

HARD ASSETS INC.

MANAGEMENT DISCUSSION AND ANALYSIS

February 28, 2006

Year ended December 31, 2005
(expressed in Canadian dollars)

Introduction

The following discussion is management's assessment and analysis of the results and financial condition of Hard Assets Inc. (the "**Company**"), and should be read in conjunction with the accompanying audited financial statements for the year ended December 31, 2005. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("**GAAP**"). The functional currency of the business is the Canadian dollar ("**CAD**"). All monetary values are expressed in CAD unless otherwise indicated.

Hard Assets Inc. (the "**Company**") was incorporated in the province of British Columbia under the British Columbia Business Corporations Act on May 4, 2004. On July 14, 2004, the Company was admitted to trading on the Alternative Investment Market ("**AIM**"), under the symbol "HAI". The Company is engaged in the acquisition of resource properties.

Forward Looking Statements

Certain information included in this discussion may constitute forward-looking statements. Forward looking statements are based on current expectations and entail various risks and uncertainties. These risks and uncertainties could cause or contribute to actual results that are materially different from those expressed or implied.

Trends

In recent years, the mineral exploration industry has seen significant growth, primarily as a result of increased global demand, led by India and China. During this period, prices for both base and precious metals have been steadily increasing, resulting in multi-year price highs for a number of resource commodities. Prior to this recent surge, large companies found it more feasible to grow their reserves and resources by purchasing companies or mines. However, with improving metal prices and increasing demand, a discernible need for the development of exploration projects has arisen. Junior companies have become key participants in identifying properties of merit to explore and develop.

Risks and Uncertainties

The Company is subject to a number of risk factors due to the nature of the mining business in which it is engaged, not least adverse are movements in commodity prices, which are impossible to forecast. The Company seeks to counter this risk as far as possible by selecting exploration areas on the basis of their recognized geological potential to host economic deposits.

HARD ASSETS INC.

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Industry

The Company is engaged in the acquisition of mineral properties, an inherently risky business, and there is no assurance that an economic mineral deposit will ever be discovered and subsequently put into production. Most exploration projects do not result in the discovery of commercially mineable ore deposits. The geological focus of the Company is on areas in which the geological setting is well understood by management.

Cash Flows and Additional Funding Requirements

The Company currently has no revenues from operations. If a mineral property is acquired, substantial additional capital would be required to put the acquired properties into commercial production. The sources of funds currently available to the Company for its acquisition projects are from the sale of equity capital. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

Dependence on Management

The Company strongly depends on the business and technical expertise of its small management team and there is little possibility that this dependence will decrease in the near term.

Selected Annual Information

Total assets decreased from \$1,202,442 at December 31, 2004 to \$1,025,037 at December 31, 2005, a difference of \$177,405. The most significant asset at December 31, 2005 was cash and cash equivalents of \$1,007,029 (December 31, 2004: \$1,194,829).

Selected Quarterly Information

	Q4	Q3	Q2	Q1
	2005	2005	2005	2005
Interest income	\$ 5,666	\$ 5,699	\$ 4,210	\$ 3,715
Expenses	81,185	41,722	42,949	41,886
Net loss for the period	(75,519)	(36,023)	(38,739)	(38,171)
Basic and diluted loss per share	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)

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(expressed in Canadian dollars)

Selected Quarterly Information (continued)

	Q4 2004	Q3 2004	Q2 2004
Interest income	\$ 3,285	\$ 1,051	\$ -
Expenses	59,475	138,620	42,387
Net loss for the period	(56,190)	(137,569)	(42,387)
Basic and diluted loss per share	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>

Results from Operations

Revenues for the 7 quarters since the incorporation of the Company have been relatively consistent. With the exception of Q3, 2004, expenses for the Company's initial 7 quarters were also relatively consistent. The most significant expenses for Q4, 2005 were transfer agent and filing fees of \$32,208, advisory fees of \$20,000 and directors' fees of \$10,000.

Liquidity and Capital Resources

As at December 31, 2005, the Company had working capital of \$992,459 (December 31, 2004: \$1,180,911) which is sufficient to cover ongoing obligations as they become due.

