SmytheRatcliffe
CHARTERED ACCOUNTANTS

# SOLOMON RESOURCES LIMITED

**Consolidated Financial Statements**
**July 31, 2005 and 2004**
**(Expressed in Canadian Dollars)**

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# AUDITORS' REPORT

## TO THE SHAREHOLDERS OF SOLOMON RESOURCES LIMITED

We have audited the consolidated balance sheets of Solomon Resources Limited as at July 31, 2005 and 2004 and the consolidated statements of operations and deficit and cash flows for each of the years then ended. 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2005 and 2004 and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

*"Smythe Ratcliffe" (signed)*

Chartered Accountants

Vancouver, British Columbia
November 4, 2005

## SOLOMON RESOURCES LIMITED
**Consolidated Balance Sheets**
**July 31**
**(Expressed in Canadian Dollars)**

| | 2005 | 2004 |
|---|---|---|
| **Assets** | | |
| **Current** | | |
| Cash (note 8(b)) | $ 341,700 | $ 313,975 |
| Accounts receivable | 37,854 | 63,255 |
| Prepaid expenses | 15,000 | 11,000 |
| | 394,554 | 388,230 |
| **Property and Equipment** | 1 | 1 |
| **Investments** (note 6) | 41,287 | 88,867 |
| **Tenement Bond** (notes 5 and 7) | 1,348,177 | 1,359,825 |
| **Investment in and Expenditures on Resource Properties** (notes 4 and 7) | 4,095,722 | 2,849,434 |
| | $ 5,879,741 | $ 4,686,357 |
| **Liabilities** | | |
| **Current** | | |
| Accounts payable and accrued liabilities | $ 113,722 | $ 111,475 |
| **Provision for Rehabilitation of Tenements** (notes 5 and 7) | 1,342,700 | 954,548 |
| | 1,456,422 | 1,066,023 |
| **Shareholders' Equity** | | |
| **Capital Stock** (note 8) | 21,787,040 | 20,191,349 |
| **Contributed Surplus** | 215,750 | 0 |
| **Deficit** | (17,579,471) | (16,571,015) |
| | 4,423,319 | 3,620,334 |
| | $ 5,879,741 | $ 4,686,357 |

Approved on behalf of the Board:

*"Lawrence J. Nagy"*
……………………………………………………………………. Director
Lawrence J. Nagy

*"Ronald K. Netolitzky"*
……………………………………………………………………. Director
Ronald K. Netolitzky

See notes to consolidated financial statements.

## SOLOMON RESOURCES LIMITED
**Consolidated Statements of Operations and Deficit**
**Years Ended July 31**
**(Expressed in Canadian Dollars)**

| | 2005 | 2004 |
|---|---|---|
| **Revenues** | | |
| Interest | $ 77,356 | $ 72,111 |
| Oil and gas, net | 10,354 | 14,847 |
| | 87,710 | 86,958 |
| **Expenses** | | |
| Stock-based compensation | 215,750 | 0 |
| Professional fees | 162,829 | 142,988 |
| Management fees | 114,000 | 108,000 |
| Office and miscellaneous | 101,479 | 108,229 |
| Travel, promotion and shareholders' information | 78,048 | 50,237 |
| Rent and administrative services | 31,247 | 32,500 |
| Stock exchange fees | 15,758 | 10,683 |
| Transfer agent fees | 9,226 | 6,672 |
| | 728,337 | 459,309 |
| **Loss from Operations** | (640,627) | (372,351) |
| **Other Items** | | |
| Gain on sale of investments | 321,876 | 850,737 |
| Other income | 0 | 6,092 |
| Foreign exchange loss | (30,676) | (48,331) |
| Write-off of investment in and expenditures on resource properties | (735,669) | (181,294) |
| Recovery of resource expenditures | 5,400 | 0 |
| | (439,069) | 627,204 |
| **Income (Loss) Before Income Tax** | (1,079,696) | 254,853 |
| **Future Income Tax Recovery** | 71,240 | 0 |
| **Net Income (Loss) for Year** | (1,008,456) | 254,853 |
| **Deficit, Beginning of Year** | (16,571,015) | (16,825,868) |
| **Deficit, End of Year** | $ (17,579,471) | $ (16,571,015) |
| **Income (Loss) Per Share** | $ (0.03) | $ 0.01 |
| **Diluted Income Per Share** | | $ 0.01 |
| **Weighted Average Number of Shares Outstanding** | 34,472,942 | 30,987,669 |

See notes to consolidated financial statements.

**SOLOMON RESOURCES LIMITED**
**Consolidated Statements of Cash Flows**
**Years Ended July 31**
**(Expressed in Canadian Dollars)**

| | | 2005 | | 2004 |
|---|---|---|---|---|
| **Operating Activities** | | | | |
| Net income (loss) | $ | (1,008,456) | $ | 254,853 |
| Items not involving cash | | | | |
| Write-down of investment in and expenditures on resource properties | | 735,669 | | 181,294 |
| Gain on sale of investments | | (321,876) | | (850,737) |
| Stock-based compensation | | 215,750 | | 0 |
| Recovery of resource expenditures | | (5,400) | | 0 |
| Future income tax recovery | | (71,240) | | 0 |
| **Operating Cash Flow** | | (455,553) | | (414,590) |
| **Changes in Non-Cash Working Capital** | | | | |
| Accounts payable and accrued liabilities | | 2,247 | | 28,350 |
| Prepaid expenses | | (4,000) | | (5,000) |
| Accounts receivable | | 25,401 | | (40,206) |
| | | 23,648 | | (16,856) |
| **Cash Used in Operating Activities** | | (431,905) | | (431,446) |
| **Financing Activity** | | | | |
| Proceeds from common shares issued, net | | 1,222,931 | | 285,837 |
| **Investing Activities** | | | | |
| Proceeds on sale of properties | | 0 | | 0 |
| Acquisition of investment | | 0 | | 0 |
| Proceeds on sale of investments | | 374,856 | | 1,010,275 |
| Expenditures on resource properties | | (1,141,629) | | (668,631) |
| Tenement bond | | 3,472 | | (437,830) |
| **Cash Used in Investing Activities** | | (763,301) | | (96,186) |
| **Inflow (Outflow) of Cash** | | 27,725 | | (241,795) |
| **Cash, Beginning of Year** | | 313,975 | | 555,770 |
| **Cash, End of Year** | $ | 341,700 | $ | 313,975 |
| **Supplemental Information** | | | | |
| Income tax paid | $ | 0 | $ | 0 |
| Interest paid | $ | 0 | $ | 0 |
| Shares issued for finders’ fee | $ | 74,000 | $ | 0 |
| Shares issued for property | $ | 370,000 | $ | 54,500 |

See notes to consolidated financial statements.

