



***Crowflight Minerals Inc.***  
***Canada's Next Nickel Producer***

## FINANCIAL STATEMENTS

*for the six months ended June 30, 2006*

Q2

## BALANCE SHEETS

As at June 30,  
(in Canadian dollars - prepared by management)

	June 30, 2006	December 31, 2005
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 2,906,335	\$ 633,669
Amounts receivable	133,923	279,909
Prepaid expenses and deposits	58,006	49,880
Future income tax asset (Note 5)	-	598,000
	<b>3,098,264</b>	1,561,458
Deposits and advances (Note 2)	367,346	178,255
Prepaid exploration expenditures (Note 2)	1,245,798	-
Exploration properties and deferred exploration expenditures (Note 2)	25,839,070	21,006,374
Property, plant and equipment	51,133	36,873
	<b>\$ 30,601,611</b>	<b>\$ 22,782,960</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 902,395	\$ 1,327,926
Future income tax liability (Note 5)	743,000	-
<b>SHAREHOLDERS' EQUITY</b>		
Common Shares (Note 3(a))	37,937,487	30,375,246
Warrants (Note 3(b))	3,054,454	3,191,425
Contributed surplus (Note 3(d))	4,818,049	3,842,714
Deficit	(16,853,774)	(15,954,351)
	<b>28,956,216</b>	21,455,034
	<b>\$ 30,601,611</b>	<b>\$ 22,782,960</b>

Commitments and Contingencies (Note 6)

## STATEMENTS OF OPERATIONS AND DEFICIT

For the three and six months ended June 30,  
(in Canadian dollars - prepared by management)

	Three months ended		Six months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Expenses				
Stock-based compensation expense (Note 3(c))	\$ 134,291	\$ 81,079	\$ 355,335	\$ 173,652
Professional and consulting	156,510	147,549	303,003	271,253
Shareholder communications and promotion	90,803	77,208	166,198	112,372
General and office	23,166	36,970	48,248	63,543
Travel	14,228	43,326	21,474	96,111
Amortization	4,156	6,953	10,784	13,590
Interest expenses and bank charges	615	530	1,007	1,631
	<b>423,769</b>	393,615	<b>906,049</b>	732,152
Loss before the undernoted	<b>(423,769)</b>	(393,615)	<b>(906,049)</b>	(732,152)
Interest income	253	277	558	12,393
General exploration expenses	-	(2,625)	-	(16,838)
Recovery of expenses	-	-	6,068	15,912
Loss before income taxes	<b>(423,516)</b>	(395,963)	<b>(899,423)</b>	(720,685)
Future income taxes (Note 5)	-	-	-	1,164,240
Net income (loss) for the year	<b>(423,516)</b>	(395,963)	<b>(899,423)</b>	443,555
DEFICIT, beginning of year	<b>(16,430,258)</b>	(15,243,663)	<b>(15,954,351)</b>	(16,083,181)
DEFICIT, end of year	<b>\$(16,853,774)</b>	\$(15,639,626)	<b>\$(16,853,774)</b>	\$(15,639,626)
Income (loss) per share - basic and diluted	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ 0.01
Weighted average number of shares				
basic	123,746,503	78,433,847	116,592,560	75,275,818
diluted	123,746,503	79,126,225	116,592,560	76,428,331

## STATEMENTS OF CASH FLOWS

For the three and six months ended June 30,  
(in Canadian dollars - prepared by management)

