Inter-Citic Minerals Inc.

Management's Discussion and Analysis

This Management's Discussion and Analysis should be read in conjunction with the consolidated second quarter financial statements of May 31, 2006 (unaudited) and the Annual Information Form ("AIF") for the year ended November 30, 2005 for Inter-Citic Minerals Inc. ("Inter-Citic", or the "Company"), and is current as at July 28, 2006. Unless otherwise noted, all financial information is expressed in Canadian dollars and has been prepared in accordance with Canadian generally accepted accounting principles and with consistent application of accounting policies. Additional information regarding the Company and its operations and activities can be found on its website at www.inter-citic.com, or on SEDAR at www.sedar.com, including the documents referenced above.

Mr. B. Terrence Hennessey, of Micon International Limited, is a qualified person under National Instrument 43-101 ("N.I. 43-101") and has reviewed disclosure of a technical nature in this Management's Discussion and Analysis.

HIGHLIGHTS FOR THE QUARTER

- On March 22, 2006, the Company completed private placement financing for gross proceeds of $11,056,478 ($10,366,994 net), to be used for further exploration at the Company's Dachang Gold Project ("Dachang") and for general working capital purposes. In connection with this financing, the Company was successful in obtaining a decision document in respect of a prospectus qualifying the underlying securities for the purposes of distribution in the provinces of Canada within which the holders of those securities are resident, as described in the Company's press release of April 28, 2006.
- On April 19, 2006, the Company announced details of its planned 2006 exploration program at Dachang, including up to 20,000 meters of drilling and up to 50,000 meters of trenching.
- Commencement of the Company's 2006 exploration program at Dachang, including up to 20,000 meters of drilling and 50,000 meters of trenching, as described in the Company's press release of May 1, 2006. The Company published its first set of results from this work subsequent to the quarter, in the Company's press release of June 21, 2006.
- Subsequent to the end of the quarter, on July 24, 2006, the Company announced that it had received conditional approval from the Toronto Stock Exchange ("TSX") for the listing of its shares. The Company's graduation to the TSX from the TSX Venture Exchange is expected to occur in the next few weeks. Inter-Citic currently trades on the TSX Venture Exchange. After listing on the TSX, the Company will continue to trade under the symbol "ICI".

OVERVIEW

Inter-Citic is a development stage company engaged in the acquisition, exploration and development of exploration stage resource properties.

To date the Company has entered into joint venture agreements to acquire two exploration properties, the Dachang Gold Project in the Province of Qinghai, China, and the Zalantun Gold Project ("Zalantun") in the Inner Mongolia Autonomous Region, in the People's Republic of China ("China" or the "PRC").

As at the date of this report the joint venture for the Dachang Gold Project has received government approval, has been issued a formal business license, completed formal transfer of title of the exploration licenses of the subject lands and acquired new exploration licenses for additional lands for a total land area of approximately 391 km^2. An exploration program for this project began in Q3 of 2004 and was completed at the beginning of the first quarter of 2005. Results from 2004 were published in press releases between February and June, 2005. Exploration for 2005 began during Q3 and was completed in Q4 of that year. Results from this program were detailed in press releases by the Company between September of 2005 and March of 2006, including an increase to its inferred mineral resource at Dachang by 1,282,500 tonnes grading 5.81 grams per tonne Au as a result of positive initial drilling of the NR-2 anomaly (see press release of December 12, 2005). The Company described its 2006 exploration plan for Dachang in a press release dated April 19, 2006, including up to 20,000 meters of drilling and up to 50,000 meters of trenching, which has now commenced, and for which initial results were reported in a press release dated June 21, 2006.

In the medium to long term, the Company intends to continue to explore its gold properties with a view to identifying gold reserves and to continue to evaluate and ultimately implement strategies for becoming a gold producer in the PRC. To date the Company has not found any proven reserves or engaged in any production on any of its properties.

The Company expects that ongoing funding for these activities will come in the form of equity offerings to take place in 2006 and thereafter. Additional financings will be required in the future to fund ongoing operations and meet the Company's commitments as they come due, including its joint venture commitments (see Exploration Projects, Activities and Commitments, below). During the quarter, as announced in the Company's press release of March 22, 2006, and as detailed in Cash Resources and Liquidity – Private Placement Financing (March, 2006), below, and in Note 11 (b) (i) – Private Placement (March, 2006) of the Company's Notes to Financial Statements for the quarter ended May 31, 2006, the Company completed private placement financing for gross proceeds of $11,056,478 ($10,366,994 net), to be used for further exploration at Dachang and for general working capital.

RESULTS OF OPERATIONS

Selected financial information:

<table>
<tr><th></th><th>May 31, 2006 (YTD)</th><th>November 30, 2005</th><th>November 30, 2004</th><th>November 30, 2003</th></tr>
<tr><td>Balance Sheet:</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Cash and Cash Equivalents</td><td>$7,577,271</td><td>$417,731</td><td>$2,174,163</td><td>$1,179,270</td></tr>
<tr><td>Total Assets</td><td>$16,865,543</td><td>$7,758,604</td><td>$6,935,534</td><td>$1,624,663</td></tr>
<tr><td>Total Long-term Financial Liabilities</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Net Loss (Income):</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Head Office [1]</td><td rowspan="2">$1,263,668[2]</td><td rowspan="2">$1,922,266[3]</td><td rowspan="2">$3,810,158[5]</td><td>$1,529,171[6]</td></tr>
<tr><td>Exploration [1]</td><td>$509,900</td></tr>
<tr><td>Rare Earth</td><td>$(14,029)</td><td>$(523,827) [4]</td><td>$8,328</td><td>$4,689,932[7]</td></tr>
<tr><td>Net loss for the period</td><td>$1,249,639</td><td>$1,398,439</td><td>$3,818,486</td><td>$6,729,003</td></tr>
<tr><td>Net Loss Per Share (Basic and Diluted)</td><td>$0.026</td><td>$0.032</td><td>$0. 097</td><td>$0.232</td></tr>
</table>

[1] Beginning in 2004 the Company's business is that of an integrated exploration company and as such does not have a head office for multiple divisions.