## 1. NATURE OF OPERATIONS

The Company was incorporated under the laws of British Columbia. Its principal business activity is the exploration for and development of natural resource properties either directly or indirectly through its investments.

The Company's financial statements have been presented on the basis that it will continue as a going-concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

The Company reported net income (loss) of ($1,008,456) and $254,853 for the years ended July 31, 2005 and 2004, respectively, and has an accumulated deficit of $17,579,471 for the year ended July 31, 2005 (2004 - $16,571,015). These recurring losses and the need for continued funding, discussed below, raise substantial doubt about the Company's ability to continue as a going-concern.

The Company's ability to continue as a going-concern is dependent upon additional financings being obtained in order to complete the exploration and development of the Company's properties, and realize on its assets and discharge its liabilities in the normal course of business.

## 2. SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

These consolidated financial statements include the accounts of Solomon Resources Limited and its wholly-owned subsidiaries, Valhalla Minerals US Incorporated (a Delaware corporation), Thor Gold Alaska Inc. (an Alaskan corporation), Solomon (Australia) Pty. Ltd. ("Australia Pty.") (an Australian corporation) and Solomon (Chile) SCM (a Chilean Corporation). All significant intercompany balances and transactions are eliminated.

(b) Investments

The Company's investments in securities with quoted market values are accounted for on the cost basis. When there is a permanent impairment in the value of these investments, their carrying values are written-down to quoted market value.

(c) Deferred expenditures

The Company is in the exploration stage with respect to its investment in resource properties, and accordingly, follows the practice of capitalizing all costs relating to the acquisition of, exploration for and development of resource properties, net of all incidental revenues received. At such time as production commences, these costs will be charged to operations on a unit-of-production method based on estimated recoverable reserves. When there is little prospect of further work on a property being carried out by the Company, the costs of that property are charged to operations.

(d) Oil and gas properties

Substantially all oil and gas exploration and production activities are conducted through joint ventures, and accordingly, these financial statements reflect only the Company's proportionate share of assets, liabilities, revenues and expenses of the joint ventures.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Income taxes

Income taxes are calculated using the asset and liability method. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. A valuation allowance is provided to reduce the asset to the net amount management estimates to be reasonable to carry as a future income tax asset.

(f) Foreign currency translation

Foreign currency balances, including those of foreign subsidiaries, are expressed in Canadian dollars as follows:

(i) Monetary assets and liabilities, at the rate of exchange in effect as at the balance sheet date;

(ii) Fixed assets, at the historical exchange rates; and

(iii) Revenues and expenses, at the average rate of exchange for the year.

Gains and losses arising from the translation of foreign currency are included in net income (loss) for the year.

(g) Income (loss) per share

Income (loss) per share computations are based on the weighted average number of common shares outstanding during the year.

Diluted earnings per share amounts are calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments. The treasury stock method assumes that proceeds received from the exercise of stock options and warrants are used to repurchase common shares at the prevailing market rate.

(h) Flow-through common shares

The Company finances a portion of its acquisition, exploration and development costs by the issuance of flow-through common shares. Income tax deductions relating to these expenditures are claimable only by the investors. Proceeds from flow-through share issuances are credited to capital stock.

**2. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

(i) Stock-based compensation

The Company accounts for stock-based compensation in accordance with the recommendations of the Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3870, *"Stock-Based Compensation and Other Stock-Based Payments"* ("CICA 3870"). CICA 3870 establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. The Company recognizes all stock-based awards made to consultants, employees and directors using the fair value based method applying the Black-Scholes options pricing model.

(j) Reclamation and closure costs

Effective August 1, 2004, the Company adopted CICA 3110, "*Asset Retirement Obligations"* ("CICA 3110"). CICA 3110 requires that the estimated fair value of liabilities for asset retirement obligations be recognized in the period in which they are incurred. A corresponding increase to the carrying amount of the related asset (where one is identifiable) is recorded and depreciated over the life of the asset. Where a related asset is not easily identifiable with a liability, the change in fair value over the course of the year is expensed. The amount of the liability will be subject to remeasurement at each reporting period. The estimates are based principally on legal and regulatory requirements. It is possible that the Company's estimates of its ultimate reclamation and closure liabilities could change as a result of changes in regulations, the extent of environmental remediation required, the means of reclamation or cost of estimates. Changes in estimates are accounted for prospectively from the period the estimate is revised.

(k) Revenue recognition

Revenues are recognized on the following bases:

(i) Interest income is recorded on an as earned basis; and

(ii) Oil and gas royalty revenues are recognized on an accrual basis.

(l) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and would impact future results of operations and cash flows.

**3. FINANCIAL INSTRUMENTS**

(a) Fair value

The carrying values of cash, accounts receivable, tenement bond, and accounts payable and accrued liabilities approximate their fair values except as otherwise disclosed. The fair values of investments, based on quoted market values, are disclosed in note 6.

**(Expressed in Canadian Dollars)**

**3. FINANCIAL INSTRUMENTS** (Continued)

(b) Interest rate risk

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary current assets and current liabilities.

(c) Credit risk

The Company is not exposed to significant credit risk on its financial assets due to cash being placed with major financial institutions and accounts receivable due from government agencies and a related party.

(d) Currency risk

The Company translates the results of foreign operations into Canadian currency using rates approximating the average exchange rate for the year. The exchange rate may vary from time to time. To minimize currency risk, the Company maintains certain US and Australian funds for required future expenditures, which at July 31, 2005 was US $1,217 and Au $153,196.

**4. REALIZATION OF ASSETS**

The investment in and expenditures on resource properties comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon establishing legal ownership of the properties, the attainment of successful production from the properties or from the proceeds of their disposal.

**5. TENEMENT BOND**

The Company holds a tenement bond in Australia to ensure the Company has adequate resources to finance future rehabilitation costs of its Kalgoorlie Southeast Project. A provision has been made to reflect estimated costs for rehabilitation of claims. See note 7(c).

**6. INVESTMENTS**

| | | **2005** | | | **2004** | |
|---|---|---|---|---|---|---|
| | Number of Shares | Market Value | Cost | Number of Shares | Market Value | Cost |
| Quest Capital Corporation | 0 | $ 0 | $ 0 | 100,000 | $ 147,000 | $ 45,000 |
| Skeena Resources Ltd. | 512,667 | 210,193 | 35,887 | 626,667 | 188,000 | 43,867 |
| NovaGold Resources Inc. | | | | | | |
| (formerly Spectrum Gold Inc.) | 0 | 0 | 0 | 13,424 | 87,793 | 0 |
| Viceroy Exploration Ltd. | 29,370 | 88,110 | 0 | 54,370 | 58,720 | 0 |
| Prospector Cons. Resources Ltd | 90,000 | 5,400 | 5,400 | 0 | 0 | 0 |
| | | $ 303,703 | $ 41,287 | | $ 481,513 | $ 88,867 |

Subsequent to July 31, 2005, the Company sold 29,370 shares of Viceroy Exploration Ltd. for gross proceeds of $90,000.