	Three months ended		Six months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Cash (used in) provided by:				
<b>OPERATING ACTIVITIES:</b>				
Net income (loss) for the period	\$ (423,516)	\$ (395,963)	\$ (899,423)	\$ 443,555
Charges not affecting cash:				
Amortization	4,156	6,953	10,784	13,590
Stock-based compensation expense (Note 3(c))	134,291	81,079	355,335	173,652
Future income tax recovery (Note 5)	-	-	-	(1,164,240)
Net change in non-cash working capital	(113,819)	97,484	358,224	72,386
	<b>(398,888)</b>	<b>(210,447)</b>	<b>(175,080)</b>	<b>(461,057)</b>
<b>FINANCING ACTIVITIES:</b>				
Common shares issued through private placements	5,208,300	4,397,463	9,483,350	4,397,463
Warrants issued through private placements	-	578,287	349,450	578,287
Shares issued from exercise of warrants	-	512,000	-	512,000
Financing costs	(378,171)	(384,378)	(716,530)	(384,378)
	<b>4,830,129</b>	<b>5,103,372</b>	<b>9,116,270</b>	<b>5,103,372</b>
<b>INVESTING ACTIVITIES:</b>				
Exploration properties and deferred exploration expenditures	(2,318,261)	(2,041,299)	(4,561,196)	(6,617,451)
(Increase) decrease in prepaid exploration expenditure	(466,250)	895,277	(1,436,389)	(128,255)
Increase (decrease) in accounts payable attributable to property exploration	117,856	(923,198)	(645,895)	(95,185)
Property, plant and equipment	(21,138)	(2,644)	(25,044)	(5,673)
	<b>(2,687,793)</b>	<b>(2,071,864)</b>	<b>(6,668,524)</b>	<b>(6,846,564)</b>
<b>CHANGE IN CASH</b>	<b>1,743,448</b>	<b>2,821,061</b>	<b>2,272,666</b>	<b>(2,204,249)</b>
<b>CASH, beginning of period</b>	<b>1,162,887</b>	<b>780,145</b>	<b>633,669</b>	<b>5,805,455</b>
<b>CASH, end of period</b>	<b>\$ 2,906,335</b>	<b>\$ 3,601,206</b>	<b>\$ 2,906,335</b>	<b>\$ 3,601,206</b>
<b>SUPPLEMENTAL INFORMATION:</b>				
Common shares issued for interest in exploration properties	\$ 270,000	\$ 230,000	\$ 270,000	\$ 350,000
Warrants granted for interest in exploration properties	\$ -	\$ -	\$ -	\$ 106,500
Common shares issued as cost of issue	\$ -	\$ -	\$ 87,400	\$ -
Warrants granted as cost of issue	\$ 99,999	\$ -	\$ 133,579	\$ -
Interest received	\$ 558	\$ 277	\$ 558	\$ 12,393
Interest paid	\$ -	\$ 321	\$ -	\$ 44,063
Income taxes paid	\$ -	\$ -	\$ -	\$ -

CROWFLIGHT MINERALS INC.  
(A development stage company)

NOTES TO THE FINANCIAL STATEMENTS  
For the six months ending June 30, 2006 and June 30, 2005  
(prepared by management – Unaudited)

---

## 1. BASIS OF PRESENTATION AND GOING CONCERN

---

These interim financial statements are unaudited and are not reviewed by the Company's auditors.

The management of Crowflight Minerals Inc. (the "Company") has prepared these unaudited financial statements for the six months ended June 30, 2006 in accordance with generally accepted accounting principles in Canada. The most significant of these accounting principles have been set out in the December 31, 2005 audited financial statements. These financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2005.

The disclosures in these interim financial statements do not include the full disclosure required under generally accepted accounting principles in Canada for annual financial reporting.

These statements are presented on the accrual basis of accounting. Accordingly, a precise determination of many assets and liabilities is dependent upon future events. Estimates and approximations have been made using careful judgment. Recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been fairly presented.

Operating results for the six months ended June 30, 2006 are not indicative of the results that may be expected for the full year ending December 31, 2006.

The Company uses the same methods and accounting policies described in the December 31, 2005 audited financial statements.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying financial statements.

The Company has a need for equity capital and financing for working capital, and exploration and development of its properties. Because of continuing operating losses, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ending June 30, 2006 and June 30, 2005  
(prepared by management – Unaudited)

2. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES

	MANITOBA			SUDBURY, ONTARIO				TOTAL
	Bucko Feasibility Study	Thompson Nickel Belt South	Thompson Nickel Belt North	AER Kidd	Airport	Peter's Roost	New Exploration	
<b>Acquisition costs</b>								
Balance, December 31, 2005	1,458,431	179,811	228,693	991,858	356,403	102,887	-	3,318,083
Acquisition and property costs	270,000	38,379	59	53,066	18,000	24,870	-	404,374
Write off of property costs	-	-	-	-	-	-	-	-
<b>Balance, June 30, 2006</b>	<b>1,728,431</b>	<b>218,190</b>	<b>228,752</b>	<b>1,044,924</b>	<b>374,403</b>	<b>127,757</b>	<b>-</b>	<b>3,722,457</b>
<b>Exploration expenditure</b>								
Balance, December 31, 2005	5,067,835	4,976,479	1,393,154	4,879,842	714,323	654,245	2,413	17,688,291
Drilling	721,014	1,027,769	651,828	-	-	-	-	2,400,611
Assaying, laboratory, metallurgy	77,960	-	-	-	-	-	-	77,960
Geology and geological consulting	350,497	197,516	180,884	7,225	-	11,438	-	747,560
Travel and transportation	70,558	8,529	4,038	686	250	1,321	763	86,145
Geochemistry and geophysics	-	(17,846)	45,350	-	-	-	-	27,504
Reports	24,089	-	-	-	-	-	-	24,089
Mine and mill design	(32,527)	-	-	-	-	-	-	(32,527)
Site development	101,446	-	-	-	-	-	-	101,446
Engineering and procurement	52,724	-	-	-	-	-	-	52,724
Capital purchases	650,000	-	-	-	-	-	-	650,000
Environmental	80,897	1,715	2,274	-	-	-	-	84,886
Field and office support	66,396	6,414	6,380	716	51	391	86	80,434
Management fees	192	120,795	86,897	-	-	-	-	207,884
<b>Incurred to date</b>	<b>7,231,081</b>	<b>6,321,371</b>	<b>2,370,805</b>	<b>4,888,469</b>	<b>714,624</b>	<b>667,395</b>	<b>3,262</b>	<b>22,197,007</b>
Less: Government assistance		(80,394)						(80,394)
<b>Balance, June 30, 2006</b>	<b>7,231,081</b>	<b>6,240,977</b>	<b>2,370,805</b>	<b>4,888,469</b>	<b>714,624</b>	<b>667,395</b>	<b>3,262</b>	<b>22,116,613</b>
<b>TOTAL DEFERRED COSTS</b>								
<b>June 30, 2006</b>	<b>8,959,512</b>	<b>6,459,167</b>	<b>2,599,557</b>	<b>5,933,393</b>	<b>1,089,027</b>	<b>795,152</b>	<b>3,262</b>	<b>25,839,070</b>

**MANITOBA**

**Bucko Deposit Feasibility Study and Thompson Nickel Belt South ("TNB South")**

On June 16, 2004, the Company entered into an option and joint venture agreement with Falconbridge Limited ("Falconbridge"). This agreement was amended on March 1, 2006, the basic terms of which include:

The Company can earn a conditional 33% interest in Mining Lease ("ML") - 031 including the Bucko Deposit by:

- incurring or demonstrating sufficient funding to complete the Bankable Feasibility Study ("BFS"); and
- funding the 2006 regional TNB South Exploration Program of \$1,500,000.

If the requirements to earn the 33% conditional interest are not met, the conditional interests will revert back to Falconbridge.

Upon earning the 33% conditional interest, the Company will have the option to earn an additional 17% interest in ML-031 including the Bucko Deposit for a total 50% interest by incurring a total expenditure of \$7,500,000 (\$7,133,000 completed), completing the BFS on ML-031 and having funded or deposited with Falconbridge its outstanding commitments on the TNB South regional exploration program.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ending June 30, 2006 and June 30, 2005  
(prepared by management – Unaudited)

---

**2. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (continued)**

---

Irrespective of the Company having earned the conditional 33% interest, it can earn a 50% interest and a conditional 100% interest in ML-031 by completing the BFS and BFS financial commitments and by having expended or funded \$10,500,000 in TNB South regional exploration commitments. Having met the exploration commitments, the Company will also have earned a 25% interest in the TNB South Project Area.

The Company is required to incur TNB regional exploration expenditures of \$10,500,000 as follows:

- \$1,376,000 by December 31, 2004 (funded);
- an additional \$3,276,000 by December 31, 2005 (funded);
- an additional \$1,500,000 by April 30, 2006 (funded);
- an additional \$1,500,000 by April 30, 2007;
- an additional \$1,500,000 by April 30, 2008;
- an additional \$1,348,000 by April 30, 2009;

As well, the Company issued 1,000,000 common shares of the Company on June 1, 2006 pursuant to the amended agreement. The fair value of the shares was determined to be \$270,000 based upon the quoted market value of the Company's shares on the date of issue.

