

CANADIAN GOLDEN DRAGON RESOURCES LTD.

FINANCIAL STATEMENTS

APRIL 30, 2006

and

APRIL 30, 2005

D E V I S S E R G R A Y

CHARTERED ACCOUNTANTS

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AUDITORS' REPORT

To the Shareholders of Canadian Golden Dragon Resources Ltd.,

We have audited the balance sheets of Canadian Golden Dragon Resources Ltd. as at April 30, 2006 and 2005 and the statements of operations and deficit and cash flows for 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 financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"De Visser Gray"

CHARTERED ACCOUNTANTS

Vancouver, British Columbia
August 22, 2006

CANADIAN GOLDEN DRAGON RESOURCES LTD.

Balance Sheets

As at April 30,

	2006	2005
	\$	\$
ASSETS		
Current		
Cash	536,309	122,706
Amounts receivable	14,819	18,845
Marketable securities (note 10)	2,000	2,000
	<u>553,128</u>	<u>143,551</u>
Equipment (note 5)	-	699
Mineral properties (Schedule) (note 4)	2,057,630	1,664,292
	<u>2,610,758</u>	<u>1,808,542</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	181,887	189,018
Due to related parties (note 8)	30,960	150,899
	<u>212,847</u>	<u>339,917</u>
SHAREHOLDERS' EQUITY		
Share capital (note 6(a))	11,770,867	10,604,777
Contributed surplus (note 6(b))	498,694	323,370
Deficit	(9,871,650)	(9,459,522)
Continuing operations (note 1)	2,397,911	1,468,625
	<u>2,610,758</u>	<u>1,808,542</u>

Approved on behalf of the Board of Directors:

"Elliot Strashin"

Director

"Ken Crosby"

Director

CANADIAN GOLDEN DRAGON RESOURCES LTD.

Statements of Operations and Deficit

For the Years Ended April 30,

	2006	2005
	\$	\$
Expenses		
Amortization	699	299
Bank charges and interest	(1,949)	138
Consulting	23,203	81,032
Interest	(662)	(82)
Future income tax recovery (note 2 and 6(a))	(44,000)	(59,000)
Legal and accounting	16,991	33,456
Management fees	60,000	60,000
Office and administration	32,751	49,311
Stock-based compensation (note 6(b))	175,324	150,875
Travel and public relations	17,968	31,492
Trust and filing	<u>27,243</u>	<u>24,287</u>
Loss before other items:	(307,568)	(371,808)
Option revenue	-	6,700
Write-off of ExtrEL Technology	(75,000)	-
Write-off of mineral property costs	<u>(29,560)</u>	<u>(19,307)</u>
Net loss for the year	(412,128)	(384,415)
Deficit - beginning of year	<u>(9,459,522)</u>	<u>(9,075,107)</u>
Deficit - end of year	<u><u>(9,871,650)</u></u>	<u><u>(9,459,522)</u></u>
Loss per share (note 7)	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>
Weighted average number of shares outstanding	<u>38,650,405</u>	<u>31,728,037</u>

See notes to the financial statements

CANADIAN GOLDEN DRAGON RESOURCES LTD.

Statements of Cash Flows
For the Years Ended April 30,

	2006	2005
	\$	\$
Cash provided by (used for):		
Operating Activities		
Net loss for the year	(412,128)	(384,415)
Adjustments for items not involving cash:		
Amortization	699	299
Future income tax recovery	(44,000)	(59,000)
Write-off of mineral property costs	29,650	19,307
Write-off deferred technology costs	50,000	-
Option revenue	-	(6,700)
Shares issued for consulting fee	-	12,401
Stock-based compensation	175,324	150,875
	<u>(200,455)</u>	<u>(267,233)</u>
Changes in non-cash working capital components:		
Amounts receivable	4,026	(2,910)
Accounts payable	(7,131)	(34,479)
Due to related parties	(119,939)	6,205
	<u>(323,499)</u>	<u>(298,417)</u>
Investing Activities		
Mineral property expenditures:		
Net acquisition costs	(126,590)	(100,704)
Exploration, net of recoveries	(271,298)	(188,030)
Option payments received	-	50,000
	<u>(397,888)</u>	<u>(238,734)</u>
Financing Activity		
Cash received for common shares - net of share issue costs	1,134,990	599,750
Net cash provided during the year	413,603	62,599
Cash - beginning of year	122,706	60,107
Cash - end of year	<u>536,309</u>	<u>122,706</u>

Supplementary disclosure of non-cash investing and financing activities: Refer to note 3.