**SOLOMON RESOURCES LIMITED**
**Notes to Consolidated Financial Statements**
**Years Ended July 31, 2005 and 2004**
**(Expressed in Canadian Dollars)**

## 7. INVESTMENT IN AND EXPENDITURES ON RESOURCE PROPERTIES

| | Burkina Faso | Independence | Kalgoorlie Southeast Project | San Ramon | Annie | Beowawe Project | Metla | Mongolia | Sleitat | Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | (note 7(a)) | (note 7(b)) | (notes 7(c), (d) and (e)) | (note 7(f)) | (note 7(g)) | (note 7(h)) | (note 7(i)) | (note 7(j)) | (note 7(k)) | (notes 7(l) and (m)) | |
| **Balance, July 31, 2003** | $ 1 | $ 1 | $2,136,543 | $ 0 | $ 29,414 | $113,000 | $ 0 | $ 0 | $ 0 | $28,638 | $2,307,597 |
| **Expenditures During Year** | | | | | | | | | | | |
| Field costs and personnel | 0 | 0 | 166,347 | 5,995 | 254,222 | 0 | 107,923 | 0 | 0 | 42,517 | 577,004 |
| Property acquisitions | 0 | 0 | 0 | 0 | 9,472 | 18,268 | 94,362 | 0 | 0 | 24,025 | 146,127 |
| | 1 | 1 | 2,302,890 | 5,995 | 293,108 | 131,268 | 202,285 | 0 | 0 | 95,180 | 3,030,728 |
| **Write-off of Expenditures** | 0 | 0 | 0 | (5,995) | 0 | (131,268) | 0 | 0 | 0 | (44,031) | (181,294) |
| **Balance, July 31, 2004** | 1 | 1 | 2,302,890 | 0 | 293,108 | 0 | 202,285 | 0 | 0 | 51,149 | 2,849,434 |
| **Expenditures During Year** | | | | | | | | | | | |
| Field costs and personnel | 0 | 0 | 871,847 | 0 | 49,634 | 0 | 85,186 | 198,655 | 0 | 13,806 | 1,219,128 |
| Property acquisitions | 6,831 | 0 | 0 | 0 | 20,168 | 0 | 13,503 | 675,494 | 17,675 | 29,158 | 762,829 |
| | 6,832 | 1 | 3,174,737 | 0 | 362,910 | 0 | 300,974 | 874,149 | 17,675 | 94,113 | 4,831,391 |
| **Write-off of Expenditures** | (6,831) | (1) | 0 | 0 | (362,909) | 0 | (300,973) | 0 | 0 | (64,955) | (735,669) |
| **Balance, July 31, 2005** | $ 1 | $ 0 | $3,174,737 | $ 0 | $ 1 | $ 0 | $ 1 | $874,149 | $17,675 | $29,158 | $4,095,722 |

## 7. INVESTMENT IN AND EXPENDITURES ON RESOURCE PROPERTIES (Continued)

(a) Burkina Faso – West Africa

The Company has a 45% interest in the Bombore Permit in Burkina Faso.

During the year ended July 31, 2001, the Company decided not to participate in expenditures on this property further, and accordingly, wrote down the property's carrying value to $1.

During the year ended July 31, 2002, the Company and Channel Resources Limited (“Channel”) granted Orezone Resources Inc. ("Orezone") an exclusive 60-day option to acquire an interest in the Bombore Permit in Burkina Faso and to acquire Channel Mining (Barbados) Company Ltd.

During the year ended July 31, 2003, Orezone exercised this option and delivered a Heads of Agreement ("HOA") to Channel and the Company.

According to the HOA, Orezone will earn a 50% interest in the claims by:

(i) Expending a minimum of $300,000 on an exploration program within one year of the date of the HOA with the objective of identifying additional resources that can be incorporated into a feasibility study (done); and

(ii) Expending an additional $1,700,000 on the exploration program.

After having earned the 50% interest, or in conjunction with earning the 50% interest, Orezone may earn an additional 20% beneficial interest (collectively the “Earned Interest”) by completing a bankable feasibility study.

Orezone has the first right of refusal to purchase the Bombore interests of the Company and Channel and upon earning the Earned Interest; Channel and the Company shall have a first right of refusal to purchase the Earned Interest from Orezone.

On submittal to Channel of the bankable feasibility study, Orezone shall buy out the remaining interest of Channel and the Company on the following terms:

(i) Orezone will make a payment to Channel of US $550,000 within 90 days of submission of the bankable feasibility study to Channel;

(ii) Orezone will make a payment to the Company of US $450,000 within 90 days of submission of the bankable feasibility study to the Company; and

(iii) Orezone will grant to the Company and Channel a total 1% net smelter return (“NSR”) on ounces produced to be divided pro-rata between the Company and Channel.

In the event that the bankable feasibility study has not been accepted by a financial institution, or it does not recommend development of a mining project at that time, or the internal rate of return is not acceptable to Orezone, Orezone has the right to proceed with the buy-out from Channel on the terms set out in the previous paragraph or at Orezone's sole discretion it may postpone the buy-out.

**7. INVESTMENT IN AND EXPENDITURES ON RESOURCE PROPERTIES** (Continued)

(a) Burkina Faso – West Africa (Continued)

During 2005, the Company entered into an Amending Agreement with Orezone and Channel for the Bombore Permit.

The original Bombore Permit expired January 18, 2004 and, prior to that date, Orezone applied for a new permit in the name of its British Virgin Islands subsidiary, Orezone Inc. A new permit, reduced to 250 square kilometres was granted on February 17, 2004 ("Bombore 1 Permit").

The Amending Agreement provides that Orezone holds the newly issued Bombore 1 Permit for the benefit of Channel (55%) and the Company (45%). Orezone may earn an undivided beneficial interest of 50% in the Bombore 1 Permit by expending:

(i) A minimum of $300,000 on an exploration program on the Bombore 1 Permit within one year of the original HOA (done); and

(ii) An additional $1,700,000 on exploration programs within the newly issued Bombore 1 Permit by no later than January 17, 2007.

The remaining terms of the original HOA are unchanged. Channel and the Company will divide the payments and future royalties on a pro-rata basis.

