

**ESCAPE GROUP INC.**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
AT JUNE 30, 2006

**Date: August 29, 2006**

This Management Discussion and Analysis should be read in conjunction with Escape Group Inc.'s ("Escape" or the "Company") interim unaudited financial statements and corresponding notes for the three and six month periods ended June 30, 2006. This commentary is based on information available at August 29, 2006. Additional information relating to Escape is available on SEDAR at [www.sedar.com](http://www.sedar.com).

**CORPORATE OVERVIEW**

Escape was incorporated under the Canada Business Corporations Act on March 16, 2000 and was initially classified as a Capital Pool Corporation as defined in the TSX Venture Exchange Policy 2.4.

The Company completed its Qualifying Transaction on September 18, 2001 with the acquisition of Creative Travel Adventures Ltd ("Creative Travel"). Until that time the Company did not carry on any business other than the identification and evaluation of assets or businesses in conjunction with a potential Qualifying Transaction.

On December 31, 2004, based on the continuing deficit sustained from the travel agency's operations, the Company completed the sale of its wholly owned subsidiary, Creative Travel and subsequent to the end of 2004 has no active business operations.

In 2005, the Company appointed a new board of directors and management with expertise in the resource industry. In 2006, the Company's major activity is the acquisition and exploration of mineral property interests.

Management of the Company continues to actively pursue, and has identified several base and precious metal mining opportunities in both Canada and the United States. Completion of agreements to acquire or joint venture with mining projects continues to be subject to the ability of the Company to raise sufficient working capital in a timely manner, and to be reinstated for trading on the Exchange.

**RESULTS OF OPERATION FOR THE THREE & SIX MONTHS ENDED JUNE 30, 2006**

Net loss for the second quarter 2006 was \$31,931 or \$0.004 per share as compared to net loss of \$24,795 or \$0.004 per share for the same period in 2005. Net loss for the six month period ended June 30, 2006 was \$63,086 or \$0.01 per share as compared to a net loss of \$28,642 or \$0.005 per share for the same period in 2005. As the Company had no active business operation, the losses relate to the increase in operating expenses relating to the Company's application for reinstatement to trading status as disclosed below.

The increase in operating expenses of \$7,136 and \$34,444 from \$24,795 and \$28,642 respectively for the three and six months ended June 30, 2005 to \$31,931 and \$63,086 respectively for the three and six months ended June 30, 2006 is a direct result of the Company finalizing its restructuring and beginning the process of acquiring and exploring for mineral property interests.

Consulting fees increased to \$16,050 (nil – three months end June 30, 2005) and \$36,112 (\$350 – six months ended June 30, 2005) respectively for the three and six months ended June 30, 2006 and relate to the appointment of new senior management as the Company begins the process of sourcing and acquiring appropriate mineral property interests.

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Transfer agent and regulatory filing fees increased to \$10,017 (\$4,795 – three months ended June 30, 2005) and \$13,285 (\$6,286 – six months ended June 30, 2005) respectively for the three and six months ended June 30, 2006. The increase in filing fees are a result of the Company's application to the TSX Venture Exchange and British Columbia and Alberta Securities Commissions for reinstatement to trading status.

Interest charges increased to \$469 (nil – three months ended June 30, 2005) and \$1,072 (nil – six months ended June 30, 2005) respectively for the three and six months ended June 30, 2006 and relate to a related party loan, the proceeds of which are being utilized by the Company to meet its interim financing requirements.

Professional fees including legal and audit services, decreased to \$2,185 and \$6,197 (\$20,000 – three and six months ended June 30, 2005) respectively for the three and six months ended June 30, 2006. The decrease relates to the completion of the majority of the Company's restructuring and bringing up-to-date of the financial reporting requirements during 2005.

Rent and utilities increased to \$3,210 and \$6,420 (nil and \$2,006 – three and six months ended June 20, 2005) respectively for the three and six months ended June 30, 2006, due to the lease of corporate office space in Toronto, Ontario that commenced in 2006.

**SUMMARY OF QUARTERLY RESULTS**  
(STATED IN CANADIAN DOLLARS)

		2 <sup>nd</sup> Quarter Ended June 30, 2006	1 <sup>st</sup> Quarter Ended March 31, 2006	4 <sup>th</sup> Quarter Ended Dec 31, 2005	3 <sup>rd</sup> Quarter Ended Sept. 30, 2005
(a)	Revenue	\$0	\$0	\$0	\$0
(b)	Income (loss) for period	\$(31,931)	\$(31,155)	\$(6,511)	\$(1,925)
(c)	Income (loss) per share	\$(0.004)	\$(0.005)	\$(0.0011)	\$(0.0003)
		2 <sup>nd</sup> Quarter Ended June 30, 2005	1 <sup>st</sup> Quarter Ended March 31, 2005	4 <sup>th</sup> Quarter Ended Dec 31, 2004	3 <sup>rd</sup> Quarter Ended Sept. 30, 2004
(a)	Revenue	\$0	\$0	\$156,070	\$140,543
(b)	Income (loss) for period	\$(24,795)	\$(3,847)	\$177,758 <sup>1</sup>	\$11,518
(c)	Income (loss) per share	\$(0.004)	\$(0.0006)	\$0.029	\$0.002

<sup>1</sup> Net income for the 4<sup>th</sup> quarter ended December 31, 2004 includes a \$200,945 gain from the sale of the Company's subsidiary, actual operating loss for the period was \$23,187.