CANADIAN GOLDEN DRAGON RESOURCES LTD.
Schedule of Mineral Property Costs

	April 30, 2004 \$	Net Expenditures (Option proceeds) \$	Write-offs \$	April 30, 2005 \$	Net Expenditures (Option proceeds) \$	Write-offs \$	April 30, 2006 \$
ONTARIO							
Seagull/Disraeli Property							
Acquisition	78,402	(34,496)	-	43,906	-	-	43,906
Assay	23,700	9,367	-	33,067	-	-	33,067
Camp accommodations and travel	19,216	1,612	-	20,828	(363)	-	20,465
Drilling	306,870	-	-	306,870	582	-	307,452
Geological and geophysical	157,989	6,201	-	164,190	970	-	165,160
Field office expenses	14,703	1,046	-	15,749	8	-	15,757
	<u>600,880</u>	<u>(16,270)</u>	<u>-</u>	<u>584,610</u>	<u>1,197</u>	<u>-</u>	<u>585,807</u>
Vanguard							
Acquisition	105,853	41,510	-	147,363	50,000	-	197,363
Assays	1,288	5,944	-	7,232	4,371	-	11,603
Camp accommodations and travel	16,623	3,262	-	19,885	12,818	-	32,703
Drilling	87,702	3,245	-	90,947	94,099	-	185,046
Geological and geophysical	154,018	93,872	-	247,890	67,581	-	315,471
Field office expenses	12,356	5,720	-	18,076	7,423	-	25,499
	<u>377,840</u>	<u>153,553</u>	<u>-</u>	<u>531,393</u>	<u>236,292</u>	<u>-</u>	<u>767,685</u>
Tilly							
Acquisition	19,750	22,184	-	41,934	4,000	(29,560)	16,374
Assay	-	693	-	693	-	-	693
Camp accommodations and travel	-	724	-	724	900	-	1,624
Drilling	-	19,937	-	19,937	1,645	-	21,582
Geological and geophysical	-	36,004	-	36,004	3,322	-	39,326
	<u>19,750</u>	<u>79,542</u>	<u>-</u>	<u>99,292</u>	<u>9,867</u>	<u>(29,560)</u>	<u>79,599</u>
Nighthawk Joint Venture							
Acquisition	100,190	-	-	100,190	-	-	100,190
Assay	3,631	21	-	3,652	-	-	3,652
Camp accommodations and travel	3,325	-	-	3,325	-	-	3,325
Drilling	13,558	-	-	13,558	-	-	13,558
Geological and geophysical	45,275	-	-	45,275	-	-	45,275
Field office expenses	18,130	147	-	18,277	-	-	18,277
	<u>184,109</u>	<u>168</u>	<u>-</u>	<u>184,277</u>	<u>-</u>	<u>-</u>	<u>184,277</u>
West Porcupine Joint Venture							
Acquisition	20,376	-	-	20,376	-	-	20,376
Camp accommodations and travel	8,315	-	-	8,315	-	-	8,315
Drilling	19,586	-	-	19,586	-	-	19,586
Geological and geophysical	84,534	-	-	84,534	-	-	84,534
Field office expenses	133	-	-	133	-	-	133
	<u>132,944</u>	<u>-</u>	<u>-</u>	<u>132,944</u>	<u>-</u>	<u>-</u>	<u>132,944</u>
Norton Lake							
Acquisition	11,076	(7,500)	-	3,576	-	-	3,576
Assays	1,800	-	-	1,800	-	-	1,800
Camp accommodations and travel	20,693	-	-	20,693	-	-	20,693
Drilling	37,218	-	-	37,218	-	-	37,218
Geological and geophysical	8,673	235	-	8,908	-	-	8,908
	<u>79,460</u>	<u>(7,265)</u>	<u>-</u>	<u>72,195</u>	<u>-</u>	<u>-</u>	<u>72,195</u>

See notes to the financial statements

CANADIAN GOLDEN DRAGON RESOURCES LTD.