(b) Independence Mine - Alaska

At July 31, 1997, the Company, through Thor Gold Alaska Inc., ceased all operations on this property, and accordingly, wrote down the property's carrying value to $1. Since 1997, the Company has been performing reclamation work on the property. The Company holds a residual interest in the property.

During the year ended July 31, 2003, the Enserch mill was sold to Almaden Minerals Ltd. ("Almaden") for 122,077 Almaden common shares. Almaden has since dismantled and removed the mill. The Lucky Shot and Coleman properties, the former site of the Enserch mill, were returned to Alaska Hardrock Inc. ("AHI") by the Company. As part of the transfer, the Company agreed to fund AHI a total of US $25,000 to complete all reclamation works on the former site. Final notification of completion of these works is still pending from Alaskan authorities. During the year this property was written off.

(c) Kalgoorlie Southeast Project (formerly the "Mount Monger Gold Project"), Australia

During the year ended July 31, 2001, the Company, through Australia Pty., entered into an agreement with General Gold Resources, N.L. ("General Gold"), an Australian listed company, whereby the Company was able to earn a 100% interest in the Kalgoorlie Southeast Project in Western Australia (the "KSP") on the following terms:

**7. INVESTMENT IN AND EXPENDITURES ON RESOURCE PROPERTIES** (Continued)

(c) Kalgoorlie Southeast Project (formerly the "Mount Monger Gold Project"), Australia (Continued)

(i) Payment of Au $592,000 (done);

(ii) Issuance of 1,000,000 fully paid common shares of the Company (done); and

(iii) Replacement of environmental tenement rehabilitation bonds with the Department of Mines and Energy totaling Au $1,058,000 (Cdn $822,912) (done).

The KSP has been assessed with tenement rehabilitation costs by the Department of Mines and Energy in the amount of the tenement bonds above. The Company does not believe the tenement bonds are fully recoverable, and accordingly, a full provision has been made in the accounts of the Company.

During the year ended July 31, 2001, the Company entered into a joint venture agreement with Goldfields Exploration ("Goldfields") for exploration of the KSP area. In order to participate in the joint venture, Goldfields was required to:

(i) Pay a cash option fee of Au $200,000 (received);

(ii) Expend Au $200,000 in exploration costs in the first year (done); and

(iii) Expend a total of Au $6,000,000 in four years to earn a 65% equity interest in the joint venture.

The Mount Monger Mill and associated plant was excluded from this agreement, as were the Mount Monger Mill area mining leases and the small Christmas Flats mining leases located nearby.

In December 2001, Goldfields merged with Delta Gold Ltd. to become AurionGold Limited ("AurionGold"). No changes to the status of the KSP joint venture agreement occurred as a result of this merger.

During the year ended July 31, 2002, Dominion Gold Operations Pty. Ltd. ("Dominion") paid the Company Au $180,000 for the Mount Monger Mill, removed it from the site and rehabilitated the area.

In April 2002, the Christmas Flats leases were sold to Aberdeen Mining Pty. Ltd. for Au $600,000.

In July 2002, the Company entered into an agreement with Wilbro Mine Services ("Wilbro"), whereby Wilbro was granted, upon payment of Au $10,000, the right to extract gold from material in and around the CIP plant at Mount Monger. The proceeds from the sale of any gold are to be shared on the basis of 10% to the Company and 90% to Wilbro.

During the year ended July 31, 2003, AurionGold returned over 80 tenements to the Company. The Randalls Mine centre tenement, including the Maxwells mine area, was retained by AurionGold as part of the KSP.

**7. INVESTMENT IN AND EXPENDITURES ON RESOURCE PROPERTIES** (Continued)

(c) Kalgoorlie Southeast Project (formerly the "Mount Monger Gold Project"), Australia (Continued)

In January 2003, Placer Dome Asia Pacific Limited ("PDAP") completed acquisition of AurionGold. No changes to the status of the KSP joint venture agreement occurred.

During the year ended July 31, 2004, PDAP relinquished the 100% interest in the KSP back to the Company.

In order to maintain current rights of tenure to exploration and mining tenements, the Company has the following discretionary exploration expenditure requirements up until the expiry of the leases. These obligations, which are subject to renegotiation upon expiry of the leases, are not provided for in these financial statements and are payable as follows:

(i) Not later than July 31, 2006: Au $572,360;

(ii) Between August 1, 2006 and July 31, 2010: Au $1,159,870; and

(iii) After August 1, 2010: Au $255,635.

The sale, transfer or farm-out of exploration rights to third parties may reduce or extinguish these obligations.

Subsequent to July 31, 2005, the Company announced that its wholly-owned subsidiary, Australia Pty. had executed the final agreement for the sale of Randall's Gold Project in Western Australia to Integra Mining Ltd. ("Integra"). The Randalls Gold Project is part of the KSP.

The Company received 6,967,485 shares of Integra stock, and the replacement of its environmental bonds of Au $998,000 in cash. In addition, Integra will reimburse the Company Au $350,000 for drilling expenses, either in cash or in stock at the Company's option. Stock reimbursement will be calculated using the Integra stock price as of March 6, 2005 (Au $.07 per share). Subsequent to the year ended July 31, 2005, the Company elected to be reimbursed in stock.

(d) Newcrest Kalgoorlie Southeast Project Joint Venture Project, Australia

During the year ended July 31, 2003, the Company, through Australia Pty., entered into an agreement with Newcrest Mining Limited ("Newcrest") of Australia to continue the exploration of a large property portfolio in the Kalgoorlie area of Western Australia. The project, referred to as the Newcrest Kalgoorlie Southeast Project Joint Venture ("Newcrest KSP JV"), consists of 90 tenements totaling 265 square kilometres returned to the Company by PDAP. The joint venture agreement calls for Newcrest to fund Au $2,000,000 to earn a 75% working interest in the project over four years. After Newcrest has earned its 75% interest, the Company can elect to either maintain its 25% working interest by continuing expenditures on a pro-rata basis, or be diluted to a 10% carried interest. Upon a positive decision to commence mining, the Company has the additional option to revert to a royalty of 2% of the NSR.

**7. INVESTMENT IN AND EXPENDITURES ON RESOURCE PROPERTIES** (Continued)

(d) Newcrest Kalgoorlie Southeast Project Joint Venture Project, Australia (Continued)

As part of its responsibilities, Newcrest must incur expenditures of not less than Au $600,000 (done) within the first twelve months and incur sufficient annual expenditures thereafter to maintain the tenements in good standing. As part of its first year expenditures, Newcrest will reimburse the Company up to Au $30,000 for expenses incurred by the Company prior to the commencement date.