[2] Includes stock-based compensation expense of $132,750.

[3] Includes stock-based compensation expense of $365,319.

[4] During the year the Company liquidated most of its rare earth processing equipment for net proceeds of approximately $429,240 (Renminbi 2,940,000) and reversed approximately $102,967 in accounts payable that were over-accrued at the time operations ceased.

[5] Includes stock-based compensation expense of $1,259,472.

[6] Includes stock-based compensation expense of $429,199.

[7] Includes a write down of Rare Earth Division assets of $3,824,786 and associated additional write off of non-controlling interest of $336,797. Excluding this provision, the net loss for the Rare Earth Division for 2003 was $1,201,943, the overall net loss was $3,241,014 and the overall net loss per share, basic and diluted, was $0.11.

Until 2003 the Company's activities included a rare earth operation that processed rare earth concentrates in China for use primarily in the optical and automotive catalytic converter industries, as well as the manufacture of mini and micro magnets for the computer and telecommunications industries. Rare earth operations ceased in 2003 and the processing facility has since remained idle. As a result, during 2003, total assets of the Company decreased significantly as the prepaid land lease, buildings, equipment and other assets that the Company holds through its 80% interest in Yangzhong Zhonghai Techmat Co., Ltd. were written down to their estimated realizable amounts, resulting in a charge to property, plant and equipment of $3,824,786. The impact of this write down on total assets was partially offset by capitalization of $269,068 of acquisition and exploration costs associated with the Dachang and Zalantun Gold Projects, which were acquired that same year.

Since 2003 the Company has allocated virtually all of its resources to the acquisition of exploration stage resource properties in China and to explore and develop those properties. Although historically the Company did generate revenue from the rare earth operation ($422,191 in 2003), this information has not been presented, as it is not applicable to the Company's current operations.

During 2004 the Company increased total assets from $1,624,663 to $6,935,534. This increase was as a result of two private placements resulting in net proceeds of $3,392,300 and exercise of previously issued share-purchase warrants and stock options at various times during the year of $3,917,359, the proceeds of which were used to acquire two diamond drill rigs and other equipment for use on the Company's exploration projects in China ($1,136,446) and advancement of the Company's Dachang and Zalantun Gold Projects (total expenditures for the year of $3,069,592, of which $2,775,033 was capitalized) and to fund ongoing operating expenses, as discussed herein.

During 2005 total assets increased from $6,935,534 at the end of 2004 to $7,758,604. This increase was as a result of two private placements resulting in net proceeds of $2,123,280 and exercise of previously issued share-purchase warrants and stock options at various times during the year of $880,216, the proceeds of which were used to advance the Dachang Gold Project (total expenditures for the year of $2,577,848, of which $2,410,115 was capitalized) and to fund ongoing operating expenses, as discussed herein.

Total assets increased significantly from $7,459,825 at the end of the last quarter to $16,865,543 (an increase of $9,405,718, or 126% during Q2) primarily as a result of the Company closing private placement and other financing for net proceeds of $10,496,705 during Q2, offset by much higher than normal operating expenses of $1,211,610 (compared to $315,289 during the same period last year). Expenses were much higher than normal in Q2 due to additional costs associated with closing the private placement in March for net proceeds of $10,366,994 (see Specific Items, below). Also during Q2, the Company transferred approximately $1,073,713 of this cash to China for use in ongoing exploration at Dachang (see Restricted Cash, below), spent $170,538 to purchase exploration and other equipment, commenced its 2006 exploration program for Dachang during the quarter, and incurred exploration expenses at Dachang of $712,046 (of which $679,061 was capitalized).

EXPLORATION PROJECTS, ACTIVITIES AND COMMITMENTS

In early 2003 the Company began to aggressively seek opportunities to acquire exploration stage mineral properties in China. Later that year, during the third quarter of 2003, the Company announced that it was successful in completing joint venture contracts with the Qinghai Geological Survey Institute ("QGSI") for the acquisition of the Dachang Gold Project in the Province of Qinghai, PRC, and the Beijing Institute of Geology for Mineral Resources ("BIGM") for the acquisition of the Zalantun Gold Project in the Autonomous Region of Inner Mongolia, PRC.

Both projects are exploration stage properties, and it is the intention of the Company to explore these properties in the coming years. The Company intends to continue to source and acquire additional properties in the future, and has a medium to long-term objective of becoming a producer of precious metals in the PRC, with an immediate primary focus at Dachang. To date, the Company has not found any proven reserves or engaged in any production on any of its properties.