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**SELECTED ANNUAL INFORMATION**  
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<b>Years ended December 31,</b>		<b>2005</b>		<b>2004</b>		<b>2003</b>
Revenue	\$	-	\$	609,087	\$	555,209
Net Earnings (Loss)		(37,078)		170,003		(80,647)
Total Assets		23,705		5,829		158,773
Long-term Debt		-		-		-
Current Liabilities		164,348		109,394		432,341
Gain from sale of subsidiary		-		200,945		-
Cash Dividends per share		-		-		-
Earnings (Loss per share)	Basic \$	(0.006)	\$	0.028	\$	(0.013)
	Diluted	(0.006)		0.028		(0.013)

**LIQUIDITY AND CAPITAL RESOURCES**

<b>Period Ended</b>	<b>Share Capital</b>	<b>Deficit</b>	<b>Deficiency in Capital</b>
June 30, 2006	\$764,700	(\$852,929)	(\$88,229)
December 31, 2005	\$649,200	(\$789,843)	(\$140,643)
Increase (decrease)	\$115,500	\$63,086	52,414
Percentage Change	18%	8%	37%

The Company's cash position decreased \$9,581 from \$19,501 at December 31, 2005 to \$9,920 at June 30, 2006.

The working capital deficiency at June 30, 2006 was \$88,229 as compared with \$140,643 at December 31, 2005, a decrease of \$52,414. The decrease in working capital deficiency is attributable to the completion of a private placement for net proceeds of \$115,500, which were used with the cash on hand, to fund the operating activities of \$47,081, and to settle \$78,000 in related party debt.

On April 15, 2006, the Company completed a private placement of 2,310,000 common shares at \$0.05 per share for total net proceeds of \$115,500.

**PROPOSED TRANSACTIONS**

The Company has proposed to complete a private placement offering of 3,333,333 units at \$0.15 per unit for aggregate gross proceeds of \$500,000. Each unit under the proposed private placement will consist of one common share and one share purchase warrant entitling the holder to acquire one common share at \$0.25 for a period of one year.

As of the date of this report, the Company has received a Partial Revocation Order from the Alberta Securities Commission in order to complete the proposed private placement, and has applied to the British Columbia Securities Commission (BCSC) for the same. Upon approval by the BCSC, the proposed private placement will still be subject to the approval of the TSX Venture Exchange.

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**SUMMARY OF SECURITIES**

**Authorized share capital:** unlimited common shares without par value  
unlimited non-voting preferred shares without par value

**Shares issued and outstanding:**

	<b><u>Number of Shares</u></b>	<b><u>Amount</u></b>
Balance, December 31, 2005	5,996,667	\$649,200
Shares issued for cash, private placement at \$0.05	<u>2,310,000</u>	<u>115,500</u>
Balance, June 30, 2006	8,306,667	\$764,700

On April 15, 2006, the Company completed a private placement of 2,310,000 common shares at \$0.05 per share for total net proceeds of \$115,500.

**Options issued and outstanding:**

	<b><u>Number of Options</u></b>	<b><u>Price per Share</u></b>
Balance, December 31, 2005 and June 30, 2006	nil	-

**RELATED PARTY TRANSACTIONS**

During the six months ended June 30, 2006, the Company:

- (a) Owed nil (June 30 and December 31, 2005 - \$78,000) to Departures Travel Inc., a company previously related by common control, arising from previous loan advances made to the Company in 2003 and 2004. During the quarter ended June 30, 2006, the Company repaid the entire amount owing to Departures Travel Inc.
- (b) Incurred \$22,470 (June 30, 2005 – nil), comprised of \$16,050 in consulting fees and \$6,420 in office rent, to the Company's President. Included in amounts due to related parties at June 30, 2006, is \$22,470 (December 31, 2005 – nil) due to the President.
- (c) Incurred \$4,012 (June 30, 2005 - nil) in professional fees to a law firm in which a director of the Company is a partner. Included in accounts payable and accrued liabilities at June 30, 2006, is \$4,012 (December 31, 2005 - \$12,500) due to that firm.
- (d) Incurred \$4,012 (June 30, 2005 – nil) in consulting fees to a company with a director in common. Included in accounts payable and accrued liabilities at June 30, 2006, is \$7,073 (December 31, 2005 - \$12,500) due to that company for consulting fees and expenses reimbursement.
- (e) Incurred \$16,050 (June 30, 2005 – nil) in consulting fees to a senior officer of the Company. Included in accounts payable and accrued liabilities at June 30, 2006 is \$16,050 (December 31, 2005 – nil) due to the senior officer.
- (f) Incurred \$938 (June 30, 2005 – nil) in interest relating to a loan from a director of the Company. Included in loan payable at June 30, 2006 is \$39,671 (December 31, 2005 - \$38,733) due to that director for principal and interest.

These transactions are in the normal course of business and have been valued at the exchange amount which is the amount of consideration established and agreed to by the related parties.

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**INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Due to the limited number of appropriately qualified staff, there is little segregation of duties within the financial internal control environment of the Company. Functions that would normally be segregated within a typical control environment are performed by one individual and the preparation and authorization of certain activities that would normally be separated are not as only one member of staff is responsible for substantially all of the day-to-day finance functions and the financial reporting of the Company. Due to the lack of segregation of duties, management has identified certain control weaknesses. The Company relies on certain compensating controls, including substantive periodic review of the financial statements, to ensure that disclosure controls and procedures are effective.

There have been no significant changes to the Company's internal control environment during the three months ended June 30, 2006 that would have materially effected the Company's internal controls over financial reporting.

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Certain statements contained in the above Management's Discussion and Analysis, including, without limitation, statements containing the words believes, anticipates, estimates, expects, and words of similar import, constitute forward-looking statements. Forward looking statements are not guarantees of future performance and involve risks and uncertainties, which could cause actual results to differ materially from those anticipated in these forward-looking statements.

We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required to do so by applicable securities law.