Schedule of Mineral Property Costs *(continued)*

	April 30, 2004 \$	Net Expenditures (Option proceeds) \$	Write-offs \$	April 30, 2005 \$	Net Expenditures (Option proceeds) \$	Write-offs \$	April 30, 2006 \$
South Legris							
Acquisition	14,594	(10,000)	-	4,594	-	-	4,594
Camp accommodations and travel	44	-	-	44	-	-	44
Geological and geophysical	111	-	-	111	-	-	111
	<u>14,749</u>	<u>(10,000)</u>	<u>-</u>	<u>4,749</u>	<u>-</u>	<u>-</u>	<u>4,749</u>
Dorothy							
Acquisition	-	48,956	-	48,956	31,600	-	80,556
Geological and geophysical	-	-	-	-	16,108	-	16,108
	<u>-</u>	<u>48,956</u>	<u>-</u>	<u>48,956</u>	<u>47,708</u>	<u>-</u>	<u>96,664</u>
Elephant Lake							
Assay	-	-	-	-	530	-	530
Acquisition	-	5,550	-	5,550	-	-	5,550
Drilling	-	-	-	-	40,884	-	40,884
Geological and geophysical	-	-	-	-	15,870	-	15,870
	<u>-</u>	<u>5,550</u>	<u>-</u>	<u>5,550</u>	<u>57,284</u>	<u>-</u>	<u>62,834</u>
Grand Bay							
Acquisition	(6,700)	6,700	-	-	-	-	-
Office and administration	326	-	-	326	-	-	326
	<u>(6,374)</u>	<u>6,700</u>	<u>-</u>	<u>326</u>	<u>-</u>	<u>-</u>	<u>326</u>
Barbara Lake							
Acquisition	14,088	-	(14,088)	-	-	-	-
Camp accommodations and travel	117	-	(117)	-	-	-	-
Geological and geophysical	5,008	-	(5,008)	-	-	-	-
Field office expenses	94	-	(94)	-	-	-	-
	<u>19,307</u>	<u>-</u>	<u>(19,307)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Amp Lake							
Acquisition	-	-	-	-	10,000	-	10,000
Dobe Lake							
Acquisition	-	-	-	-	19,500	-	19,500
Copper Island							
Acquisition	-	-	-	-	11,050	-	11,050
Kasagiminnis							
Acquisition	-	-	-	-	30,000	-	30,000
Total Mineral Property Costs	<u>1,422,665</u>	<u>260,934</u>	<u>(19,307)</u>	<u>1,664,292</u>	<u>422,898</u>	<u>(29,560)</u>	<u>2,057,630</u>

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CANADIAN GOLDEN DRAGON RESOURCES LTD.

Notes to the Financial Statements

April 30, 2006 and 2005

1. NATURE AND CONTINUANCE OF OPERATIONS.

The Company is incorporated in British Columbia and is involved in the acquisition and exploration of resource properties. At the date of these financial statements, the Company has not been able to identify a known body of commercial grade ore on any of its properties and the ability of the Company to realize the costs it has incurred to date on these properties is dependent upon it being able to identify a commercial ore body, to finance its exploration and development costs and to resolve any environmental, regulatory, or other constraints which may hinder the successful development of the property. These activities are conducted primarily in the Province of Ontario, Canada.

These financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since inception and at April 30, 2006 has a net working capital of \$340,281 (2005 - deficiency of \$196,366). The ability of the Company to continue as a going-concern depends upon its ability to develop profitable operations and to raise adequate financing.

There can be no assurance that the Company will be able to continue to raise funds in which case it may be unable to meet its obligations. Should the Company be unable to realize on its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the balance sheet.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Mineral properties

The acquisition costs of mineral properties and all directly related exploration and development expenditures are deferred until the properties are placed into production, sold or abandoned. These deferred costs will be amortized over the estimated useful life of the properties following the commencement of production or written-off if the properties are sold, allowed to lapse, or abandoned.

Cost includes the cash consideration and the fair market value of shares as they are issued, if any, on the acquisition of mineral properties. Properties acquired under option agreements whereby payments are made at the sole discretion of the Company are recorded in the accounts at such time as the payments are made. The proceeds from options granted are applied to the cost of the related property and any excess is included in income for the year.