Dachang Gold Project

On November 14, 2003, the Company entered into an agreement with the Qinghai Geological Survey Institute regarding the Dachang Gold Project in the Province of Qinghai, China. Under the terms of the joint venture contract and related amendments the Company has agreed to fund 100% of the costs associated with exploration and development of the Dachang Gold Project in exchange for 83% of any profits earned by the joint venture company. Initial capital contribution on the part of Inter-Citic is defined as monetary contribution as to the equivalent of approximately $5,162,500 (Renminbi 32,830,000), whereas initial capital contribution for the Chinese partner (QGSI) took the form of the transfer of existing exploration licenses held by QGSI to the joint venture company. Subsequent to quarter-end, in mid-July, the Company made its final contribution of $1,232,500 (Renminbi 8,000,000) under this contract.

In addition to the foregoing the Company is required to complete a pre-feasibility study within one year of the completion of all exploration work at Dachang, and has agreed to pay QGSI the equivalent of approximately $1,448,000 (Renminbi 10,000,000) upon the grant of all necessary permits, including related mining licenses, that are required to bring the project into production. QGSI has agreed to provide the Company with an option to increase its interest in the joint venture company from 83% to 90% in exchange for payment equal to the pro rata value of the increased interest in the joint venture based on the valuation of any potential mining project contained in the pre-feasibility study, and has given Inter-Citic a right of first refusal on any mineral exploration project for which QGSI seeks foreign investment.

Inter-Citic controls the joint venture company by virtue of its ability to appoint three of the five members of the board of directors of that company. However, certain matters require unanimous approval of the board of directors of the joint venture company, including transfer of all or a portion of either party's interest in the joint venture, changes to registered capital and/or profit distribution or matters relating to financing, dissolution, liquidation or extension of the term of the joint venture. See Risks and Uncertainties - Operations in China, below, for additional information.

The Dachang gold project is located approximately 165 km from the City of Golmud in the Province of Qinghai, China, at an elevation of approximately 4,500 meters and consists of four pre-existing exploration licenses covering approximately 218 km^2 and approximately 173 km^2 of new exploration licenses (three licenses) for a total of 391 km^2. The joint venture company holds all exploration licenses. Of this area, approximately 106 km^2 (the "Main Parcel") has been extensively prospected by the Qinghai Geological Survey Institute, including geochemical sampling, reconnaissance geological mapping, extensive trenching and diamond drilling. During the first quarter of 2005 the Company completed its initial exploration program at Dachang, including geochemical and geophysical surveys, trenching and diamond drilling. Results of this work identified a total of 21 large, new geochemical anomalies over six districts on the Main Parcel that were the targets of additional exploration during the balance of 2005. The six districts are as follows:

- Dachang East
- Dachang North
- Central Dachang
- Western Quarter
- North River

- Southwest Dachang

In 2005 the Company completed geological mapping of the project, extended the 2004 soil geochemical survey, and began an extensive mechanical trenching program throughout the Main Parcel, followed by diamond drilling of identified targets, as follows:

1. 1:25,000 scale Geological Mapping over 200 km^2;

2. Soil Geochemical Survey over new areas of approximately 54 km^2 (11,220 conventional B-horizon soil samples collected and tested for gold, arsenic and antimony);

3. Excavation and sampling of 101 trenches totalling 23,710 linear meters; and

4. 22 NQ core diamond drill holes totalling 2,487 metres.

Further to the above, the Company was able to identify 3 new geochemical anomalies (total of 25 such anomalies have now been identified at Dachang). During the first quarter of 2006, in the Company's Press Release of December 12, 2005, the Company announced an increase to its inferred mineral resource at Dachang by 1,282,500 tonnes grading 5.81 grams per tonne Au as a result of positive initial drilling of the NR-2 anomaly. To date, the Company has not found any proven mineral reserves or engaged in any production on any of its properties. As discussed, exploration for 2006 commenced during the second quarter, and initial results were published in the Company's press release of June 21, 2006. Results of ongoing work and findings at Dachang can be found on the Company's website and its ongoing press releases.

All exploration at Dachang since the establishment of the joint venture was completed on the Main Parcel under the direction of the Company. Cyr Drilling International Ltd., of Canada, performed the diamond drilling, while the Company's joint venture partner, QGSI, performed all other exploration work.

The Company completed and filed a technical report for the Dachang Gold Project which is available on its website at www.inter-citic.com, or on SEDAR at www.sedar.com.

Zalantun Gold Project

On October 30, 2003, the Company entered into an agreement with the Beijing Institute of Geology for Mineral Resources regarding the Zalantun Gold Project in the Autonomous Region of Inner Mongolia, China.

The Zalantun gold project is an exploration stage project consisting of three blocks covering 125 $km^{2.}$ The project area has been explored by BIGM, with nine individual target areas identified to date.

The Company is currently focused on exploration at Dachang. As a result, the Company intends to initiate formation of the Zalantun joint venture company only when it feels confident that all necessary resources, including financial and personnel, are ready and available to commit to that project. In the interim, while the Zalantun joint venture contract continues to be in full force and effect, the Company is not required to advance any funds under the Zalantun joint venture until it is implemented by the Company.

Under the terms of the joint venture contract the Company need not make any capital contributions until the joint venture company is fully organized (i.e. approvals are in place and exploration licenses transferred). Once this occurs, the Company has agreed to fund all exploration and development of the Zalantun Gold Project in exchange for 85% of any profits earned by the joint venture company. Initial capital contribution on the part of Inter-Citic is defined as monetary contribution as to the equivalent of approximately $2,055,343 (Renminbi 15,002,500) over three years, whereas initial capital contribution for the Chinese partner (BIGM) will take the form of the transfer of existing exploration licenses held by BIGM to the joint venture company. Inter-Citic is required to contribute the equivalent of approximately $548,000 (Renminbi 4,000,000) within 30 days of the organization of the joint venture; the equivalent of approximately

$548,000 (Renminbi 4,000,000) within seven to twelve months of the date of the first contribution; the equivalent of approximately $548,000 (Renminbi 4,000,000) within thirteen to eighteen months of the date of the first contribution; and the equivalent of approximately $411,343 (Renminbi 3,002,500) within nineteen to twenty-four months of the date of the first contribution. To date, the Company has not made any capital contributions, pending the organization of the joint venture.