Under the original Newcrest KSP JV agreement, Newcrest was granted a first right of refusal on an additional 25 tenements totaling 220 square kilometres that at the time of signing were under joint venture agreement with PDAP as part of the KSP joint venture agreement. Newcrest elected to option eight of these tenements. None of the tenements that incorporate the Mount Monger and Randalls mine centres are included in the Newcrest joint venture agreements.

(e) Glandore Joint Venture, Western Australia

During the year ended July 31, 2004, the Company entered into a joint venture agreement with Harmony Gold Pty. Ltd. (“Harmony”) of Australia, through Harmony’s wholly-owned subsidiary, South Kal Mines Pty. Ltd., for the Company’s Glandore area tenements in the Kalgoorlie area of Western Australia. The Glandore property comprises two granted tenements and three tenement applications totaling roughly 1,600 hectares at the northwest extreme of the Company’s KSP properties.

The terms of the agreement provide Harmony with a three year farm-in period whereby it may earn a 51% interest in the property by spending Au $60,000 (done) in year one and earn an 80% interest by spending an additional Au $100,000 by end of the third year, at which time a joint venture is formed giving the Company a 20% participating interest. Harmony may withdraw with no equity at any time after expending the initial Au $60,000. The Company can elect not to contribute to work programs and be diluted down to a minimum participating interest of 5% after the joint venture is formed. The Company may withdraw from the project without further cost after being diluted to a 5% interest.

(f) San Ramon, Chile

During the year ended July 31, 2002, American Canyon Mining Chile Ltda. ("ACM"), a private Chilean corporation, granted the Company the option to acquire at least an undivided 75% interest and up to an undivided 80% interest in the San Ramon Mining Project, Chile.

During the year ended July 31, 2003, the Company terminated its agreement with ACM to acquire an interest in the San Ramon Mining Project. The property was written off during the 2003 fiscal year. The Company retains the right to acquire a 5% interest in all San Ramon properties held by ACM.

**7. INVESTMENT IN AND EXPENDITURES ON RESOURCE PROPERTIES** (Continued)

(g) Annie Property, Chile

During the year ended July 31, 2003, the Company acquired the Annie Property located approximately 30 kilometres south of Copiapo in Region III of northern Chile. The Annie Property is comprised of 11 claims totaling 2,055 hectares. The ten Annie claims were acquired by staking and are owned 100% by the Company through its 100% owned subsidiary Solomon (Chile) SCM. The Company has also purchased 100% of the 50 hectare Santa Candelaria II one-fifth claim for cash payment of US $2,000 and issuance of 38,250 common shares.

During the year ended July 31, 2004, the Company acquired by option a 100% interest, through its wholly-owned Chilean subsidiary Solomon (Chile) SCM, in the thirteen Barros Luco and Rey Salomon exploration claims.

The Barros Luco and Rey Salomon claims have been grouped as a single property for the purposes of the option agreement signed June 15, 2004, whereby the Company agrees to pay the owners US $2,000,000 over four years by fulfilling the following terms:

(i) US $5,000 on signing;

(ii) US $10,000 six months after signing;

(iii) US $35,000 on or before the first anniversary;

(iv) US $100,000 on or before the second anniversary;

(v) US $250,000 on or before the third anniversary; and

(vi) US $1,600,000 on or before the fourth anniversary.

The Company agreed to maintain all claims in good standing as required under Chilean mining law, including payment of all taxes owing, the latter being deductible from the first two option payments (done). The owners maintain a 2% NSR, which the Company may purchase at any time for US $1,000,000.

During the year ended July 31, 2005, the Company wrote down its expenditures on the property by $362,909. The Company retains its interest in the Santa Candaleria claims.

(h) Beowawe Project, Nevada

The Company entered into a letter of intent (“LOI”) on March 23, 2003, subject to regulatory approval, to acquire up to 100% of the Beowawe project in Nevada. The Company agreed to fund up to $125,000 in expenditures for the vendor to research and acquire claims in the subject area, and for the vendor to complete a suitable technical report of geology, geophysics and geochemistry. The vendor was eligible to charge a fee above expenses and other third party costs of $5,000 per month for their services. Within 15 days of delivery of the technical report and land package, the Company could elect either to purchase a 100% interest or become a minority equity holder in the project.

**7. INVESTMENT IN AND EXPENDITURES ON RESOURCE PROPERTIES** (Continued)

(h) Beowawe Project, Nevada (Continued)

If the Company elected to purchase the project, the Company would be required to issue 1,800,000 common shares and complete expenditures in excess of $400,000 within the first year to earn a 25% interest in the property, subject to a 1% NSR. The Company was required to issue an additional 1,000,000 common shares to the vendor on the second anniversary to earn the full 100% interest in the property.

On January 24, 2004, the Company elected not to purchase the property and no agreement was filed. This project was written off during the 2004 fiscal year. Under the terms of the LOI, the Company retains no interest in the property, but is eligible to recover a maximum of three times its investment ($375,000) out of 30% of any payments received by the vendor from a third party. As of July 31, 2005, the Company has received 90,000 shares of Prospector Consolidated Resources Inc., with a deemed value of $5,400, as part of this settlement.

(i) Metla Project, British Columbia

During the year ended July 31, 2004, the Company acquired five properties in the Atlin Mining District of British Columbia comprising what is generally referred to as the Metla Project. The properties include the following:

- Tatsa Property (11 claims totaling 5,200 hectares)
- Metla Property (10 claims totaling 5,000 hectares)
- Checkmate Property (4 claims totaling 2,000 hectares)
- La Veta Property (2 claims totaling 900 hectares)
- BWM Property (1 claim totaling 400 hectares)

Each of the above properties was acquired separately by option, LOI or staking as described individually below.

The Tatsa Property was acquired by staking and is held 100% by the Company. To maintain the entire claim holding, the Company is required to meet annual work assessment commitments of $20,800 until 2008, and $41,600 thereafter.

In the year ended July 31, 2004, the Company was granted by option agreement the right to earn a 100% interest in the Metla #1 and #2 claims by meeting the following terms:

(i) Upon signing of a formal agreement, pay $20,000 and issue 100,000 shares of the Company to the vendors (done);

(ii) Spend a minimum of $250,000 on exploration in year one;

(iii) In year two, pay $30,000, issue 200,000 shares of the Company to the vendors and spend a minimum of $350,000 on mineral exploration; and

(iv) In year three, pay $50,000, issue 300,000 shares of the Company and spend a minimum of $500,000 on exploration.

