Crowflight Minerals Inc.
Canada's Next Nickel Producer

CROWFLIGHT MINERALS INC.

(A Development Stage Company)

Financial Statements

December 31, 2005 and 2004

McGovern, Hurley, Cunningham, LLP
Chartered Accountants

AUDITORS' REPORT

To the Shareholders of
CROWFLIGHT MINERALS INC.
(A Development Stage Company)

We have audited the balance sheets of Crowflight Minerals Inc. (A Development Stage Company) as at December 31, 2005 and 2004 and the statements of operations and deficit and cash flows for each of the years in the two-year period ended December 31, 2005. 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 December 31, 2005 and 2004 and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2005 in accordance with Canadian generally accepted accounting principles.

McGOVERN, HURLEY, CUNNINGHAM, LLP

McGovern, Hurley, Cunningham, LLP

Chartered Accountants

TORONTO, Canada
March 7, 2006, except for
Note 10 which is at
March 13, 2006

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BALANCE SHEETS
As at December 31
(in Canadian dollars)

		2005		2004
ASSETS				
Current				
Cash and cash equivalents	**$**	**633,669**	$	5,805,455
Amounts receivable		**279,909**		113,834
Prepaid expenses and deposits		**49,880**		65,648
Future income tax asset (Note 6(b))		**598,000**		-
		1,561,458		5,984,937
Deposits and advances		**178,255**		-
Property, plant and equipment (Note 3)		**36,873**		45,430
Exploration properties and deferred exploration expenditures (Note 4)		**21,006,374**		10,845,424
	$	**22,782,960**	$	16,875,791
LIABILITIES				
Current				
Accounts payable and accrued liabilities	**$**	**1,327,926**	$	898,458
SHAREHOLDERS' EQUITY				
Common Shares (Note 5(a))		**30,375,246**		25,851,956
Warrants (Note 5(b))		**3,191,425**		3,159,359
Contributed surplus (Note 5(d))		**3,842,714**		3,049,199
Deficit		**(15,954,351)**		(16,083,181)
		21,455,034		15,977,333
	$	**22,782,960**	$	16,875,791

Commitments and Contingencies (Notes 1, 4 and 8)

APPROVED ON BEHALF OF THE BOARD:

Signed "THOMAS ATKINS" , Director

Signed "PAUL CARROLL" , Director

-- See notes to the financial statements --

STATEMENTS OF OPERATIONS AND DEFICIT

For the years ended December 31
(*in Canadian dollars)*

	2005	2004
Expenses		
Professional and consulting	$ 588,019	$ 576,390
General and office	122,840	169,286
Shareholder communications	271,695	241,693
Travel	142,871	121,746
Stock-based compensation expense (Note 5(c))	260,500	1,138,122
Interest and bank charges	2,441	47,545
Amortization	28,424	22,394
	1,416,790	2,317,176
Loss before the undernoted	(1,416,790)	(2,317,176)
Interest income	12,655	72,798
General exploration expenses	(16,838)	-
Write-down of exploration properties and deferred exploration expenses (Note 4)	(228,349)	(287,361)
Recovery of expenses	15,912	1,371
Loss before income taxes	(1,633,410)	(2,530,368)
Future income taxes (Note 6(a))	1,762,240	-
Net income *(loss)* for the year	128,830	(2,530,368)
Deficit, beginning of year	(16,083,181)	(13,552,813)
Deficit, end of year	$ (15,954,351)	$ (16,083,181)
Income *(loss)* per share - basic	$ 0.00	$ (0.05)
- diluted	0.00	(0.05)
Weighted average number of shares - basic	86,477,353	55,024,922
- diluted	86,858,770	55,024,922

-- See notes to the financial statements --

STATEMENTS OF CASH FLOWS

For the years ended December 31
(in Canadian dollars)