The Company may increase its interest in ML-031 to an unconditional 100% by making a decision within six months of the completion of the BFS to put the Bucko Deposit into production, complete project financing and construction and obtain commercial production.

The Company may elect to increase its interest in the TNB South Project Area to 50% by providing funding to Falconbridge as operator of \$7,000,000 in exploration activities by April 13, 2013 (plus administrative charges of 10% of expenditures), as follows:

- \$1,500,000 on the date of election;
- an additional \$1,500,000 by the first anniversary of election;
- an additional \$2,000,000 by the second anniversary of election; and,
- an additional \$2,000,000 by the third anniversary of election.

In order to increase either or both interests, the Company must issue 1,000,000 common shares of the Company to Falconbridge within 30 days after exercising the election and an additional 1,000,000 common shares of the Company within one year of the election.

Certain areas of the property are subject to underlying agreements whereby those portions are subject to i) a 2% NSR; ii) a 10% net proceeds of production royalty; or iii) a \$500,000 payment due on commencement of commercial production. Under certain circumstances these royalty interests may be purchased.

The agreement also provides Falconbridge with certain rights to back in, buy back the property, bump up its ownership interest and to purchase the concentrate product for the project.

During the six months ended June 30, 2006, the Company advanced \$2.2 million to Falconbridge to be applied to exploration expenditure on the TNB South group of properties, and a balance of \$852,481 remains at June 30, 2006 to be applied to future expenditures.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ending June 30, 2006 and June 30, 2005  
(prepared by management – Unaudited)

---

**2. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (continued)**

---

Also during the six months ended June 30, 2006, the Company applied for and was approved for financial assistance under the Manitoba Mineral Exploration Assistance Program ("MEAP") and received \$80,394 in government assistance. Subsequent to the quarter ended June 30, 2006, the Company received an additional \$57,069 in financial assistance under the MEAP program.

**Thompson Nickel Belt North ("TNB North"), Manitoba**

In January 2005, the Company entered into an option agreement with Falconbridge to acquire a 50% interest in the Thompson Nickel Belt North Project ("TNB North"). This agreement was amended on March 1, 2006.

Under the terms of the Amended Agreement, the Company is required to spend \$5,000,000 on or before April 30, 2009 in the following tranches:

- \$1,300,000 by December 31, 2005 (funded);
- \$1,000,000 by April 30, 2006 (funded);
- \$1,000,000 by April 30, 2007;
- \$1,000,000 by April 30, 2008; and
- \$700,000 by April 30, 2009.

The agreement also provides Falconbridge with certain rights to back in, buy back the property buy, bump up its ownership interest and to purchase the concentrate product for any project developed in the Project Area.

During the six months ended June 30, 2006, the Company advanced \$1.35 million to Falconbridge to be applied to exploration expenditure on the TNB North group of properties, and a balance of \$393,317 remains at June 30, 2006 to be applied to future expenditures.

**SUDBURY, ONTARIO**  
**Peter's Roost Property**

In the first half of 2004, the Company acquired by staking the Peter's Roost Property, a major land package along the North Range of the Sudbury Basin. The property extends along two predominantly east west trending concentric corridors extending from the Parkins Offset Dyke in the east, to beyond the Foy Offset Dyke in the west, a distance of over 40 kilometres.

During the quarter ended June 30, 2006, the Company reached a formal agreement with Wallbridge Mining Company Limited ("Wallbridge") to option out an initial and conditional 50% interest in the Company's interests in the Peter's Roost group of properties. Wallbridge is required to incur \$700,000 in exploration expenditures on the properties by December 31, 2007 in order to earn an initial 50% interest. Wallbridge would then have the option to increase its ownership to a 70% vested interest in any or all four specific project areas by funding a further \$1 million in exploration expenditures in each project area in which it selects to vest by December 31, 2010. Failure to vest in a specific project area will result in ownership reverting back to the Company.