The recorded amounts of mineral claim acquisition costs and their related deferred exploration and development costs represent actual expenditures incurred and are not intended to reflect present or future values.

The Company reviews capitalized costs on its mineral properties on a periodic, or annual, basis and will recognize an impairment in value based upon current exploration results and upon management's assessment of the future probability of profitable revenues from the property or from the sale of the property. Management's assessment of the property's estimated current fair market value may also be based upon a review of other property transactions that have occurred in the same geographic area as that of the property under review.

Administrative costs are expensed as incurred.

Marketable securities

Marketable securities are carried at the lower of cost, carrying amount and current estimated fair value.

Equipment

Equipment consists of computer equipment and are recorded at cost and are amortized over their estimated useful economic lives on the declining-balance basis at the rate of 30% per annum.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

The Company's financial instruments consist of current assets and current liabilities. The fair values of the current assets and current liabilities approximate their carrying amounts due to the short-term nature of these instruments.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of any contingent assets and liabilities as at the date of the financial statements, as well as the reported amounts of revenues earned and expenses incurred during the period. Actual results could differ from those estimated.

Share capital

Common shares issued for non-monetary consideration are recorded at their fair market value based upon the trading price of the Company's shares on the TSX Venture Exchange on the date of the agreement to issue the shares or the date of share issuance, whichever is lower. Flow-through shares are common shares which are issued under an agreement that, as provided for in the Canadian *Income Tax Act*, the Company transfers to the purchaser of the shares the benefits of the exploration expenditures that are financed by the proceeds of the share issue.

When the proceeds of flow-through financings are received, the Company becomes committed to incurring the underlying exploration expenditures on a "best efforts" basis only, and therefore the Company does not formally recognize such future expenditures as liabilities for purposes of its financial reporting.

Costs incurred to issue shares are deducted from share capital.

Stock-based compensation

The Company records compensation associated with stock options granted using a fair value measurement basis and records the expense as the options vest with the recipients.

The adoption of this accounting policy for stock-based compensation has been applied prospectively to all stock options granted subsequent to May 1, 2003.

The proceeds received by the Company on the exercise of options are credited to share capital.

Flow-through financing

The Company may issue securities referred to as flow-through shares, whereby the investor may claim the tax deductions arising from the expenditure of the proceeds. When resource expenditures are renounced to the investors and the Company has reasonable assurance that the expenditures will be completed, future income tax liabilities are recognized (renounced expenditures multiplied by the effective corporate tax rate), and share capital is reduced. Previously unrecognized tax assets may then offset or eliminate the liability recorded.

Income taxes

The Company accounts for the tax consequences of the differences in the carrying amounts of assets and liabilities and their tax bases using tax rates expected to apply when these temporary differences are expected to be settled. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized. The Company has taken a valuation allowance against all such potential tax assets.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Asset retirement obligations

The Company recognizes a liability for an asset retirement obligation when it is determinable and calculates the liability based upon discounted future payments to be made. A corresponding amount is added to the carrying amount of the related long-lived asset, and this amount is subsequently allocated to expense over its expected life. Adjustment will also be made in subsequent periods to changes in asset retirement obligations due to changes in estimates. As at April 30, 2006, the Company does not have any asset retirement obligations.

Retirement of long-lived assets

Long-lived assets are assessed for impairment when events and circumstances warrant, when the carrying amount of the assets exceed its estimated undiscounted net cash flow from use or its fair value, at which time the impairment is charged to earnings.

3. **SUPPLEMENTARY DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES**

- During the current fiscal year, the Company issued 240,000 common shares for \$25,100 pursuant to the terms of mineral property acquisition agreements. The Company also recorded \$175,324 in stock-based compensation
- During the comparative year, the Company issued 170,000 common shares for \$20,500 pursuant to the terms of mineral property acquisition agreements and issued 101,659 common shares valued at \$12,401 as a consulting fee. The Company also recorded \$150,875 in stock-based compensation.