		2005		2004
Cash (used in) provided by:				
OPERATING ACTIVITIES:				
Net income (loss) for the year	**$**	**128,830**	$	(2,530,368)
Charges not affecting cash:				
Amortization		**28,424**		22,394
Stock-based compensation expense (Note 5(c))		**260,500**		1,138,122
Write down of property interests (Note 4)		**228,349**		287,361
Future income tax recovery (Note 6(a))		**(1,762,240)**		-
Net change in non-cash working capital		**(593,962)**		(81,526)
		(1,710,099)		(1,164,017)
FINANCING ACTIVITIES:				
Common shares issued through private placements		**5,025,963**		4,527,111
Common share purchase warrants issued through private placements		**699,787**		1,765,139
Exercise of options		**-**		8,750
Exercise of warrants		**512,000**		51,000
Financing costs		**(441,638)**		(516,721)
		5,796,112		5,835,279
INVESTING ACTIVITIES:				
Exploration properties and deferred exploration expenditures		**(9,932,799)**		(6,234,167)
Increase in accounts payable attributable to property exploration		**694,867**		484,189
Property, plant and equipment		**(19,867)**		(39,909)
		(9,257,799)		(5,789,887)
CHANGE IN CASH AND CASH EQUIVALENTS		**(5,171,786)**		(1,118,625)
CASH AND CASH EQUIVALENTS, beginning of year		**5,805,455**		6,924,080
CASH AND CASH EQUIVALENTS, end of year	**$**	**633,669**	$	5,805,455

Cash and cash equivalents consists of:				
Cash	**$**	**633,669**		2,845,284
Cash equivalents		**-**		2,960,171
	$	**633,669**	$	5,805,455

SUPPLEMENTAL INFORMATION:				
Common shares issued for interest in exploration properties	**$**	**350,000**		615,000
Warrants granted for interest in exploration properties		**106,500**		620,000
Interest paid		**44,070**		-
Income taxes paid		**-**		-

-- See notes to the financial statements --

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2005 and December 31, 2004

1. NATURE OF OPERATIONS AND GOING CONCERN

Crowflight Minerals Inc. (the "Company") is in the process of exploring its exploration properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of exploration properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise additional financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, and non-compliance with regulatory requirements.

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 these 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.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and their basis of application is consistent with that in the previous year. Outlined below are those policies considered particularly significant.

a) Exploration properties and deferred exploration expenditures

Expenses relating to exploration properties in which the Company has an interest are deferred until the properties are brought into production, at which time they are amortized on a unit-of-production basis. Other general exploration expenses are charged to operations as incurred. The cost of mineral properties abandoned or sold and their related deferred exploration costs are expensed to operations in the year of abandonment or sale.

Costs include the cash consideration and the quoted market value of the shares issued for the acquisition of exploration properties. Properties acquired under option agreements or by joint ventures, whereby payments are made at the sole discretion of the Company are recorded in the accounts at the time of payment. Any government assistance received is used to reduce the carrying value of the property for which it was received.

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NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2005 and December 31, 2004

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Exploration properties and deferred exploration expenditures (continued)

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

b) Asset retirement obligations

Effective January 1, 2004, the Company adopted the new Canadian Institute of Chartered Accountants ("CICA") accounting standard on "Asset retirement obligations". Under the new standard the Company is required to record a liability for the estimated future costs associated with legal obligations relating to the reclamation and closure of its exploration properties. This amount is initially recorded at its discounted present value with subsequent annual recognition of an accretion amount on the discounted liability. An equivalent amount is recorded as an increase to exploration properties and deferred exploration expenditures and amortized over the useful life of the properties. The Company does not currently have any legal obligations relating to the reclamation of its exploration properties.

c) Cash and cash equivalents

Cash and cash equivalents are comprised of cash on hand and deposits that, which generally mature within 90 days from the date of acquisition. The investments are held in Canadian chartered banks or a financial institution controlled by a Canadian chartered bank.

d) Property, plant and equipment

Property plant and equipment are recorded at cost less accumulated amortization and are amortized on a straight-line basis over their estimated useful lives of 2 years to 5 years.

e) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions about future events that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions affect the carrying value of assets, impact decisions as to when exploration and development costs should be capitalized or expensed, and estimates for asset retirement obligations and reclamation costs. Other significant estimates made by the Company include factors affecting valuations or stock-based compensation, warrants and brokers' options and tax accounts. The Company regularly reviews its estimates and assumptions, however, actual results could differ from these estimates and these differences could be material.

f) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and the income tax bases of assets and liabilities, and are measured using the substantively enacted income tax rates and laws that are expected to be in effect when the temporary differences are expected to reverse. The effect on future income tax assets and liabilities of a change in income tax rates is recognized in the period that includes the date of enactment or substantive enactment of the change. 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.