The Company has the option to increase its interest in the joint venture company from 85% to 90% in exchange for payment of the equivalent of approximately $241,805 (Renminbi 1,765,000). Inter-Citic also has a right of first refusal on any mineral exploration project for which BIGM seeks foreign investment.

Once organized, Inter-Citic will control the joint venture company by virtue of its ability to appoint three of the five members of the board of directors of that company. However, certain matters will require unanimous approval of the board of directors of the joint venture company, including, changes to registered capital and/or profit distribution or matters relating to financing, dissolution, liquidation or extension of the term of the joint venture. See Risks and Uncertainties - Operations in China, below, for additional information.

The Company completed and filed a technical report for the Zalantun Gold Project which is available on its website at www.inter-citic.com, or on SEDAR at www.sedar.com.

Capitalized Exploration Costs

A breakdown of capitalized or expensed exploration costs for the Company's resource properties, on a property-by-property basis for the second quarter of 2006 together with the comparative figures for 2005 is included in the Company's Notes to Consolidated Financial Statements for the quarter ended May 31, 2006.

Overall, the Company incurred costs (including depreciation charges of $19,999) of $732,045 (of which $699,060, was capitalized) on the Dachang Gold Project in the second quarter of 2006, compared to $187,058 (of which $184,068 was capitalized) in 2005, representing an increase in expenditure in 2006 compared to 2005 of $544,987, or 291%. The increase compared to last year is as a result of the Company beginning its exploration season much earlier in 2006 compared to 2005.

Differences in exploration expenditures from year to year and from quarter to quarter arise primarily as a result of differences in the scope, nature and timing of exploration activity. While it is normally expected that exploration that began in the previous year will conclude in Q1 of every year, it is expected that Q2 of every year will represent a transitional quarter for the Company, as it compiles and analyzes results of exploration for the previous year which would have been completed in Q1 and subsequently prepare for commencement of exploration for the current year to begin in Q3. Exploration in 2005 began earlier than it did in 2004, and the Company will continue to work towards beginning exploration earlier in the year every year, and believes that ultimately it can operate a year-round exploration and drilling camp at Dachang. As a result, the decrease in exploration expenses in Q1 of 2006 compared to Q1 of 2005 arose primarily because fieldwork (primarily drilling) in 2005 ended earlier than it did in 2004 (end of November, 2005 compared to middle of December, 2004), resulting in significantly reduced expenses in the first quarter of 2006 compared to 2005, and while expenses in Q2 of 2006 compared to 2005 increased by 291% as a result of an earlier start to exploration in 2006, on a year-to-date basis, the Company incurred costs (including depreciation charges of $19,999) of $872,266 (of which $830,963, was capitalized) on the Dachang Gold Project, compared to $585,728 (of which $575,014 was capitalized, and including depreciation charges of $8,462) for the same period last year, representing an increase in expenditure in 2006 compared to 2005 of $286,538, or 49%, and this increase on a year-to-date basis is as a result of the increased focus on drilling in 2006 compared to 2005.

The Company has not incurred any expenses related to the Zalantun Gold Project since 2004.

SUMMARY OF QUARTERLY RESULTS

Selected quarterly information for the past eight quarters:

	2006		2005				2004	
	Q2	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
Net Loss:								
Net Loss Before the Undernoted):	$1,130,918	$397,515	$551,741	$462,741	$298,550	$271,981	$626,060	$987,343
Rare Earth [1]	($14,029)	$13,454	($528,228)	$9,240	($18,872)	$14,033	($41,265)	$4,622
Stock-based compensation	$132,750	$64,900	$266,213	$19,330	$46,269	$33,507	$1,000,817	$40,624
Overall	**$1,249,639**	**$475,869**	**$289,726**	**$491,311**	**$325,947**	**$291,455**	**$1,585,612**	**$1,032,589**
Net Loss Per Share (Basic and Diluted)	$0.026	$0.011	$0.006	$0.011	$0.008	$0.007	$0.038	$0.026

[1] Operations at the Company's rare earth facility in China, held through the Company's 80% interest in Yangzhong Zhonghai Techmat Co., Ltd., ceased in 2003 and the facility has remained idle since that time. The Company continues to incur ongoing expenses related to the maintenance and security of land, buildings and equipment, which have been written down to $1 in the financial statements, and are net of recovery of bad debts, sale of inventory previously written off, liquidation of fixed assets, exchange gains and losses for the period and other related income or expenses as applicable. These expenses are recorded in the financial statements as other expense. During Q4 of 2005 the Company liquidated most of its rare earth processing equipment for net proceeds of approximately $429,240 (Renminbi 2,940,000) and used the proceeds to repay outstanding bank advances.

During 2004 the Company mobilized and began exploration of its Dachang Gold Project, a major initiative requiring substantially increased management and corporate infrastructure compared to prior years. In 2004, approximately $3.1 million was spent on resource properties and an additional $1.1 million was spent on procurement and shipping of exploration equipment to China. To fund these initiatives, the Company raised approximately $7.3 million by way of private placements and exercise of existing share-purchase warrants and stock options. This activity is reflected in the expense activity trends from quarter to quarter in 2004, as the Company moved from first establishing its business operations for the Dachang Gold Project in Q1 and Q2, to mobilizing for the project in Q2 and Q3, and finally beginning exploration in Q4 that ended early in Q1 of 2005. Additionally, major financings closed in Q1 and Q3 of 2004, which contributed to generally increased expenses for those periods.