**7. INVESTMENT IN AND EXPENDITURES ON RESOURCE PROPERTIES** (Continued)

(i) Metla Project, British Columbia (Continued)

Upon the Company earning its 100% interest in the property, the vendors will retain a 2% NSR interest in the property, of which the Company may purchase 1% for $1,000,000.

The Company enlarged the Metla property by staking an additional eight claims that, under the terms of an agreed five kilometre area of influence, now form part of the Metla property and are subsequently subject to the above terms.

The Checkmate property was acquired by the Company through a LOI granting the Company until March 1, 2005 to formalize an option with the vendor. The terms of the LOI require the Company, prior to March 1, 2005, to:

(i) Cover all costs for staking the additional three claims, which become subject to the LOI (done);

(ii) Expend a minimum of $20,000 in work assessment value during the 2004 field season; and

(iii) Provide reports and record a minimum of two years' assessment credits.

To earn a 100% interest in the Checkmate property, the Company must:

(i) On signing a formal agreement on or before March 1, 2005, pay $20,000 and issue 100,000 common shares of the Company to the vendor and expend $250,000 on exploration in year one;

(ii) On or before March 1, 2006, pay $30,000, issue 200,000 common shares of the Company to the vendor and expend $350,000 on exploration in year two; and

(iii) On or before March 1, 2007, pay $50,000 and issue 300,000 common shares of the Company to the vendor and expend $500,000 on exploration in year three.

Upon the Company earning its 100% interest in the Checkmate property, the vendor will retain a 2% NSR interest of which the Company may purchase 1% for $1,000,000. The right to option the La Veta and BWM properties were granted to the Company under separate but similar LOIs. The terms of the LOIs require the Company, prior to March 1, 2005, to:

(i) Cover all costs for staking all claims, which all become subject to the respective LOIs (done);

(ii) Guarantee a minimum of one year assessment work on the La Veta #3 and #4 mineral claims (minimum $3,600) and a minimum of two years' assessment work on the BWM mineral claim (minimum $3,200), plus the timely filing of two assessment reports for each property; and

(iii) Two copies of all 2004 work and data assessment reports for each of the La Veta and BWM properties on or before March 1, 2005.

**7. INVESTMENT IN AND EXPENDITURES ON RESOURCE PROPERTIES** (Continued)

(i) Metla Project, British Columbia (Continued)

To earn a 100% interest in either of the La Veta and BWM properties, the Company must:

(i) On signing of a formal agreement on or before March 1, 2005, pay $10,000, issue 50,000 shares of the Company to the vendor and spend a minimum of $125,000 on exploration on the property in year one;

(ii) On or before March 1, 2006, pay $15,000, issue 100,000 shares of the Company to the vendor, and spend a minimum of $150,000 on exploration of the property in year two; and

(iii) On or before March 1, 2007, pay $25,000, issue 150,000 shares of the Company to the vendor, and spend a minimum of $250,000 on exploration of the property in year three.

Upon the Company earning its 100% interest in the La Veta and BWM properties, the vendor will retain a 2% NSR interest in the property, of which the Company may purchase 1% for $1,000,000.

During the year ended July 31, 2005, the Company wrote down its interest in the property by $300,973 to a nominal value.

(j) Mongolia

In March 2005, the Company signed a memorandum of agreement with Gallant Minerals Ltd. to acquire up to an 80% interest in 20 gold and base metal projects in Mongolia.

The Company paid US $50,000 on signing the agreement and a further US $25,000 in April 2005. On April 18, 2005 ("Closing Date"), the Company paid an additional US $110,000, issued 1,000,000 shares of the Company to Gallant and paid a finder's fee of 200,000 shares of the Company.

To earn its initial 60% interest, the Company must:

(i) On or before the first anniversary of the Closing Date, complete US $1,000,000 of work expenditures on the properties or pay any remaining balance to Gallant. On or before the first anniversary of the Closing Date, deliver to Gallant;

(a) common shares of the Company, calculated in value as worth the Canadian dollar equivalent of US $200,000 based on the nominal rate of exchange for US to Canadian dollars posted on the website of the Bank of Canada and the average closing price of the shares over the ten days of trading immediately preceding the fifth trading day prior to the anniversary date, listed for trading on the TSX Venture Exchange and legended as to any hold period required by securities regulatory authorities; and

(b) US $200,000;

**7. INVESTMENT IN AND EXPENDITURES ON RESOURCE PROPERTIES** (Continued)

(j) Mongolia (Continued)

(ii) On or before the second anniversary of the Closing Date, expend an aggregate of US $3,000,000 of work expenditures (including expenditures spent during the first year after the Closing Date) on the properties or pay any remaining balance to Gallant. On or before the second anniversary of the Closing Date, deliver to Gallant:

(a) common shares of the Company calculated in value as worth the Canadian dollar equivalent of US $450,000 based on the nominal rate of exchange for US to Canadian dollars posted on the website of the Bank of Canada and the average closing price of the shares over the ten days of trading immediately preceding the fifth day prior to the anniversary date, listed for trading on the TSX Venture Exchange and legended as to the applicable hold period required by securities regulatory authorities; and

(b) US $300,000;

(iii) On or before the third anniversary of the Closing Date, expend an aggregate of US $6,000,000 of work expenditures (including expenditures spent during the first and second years after the Closing Date) on the properties or pay any remaining balance to Gallant. On or before the third anniversary of the Closing Date, deliver to Gallant US $400,000.

The Company has an option to acquire an additional 20% interest in any property on which the Company commits to spend, and then does spend, a further $1,000,000 on work expenditures on or before the fourth anniversary of the Closing Date.

For any properties on which the Company has earned an additional 20% interest taking its total direct and indirect interest in that property to 80%, Gallant may at its sole discretion then elect either to participate in all future expenditures on that property pro-rata to its remaining 20% interest or accept dilution based on industry standard terms (such that the property shall be valued at 125% of the Company's cash payments and share issuances to earn such 80% interest and each of the Company and Gallant shall be deemed to have, at any time, that percentage interest of them, and should a party's interest be reduced to 5% or less that party shall exchange such interest for an NSR royalty equal to 50% of the royalty described in the agreement) or convert its 20% interests to an NSR royalty.

Subsequent to July 31, 2005, the Company signed an earn-in agreement with Asia Gold Corp. ("Asia Gold") on four of the 20 projects.

The earn-in agreement provides Asia Gold with the right to earn an 80% interest in the four projects in two stages. The exercise of the first earn-in right will earn Asia Gold a 55% interest in all of the projects. The second earn-in right, which is exercisable on a project-by-project basis, will earn Asia Gold a further 15% interest, for an aggregate 70% interest.