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NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2005 and December 31, 2004

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Flow through financing

The Company finances a portion of its exploration activities through the issue of flow-through shares. Proceeds received on the issue of such shares have been credited to capital stock and the related exploration costs have been charged to exploration properties. Funds raised pursuant to exploration financing agreements must be expended on qualifying exploration expenditures. For income tax purposes, exploration expenses under flow-through financing agreements are renounced in favour of the investors and are not deductible by the Company. When these expenditures are renounced, temporary taxable differences created by the renunciation will reduce share capital.

h) Stock based Compensation

The Company has a stock-based compensation plan which is described in Note 5(c). The Company applies the fair value based method of accounting for stock option awards, as prescribed by CICA 3870 "Stock-based Compensation and Other Stock-based Payments". Under this method, the estimated fair value of the stock options at the date of grant is recorded over the vesting period, with the offsetting credit to contributed surplus. If the stock options are exercised, the proceeds are credited to share capital.

i) Earnings (loss) per share

Basic earnings (loss) per share is calculated using the weighted number of shares outstanding. Diluted loss per share is calculated using the treasury stock method. In order to determine diluted earnings (loss) per share, the treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted earnings (loss) per share calculation. The diluted earnings (loss) per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease loss per share.

j) Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

3. PROPERTY, PLANT AND EQUIPMENT

	2005		
	Cost $	Accumulated Amortization $	Net $
Computer	60,286	(46,931)	13,355
Furniture and fixtures	4,736	(2,311)	2,425
Field equipment	30,161	(9,068)	21,093
	95,183	(58,310)	36,873

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NOTES TO THE FINANCIAL STATEMENTS
For the years ended December 31, 2005 and December 31, 2004

3. PROPERTY, PLANT AND EQUIPMENT (continued)

	2004		
	Cost $	**Accumulated Amortization** $	**Net** $
Computer	52,436	(23,683)	28,753
Furniture and fixtures	4,736	(1,364)	3,372
Field equipment	18,144	(4,839)	13,305
	75,316	(29,886)	45,430

4. EXPLORATION EXPENDITURES AND DEFERRED EXPLORATION EXPENDITURES

	MANITOBA			SUDBURY, ONTARIO					
	Bucko Feasibility Study	Thompson Nickel Belt South	Thompson Nickel Belt North	AER Kidd	Airport	Mystery Offset Dyke	Peter's Roost	New Exploration	TOTAL
Acquisition costs									
Balance, December 31, 2004	1,227,100	154,515	-	891,858	356,403	-	102,887	-	2,732,763
Acquisition and property costs	231,331	25,296	228,693	100,000	-	50,000	-	-	635,320
Write off of property costs	-	-	-	-	-	(50,000)	-	-	(50,000)
Balance, December 31, 2005	**1,458,431**	**179,811**	**228,693**	**991,858**	**356,403**	**-**	**102,887**	**-**	**3,318,083**
Exploration expenditure									
Balance, December 31, 2004	431,193	1,360,753	-	4,869,853	671,733	163,868	615,261	-	8,112,661
Drilling	1,686,492	1,819,306	729,673	-	-	-	-	-	4,235,471
Assaying, laboratory, metallurgy	284,106	5,762	-	-	-	-	-	-	289,868
Geology and geological consulting	521,216	643,122	198,064	17,651	17,584	6,243	28,884	1,890	1,434,654
Travel and transportation	162,415	16,046	6,110	1,657	1,295	20	1,136	422	189,101
Geochemistry and geophysics	96,676	796,673	406,512	(14,000)	4,000	-	3,530	-	1,293,391
Reports	361,137	-	-	-	-	-	-	-	361,137
Mine and mill design	809,147	-	-	-	-	-	-	-	809,147
Site development	463,621	-	-	-	-	-	-	-	463,621
Environmental	123,657	24,845	3,176	-	-	-	-	-	151,678
Field and office support	85,456	47,216	11,487	4,681	19,711	8,218	5,434	101	182,304
Management fees	42,719	327,566	131,796	-	-	-	-	-	502,081
Incurred to date	**5,067,835**	**5,041,289**	**1,486,818**	**4,879,842**	**714,323**	**178,349**	**654,245**	**2,413**	**18,025,114**
Less: Government assistance	-	(64,810)	(93,664)	-	-	-	-	-	(158,474)
Write off of property costs	-	-	-	-	-	(178,349)	-	-	(178,349)
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**
TOTAL DEFERRED COSTS December 31, 2005	**6,526,266**	**5,156,290**	**1,621,847**	**5,871,700**	**1,070,726**	**-**	**757,132**	**2,413**	**21,006,374**

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NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2005 and December 31, 2004