As a result, where 2003 could be considered a transition year as the Company secured its exploration projects and suspended its rare earth operations, 2004 could be described as a year of organization, mobilization and commencement of exploration in China. Expenses in 2005 compared to 2004 fell significantly as the Company did not have multiple financings ($3.0 million raised in 2005 compared to $7.3 million in 2004), the Company did not incur the high initial mobilization expenses of 2004, the Company focused substantially all its resources on exploration at Dachang, and the Company was able to capitalize on efficiencies created in establishing this exploration platform in China in 2004, all resulting in significantly less travel and accommodation, professional, consulting and administrative expenses in 2005 compared to 2004.

In spite of these efficiencies realized in 2005, however, overall operating expenses have been significantly higher in 2006 compared to 2005 (increase of $832,368, or 278% in Q2 and $125,534, or 33% in Q1 of 2006 compared to 2005 (see Net Loss Before the Undernoted, above), as a result of the Company incurring significantly higher corporate relation, travel and accommodation, professional and office and general expenses in the first two quarters of 2006 compared to 2005. This increase is primarily associated with the large financing for gross proceeds of $11,056,478 ($10,366,994 net) that closed in the second quarter of 2006 (as announced in the Company's press release of March 22, 2006, and as detailed in Cash Resources and Liquidity – Private Placement Financing (March, 2006), below, and in Note 11 (b) (i) – Private Placement (March, 2006) of the Company's Notes to Financial Statements for the second quarter ended May 31, 2006), as well increased expenses associated with having started exploration at Dachang earlier in

2006 than ever before. The Company expects that although operating expenses will fluctuate as a result of specific initiatives (as was the case here), generally speaking these expenses will otherwise remain consistent in individual quarters on a year-to-year basis.

Additional details regarding expenses during 2004, 2005 and 2006 can be found in the Company's annual and interim Management's Discussion and Analysis for each period, which are available on its website at www.inter-citic.com, or on SEDAR at www.sedar.com.

SPECIFIC ITEMS

The Company's consolidated financial statements for the second quarter ended May 31, 2006 include a detailed breakdown of expenses. Specific items of note are as follows:

- Significant increases in corporate relation ($365,588 compared to $44,061, or 730%), travel and accommodation ($151,157 compared to $45,886, or 229%), professional fee ($243,735 compared to $27,642, or 782%), office and general ($79,337 compared to $46,865, or 69%), and other expenses ($74,555 compared to $20,857, or 257%) during Q2 of 2006 compared to Q2 of 2005 were as a result of the Company's work associated with the financing referred to above. The increase in "Other" expenses is due primarily to increased transfer agent costs.

- There is a decrease in depreciation and amortization expense in Q2 of 2006 compared to 2005 (from $58,524 to $28,888, or 51%) because the Company was able to allocate a portion of the expense incurred in Q2 of 2006 to the Dachang project as exploration in 2006 began much earlier than it did in 2005. When exploration equipment is not in use, depreciation charges are not allocated to a project and are written off.

- Executive compensation increased from $88,000 to $257,922 (193%) in Q2 of 2006 compared to 2005 primarily as a result of $164,000 in one-time bonus payments to key personnel, and generally increased costs relating to compensation of directors and officers as the Company continued its efforts to secure the services of key management in an increasingly competitive business environment (see Risks and Uncertainties – Dependence on Key Personnel, and, Competition, below).

- The Company has a common share-purchase option plan for directors, officers, employees and consultants of the Company. Stock options are typically granted in such numbers as to reflect the level of responsibility of the particular optionee and his or her contribution to the business and activities of the Company, typically vest immediately and have a five-year term. Except in specified circumstances, options are not assignable and terminate upon the optionee ceasing to be employed by or associated with the Company. Stock-based compensation expense increased significantly in Q2 of 2006 compared to 2005 by $86,481 (187%) from $46,269 to $132,750 for the same reasons as described above for executive compensation.

- Foreign exchange gains from period to period vary depending on the strength of the Canadian dollar relative to the Chinese Renminbi and timing of advances to China for use in exploration.

CASH RESOURCES AND LIQUIDITY

By its very nature as a development stage exploration company, the Company continued to generate negative cash flow from operations in the first and second quarters of 2006 compared to 2005 ($1,211,610 compared to $315,289 in Q2 and $1,570,376 compared to $582,524 on a year-to-date basis, primarily due to increased expenses associated with financing initiatives, as discussed), and continued to invest in the exploration of its mineral properties with a view to eventual development of those properties and commencement of profitable production sufficient to recover its investment. To date the Company has not found any proven reserves or engaged in any production on any of its properties, and there is no guarantee

that this will occur in the future.
The Company has no material off-balance sheet arrangements and no material capital lease agreements.

Although the Company determines the scope of exploration of its mineral properties based on prior results and available resources, the Company relies on equity offerings from time to time to fund its operations, and additional financings will be required in the future to fund ongoing operations and meet the Company's commitments as they come due, including its joint venture commitments (see Exploration Projects, Activities and Commitments).