Outstanding Share Data

Authorized

Unlimited preference shares, no par value

Unlimited common shares, no par value

Issued and fully paid

	<u>Number of Common Shares</u>	<u>Amount</u>
Balance, December 31, 2004 and December 31, 2005	<u>37,000,003</u>	<u>\$ 1,404,169</u>

There were no changes in share capital from December 31, 2005 to the date of this report.

HARD ASSETS INC.

MANAGEMENT DISCUSSION AND ANALYSIS

February 28, 2006

Year ended December 31, 2005
(expressed in Canadian dollars)

Stock Options

On May 7, 2004, the Company granted 300,000 stock options with an exercise price of \$0.12 and expiry of May 7, 2009 to directors of the Company. All options granted were outstanding at December 31, 2005 and to the date of this report.

Off-balance sheet arrangements

The Company has no off-balance sheet arrangements.

Critical Accounting Policies and Estimates

A detailed summary of all the Company's significant accounting policies is included in Note 2 to the annual financial statements for the year ended December 31, 2005.

Related Party Transactions

During the year, the Company incurred the following expenses with a company in which an officer of the company is a director of the Company:

	<u>2006</u>	<u>Period from May 4, 2004 to December 31, 2004</u>
Advisory fees	\$ 60,000	\$ 40,000
Rent	12,000	8,000

These transactions, occurring in the normal course of operations, are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Outlook

The Company is currently seeking acquisition opportunities in the natural resource sector and at present has sufficient cash resources to settle its liabilities.

Auditors' Report and Financial Statement of

HARD ASSETS INC.

December 31, 2005

Auditors' Report

To the Shareholders of
Hard Assets Inc.

We have audited the balance sheets of Hard Assets Inc. as at December 31, 2005 and 2004 and the statements of operations and deficit and cash flows for the year ended December 31, 2005 and the period from May 4, 2004 (date of incorporation) to December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the year ended December 31, 2005 and the period from May 4, 2004 (date of incorporation) to December 31, 2004 in accordance with Canadian generally accepted accounting principles.

Deloitte + Touche LLP

Chartered Accountants
Vancouver, British Columbia
January 27, 2006

HARD ASSETS INC.

Balance Sheets

December 31, 2005

(Expressed in Canadian dollars)

	<u>2005</u>	<u>2004</u>
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 1,007,029	\$ 1,194,829
Receivables and prepaid expenses	18,008	7,613
	<u>\$ 1,025,037</u>	<u>\$ 1,202,442</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 32,578	\$ 21,531
SHAREHOLDERS' EQUITY		
Share capital (Note 3)	1,404,169	1,404,169
Contributed surplus (Note 3)	12,888	12,888
Deficit	(424,598)	(236,146)
	<u>992,459</u>	<u>1,180,911</u>
	<u>\$ 1,025,037</u>	<u>\$ 1,202,442</u>

APPROVED BY THE BOARD

"Gordon Keep"

Gordon Keep, Director

"Jay Sujir"

Jay Sujir, Director

See accompanying notes to the financial statements

HARD ASSETS INC.
Statements of Operations and Deficit
(Expressed in Canadian dollars)

	Year ended December 31, 2005	Period from May 4, 2004 (date of incorporation) to December 31, 2004
EXPENSES		
Advisory fees (Note 4)	\$ 60,000	\$ 40,000
Directors' fees	36,000	24,891
Nomad fees	44,856	-
Office and general	1,115	2,273
Professional fees	8,686	101,771
Rent (Note 4)	12,000	8,000
Shareholder services and press releases	2,392	-
Stock-based compensation (Note 3 (d))	-	12,888
Transfer agent and filing fees	43,003	50,659
	208,052	240,482
OTHER ITEMS		
Foreign exchange gain	310	-
Interest income	19,290	4,336
	19,600	4,336
NET LOSS	(188,452)	(236,146)
DEFICIT, BEGINNING OF PERIOD	(236,146)	-
DEFICIT, END OF PERIOD	\$ (424,598)	\$ (236,146)
BASIC AND DILUTED LOSS PER SHARE	\$ (0.01)	\$ (0.01)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC AND DILUTED	37,000,003	31,913,226

See accompanying notes to the financial statements

HARD ASSETS INC.
Statements of Cash Flows
(Expressed in Canadian dollars)

