks prospect pursuant to an assignment of interest by Canadian Royalties Inc.;

c. $1,000,000 on any one of or a combination of nine mineral properties to acquire up to an 85% interest from Kalahari Ressources Ltd; and

d. $100,000 on the Island 27 Property by December 31, 2007 to acquire a 100% interest (subject to an NSR).

Transactions with Related Parties

Other than as detailed in the Company's audited financial statements for the year ended December 31, 2005 (see Note 13, *Related Party Transactions* therein), there were no significant transactions with related parties during the fiscal period ended June 30, 2006 save for routine payments for management and exploration services in the aggregate amount of $45,600 of which $300 was paid to an officer and director of the Company (office rent).

Outlook

Golden Valley Mines exploration results to date have been summarized in the Exploration Activities and Expenditures section of this document. 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

Additional information about Golden Valley Mines is available through the Company's website at www.goldenvalleymines.com or through the internet on the System for Electronic Document Analysis and Retrieval (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."

(s)

(Signed) Glenn J. Mullan
President and Chief Executive Officer
Val-d'Or, Québec (Canada)
August 28, 2006

(s)

(Signed) Jennifer L. Boyle
Chief Financial Officer
Val-d'Or, Québec (Canada)
August 28, 2006