Restricted Cash

Restricted cash relates to advances held in China and committed to continuing exploration of the Dachang Gold Project. The balance of restricted cash will vary depending on the timing of contributions under the terms of the joint venture contract compared to expenditure of those funds on exploration and related expenses. During Q2 of 2006 the Company advanced $1,073,713 to China for this purpose.

Private Placement Financing (March, 2006)

On March 22, 2006, the Company completed a brokered private placement financing for gross proceeds of $11,056,478, as in Note 11 (b) (i) – Private Placement (March, 2006) of the Company's Notes to Financial Statements for the second quarter ended May 31, 2006.

The Company intends to use the proceeds of this private placement for further exploration at Dachang and for general working capital purposes.

Readers are urged to refer to the Company's Short-form Prospectus dated April 26, 2006 for important information with respect to this financing, use of proceeds and other details with respect to the Company.

OUTSTANDING SHARE DATA

As at July 28, 2006, the Company had outstanding:

- 59,637,682 common shares (98,500,000 common shares, without par value, were authorized),

- 11,402,751 share-purchase warrants, each of which is convertible to one common share of the Company at a weighted average price per share-purchase warrant of $1.12, for a weighted-average period per share-purchase warrant of 1.09 years, and

- 3,620,000 stock options, each of which is convertible to one common share of the Company at a weighted average price per stock option of $0.90, for a weighted-average period per stock option of 2.60 years.

ADEQUACY OF DISCLOSURE CONTROLS AND PROCEDURES

The Company believes that it has designed and implemented disclosure controls and procedures as at May 31, 2006 that are sufficient in providing reasonable assurance that material information related to the Company and its consolidated subsidiaries is made known and is adequately disclosed in the Company's annual filings as defined in Multilateral Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*.

CRITICAL ACCOUNTING POLICIES

The Company is a development stage company engaged in the acquisition, exploration and development of exploration-stage mineral properties. To date the Company has not found any proven reserves or engaged in any production on any of its properties, and there is no guarantee that this will occur in the future. Mineral resource exploration and development is extremely risky and speculative by nature, as there is no guarantee that mineral deposits will be found, and even if they are, that they can be mined economically. In the event that exploration on the properties, confirmation of the Company's interest in the underlying mineral claims, the Company's ability to obtain appropriate financing to put these properties into production, and profitability of future production, especially with respect to the Dachang Gold Project, is not successful, assets may not be realized or liabilities discharged at their carrying amounts, and these differences could be material. Please also see Risks Associated with Exploration and Development, below.

A detailed summary of the Company's significant accounting policies is included in Note 2, Significant Accounting Policies, of the Company's Notes to Financial Statements for the quarter ended May 31, 2006.

The Company considers the following policies critical to understanding the judgements that are involved in preparing the consolidated financial statements of the Company and the uncertainties that could impact results of operations, financial condition and cash flows.

Use of Estimates

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the consolidated financial statements. Actual results could differ from those estimates. The most significant estimates are related to resource properties, and valuation of incentive stock options and share-purchase warrants.

Resource Properties

Costs associated with acquisition, direct exploration and development of resource properties are capitalized pending commencement of production, at which time they will be amortized. If capitalized expenditures on individual resource properties exceed the estimated net recoverable amount, the properties are written down to the estimated fair value. Costs relating to properties abandoned are written off when the decision to abandon is made.

The Company is in the process of exploring its property interests. Amounts reflected in the financial statements reflect cost to date and may not represent future value to the Company. No mineral reserves have been determined to exist on these properties. Therefore, the recoverability of the amounts reflected is dependent on future successful exploration and development of the properties.

RISKS AND UNCERTAINTIES

The following describes certain principal risks, some or all of which have been described in prior management's discussion and analysis as well as the Company's current AIF, but is not, by its very nature, all-inclusive.

Risks Associated with Exploration and Development

The Company is engaged in mineral exploration and development. To date the Company has not found any proven or probable mineral reserves or engaged in any production on any of its properties, and there is no guarantee that this will occur in the future. The Company has no history of earnings, nor has it previously engaged in the mining and production of gold. Mineral resource exploration and development is extremely risky and speculative by nature, as there is no guarantee that mineral deposits will be found, and even if they are, that they can be mined economically. The mining industry is also subject to market pressures from unpredictable commodity and metal prices, which may have a significant impact on the economic viability of a known deposit. A significant commitment of time and money is required for high cost exploration activity, such as diamond-bore drilling, in order to establish mineral reserves, develop a feasibility study and then to implement construction of a mine and commence production. At any time during this process there are numerous factors that alone or in combination may impede or interfere with intended plans, and the impact of these variables cannot be predicted or determined with certainty. Such factors include, but are not limited to, market (including currency) fluctuations, location of the Company's projects, political stability, government regulations, environmental protection, the nature of the deposit, competition, and availability of ongoing financial and personnel resources, both in sufficient quantity and within required timeframes. Many of these risk factors are discussed in other areas of this section, below, but all can be related directly to the nature of the business of the Company.

In addition, the Company's exploration activities and specifically the nature and location of those activities have associated with them certain operating risks that cannot be predicted but may be significant. Although the Company maintains health and safety standards onsite (including emergency evacuation protocols) to mitigate the risk of injury to individuals working on its exploration projects, there is no guarantee that a serious injury will not occur, nor can the impact of such an event be measured. The Company maintains property, third party liability and personal injury insurance, including an emergency medical evacuation program for certain employees, and the Company performs ongoing review of its health and safety practices, however there may be risks for which insurance may not be sufficient or for which coverage may not be extended.