	Year ended December 31, 2005	Period from May 4, 2004 (date of incorporation) to December 31, 2004
OPERATING ACTIVITIES		
Net loss	\$ (188,452)	\$ (236,146)
Item not involving cash		
Stock-based compensation expense	-	12,888
	(188,452)	(223,258)
Changes in non-cash working capital items		
Receivables and prepaid expenses	(10,395)	(7,613)
Accounts payable and accrued liabilities	11,047	21,531
	(187,800)	(209,340)
FINANCING ACTIVITY		
Net proceeds on issuance of shares	-	1,404,169
CHANGE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD		
	(187,800)	1,194,829
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		
	1,194,829	-
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 1,007,029	\$ 1,194,829
CASH AND CASH EQUIVALENTS IS COMPRISED OF:		
Cash	\$ 7,780	\$ 1,194,829
Term deposits	999,249	-
	\$ 1,007,029	\$ 1,194,829

See accompanying notes to the financial statements

HARD ASSETS INC.

Notes to the Financial Statements

Year ended December 31, 2005 and the period from May 4, 2004 to December 31, 2004

(Expressed in Canadian dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS

On May 4, 2004, Hard Assets Inc. (the "Company") was incorporated in the province of British Columbia under the British Columbia Business Corporations Act. On July 14, 2004, the Company was admitted to trading on the Alternative Investment Market ("AIM"), under the symbol "HAI". The Company is engaged in the acquisition of resource properties.

These financial statements are prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. At December 31, 2005, the Company had not yet acquired any resource property. The Company's ability to continue on a going concern basis depends on its ability to successfully raise additional financing, acquire resource property and/or other assets and ultimately achieve profitable operations.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and except as described in Note 8, conform in all material respects with International Financial Reporting Standards ("IFRS"). The principal accounting policies followed by the Company, which have been consistently applied, are outlined below:

(a) *Use of estimates*

The preparation of the financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

(b) *Cash and cash equivalents*

Cash and cash equivalents consist of cash on hand, deposits in banks and highly liquid investments with an original maturity of ninety days or less.

(c) *Loss per share*

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. The fully diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options, in the weighted average number of common shares outstanding during the year, if dilutive. For this purpose, the "treasury stock method" is used for the assumed proceeds upon the exercise of stock options and warrants that are used to purchase common shares at the average market price during the period. Options, as disclosed in Note 3 (c), are anti-dilutive and, therefore, have not been taken into account in the per share calculations.

HARD ASSETS INC.

Notes to the Financial Statements

Year ended December 31, 2005 and the period from May 4, 2004 to December 31, 2004

(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) *Income taxes*

The Company accounts for income taxes whereby future income tax assets and liabilities are computed based on differences between the carrying amount of assets and liabilities on the balance sheet and their corresponding tax values using the substantively enacted income tax rates at each balance sheet date. Future income tax assets also result from unused loss carry-forwards and other deductions. The valuation of future income tax assets is reviewed annually and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount.

(e) *Stock-based compensation*

Stock-based awards made to non-employees and employees are measured and recognized using a fair value based method. Accordingly, the fair value of options at the date of grant is accrued and charged to operations, with an offsetting credit to contributed surplus, on a straight-line basis over the vesting period. If the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

(f) *Foreign currency translation*

Transactions denominated in foreign currencies are translated into Canadian dollar equivalents at exchange rates approximating those in effect at the transaction dates. Foreign currency denominated monetary assets and liabilities are translated at the year-end exchange rate. Gains and losses arising from foreign currency translation are recognized in the statement of operations and deficit.

(g) *Financial instruments and financial risks*

The fair values of cash and cash equivalents, receivables and prepaid expenses and accounts payable approximate their carrying values due to the short term to maturity of these financial instruments. The Company has no derivative financial instruments.

It is management's opinion that the Company is not exposed to interest, commodity, credit or currency risk arising from these financial instruments.

(h) *Comparative figures*

Certain comparative figures have been reclassified to conform to the current year's presentation.

HARD ASSETS INC.