In April 2006, Wallbridge acquired 8 additional claims (approximately 560 ha) in the Area of Common Interest as defined under the Agreement. For any new properties Wallbridge acquires within the Agreement Area (a 495 square kilometre area within the North Range of the Sudbury Intrusive Complex), the Company will have the right to acquire a 25% participating interest by reimbursing Wallbridge 50% of its exploration costs to that point at such time as an Indicated Resource is identified.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ending June 30, 2006 and June 30, 2005  
(prepared by management – Unaudited)

3. CAPITAL STOCK

Authorized

- Unlimited common shares without par values
- Unlimited class A preference shares with a par value of \$10 each, issuable in series, cumulative dividends
- Unlimited class B preference shares with a par value of \$50 each, issuable in series, cumulative dividends

a) <u>Common shares issued</u>	<u>Number of Shares</u>	<u>Value</u>
Balance, December 31, 2004	71,758,254	\$ 25,851,956
Private placement - non flow-through	5,000,000	1,250,000
Private placement - flow-through	14,903,000	3,725,750
Private placement	3,000,000	750,000
Issue of warrants - warrant valuation	-	(699,787)
Shares issued in acquisition of property	1,400,000	350,000
Exercise of warrants	2,560,000	512,000
Exercise of warrants - warrant valuation	-	241,205
Flow-through shares tax effect	-	(1,164,240)
Cost of issue	-	(441,638)
<b>Balance, December 31, 2005</b>	<b>98,621,254</b>	<b>\$ 30,375,246</b>
Private placement - non flow-through (i)	6,000,000	1,140,000
Private placement - flow-through (ii)	10,377,776	2,335,000
Private placement - non flow-through (ii)	6,050,000	1,149,500
Private placement - flow-through (iii)	17,361,000	5,208,300
Issue of warrants - warrant valuation (i, ii)	-	(349,450)
Commission shares issued (ii)	460,000	87,400
Shares issued in acquisition of property (Note 2)	1,000,000	270,000
Flow-through shares tax effect	-	(1,341,000)
Cost of issue	-	(937,509)
<b>Balance, June 30, 2006</b>	<b>139,870,030</b>	<b>37,937,487</b>

(i) In January 2006, the Company completed the first tranche of a private placement offering through the issuance of 6,000,000 units of the Company at a price of \$0.19 per unit for gross proceeds of \$1,140,000. Each unit consisted of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase a common share of the Company at an exercise price of \$0.30 until July 20, 2007. The fair value of the warrants of \$174,000 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 89.78%; risk free interest rate ranging from 3.8% ; and an expected life of eighteen months.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ending June 30, 2006 and June 30, 2005  
(prepared by management – Unaudited)

---

**3. CAPITAL STOCK (continued)**

---

(ii) In February 2006, the Company closed the final tranche of the private placement through the issuance of 1,177,776 flow through shares priced at \$0.225 per flow-through share and the issuance of 6,050,000 units priced at \$0.19 per unit for gross proceeds of \$1,414,500. Each unit consisted of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase a common share of the Company at \$0.30 until August 29, 2007. The fair value of the warrants of \$175,450 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 89.78%; risk free interest rate ranging from 3.9%; and an expected life of eighteen months.

As well, the Company completed a brokered private placement through the issuance of 9,200,000 flow-through common shares at a price of \$0.225 per flow-through share for gross proceeds of \$2,070,000. Dundee Securities Corporation acted as agent in connection with the brokered private placement and was issued 460,000 common shares ("commission shares") and 460,000 broker warrants as commission. Each broker warrant is exercisable into common shares of the Company at an exercise price of \$0.225 per common share until August 28, 2007. The fair value of the commission shares was determined to be \$87,400 using the value of the Company's stock issued in this tranche of the private placement. The fair value of the broker warrants of \$33,580 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 89.78%; risk free interest rate of 3.9%; and an expected life of eighteen months. The values of the

(iii) In June 2006, the Company completed a brokered private placement through the issuance of 17,361,000 flow-through common shares of the Company at a price of \$0.30 per flow-through share for gross proceeds of \$5,208,300. Orion Securities Inc. ("Orion") led a syndicate of agents in connection with this financing and received a commission of 6% totaling \$312,498. As well, 1,041,660 Broker Warrants were granted to Orion and other agents within the syndicate. Each Broker warrant is exercisable into one common share of the Company at a price of \$0.30 per share until December 21, 2007. Each flow-through common share and common share issued upon the exercise of the Broker Warrants is subject to a hold period that expires on October 22, 2006.