The Company has relied on the results of prior exploration work and the review of that work by independent and internal qualified persons (as that term is defined in National Instrument 43-101) and others in the assessment of its resource properties. The respective partners for each project have provided the results of this prior work to the Company. In the case of the Dachang project, a significant portion of the Company's mineral resource estimate is based on this prior work, and although the results have been independently tested by way of due diligence and test sampling, there is no guarantee that material differences do not exist.

Mineral Resource Estimates

The Company has reported a National Instrument 43-101-compliant inferred mineral resource estimate of 5.7 million tonnes grading 7.0 gpt gold (approximately 1.3 million oz of gold contained) as described in the Company's press releases of December 3, 2003 and March 12, 2004.

In addition to the above, on December 12, 2005, the Company reported an additional National Instrument 43-101-compliant inferred mineral resource of 1.28 million tonnes grading 5.81 gpt gold (approximately 238,000 oz of gold contained), located approximately 10 km to the northwest. This represents a change of approximately 18% in contained ounces. As such, this addition to the mineral resource is not considered by the Company to constitute a material change in its affairs, and is not supported by a technical report written by an independent qualified person under the requirements of National Instrument 43-101. This resource estimate was completed by David G. Wahl, Inter-Citic's Vice President of Resource Development and the internal qualified person for the project under the requirements of National Instrument 43-101 at the time, and is in compliance with CIM resource definitions referenced in National Instrument 43-101.

These inferred mineral resources have not been sufficiently drilled to demonstrate economic viability. Additional drilling will be required to upgrade these inferred mineral resources to an indicated or measured resource. There can be no certainty that further drilling will enable this inferred mineral resource to be upgraded. In addition, the future economic viability of these inferred mineral resources may be adversely affected by their location, as the Dachang project is situated at an elevation of approximately 4,500 meters above sea level, in a high-cold mountainous area exhibiting desert alpine climate and vegetation with limited infrastructure. The nearest major city center is approximately 165 km away, with the nearest primary road and power lines approximately 120 km from the property. Although the Company believes that the inferred mineral resources have reasonable prospects for economic extraction, there is no guarantee that this will in fact be the case and confidence in the estimate is insufficient to allow the meaningful application of technical and economic parameters or to enable an evaluation of economic viability.

Exploration and development of mineral properties, and as a result investing in the securities of the Company, involves a high degree of inherent risk. The marketability of the natural resources that may be discovered will be affected by numerous factors beyond the control of the Company. The return, if any, on the investment in shares of a resource company is subject to market conditions that are beyond the control of the Company. Some of the factors affecting resource exploration and development generally include the proximity and capacity of resource markets and processing equipment, government regulations, including regulations relating to prices, taxes, royalties, land tenure and land use, importing and exporting minerals and environmental protection. The effect of these factors cannot be accurately predicted and any or all of these risk factors facing exploration and development companies generally, and the Company in particular, could result in a material adverse impact on the Company's business, operations and financial condition.

Risks Associated with Operations in China

The Company's current business focus and as a result essentially all of the Company's physical assets are in China, including the Company's interests in Dachang and Zalantun.

As in any jurisdiction, the Company is subject to social, political and economic developments and trends that are beyond its control. The Company's business is in China and the Company is therefore subject to a variety of laws and regulations at state, provincial and municipal or local levels that include laws and regulations concerning the form and manner in which foreign companies may invest and operate in China. Although China has recently and continually introduced reforms to encourage foreign investment and develop a more market-based economy, there is no guarantee that this trend will continue, and the government of China continues to exert significant influence through laws, regulations and policies.

The mining industry in China is regulated through the Mineral Resources Law of China (adopted in 1986 and amended 1997) and associated policies, rules and regulations at State and local levels. The Ministry of Land and Resources in China is responsible for administration of exploration and mining claims. Exploration claims are issued for a maximum term of three years and are renewable provided minimum expenditure thresholds have been met. Holders of exploration rights have a legal priority to subsequent mining rights, which are issued based on the nature of the deposit. However there is no guarantee that exploration and mining rights will continue to be granted or renewed, or that any conditions imposed as part of the issuance of these rights can be satisfied, or that the perceived quality of these legal rights will be sufficient to enable the Company to attract the funding required to implement business plans based on these rights. Holders of mining rights must submit environmental impact studies for approval. Mining rights also have specific timeframes within which mining must occur. Specifically, for gold mining, foreign companies must also receive approval from the Chinese National Development and Reform Commission, a department of the Chinese central government, the State Council, a government body which has a mandate to develop national economic strategies, annual and long term economic plans, and to report on the national economy and social development.

A stated objective of the Company is to ultimately become a gold producer in China. The value of the Company's projects is ultimately tied to the Company's ability to realize on the sale of gold production. Since late 2002, with the establishment of the Shanghai Gold Exchange and relaxation of restrictive rules governing the sale of gold, mining companies in China are able to sell gold production at market prices. Foreign gold mining companies are currently able to repatriate profits in foreign currencies. However, the nature and impact to the interests of the Company of possible further changes or reforms to these rules and policies in the future cannot be predicted.

The Company's joint ventures in China are (in the case of Dachang) or will be (in the case of Zalantun) organized as co-operative joint venture companies in accordance with the Law of the People's Republic of China on Sino-Foreign Co-operative Joint Venture Enterprises and associated policies, rules and regulations. China became a member of the World Trade Organization in December of 2001 and has committed to ensure transparency in its legal system. While China's recent general relaxation of restrictions on foreign trade and investment and developments in its mining industry has improved the operating parameters for foreign exploration and mining companies, the continued progress of these reforms depends on political, economic and international influences beyond the Company's control.