**7. INVESTMENT IN AND EXPENDITURES ON RESOURCE PROPERTIES** (Continued)

(j) Mongolia (Continued)

To exercise the first earn-in right, Asia Gold must pay the Company an aggregate of US $325,000, issue to the Company common shares of Asia Gold valued at US $600,000 and fund and carry out US $1,800,000 of exploration within three years from the Closing Date of the definitive earn-in agreement. As part of the annual work commitment, Asia Gold is also responsible for the payment of all license fees.

To exercise the second earn-in right, Asia Gold must fund and carry out US $2,500,000 of exploration on each of the projects it intends to retain within five years from the Closing Date of the definitive earn-in agreement. Asia Gold also has a first right to acquire an additional 10% interest, for an aggregate 80% interest, should Gallant convert its 20% interest in any project to a NSR, pursuant to an underlying option agreement between the Company and Gallant.

Asia Gold paid the Company US $50,000 cash and 100,000 Asia Gold common shares upon closing.

(k) Sleitat, Alaska

The Company acquired a 100% interest in the Sleitat Mountain tin deposit by staking a claim. Subject to regulatory approval, the Company has granted Brett Resources Inc. ("Brett"), a related party with two common directors and one common officer, an option to acquire an 80% interest in the Sleitat Mountain property by issuing 1,000,000 common shares to the Company over a four-year period. Brett must initially issue 200,000 shares to the Company upon receipt of all necessary approvals. Subsequently, Brett must issue an additional 200,000 shares on each anniversary date as long as Brett had not terminated its interest in the project. Upon Brett vesting at 80% in the project, further exploration or development expenditures would be shared 80/20. Should a given party be diluted to less than a 10% participating interest, the party would retain only a 1% NSR on subsequent production of any metals from the property.

(l) Maui Claims, Yukon

During the year ended July 31, 2003, the Company entered into an agreement to acquire a 50% interest in the Maui 1-96 mineral claims located in Watson Lake Mining District, Yukon, for a cash payment of $10,000. The Company had the option of earning an additional 40% (90% total) interest by committing to expend $30,000 on an exploration program on the mineral claims and:

**7. INVESTMENT IN AND EXPENDITURES ON RESOURCE PROPERTIES** (Continued)

(l) Maui Claims, Yukon (Continued)

(i) Paying $10,000 cash and issuing 50,000 common shares 12 months after the date of the agreement;

(ii) Paying $10,000 cash and issuing 50,000 common shares 24 months after the date of the agreement;

(iii) Paying $10,000 cash and issuing 50,000 common shares 36 months after the date of the agreement; and

(iv) Expending a total of $50,000 on exploration over three years.

The original owner may, at their option, sell their remaining 10% interest to the Company for $1,000,000 or elect to retain their 10% working interest and contribute proportionately to all future exploration and development costs. This project was returned to the original owner and written off in 2004.

(m) Bouleau Project - British Columbia

During the year ended July 31, 2003, the Company signed an option agreement to acquire a 100% interest in the Bouleau Lake Property. The Bouleau Lake Property is located southwest of Vernon, British Columbia.

The Company can earn a 100% interest in the Bouleau Lake Property by fulfilling the following option terms:

(i) $5,000 cash and 25,000 common shares on signing (done);

(ii) $10,000 cash and 50,000 common shares on or before the first anniversary (done);

(iii) $20,000 cash and 100,000 common shares on or before the second anniversary; and

(iv) $40,000 cash and 200,000 common shares on or before the third anniversary.

The vendor will retain a 2% NSR, which the Company can purchase for $1,000,000 within 120 days of commercial production being attained.

This property was returned to the vendor in the 2005 fiscal year and the associated costs of $64,955 were written off.

**(Expressed in Canadian Dollars)**

## 8. CAPITAL STOCK

(a) Authorized

Unlimited Common shares (2004 - 100,000,000 Common shared) without par value

(b) Issued

| | Number of Shares | | Amount |
|---|---|---|---|
| Balance, July 31, 2003 | 29,434,197 | $ | 19,851,012 |
| Shares issued for | | | |
| Cash, private placement | 1,000,000 | | 200,000 |
| Share issue costs | 0 | | (13,830) |
| Exercise of warrants, cash | 333,334 | | 66,667 |
| Exercise of options, cash | 220,000 | | 33,000 |
| Property acquisition | 200,000 | | 54,500 |
| Balance, July 31, 2004 | 31,187,531 | | 20,191,349 |
| Shares issued for | | | |
| Cash, private placement | 6,000,000 | | 1,200,000 |
| Share issue costs | 0 | | (160,819) |
| Finder's fee | 200,000 | | 74,000 |
| Exercise of warrants, cash | 650,000 | | 153,750 |
| Exercise of options, cash | 200,000 | | 30,000 |
| Property acquisition | 1,000,000 | | 370,000 |
| Share issue costs | 0 | | (71,240) |
| Balance, July 31, 2005 | 39,237,531 | $ | 21,787,040 |

During the year ended July 31, 2004, the Company completed a private placement of 1,000,000 flow-through units for proceeds of $200,000. Each unit consisted of one flow-through common share and one non-transferable flow-through share purchase warrant. Each share purchase warrant was exercisable at $0.25 to June 25, 2005.

During the year ended July 31, 2005, the Company completed a private placement of 6,000,000 units for gross proceeds of $1,200,000. Each unit consisted of one common share and one-half of a share purchase warrant. Each whole warrant entitles the holder to purchase one common share at a price of $0.30 per share for 12 months. If the closing trading price of the Company's shares for ten consecutive trading days equals or exceeds $0.45 per share after the four month restricted resale period, the Company can give the warrant holders notice that they must exercise the warrants or they will expire within 30 days of such notice.

**(Expressed in Canadian Dollars)**

**8. CAPITAL STOCK** (Continued)

(b) Issued (Continued)

The agent was paid a cash commission of $96,000 and issued a warrant to purchase up to 900,000 common shares for a period of 12 months at a price of $0.20 each.

At July 31, 2005, approximately $40,000 of the flow-through funds raised in 2004 and $125,000 of the flow-through funds raised in 2005 from the exercise of flow-through warrants remained to be spent on qualifying Canadian exploration expenditures.

(c) Stock options

Stock option activity for the years ended July 31 is as follows:

| | Number of Shares | Exercise Amount | Weighted Average Exercise Price |
|---|---|---|---|
| Outstanding, July 31, 2003 | 1,670,000 | $ 0.15 to $ 0.30 | $ 0.21 |
| Exercised | (220,000) | $ 0.15 | (0.15) |
| Outstanding, July 31, 2004 | 1,450,000 | $ 0.15 to $ 0.30 | 0.18 |
| Granted | 1,600,000 | $ 0.17 to $ 0.40 | 0.34 |
| Expired | (200,000) | $ 0.30 | (0.30) |
| Exercised | (200,000) | $ 0.15 | (0.15) |
| Outstanding and exercisable, July 31, 2005 | 2,650,000 | $ 0.15 to $ 0.40 | $ 0.26 |

The weighted average life of outstanding stock options at July 31, 2005 is 3.5 years.