The fair value of the broker warrants of \$99,999 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 89.78%; risk free interest rate of 4.3%; and an expected life of eighteen months. The value of the broker warrants were recorded as cost of issue.

CROWFLIGHT MINERALS INC.  
(A development stage company)

NOTES TO THE FINANCIAL STATEMENTS

For the six months ending June 30, 2006 and June 30, 2005  
(prepared by management – Unaudited)

3. CAPITAL STOCK (continued)

b) Warrants

	June 30, 2006		December 31, 2005	
	Number of warrants	Average price	Number of warrants	Average price
Balance, beginning of period	29,434,356	\$ 0.45	26,033,465	\$ 0.42
Granted, private placements	6,025,000	0.30	11,451,500	0.40
Granted, broker warrants	1,501,660	0.28	-	-
Granted property acquisition	-	-	1,000,000	0.55
Exercised	-	-	(2,560,000)	0.20
Expired or cancelled	(5,000,000)	0.55	(6,490,609)	0.36
Balance, end of period	31,961,016	0.40	29,434,356	0.45

A summary of the outstanding warrants as of June 30, 2006 are as follows:

Value (\$)	Number of Warrants	Exercise Price (\$)	Expiry Date
650,000	5,000,000	0.300	October 12, 2006
568,462	3,667,500	0.600	November 4, 2006
502,801	2,940,356	0.500	November 4, 2006
574,287	9,901,500	0.400	December 8, 2006
4,000	50,000	0.400	December 17, 2006
43,875	375,000	0.600	December 29, 2006
67,500	500,000	0.350	January 18, 2007
39,000	500,000	0.750	January 18, 2007
121,500	1,500,000	0.400	March 8, 2007
174,000	3,000,000	0.300	July 20, 2007
175,450	3,025,000	0.300	August 28, 2007
33,580	460,000	0.225	August 28, 2007
99,999	1,041,660	0.300	December 21, 2007
3,054,454	31,961,016		

CROWFLIGHT MINERALS INC.  
(A development stage company)

NOTES TO THE FINANCIAL STATEMENTS

For the six months ending June 30, 2006 and June 30, 2005  
(prepared by management – Unaudited)

3. CAPITAL STOCK (continued)

c) Stock Options

The following are the stock option transactions during the period:

	June 30, 2006		December 31, 2005	
	Number of stock options	Weighted average exercise price (\$)	Number of stock options	Weighted average exercise price (\$)
Balance, beginning of period	7,405,000	0.30	5,755,000	0.36
Granted	3,270,000	0.23	1,650,000	0.31
Exercised	-	-	-	-
Cancelled/Expired	(1,175,000)	0.36	-	-
<b>Balance, end of period</b>	<b>9,500,000</b>	<b>0.27</b>	<b>7,405,000</b>	<b>0.30</b>

As of June 30, 2006, the following stock options were outstanding:

	VALUE \$	NUMBER OF OPTIONS	NUMBER OF OPTIONS EXERCISABLE	EXERCISE PRICE \$	EXPIRY DATE
	60,840	150,000	150,000	0.60	September 18, 2006
	11,100	150,000	150,000	0.25	June 7, 2007
	892,320	2,200,000	2,200,000	0.20	June 5, 2008
	81,120	200,000	200,000	0.35	June 5, 2008
	10,140	25,000	25,000	0.35	July 18, 2008
	40,560	100,000	100,000	0.56	November 21, 2008
	20,280	50,000	50,000	0.70	November 17, 2008
	69,712	171,875	171,875	0.62	December 11, 2008
	30,472	153,125	153,125	0.62	June 17, 2009
	4,050	30,000	30,000	0.20	October 1, 2009
	260,000	1,300,000	1,300,000	0.245	October 12, 2009
	14,850	50,000	50,000	0.39	October 20, 2009
	40,050	150,000	150,000	0.35	November 8, 2009
	19,600	100,000	100,000	0.30	January 10, 2010
*	35,684	200,000	125,000	0.28	February 14, 2010
	39,600	200,000	200,000	0.29	February 21, 2010
*	210,696	1,000,000	625,000	0.33	March 1, 2010
	7,100	50,000	50,000	0.20	July 14, 2010
**	13,537	100,000	50,000	0.235	October 18, 2010
***	278,518	3,120,000	780,000	0.225	March 13, 2011
		<b>9,500,000</b>	<b>6,660,000</b>		