Notes to the Financial Statements

Year ended December 31, 2005 and the period from May 4, 2004 to December 31, 2004

(Expressed in Canadian dollars)

3. SHARE CAPITAL AND CONTRIBUTED SURPLUS

(a) *Authorized*

Unlimited preference shares, no par value
Unlimited common shares, no par value

(b) *Issued and fully paid common shares*

	Number of common shares	Amount	Contributed surplus
	<u> </u>	<u> </u>	<u> </u>
Issued pursuant to incorporation	3	\$ 1	\$ -
Issued pursuant to private placement	30,000,000	750,003	-
Issued pursuant to brokered financing	7,000,000	654,165	-
<u>Stock-based compensation</u>	<u>-</u>	<u>-</u>	<u>12,888</u>
Balance, December 31, 2004 and December 31, 2005	<u>37,000,003</u>	<u>\$ 1,404,169</u>	<u>\$ 12,888</u>

On May 28, 2004, the Company completed a non-brokered private placement of 30,000,000 common shares of the Company at a price of \$0.025 per share for net proceeds of \$750,003.

On July 14, 2004, the Company completed a brokered financing of 7,000,000 common shares of the Company at a price of \$0.12 (£0.05) per share for net proceeds of \$654,165 (£270,464).

(c) *Stock options*

On May 7, 2004, the Company granted 300,000 stock options with an exercise price of \$0.12 per share to directors of the Company. These stock options vested immediately, expire on May 7, 2009 and remain unexercised as at December 31, 2005.

(d) *Stock-based compensation*

The Company did not record any stock-based compensation during the year ended December 31, 2005. Comparatively, using the fair value method for stock-based compensation, the Company recorded a charge to earnings of \$12,888 for the period from May 4, 2004 to December 31, 2004 for stock options granted to directors. This amount was determined using the Black-Scholes option pricing model assuming no dividends were paid, a weighted average volatility of 34%, a weighted average annual risk free interest rate of 4.50% and a weighted average expected life of five years.

HARD ASSETS INC.

Notes to the Financial Statements

Year ended December 31, 2005 and the period from May 4, 2004 to December 31, 2004

(Expressed in Canadian dollars)

4. RELATED PARTY TRANSACTIONS

During the year, the Company incurred the following expenses with Endeavour Financial Ltd. ("Endeavour"), a company related by way of a director and officer in common:

	Year ended December 31, 2005	Period from May 4, 2004 to December 31, 2004
Advisory fees	\$ 60,000	\$ 40,000
Rent	12,000	8,000

These transactions, occurring in the normal course of operations, are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

5. SEGMENTED INFORMATION

The Company currently operates in one business segment, being the acquisition of resource properties.

6. COMMITMENT

Effective May 2004, the Company entered into a financial advisory and office rent agreement with Endeavour. Endeavour charges \$5,000 per month for the advisory services and \$1,000 per month for the use of its office. Endeavour has a right to earn certain other fees on the closing of a transaction. The agreement was for an initial term of 12 months after which time it has continued in force on a month-to-month basis.

HARD ASSETS INC.

Notes to the Financial Statements

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7. INCOME TAXES

The recovery of income taxes differs from the amount that would be computed by applying the statutory income tax rate to loss before income taxes due to the following:

	<u>2005</u>		<u>2004</u>
Statutory tax rate	34.9%		35.6%
Expected income tax recovery	65,713	\$	84,068
Effect of non-deductible income and expenses	-		(4,588)
Tax benefit of losses not recognized in the period that the benefit arose	(65,713)		(79,480)
	\$ -	\$	-

The approximate tax effect of temporary differences that give rise to the Company's future income tax assets are as follows:

	<u>2005</u>		<u>2004</u>
Non-capital losses	\$ 143,307	\$	79,480
Less: Valuation allowance	(143,307)		(79,480)
	\$ -	\$	-

The Company has Canadian income tax losses of approximately \$420,000 available to reduce Canadian income tax payable in future years. These losses expire in 2015.

8. DIFFERENCES BETWEEN CANADIAN GAAP AND IFRS

The Company prepares its financial statements in accordance with Canadian GAAP. The Company has evaluated and determined there are no quantifiable material differences between Canadian GAAP and IFRS. Accordingly, no differences in the Company's reported financial position at December 31, 2005 and 2004 or results of operations or cash flows for the year ended December 31, 2005 and period from May 4, 2004 to December 31, 2004 have been presented.