4. **MINERAL PROPERTIES** **ONTARIO PROPERTIES**

a) **Seagull and Disraeli**

The Company and East West Resource Corporation (“East West”) (collectively, “the Companies”) have acquired a 60% interest in 509 (2004 - 685) mineral claim units in the Thunder Bay Mining Division. The Companies obtained their 60% interest by each paying \$22,500 and issuing 150,000 common shares, and by collectively incurring \$1,000,000 in exploration expenditures. During the 2003 year, the Companies purchased the remaining 40% interest held by Avalon for \$20,000 in cash and a 0.4% Net Smelter Returns (“NSR”) royalty, which may be purchased for \$1 million at any time.

b) **Vanguard**

The Company has acquired a 100% interest in 53 mineral claims in the Thunder Bay Mining Division in consideration for the payment of \$150,000 by October 22, 2005 (paid) and the issuance of 200,000 common shares (issued). This property is subject to a 2.0% NSR.

c) **Nighthawk Joint Venture**

The Company has a 20% interest in a joint venture comprising a 357 claim units, together with Cross Lake Minerals Ltd. (“Cross Lake”) (40%) and East West (40%). Repadre Capital Corporation sold its 60% interest in the joint venture to the three other participants, based on their existing pro-rata joint venture interests relative to each other, in exchange for a 2.5% NSR royalty, which can be reduced to 1% with the payment of \$1,500,000. In addition, certain portions of the property are subject to NSRs ranging from 2% to 3%.

4. **MINERAL PROPERTIES** *(continued)*

d) **West Porcupine Joint Venture**

The Company had a 15% interest in certain mineral claims located in Sewell and Reeves Townships, with Mega Uranium Ltd. ("Mega"), a public company related by a common director, holding a 15% interest and Battle Mountain Gold ("BMG") a 70% interest. Certain of these mineral claims are subject to NSR royalties ranging from 1% to 3%, with 1.5% of the 3% NSR royalty able to be purchased by the Company for \$1,500,000. The Company and Mega have subsequently entered into a property transfer agreement with Newmont Canada Ltd. ("Newmont"), which acquired BMG, whereby Newmont transferred its 70% interest in the West Porcupine property equally to the Company and Mega. The Company and Mega each now own a 50% interest in the West Porcupine property with Newmont retaining a 2% NSR.

During the 2004 fiscal year, the Company and Mega optioned the property to Maestro Ventures Ltd. ("Maestro") and Maestro may earn a 50% interest in the property by incurring \$2.5 million in exploration expenditures.

e) **Norton Lake**

During the 2004 fiscal year, East West and the Company finalized an exchange of options to earn 20% interests in each other's Norton Lake properties. In exchange for receipt of banked credits of \$65,000 from East West the Company agreed to incur total expenditures of \$65,000 on East West's Norton West Property and another jointly-owned property if necessary. In October of 2003 both Norton Lake Properties in question were optioned to Cascadia International Resources Inc. ("the optionee"), which must pay the optionors a total of \$150,000 (to be divided equally) and incur exploration expenditures of \$1.5 million before 2010 to earn a 51% interest in both Norton properties. In addition, by completing a feasibility study to the standards of the TSX by November 1, 2011 the optionee may increase its interest to 60%, and by financing a project to production may increase its interest to 70%.

f) **South Legris**

The Company has acquired a 100% interest in 24 claim units located in the Thunder Bay Mining Division, subject to a 2% NSR, 0.8% of which may be purchased by the Company at any time for \$800,000. The Company was originally required to pay \$50,000 by April 7, 2004 (\$21,900 paid) and issue 100,000 common shares (issued). The Company subsequently optioned up to a 50% interest in the property to Platinum Group Metals Ltd. ("PGM"), in consideration for assuming the Company's residual payment obligations under the original option agreement (paid), paying the Company \$48,300 (paid) and incurring \$1,000,000 in exploration expenditures. PGM can acquire a further 10% interest by completing a feasibility study on the property.

g) **Tilly**

The Company obtained the option to acquire a 100% interest in 86 claim units located in the Thunder Bay Mining Division in consideration for staged payments to the underlying property owners of \$50,000 by March 28, 2007, the issuance of 200,000 shares of the Company by September 28, 2005 and the retention by the optionor of a 2% NSR, of which 1% can be purchased at any time for \$1.0 million. The second anniversary payment was not made and the property was returned to the property owners. However, the Company retained the surrounding claims which it had staked.

h) **Dorothy**

In the 2005 fiscal year, the Company obtained the option to acquire a 100% interest in 26 claim units, located in the Thunder Bay Mining Division, pursuant to which the Company is to make option payments totalling \$100,000 by February 10, 2009 (\$15,000 paid), pay advance royalties after the sixth anniversary date totalling \$150,000 and issue 200,000 common shares in tranches (100,000 issued) by August 10, 2006. The optionor retains a 2% NSR, 1% of which may be purchased by the Company at any time for \$1.0 million, with the remaining 1% being subject to a right of first refusal.

