

INTERNATIONAL BARYTEX RESOURCES LTD.
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

AUDITORS' REPORT

CONSOLIDATED BALANCE SHEETS

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CONSOLIDATED STATEMENTS OF CASH FLOWS

CONSOLIDATED SCHEDULE OF MINERAL PROPERTIES AND DEFERRED COSTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MINNI, CLARK & COMPANY

CERTIFIED GENERAL ACCOUNTANTS

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** Incorporated Professional*

AUDITOR'S REPORT

**To the Shareholders,
International Barytex Resources Ltd.**

We have audited the consolidated balance sheets of **INTERNATIONAL BARYTEX RESOURCES LTD.** as at **December 31, 2005 and 2004** and the consolidated statements of loss and deficit and changes in cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and changes in its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the Company Act of British Columbia, we report that, in our opinion, these principles have been applied on a basis consistent with those of the preceding year.

"MINNI, CLARK & COMPANY"
CERTIFIED GENERAL ACCOUNTANTS

Vancouver, B.C.
April 7, 2006

INTERNATIONAL BARYTEX RESOURCES LTD.

CONSOLIDATED BALANCE SHEETS AS AT DECEMBER 31, 2005 AND 2004

ASSETS

	<u>2005</u>	<u>2004</u>
CURRENT		
Cash and cash equivalents	\$ 2,362,071	\$ 655,021
Accounts receivable	23,871	90
GST receivable	2,372	1,595
Accrued interest receivable	-	4,659
Loan receivable (Note 3)	405,144	-
Investments in related company (Note 7)	23,614	-
Due from related parties (Note 7)	37,862	38,083
Prepaid expenses	<u>23,407</u>	<u>5,670</u>
	2,878,341	705,118
CAPITAL ASSETS (Note 4)	83,083	4,371
ADVANCES TO SHITURU MINING CORPORATION (Note 5)	46,758	-
MINERAL PROPERTIES AND DEFERRED COSTS (Note 5)	<u>2,324,014</u>	<u>3</u>
	<u>\$ 5,332,196</u>	<u>\$ 709,492</u>

LIABILITIES

CURRENT		
Accounts payable and accrued liabilities	\$ 19,785	\$ 8,835
Due to related parties (Note 7)	<u>-</u>	<u>398</u>
	19,785	9,233

SHAREHOLDERS' EQUITY

SHARE CAPITAL (Note 6)	9,816,577	5,341,083
CONTRIBUTED SURPLUS (Note 6)	1,533,815	327,600
DEFICIT	<u>(6,037,981)</u>	<u>(4,968,424)</u>
	5,312,411	700,259
	<u>\$ 5,332,196</u>	<u>\$ 709,492</u>

COMMITMENT (Note 8)

APPROVED BY THE DIRECTORS:

"Leo King" _____

"Anthonie Luteijn" _____

The accompanying notes are an integral part of these financial statements.

INTERNATIONAL BARYTEX RESOURCES LTD.
CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
REVENUE		
Interest income	\$ 36,575	\$ 9,666
Management services	<u>40,560</u>	<u>11,100</u>
	<u>77,135</u>	<u>20,766</u>
EXPENSES		
Advertising and promotion	359	4,703
Amortization	5,455	1,559
Consulting fees	-	400
Filing fees	17,662	7,431
Interest and bank charges	2,655	446
Management fees	40,800	44,000
Office and miscellaneous	29,288	14,526
Professional fees	30,782	16,855
Project evaluation	15,374	236
Public relations and shareholder information	5,158	6,132
Rent	33,995	33,548
Stock-option compensation	818,584	327,600
Transfer agent fees	7,887	7,301
Travel and accommodation	46,876	4,471
Wages and employee benefits	<u>70,563</u>	<u>61,643</u>
	<u>1,125,438</u>	<u>530,851</u>
	(1,048,303)	(510,085)
Loss from write-down of acquisition costs of mineral property	-	(573,225)
Loss from write-down of deferred costs on China project	(1)	(158,712)
Deferred exploration costs written off	(4,410)	(2,310)
Bad debt written off	(1,243)	(63,536)
Loss from purchase of a vehicle without proper title	<u>(15,600)</u>	<u>-</u>
NET LOSS FOR THE YEAR	(1,069,557)	(1,307,868)
DEFICIT, BEGINNING OF YEAR	<u>(4,968,424)</u>	<u>(3,660,556)</u>
DEFICIT, END OF YEAR	<u>\$ (6,037,981)</u>	<u>\$ (4,968,424)</u>
Basic and diluted loss per share	<u>\$ (0.04)</u>	<u>\$ (0.06)</u>
Weighted average number of shares	<u>24,634,180</u>	<u>21,825,826</u>