NOTES TO THE FINANCIAL STATEMENTS  
For the six months ending June 30, 2006 and June 30, 2005  
(prepared by management – Unaudited)

---

3. CAPITAL STOCK (continued)

---

c) Stock Options (continued)

During the six months ended June 30, 2006, 3,270,000 stock options (2005 - 1,500,000) were granted to directors, officers and consultants of the Company. Of these options granted, 3,120,000 (\*\*\*) options vest one eighth every quarter from the date of grant over a two year term and expire five years from the date of grant. The remaining 150,000 options granted during the quarter vest immediately and expire in 2007. A portion of the options granted in 2005 (\* and \*\*) also vested during the six months ended June 30, 2005. The fair value of each option granted was estimated on the date of grant using the Black Scholes option pricing model with the following assumptions: expected dividend yield 0% (2005 - 0%); expected volatility of 89.78% (2005 - 89.78%); risk free interest rate ranging from 3.8% to 4.1% (2005 - 3.6%); and an expected average life of 2 to 5 years (2005 - 5 years). For the six months ended June 30, 2006, an amount of \$355,335 (2005 - \$173,652) was recorded as stock based compensation expense for all vested options.

d) Contributed Surplus

	June 30, 2006	December 31, 2005
Balance, beginning of period	\$ 3,842,714	\$ 3,049,199
Stock options granted and/or vested during the period:		
Directors and officers	\$ 279,814	\$ 214,000
Consultants	\$ 75,521	\$ 46,500
Expiry of warrants, reallocation of valuation	\$ 620,000	\$ 533,015
Balance, end of period	\$ 4,818,049	\$ 3,842,714

---

4. RELATED PARTY TRANSACTIONS

---

Related party transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

The Company shares its premises with other companies that have common directors. The Company reimburses the related companies for their proportionate share of the expenses. At June 30, 2006 an amount of \$16,227 (2005 - \$128,400) is payable in relation to these expenses. As well, the Company is owed \$7,240 (2005 - \$25,300) at June 30, 2006 for shared expenses.

The Company paid directors of the Company \$363,500 and officers \$165,500 in compensation for their services.

During the six months ended June 30, 2006, the Company granted 2,550,000 stock options to directors and officers of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ending June 30, 2006 and June 30, 2005  
(prepared by management – Unaudited)

---

**5. FUTURE TAX LIABILITIES**

---

In February 2006, the Company renounced \$3,725,750 of Canadian exploration expenditures related to proceeds from flow through shares with an effective date of December 31, 2005. As a result, assuming a statutory tax rate of approximately 36%, an amount of \$1,341,000 was debited to common stock. Consequently, this reduced the future income tax asset by \$598,000 and increased the future income tax liability by \$743,000.

In February 2005, the Company renounced \$3,234,000 related to proceeds from flow-through shares with an effective date of December 31, 2004. Consequently, a non-cash future income tax recovery of \$1,164,240 was recognized during the six months ended June 30, 2005.

**6. COMMITMENTS AND CONTINGENCIES**

---

Pursuant to the issuance of 14,903,000 flow through shares in June 2005, the Company renounced \$3,725,750 on qualified exploration expenditures with an effective date of December 31, 2005 in February 2006. As of June 30, 2006, the Company has met its exploration commitments.

The Company has issued a further 27,738,776 flow through shares during the six months ended June 30, 2006 which it intends to renounce with an effective date of December 31, 2006. The Company will be committed to spend \$7,543,300 in qualified exploration expenditures between February 2006 and December 31, 2007.

The Company is party to certain management contracts. Changes to these contracts effected during the quarter ended June 30, 2006 require that additional payments of up to \$1,368,000 be made upon the occurrence of certain events such as a change of control. As the likelihood of these events taking place is not determinable, the contingent payments have not been reflected in these financial statements.

**7. SUBSEQUENT EVENTS**

---

In July 2006, the Company appointed Mr. Bernard Wilson to the Board of Directors and as Chairman of the Audit Committee. Mr. Wilson has since been granted 350,000 options to purchase common shares of the Company at an exercise price of \$0.28 per common share for a period of five years.

**8. Comparative figures**

---

Certain comparative amounts have been reclassified to conform to the current periods' presentation.