4. **MINERAL PROPERTIES** (continued)

i) **Dobe**

Consideration for acquisition of the property consists of option payments totaling \$70,000 cash (\$15,000 paid) in stages over a five-year period plus advance royalty cash payments after the sixth anniversary totalling \$150,000 and the issuance of 200,000 common shares upon regulatory consent, payable in four tranches of 50,000 common shares in stages over an 18-month period. A two per cent NSR royalty is retained by the optionor, of which one per cent may be purchased by the Company at any time for \$1-million with the remaining one per cent being subject to a right of first refusal. Sufficient exploration expenditures must be incurred to maintain the property in good standing.

j) **Kasagaminnis**

Consideration for acquisition of the property consists of option payments totalling \$150,000 cash (\$30,000 paid) in stages over a four-year period. A two percent net smelter royalty is retained by the optionor, of which one per cent may be purchased by the company at any time for \$1-million with the remaining one per cent being subject to a right of first refusal. Sufficient exploration expenditures must be incurred to maintain the property in good standing.

OTHER PROPERTIES

The Company has interests in various other properties located in Ontario and Quebec.

5. **EQUIPMENT**

	2006		2005	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	\$	\$	\$	\$
Computer equipment	9,983	9,983	-	699

6. **SHARE CAPITAL**

a) Authorized share capital of the Company consists of 99,625,000 common shares without par value.

	Years Ended April 30,			
	2006		2005	
	Number of Shares	Amount	Number of Shares	Amount
		\$		\$
Issued - beginning of year	34,722,899	10,604,777	29,872,669	10,031,126
Warrants	-	-	50,000	7,500
Private placements	⁽²⁾ 11,723,333	1,134,990	⁽¹⁾ 4,528,571	⁽³⁾ 533,250
Consulting fee	-	-	101,659	12,401
Finder's fee	35,000	3,500	-	-
ExtrIEL technology	333,333	50,000	-	-
Mineral properties	240,000	25,100	170,000	20,500
Issued - end of year	47,054,565	11,814,867	34,722,899	10,604,777

(1) 1,178,572 shares are flow-through

(2) 983,333 shares are flow-through

(3) net of \$62,000 share issue costs, which includes \$59,000 in share issue costs as the tax benefit given up by the recognition of previously unrecorded tax assets to offset the future tax liability recorded on the issuance of flow-through shares.

6. **SHARE CAPITAL** (continued)

During the year ended April 30, 2006, the Company recorded the fair value of the stock options granted as stock-based compensation expense of \$175,324 (2005 - \$150,875). All fair values have been estimated using the Black-Scholes Options Pricing Model with the following assumptions: a risk-free interest rate of 3.5% - 3.85% (2004 - 3.5%); an expected stock price volatility of 95.12% to 127.8% (2004 - 118.3% to 148.5%); an expected option life of 5 years (2004 - 5 years); and no expectation for the payment of dividends.

b) **Stock Options**

Option pricing models require the input of highly subjective assumptions, including the expected volatility of the stock price. Changes in these subjective input assumptions can materially affect the fair value estimate, and therefore in management's opinion the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options

	Years Ended April 30,			
	2006		2005	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
		\$		\$
Fixed options				
Balance at beginning of year	4,035,000	0.16	3,385,000	0.16
Granted	1,465,000	0.15	1,253,000	0.15
Expired/cancelled	(200,000)	0.15	(603,000)	0.19
Outstanding and exercisable at end of fiscal year	<u>5,300,000</u>	0.16	<u>4,035,000</u>	0.16

* At April 30, 2006, the weighted-average remaining contractual life of stock options outstanding is 2.98 years.