The accompanying notes are an integral part of these financial statements.

INTERNATIONAL BARYTEX RESOURCES LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
OPERATING ACTIVITIES		
Net loss for the year	\$ (1,069,557)	\$ (1,307,868)
Add items not involving use of cash:		
Loss from write-down of deferred costs	4,411	161,022
Loss from write-down of acquisition costs of mineral property	-	573,225
Bad debt written off	-	63,536
Amortization	5,455	1,559
Stock-option compensation	<u>818,584</u>	<u>327,600</u>
	(241,107)	(180,926)
Non-cash working capital items:		
Investment in related company	(23,614)	-
Accounts receivable	(23,781)	(8)
GST receivable	(777)	1,906
Due (from) to related parties	(177)	(40,322)
Accrued interest receivable	4,659	5,007
Prepaid expenses	(17,737)	906
Accounts payable and accrued liabilities	<u>10,950</u>	<u>(1,099)</u>
	<u>(291,584)</u>	<u>(214,536)</u>
FINANCING ACTIVITIES		
Shares issued for cash, net of share issue costs	<u>4,863,125</u>	<u>239,888</u>
INVESTING ACTIVITIES		
Loan receivable	(405,144)	-
Addition to capital assets	(96,541)	(2,587)
Advances to Shituru Joint Venture	(46,758)	-
Mineral properties	(1,835,678)	-
Deferred exploration costs	<u>(480,370)</u>	<u>(6,115)</u>
	<u>(2,864,491)</u>	<u>(8,702)</u>
INCREASE (DECREASE) IN CASH	1,707,050	16,650
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>655,021</u>	<u>638,371</u>
CASH, AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,362,071</u>	<u>\$ 655,021</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Financing activities that do not have a direct impact on current cash flows are excluded from cash flow statements:

Cash paid for interest	\$ 137	\$ 4
Cash paid for income taxes	\$ -	\$ -

The accompanying notes are an integral part of these financial statements.

INTERNATIONAL BARYTEX RESOURCES LTD.

SCHEDULE OF MINERAL PROPERTIES AND DEFERRED COST

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	Mel Property	Barb Property	Shiituru Property	China Property	Total
Balance, December 31, 2003	\$ 573,226	\$ 1	\$ -	\$ -	\$ 573,227
Geological consulting	-	-	-	114,271	114,271
Travel and accommodation	-	-	-	44,442	44,442
	<u>573,226</u>	<u>1</u>	<u>-</u>	<u>158,713</u>	<u>731,940</u>
Less: write down	<u>(573,225)</u>	<u>-</u>	<u>-</u>	<u>(158,712)</u>	<u>(731,937)</u>
Balance, December 31, 2004	1	1	-	1	3
Acquisition cost	-	-	1,835,678	-	1,835,678
Amortization	-	-	12,374	-	12,374
Assays	-	-	58	-	58
Drilling	-	-	54,963	-	54,963
Field supplies	-	-	57,664	-	57,664
Geological consultants	-	-	115,871	-	115,871
Office and administration	-	-	44,433	-	44,433
Permits and fees	105	4,305	20,185	-	24,595
Travel and accommodation	-	-	156,619	-	156,619
Utilities	-	-	26,167	-	26,167
	<u>106</u>	<u>4306</u>	<u>2,324,012</u>	<u>1</u>	<u>2,328,425</u>
Less: write down	<u>(105)</u>	<u>(4305)</u>	<u>-</u>	<u>(1)</u>	<u>(4,411)</u>
Balance, December 31, 2005	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ 2,324,012</u>	<u>\$ -</u>	<u>\$ 2,324,014</u>

The accompanying notes are an integral part of these financial statements.