China's control over its currency and so the Company's ability to advance funds to China (for capital investment or operations) is subject to changes in the valuation of the Renminbi as well as rules and regulations of the State Administration of Foreign Exchange. Fluctuations in the value of the Renminbi may have an adverse affect on the operations and operating costs of the Company.

China continues to exert a great deal of control and influence on its society and economy through laws, policies and regulations. The impact of changes to these laws, policies and regulations on the Company's operations in China, including relative impact on the Company's ability to operate in China through changes to foreign enterprise rules (including repatriation of profits), possible restrictions on the production and sale of gold or other mining products, the maintenance of business, exploration and/or mining licenses, environmental laws, taxation, or in other matters having an impact on the Company's business and operations, cannot be accurately predicted.

Dependence on Key Personnel

As an exploration company the Company relies heavily on the availability of individuals and organizations with the necessary skill and knowledge required to execute exploration programs of the scale and scope appropriate to its exploration properties. This includes the availability of individuals and organizations that are capable of efficiently and effectively executing exploration activities such as drilling, of compiling and interpreting data, and of planning subsequent follow-up work.

The Company has established a special advisory committee to continually evaluate and address the availability of personnel with the expertise required by the Company. The Company's Vice-President, Exploration has more than 20 years of experience as an exploration geologist. The Company has a qualified and experienced geologist on its Board of Directors, and the Company has an established relationship with a North American based drilling company that has carried out the Company's drilling program at Dachang. The Company has relationships with a number of other organizations that have also provided services essential to its exploration activities.

The Company has a high degree of reliance on its management team, and failure to retain the services of key personnel could have a materially negative impact on the Company.

While the competition for these services has increased significantly over the past several years (see discussion below), the Company has been successful in securing services necessary to carryout its business plan to date. However, the availability of these services in the future and the relative cost of securing them cannot be predicted.

Competition

Recent increases in the price of gold have resulted in increased activity in the gold exploration and mining industry. Combined with the economic development and opening of China to western investment and the general scarcity of mineral deposits throughout the world, interest of foreign exploration and mining companies in China has increased significantly. As a result, the Company faces continued competition for financing dollars, personnel and other resources, the impact of which cannot be predicted.

Cyclical Pricing

Historically, gold prices have been volatile and can follow cyclical trends. Demand for gold is based on many factors, including demand for jewellery, industrial demand and demand from governments and financial institutions that hold gold reserves for investment, hedging and other purposes. Any decrease in gold prices could have an adverse effect on the Company's business, operations and financial results.

Environmental Risk

The Dachang Gold Project is located proximate to the Sanjiangyuan Nature Reserve, established primarily to protect the sources of three major rivers (the Yangtze, Yellow and Lancang rivers). To date, the project has received all relevant government support and approvals, and the Company is committed to preserve and protect the environment within which it operates. The Company has a policy of applying the highest standards for environmental protection in its activities, in addition to being active in the betterment of the lives of local people. However the impact of possible future liabilities or impediments to development associated with or as a result of environmental matters cannot be measured or predicted, and there is potential that present or future environmental regulations will adversely affect the business and operations of the Company.

Cash Flow

The Company has no source of operating cash flow to fund its exploration and development projects. Any further significant work would likely require additional equity or debt financing. The Company has limited financial resources and there is no assurance that additional funding will be available to allow the Company to fulfill its obligations on existing exploration or joint venture properties. Failure to obtain additional financing could result in delay or indefinite postponement of further exploration, and the possible partial or total loss of the Company's interests in all or some of its properties.

Dividends

The Company has not, since the date of its incorporation, declared or paid any dividends on its common shares and does not currently intend to pay dividends. Earnings, if any, will be retained to finance further growth and development of the business of the Company.

OUTLOOK

Over the next year the Company will continue to focus substantially all of its available resources to carry out exploration and development of its Dachang Gold Project.

CAUTION REGARDING FORWARD LOOKING STATEMENTS

Certain of the statements that are not historical facts contained in this Management's Discussion and Analysis, or incorporated by reference herein, and other disclosure documentation are forward-looking statements that involve risks and uncertainties that could cause actual events or results to differ materially from estimated or anticipated events or results reflected in the forward-looking statements and should not be relied upon as a prediction of future events. Readers are cautioned not to put undue reliance on forward-looking statements due to the inherent uncertainty therein. Inter-Citic Minerals Inc. undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events, whether as a result of new information, future events or results otherwise.

CAUTIONARY NOTE TO UNITED STATES READERS – DIFFERENCES REGARDING MINING TERMS IN THE UNITED STATES AND CANADA

While the terms "mineral resource," "measured mineral resource," "indicated mineral resource," and "inferred mineral resource" are recognized and required by Canadian regulations, they are not defined terms under standards in the United States. As such, information contained in this report concerning descriptions of mineralization and resources under Canadian standards may not be comparable to similar information made public by United States companies subject to the reporting and disclosure requirements of the United States Securities and Exchange Commission. "Indicated mineral resource" and "inferred mineral resource" have a great amount of uncertainty as to their existence and a great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an "indicated mineral resource" or "inferred mineral resource" will ever be upgraded to a higher category. Readers are cautioned not to assume that any part or all of mineral deposits in these categories will ever be converted into reserves.

This document may also contain information about adjacent properties on which we have no right to explore or mine. Readers are cautioned that mineral deposits on adjacent properties are not indicative of mineral deposits on our properties.