c) Summary of stock options and warrants outstanding at April 30, 2006:

Type of Issue	Number Outstanding	Exercise Price	Expiry Date
		\$	
Options	270,000	0.20	06/10/07
	300,000	0.20	07/28/07
	997,000	0.15	12/17/07
	365,000	0.15	02/26/08
	650,000	0.15	08/12/08
	500,000	0.15	06/29/09
	200,000	0.15	01/31/10
	553,000	0.15	03/29/10
	100,000	0.15	07/04/10
	<u>1,365,000</u>	0.15	01/17/11
	<u>5,300,000</u>	0.16	
Warrants	666,666	0.15/0.20	08/12/06
	^(a) 1,178,572	0.17/0.20	12/16/05/06
	1,333,333	0.15	12/16/06
	525,000	0.18	04/04/07
	^(b) 2,323,333	0.20	08/29/07
	2,000,000	0.12	12/29/07
	<u>7,000,000</u>	0.12	02/27/08
	<u>15,026,904</u>		

(a) flow-through warrants

(b) 583,333 are flow-through warrants

7. LOSS PER SHARE

Loss per share is calculated using the weighted-average number of common shares outstanding during the year. Diluted loss per share is not disclosed as it is anti-dilutive.

8. RELATED PARTY TRANSACTIONS

All transactions with related parties have occurred in the normal course of operations and are measured at their fair value as determined by management. The year end balances are non-interest bearing, unsecured, payable on demand and have arisen from the provision of services and expense reimbursements described. All material transactions and balances with related parties are described below.

Consulting fees of \$36,000 (2005 - \$36,000) were accrued to the Company's exploration manager under a management agreement. The exploration manager is owed an aggregate of \$30,610 at April 30, 2006 (2005 - \$76,309) for consulting fees and other expenses incurred on behalf of the Company.

A private company controlled by the President of the Company is owed \$350 at April 30, 2006 (2005 - \$74,590) for the unpaid portion of management fees and travel and office expense reimbursements. During the current year, management fees of \$60,000 (2005- \$60,000) were accrued to this private company.

9. INCOME TAXES

A reconciliation of income taxes at statutory rates as follows:

	2006	2005
	\$	\$
Loss for the year	412,128	384,415
Expected income tax recovery	142,143	136,929
Net adjustment for amortization, deductible and non-deductible amounts	72,975	146,570
Unrecognized benefit of non-capital losses	(215,118)	(283,499)
Total income taxes	-	-

The significant components of the Company's future income tax assets are as follows:

	2006	2005
	\$	\$
Future income tax assets:		
Mineral properties	2,450,000	2,573,000
Equipment	10,000	10,000
Non-capital loss carryforwards	1,860,000	1,745,000
	4,320,000	4,328,000
Valuation allowance	(4,320,000)	(4,328,000)
Net future tax assets	-	-

The Company has non-capital losses of approximately \$1.9 million (2005 - \$1.7 million) which may be carried forward and applied against taxable income in future years. These losses, if not utilized, will expire in stages through to 2017. Subject to certain restrictions, the Company also has mineral property expenditures of approximately \$4.5 million (2005 - \$4.2 million) available to reduce taxable income in future years. Future tax benefits which may arise as a result of these losses and resource deductions have not been recognized in these financial statements and have been offset by a valuation allowance as noted above.

10. **MARKETABLE SECURITIES**

	Number of Shares	Cost	Market Value
		\$	\$
Great Southern	7,142	2,000	1,214
Vangold	5,000	-	1,850
		<u>2,000</u>	<u>3,064</u>

11. **COMMITMENT**

At April 30, 2006, the Company is required to incur approximately \$127,500 (2005 - \$40,479) of qualifying exploration expenditures prior to December 31, 2006 to meet obligations under flow-through share purchase agreements.

12. **SUBSEQUENT EVENTS**

In addition to items disclosed elsewhere in the financial statements, the following occurred during the period subsequent to April 30, 2006:

- The Company issued a total of 150,000 common shares pursuant to the terms of the Copper Island and other mineral property acquisition agreements.
- The Company issued a total of 714,286 shares pursuant to a flow-through private placement.
- The Company issued a total of 74,500 shares through the exercise of warrants.