INTERNATIONAL BARYTEX RESOURCES LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

1. NATURE OF OPERATIONS

The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain mineral reserves that are economically recoverable. The continued operations of the Company and the recoverability of the amounts shown for mineral properties and related deferred costs is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and upon future profitable production.

These consolidated financial statements have been prepared on a going concern basis. As of December 31, 2005, the Company has accumulated losses of \$6,037,950. Its ability to continue as a going concern is dependant upon the ability of the Company to generate profitable operations in the future, and/or obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary Romanex Resources Limited.

b) Mineral Properties and Exploration Costs

Mineral properties are carried at cost until they are brought into production at which time they are depleted on a unit of production basis.

Costs relating to exploration are deferred until the properties are brought into production, at which time the deferred costs are to be amortized on a unit of production basis, or until the properties are abandoned or sold, or when it has been determined that there is evidence of permanent impairment at which time the deferred costs are written off or written down.

The mineral properties and deferred costs are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. When there is evidence of impairment, the net carrying amount of the asset will be written down to its net recoverable amount which is the estimated undiscounted future net cash flows expected to result from the asset and its eventual disposition. The loss on impairment written off is not reversed even if circumstances change and the net recoverable amount subsequently increases.

The amounts shown as mineral properties and deferred costs represent unamortized costs to date and do not necessarily reflect present or future values.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies 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. Significant areas requiring the use of management estimates relate amongst other things, to depreciation, determination of impairment of interest in mineral properties and deferred costs.

d) General and Administrative Expenses

The Company charges all general and administrative expenses not directly related to exploration activities to operations as incurred.

e) Amortization of Capital Assets

Capital assets are recorded at cost and are amortized annually at the following rates:

Computer hardware	-	30% declining balance method
Mining equipment	-	30% declining balance method
Office furniture and equipment	-	20% declining balance method
Computer software	-	100% declining balance method
Leasehold improvement	-	straight line over 14 months

Further, equipment is amortized at one-half of the annual rate in the year of acquisition.

f) Financial Instruments

The carrying values of cash and equivalents, GST receivable, accounts receivable, prepaid expenses and accounts payable approximate their fair market value because of the short-term maturity of these instruments. Unless otherwise noted, it is management's opinion that the company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

g) Cash and cash equivalents

Cash equivalents include money market instruments which are readily convertible into cash or have maturities at the date of purchase of less than ninety days.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Stock-based Compensation

Effective for fiscal years beginning on or after January 1, 2002, public companies are required to adopt the new recommendations of the Canadian Institute of Chartered Accountants regarding accounting for Canadian Stock-based Compensation. These recommendations required that all stock-based payments to non-employees and direct awards of stock to employees be accounted for using a fair value based method of accounting. However, the standard permitted the Company to continue its existing policy of not recording compensation cost on the grant of stock options to employees with the addition of pro-forma information.