**(Expressed in Canadian Dollars)**

**8. CAPITAL STOCK** (Continued)

(c) Stock options (Continued)

As at July 31, the following options were outstanding:

| Expiry Date | Exercise Price | Number of Shares **2005** | **2004** |
|---|---|---|---|
| March 30, 2006 | $0.20 | 250,000 | 250,000 |
| June 6, 2007 | $0.30 | 0 | 200,000 |
| November 12, 2007 | $0.15 | 800,000 | 1,000,000 |
| December 20, 2009 | $0.17 | 200,000 | 0 |
| March 3, 2010 | $0.36 | 1,100,000 | 0 |
| June 5, 2010 | $0.395 | 50,000 | 0 |
| June 27, 2010 | $0.35 | 250,000 | 0 |

During the year ended July 31, 2005, the Company granted 1,600,000 options (2004 - 0).

The fair value of each option grant was calculated using the following weighted average assumptions:

| | **2005** | **2004** |
|---|---|---|
| Expected life (years) | 4 to 5 years | 5 years |
| Interest rate | 3.2% to 3.7% | 3.0% |
| Volatility | 90.4% to 92.8% | 90.5% |
| Dividend yield | 0.00% | 0.00% |

The fair value of the options vesting in the 2005 year was $215,750 (2004 - $0).

(d) Share purchase warrants

As at July 31, the following warrants were outstanding:

| Expiry Date | Price | **2005** | **2004** |
|---|---|---|---|
| December 4, 2004 | $ 0.20/$ 0.30 | 0 | 333,333 |
| June 25, 2005 | $ 0.30 | 0 | 19,500 |
| July 23, 2005 | $ 0.20 | 0 | 150,000 |
| July 23, 2005 | $ 0.25 | 0 | 1,000,000 |
| February 10, 2006 | $ 0.30 | 3,000,000 | 0 |
| February 10, 2006 | $ 0.20 | 900,000 | 0 |

During the year ended July 31, 2005, 650,000 warrants were exercised for gross proceeds of $153,750 (2004 – 333,334 warrants were exercised for gross proceeds of $66,667).

**(Expressed in Canadian Dollars)**

## 9. INCOME TAX LOSSES

The reconciliation of income tax provision computed at statutory rates to the reported income tax provision is as follows:

| | 2005 | 2004 |
|---|---|---|
| Income tax benefit computed at Canadian statutory rates | $ (384,588) | $ 90,779 |
| Permanent differences | 134,176 | 151,941 |
| Writedown of properties | 262,045 | 64,577 |
| Other | (48,783) | (3,941) |
| Unrecognized tax losses | 37,150 | 0 |
| Reduction of taxes due to loss carry forwards | 0 | (303,356) |
| | $ 0 | $ 0 |

Significant components of the Company's future tax assets and liabilities, after applying enacted corporate income tax rates, are as follows:

| Expiry Date | 2005 | 2004 |
|---|---|---|
| Future income tax assets at approximate tax rates | | |
| Canadian non-capital losses at 36% (2004 - 37%) | $ 551,000 | $ 526,000 |
| US losses at 35% (2004 - 35%) | 1,520,000 | 1,240,000 |
| Australian losses at 30% (2004 - 30%) | 472,000 | 447,000 |
| Canadian resource pool deductions at 36% (2004 - 36%) | 2,100,000 | 1,500,000 |
| | 4,643,000 | 3,713,000 |
| Valuation allowance | (4,643,000) | (3,713,000) |
| | $ 0 | $ 0 |

The Company's losses for Canadian tax purposes are approximately $1,547,000 (2004 - $1,420,000), which may be carried forward to apply against future income for Canadian tax purposes. Expiry begins in 2006.

The Company's losses for US tax purposes are approximately US $3,543,000 (2004 - US $3,543,000), which may be carried forward to apply against future income for US tax purposes, expiring between 2006 and 2015.

The Company's losses for Australian tax purposes are approximately Au $1,700,000 (2004 – Au $1,693,000), which may be carried forward to apply against future income for Australian tax purposes.

**9. INCOME TAX LOSSES** (Continued)

The Company also has resource tax pool deductions of approximately $5,833,000 (2004 - $4,626,000), which may be carried forward indefinitely to apply against future income for Canadian tax purposes.

The future benefit of these loss carry-forwards and the resource deductions have not been recorded in these consolidated financial statements as the Company estimates that these losses will not likely be realized.

**10. RELATED PARTY TRANSACTIONS AND BALANCES**

During the year, the Company paid:

(a) Office rent and administrative fees of $31,247 (2004 - $32,500) to a company with a common officer.

(b) Consulting and management fees of $203,035 (2004 - $135,250) to officers and directors.

(c) Included in accounts receivable is $7,500 (2004 - $0) receivable from a director.

(d) Included in prepaid expenses is $10,000 (2004 - $6,000) in advances to an officer.

(e) Included in accounts payable and accrued liabilities is $50,900 (2004 - $0) payable to officers and directors of the Company for consulting and management fees.

**11. SUBSEQUENT EVENTS**

(a) Subsequent to July 31, 2005, the Company closed a non-brokered private placement of 1,926,000 units at a price of $0.35 per unit for gross proceeds of $674,100. Each unit consisted of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase one common share for two years at a price of $0.35 per share in the first year and $0.50 per share in the second year. If the closing trading price of the Company's shares for five consecutive trading days equals or exceeds, after a four month restricted resale period, $0.45 per share in the first year or $0.60 per share in the second year, the Company can give the warrant holders notice that they must exercise the warrants or the warrants will expire within 20 days of such notice. Finder's fees paid to the agents consisted of cash commissions totaling $37,265 (7%) and warrants to purchase up to a total of 152,100 common shares (10%) for a period of 12 months at a price of $0.40 each.

(b) Subsequent to July 31, 2005, the Company entered into an LOI with Eagle Plains Resources Limited on its Hall Lake Project. The Company will fund an exploration project to a maximum of $40,000 in exchange for an exclusive option to elect to earn a minimum 60% interest in the project by completing the following commitments to Eagle Plains by June 30, 2008:

(i) cash payments totaling $110,000;

(ii) stock issuances of 225,000 common shares; and

(iii) exploration totaling $1,000,000.

The closing of the transaction is subject to regulatory approval.