Effective for the years beginning on or after January 1, 2004, pro-forma disclosure only will no longer be permitted and the fair value of all stock options granted must be accounted for. The Company has prospectively adopted the new policy for the fiscal year ended December 31, 2004.

i) Basic and Diluted Loss per Share

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution by including other common share equivalents, including outstanding stock options and outstanding warrants, in the weighted average number of common shares outstanding during the period, if dilutive.

j) Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, current income taxes are recognised for the estimated income taxes payable for the current period. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis for assets and liabilities as well as for benefit of losses available to be carried forward to future years for tax purposes. These future taxes are measured by the provisions of currently enacted tax laws. Management believes that it is not sufficiently likely that the Company will generate sufficient taxable income to allow the realization of future assets and therefore the Company has fully provided against these assets.

k) Asset Retirement Obligation

The Company has adopted the recommendations of CICA Handbook Section 3110, Asset Retirement Obligations. The new section requires recognition of a legal liability for obligations relating to retirement of property, plant and equipment, and arising from the acquisition, development or normal operation of those assets. Such asset retirement cost must be recognized at fair value when a reasonable estimate of fair value can be estimated, in the period in which it is incurred, added to the carrying value of the asset, and amortized to operations on a systematic basis over its useful life. There is no material impact on the financial statements resulting from the adoption of Section 3110 in the current period.

3 LOAN RECEIVABLE

By agreement dated September 19, 2005 and subsequently amended on October 7, 2005, the Company entered into a loan agreement with Geo-logical Drilling Ltd (“Geodrill”), a private drilling contractor whereby the Company agreed to loan Geodrill up to \$350,000 for the purpose of acquiring a drill for use in diamond drilling of the Shituru Property in Congo. The Company loaned Geodrill a further \$50,000 for a total advance of \$400,000. The loan bears a simple interest rate at Bank of Canada rate plus 2% and is guaranteed by the owner of Geodrill as well as secured by the drill equipment. The loan is repayable from 30% of all Geodrill’s invoiced charges to the Company on a monthly basis.

4. CAPITAL ASSETS

	2005		2004	
	Cost	Accumulated Amortization	Unamort Cost	Unamort Cost
Computer equipment	\$ 4,334	\$ 2,546	\$ 1,788	\$ 1,783
Furniture and equipment	15,883	3,168	12,715	2,588
Vehicles	76,716	11,507	65,209	-
Leasehold improvements	<u>6,743</u>	<u>3,372</u>	<u>3,371</u>	<u>-</u>
	<u>\$ 103,676</u>	<u>\$ 20,593</u>	<u>\$ 83,083</u>	<u>\$ 4,371</u>

5. MINERAL PROPERTIES

a) Mel Property

The Company acquired from Breakwater Resources Ltd. (“Breakwater”) an undivided 100% interest in the Mel Property situated in the Watson Lake Mining District, Yukon Territory. As at December 31, 2005, the Company paid \$1,000,000 and incurred \$1,372,375 pre-production expenditures, including \$472,706 incurred by Cominco. The Company also issued 600,000 fully paid and non-assessable common shares of the Company to Breakwater and has agreed to pay a royalty of 1% of any Net Smelter Returns from the property to Breakwater. The Mel Property currently consists of 257 mineral claims.

Pursuant to an agreement dated September 10, 1996, Sutton Resources waived its back in right to the Mel Property. As consideration, the Company issued 100,000 shares and agreed to issue a further 100,000 shares within 30 days of development of a mine on the property.

During the year ended December 31, 2004, the carrying value of the acquisition costs and the deferred exploration costs of the Mel property were written down to a nominal value. Subsequent to 2004, all deferred exploration cost relating to this property were written off in the period when they were incurred.

5. MINERAL PROPERTIES - continued

b) Barb Property

The property consists of 31 mineral claims situated in the Watson Lake Mining District, Yukon Territory. During the year ended December 31, 2001, the cost of this mineral property was written down to a nominal value of \$1 while the deferred exploration costs of \$229,296 were fully written off. Subsequent to 2001, all deferred exploration costs relating to this property were written off in the period when they were incurred.

c) Shituru Property

By agreement dated May 27, 2005, the Company acquired an option to purchase up to a 86.67% interest in East China Capital Holdings Ltd. ("ECCH") which company's sole asset is an option to acquire a 75% share interest in the Shituru copper-cobalt deposit from Generale Des Carrieres et des Mines ("Gecamines") by agreeing to provide all funds to place the property into production. When the option is fully exercised, the Company will indirectly hold a 65% interest in the Shituru Property which is located one kilometer east of the Gecamines hydrometallurgical complex on the eastern limits of the City of Likasi in the Democratic Republic of Congo. In accordance with the terms of the agreement, the Company agreed to pay a total of US\$5,000,000 and issue 6,950,000 common shares of the Company in stages as follows:

- (1) Payment of US\$200,000 upon execution of the agreement (paid);
- (2) Payment of US\$1,300,000 (paid) and issuance of 1,600,000 common shares of the Company to acquire a 30% interest in ECCH within five days following the later of the date when the agreement is accepted for filing with the TSX Venture Exchange and the date when the legal title of the Shituru Property has been transferred to a joint venture corporation ("TSX Acceptance Date") (Note 10);
- (3) Payment of US\$1,000,000 and issuance of 1,600,000 common shares of the Company to acquire an additional 20% interest in ECCH within three months following the TSX Acceptance Date (Note 10);
- (4) Payment of US\$1,000,000 to acquire an additional 10% interest in ECCH within eight months following the TSX Acceptance Date;
- (5) Payment of US\$1,500,000 and issuance of 2,150,000 common shares of the Company to acquire an additional 5% interest in ECCH upon completion of a feasibility report and a production decision is made;
- (6) Issuance of 1,600,000 common shares of the Company to acquire an additional 21.67% interest in ECCH upon commencement of commercial production.

5. MINERAL PROPERTIES - continued

In addition, the Company must also assume certain obligations with respect to the underlying option agreement between ECCH and Gecamines, which includes US\$1,000,000 payment within 30 days of submission of the feasibility study and US\$1,500,000 in seven monthly payments commencing in the fourth month after the start of commercial production. The property is subject to a 1.5% to 2% net sales revenue royalty to be negotiated depending on the results of the feasibility study.

Title to the property has been transferred to Shituru Mining Corporation, a company in common ownership with the optionor of the property. The company will earn its interest in the property through ownership in Shituru Mining Corporation.

d) Deferred Costs on China Project

By an agreement dated November 7, 2002 and subsequently amended on January 16, 2003, the Company entered into an option agreement with Asia Now Resources Ltd. ("AN"), whereby the Company was granted an option to acquire all of AN's interest (up to 75%) in the Dulong tin-zinc property located in the Yunnan Province of China. As consideration, the Company had agreed to issue to AN up to 2,500,000 shares of the Company and incur up to US\$7,000,000 in exploration. During the year ended December 31, 2004 the total costs of \$158,713 incurred to date on the China project were written down to a nominal value of \$1. The remaining balance was written off during the year ended December 31, 2005.

6. SHARE CAPITAL

a) Authorized

100,000,000 common shares without par value.

b) Issued and Fully Paid

	<u>Number of Shares</u>	<u>Amount</u>
Balance, December 31, 2003	21,301,829	5,101,195
Issued pursuant to stock options exercised - \$0.20	50,000	10,000
Issued pursuant to stock options exercised - \$0.13	55,000	7,150
Issued pursuant to stock options exercised - \$0.16	550,000	88,000
Issued pursuant to warrants exercised - \$0.25	11,250	2,813
Issued pursuant to warrant exercised - \$0.30	<u>439,750</u>	<u>131,925</u>
Balance, December 31, 2004	22,407,829	5,341,083
Issued pursuant to warrants exercised - \$0.30	1,175,000	352,500
Issued pursuant to stock options exercised - \$0.13	55,000	7,150
Issued pursuant to stock options exercised - \$0.28	25,000	7,000
Issued pursuant to private placement - \$1.07 net share of issuance costs of \$361,974	4,540,607	4,496,475
Stock option compensation on agent's warrants	<u>-</u>	<u>(387,631)</u>
Balance, December 31, 2005	<u>28,203,436</u>	<u>\$ 9,816,577</u>

6. SHARE CAPITAL - continued

In July 2005, the Company completed a non-brokered private placement of 4,540,607 units at the price of \$1.07 per unit. Each unit consists of one common share and one non-transferable share purchase warrant entitling the holder to purchase one additional common share at the price of \$1.40 per share for a period of two years. The warrants will be subject to an acceleration clause whereby if the common shares of the Company trade above \$2.00 for a period of 10 consecutive trading days, the Company may require warrant holders to exercise warrants within 30 days of formal notice by the Company. In consideration for the above financing the Company paid certain finders \$337,275 in commissions and issued agent's warrants to purchase up to 307,800 shares of the Company subject to the same terms as the private placement warrants.

c) Stock Options

Stock-based Compensation Plan

The Company has granted employees and directors stock options. These options are granted in accordance with the policies of regulatory authorities.

A summary of the status of the stock option plan as of December 31, 2005 and December 31, 2004 and changes during the years then ended is presented below:

	2005		2004	
	Number of <u>Options</u>	Weighted Average Exercise <u>Price</u>	Number of <u>Options</u>	Weighted Average Exercise <u>Price</u>
Outstanding at beginning of year	1,430,000	\$ 0.45	1,455,000	\$ 0.17
Granted	650,000	\$ 1.06	630,000	\$ 0.80
Exercised/expired	<u>(80,000)</u>	<u>\$ 0.18</u>	<u>(655,000)</u>	<u>\$ 0.17</u>
Outstanding and exercisable at end of year	<u>2,000,000</u>	<u>\$ 0.66</u>	<u>1,430,000</u>	<u>\$ 0.45</u>

As at December 31, 2005, the following directors and employee stock options were outstanding:

<u>Number of shares</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
320,000	\$ 0.13	February 7, 2006
90,000	0.27	October 29, 2006
310,000	0.20	January 23, 2008
580,000	0.80	August 23, 2009
50,000	0.80	July 27, 2009
650,000	1.06	September 28, 2010

6. SHARE CAPITAL – continued

These options entitle the holder thereof the right to acquire one common share for each option held.

As disclosed in Note 2(h), effective January 1, 2004, the Company has adopted the new policy to record the fair value of compensation expense on the granting of stock options. For the year ended December 31, 2004 the Company recorded a stock-option compensation charge of \$327,600 in respect of the stocks options for the 630,000 shares granted during the year. The fair value of these stocks, which vested immediately at the date of grant, is estimated on the grant date using the Black-Scholes option pricing model. The assumptions used in calculating fair value are as follows:

Risk-free interest rate	3.03%
Expected life of option	5 years
Expected dividend yield	0.0%
Expected stock price volatility	78.3%

For the year ended December 31, 2005 the Company recorded a stock-option compensation charge of \$818,584 in respect to the stock options for the 650,000 shares granted. The fair value of these stock options, which vested immediately at the date of grant, is estimated on the grant date using the Black-Scholes option pricing model. The assumptions used in calculating fair value are as follows:

Risk free interest rate	3.58%
Expected life of options	5 years
Expected dividend yield	0.0%
Expected stock price volatility	170.8%

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

Stock based compensation charges are expensed for the stock options granted with a corresponding increase to contributed surplus. Upon exercise of stock options the consideration paid will be credited to share capital.

d) Share Warrants

	<u>Number of Warrants</u>	<u>Weighted Average Exercise price</u>
Outstanding, beginning of year	1,175,000	\$ 0.30
Share purchase warrants	4,540,607	1.40
Agent's warrants	307,800	1.40
Exercised	<u>(1,175,000)</u>	0.30
Outstanding, end of year	<u>4,848,407</u>	\$ 1.40

6. SHARE CAPITAL – continued

During the nine months ended December 31, 2005 the Company recorded a stock-option compensation charge, included in share issuance cost, of \$387,631 in respect of the agent's warrants for 307,800 shares granted during the year. The fair value of these warrants, which vested immediately at the date of grant, is estimated on the grant date using the Black-Scholes option pricing model. The assumptions used in calculating fair value are as follows:

Risk free interest rate	3.58%
Expected life of options	5 years
Expected dividend yield	0.0%
Expected stock price volatility	170.8%

e) Contributed Surplus

	Year Ended December 31, <u>2005</u>	Year Ended December 31, <u>2004</u>
Outstanding, at beginning of year	\$ 327,600	\$ -
Stock option compensation		
Stock options granted	818,584	327,600
Agent's warrants granted	<u>387,631</u>	<u>-</u>
Outstanding, end of year	<u>\$ 1,533,815</u>	<u>\$ 327,600</u>

7. RELATED PARTY TRANSACTIONS

- a) The amounts due by or to related parties are non-interest bearing and are unsecured with no specific terms of repayment. These transactions are in the normal course of operations and are measured at the exchange amount, which approximates fair value and is the amount of consideration established and agreed to by thy related parties.
- b) During the year, the Company paid \$40,800 (2004 - \$44,000) for management fees and \$40,665 (2004 - \$400) for reimbursement of exploration expenses to a private company controlled by a director.
- c) During the year \$7,020 (2004 – \$2,820) for accounting services was paid to a company controlled by an officer of the Company.
- d) During the year bad debts of \$1,243 (2004 – \$63,536) were written off from amount due from a related company.
- e) During the year management services fees of \$40,560 (2004 – \$11,000) were received from a company related by common directors.
- f) During the year, the Company acquired 472,289 shares of a private company with common directors at the price of \$0.05 per share pursuant to a debt settlement agreement.

8. LEASING COMMITMENT

There are minimum rental obligations of \$18,865 under an operating lease for office premises which expires on August 1, 2006.

9. INCOME TAXES

At December 31, 2005, the tax effects of the significant components with the Company's future income tax assets are as follows using the current income tax rates of 35.6% (2004 – 35.6%):

	<u>2005</u>	<u>2004</u>
Future income tax assets		
Non-capital losses	\$ 494,600	\$ 388,400
Exploration and development costs	499,900	498,300
Share issuance costs	109,400	8,000
Capital cost allowance	12,900	8,900
Less:		
Valuation allowance	<u>(1,116,800)</u>	<u>(903,600)</u>
Net future income tax assets	<u>\$ -</u>	<u>\$ -</u>

The company has non-capital tax loss carry forwards of approximately \$1,389,400 (2004 - \$1,176,500) and accumulated Canadian exploration and development expenses of approximately \$1,404,300 (2004 - \$1,399,800) that are available to reduce taxable income in future periods. These tax loss carry forwards expire between 2006 and 2013.

Due to uncertainty surrounding the realization of future income tax assets, the Company has recognized a 100% valuation allowance against its future income tax assets.

10. SUBSEQUENT EVENT

- a) Subsequent to December 31, 2005, 86,250 warrants were exercised at the price of \$1.40 per share to net the Company \$120,750.
- b) Subsequent to December 31, 2005, 320,000 stock options were exercised at the price of \$0.13 per share to net the Company \$41,600.
- c) Subsequent to December 31, 2005 the Shituro Property agreement was amended. The due dates for the US \$1,000,000 property payments, due within three months following the TSX Acceptance Date, were amended. The Company is now required to pay US \$500,000 within three months of the TSX Acceptance Date and US\$500,000 within five months of the TSX Acceptance Date.
- d) Subsequent to December 31, 2006 the Company issued two allotments of 1,600,000 common shares pursuant to the Shituro Property Agreement.

10. SUBSEQUENT EVENT - continued

- e) Subsequent to December 31, 2006, the Company granted incentive stock options to purchase 150,000 shares exercisable within 5 years at prices between \$1.54 and \$1.62 per share.

11. SEGMENTED INFORMATION

The Company primarily operates in one reportable segment, being the acquisition and exploration of mineral properties in Congo.