4. EXPLORATION EXPENDITURES AND DEFERRED EXPLORATION EXPENDITURES (continued)

	MANITOBA		SUDBURY, ONTARIO						
	Bucko Feasibility Study	Thompson Nickel Belt South	AER Kidd	Airport	Mystery Offset Dyke	Marble Mountain	Copenhagen	Peter's Roost	TOTAL
Acquisition costs									
Balance, December 31, 2003	-	-	836,575	326,403	-	39,622	-	50,000	1,252,600
Acquisition and property costs	1,227,100	154,515	55,283	30,000	-	12,272	40,864	52,887	1,572,921
Write off of property costs	-	-	-	-	-	(51,894)	(40,864)	-	(92,758)
Balance, December 31, 2004	**1,227,100**	**154,515**	**891,858**	**356,403**	**-**	**-**	**-**	**102,887**	**2,732,763**
Exploration expenditure									
Balance, December 31, 2003	-	-	1,924,605	480,910	-	691	-	4,762	2,410,968
Drilling	125,000	210,805	2,259,458	54,632	-	-	28	-	2,649,923
Line cutting	594	-	-	-	-	98	-	37,610	38,302
Assaying, laboratory, metallurgy	-	-	45,421	4,476	27	2,015	5	103	52,047
Geology and geological consulting	246,447	365,734	316,745	109,418	160,390	144,600	42,168	485,195	1,870,697
Travel and transportation	22,000	-	10,669	9,525	202	186	85	6,836	49,503
Geochemistry and geophysics	7,878	627,805	209,557	(6,233)	122	108	31	63,914	903,182
Environmental	18,926	11,568	-	-	-	-	-	-	30,494
Field and office support	10,349	7,241	103,398	19,005	3,127	3,920	668	16,841	164,549
Management fees	-	137,599	-	-	-	-	-	-	137,599
Incurred to date	**431,194**	**1,360,752**	**4,869,853**	**671,733**	**163,868**	**151,618**	**42,985**	**615,261**	**8,307,264**
Write off of property costs	-	-	-	-	-	(151,618)	(42,985)	-	(194,603)
Balance, December 31, 2004	**431,194**	**1,360,752**	**4,869,853**	**671,733**	**163,868**	**-**	**-**	**615,261**	**8,112,661**
TOTAL DEFERRED COSTS December 31, 2004	**1,658,294**	**1,515,267**	**5,761,711**	**1,028,136**	**163,868**	**-**	**-**	**718,148**	**10,845,424**

MANITOBA
Bucko Feasibility Study and Thompson Nickel Belt 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.

To earn an initial 33% conditional interest and an additional 17% conditional interest in Bucko deposit, and an initial 25% interest in certain other claims in the Thompson Nickel Belt region of Manitoba, the Company is required to incur expenditures, issue shares and warrants, and meet other requirements as follows:

The Company is required to issue and grant the following common shares and warrants:

- issue 2,000,000 common shares of the Company upon execution of the agreement (issued in 2004). The fair value of the shares was determined to be $600,000 based upon the quoted market value of the Company's shares at the date of issue;
- issue 1,000,000 common shares of the Company by June 1, 2005 (issued in 2005). The fair value of the shares was determined to be $230,000 based upon the quoted market value of the Company's shares at the date of issue;
- issue 1,000,000 common shares of the Company by June 1, 2006; and
- grant 5,000,000 warrants (issued in 2004) to purchase common shares of the Company for a period of two years, with half of the warrants exercisable at an exercise price of $0.35 per share and the remaining half exercisable at a price of $0.75 per share. The fair value of the warrants, estimated to be $620,000, was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 100%, risk free interest rate of 4%, and an expected life of two years.

Continued...

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2005 and December 31, 2004

4. EXPLORATION EXPENDITURES AND DEFERRED EXPLORATION EXPENDITURES (continued)

MANITOBA
Bucko Feasibility Study and Thompson Nickel Belt South (continued)

To earn an initial 33% interest in the Bucko deposit, the Company is required to:
- incur $4,650,000 towards exploration and a bankable feasibility study (completed);
- demonstrate that the Company has raised sufficient funding to complete the bankable feasibility study;
- meet all additional funding requirements.

Upon earning the 33% conditional interest, the Company will have the option to earn an additional 17% conditional interest in the Bucko deposit (for a total 50% conditional interest) by incurring an additional $2,850,000 (total expenditure of $7,500,000) and completing a bankable feasibility study on the Bucko deposit.

The Company is also required to incur an additional $10,500,000 of expenditures as follows:
- $1,376,000 by December 31, 2004 (completed);
- an additional $3,276,000 by December 31, 2005 (completed);
- an additional $1,500,000 by April 30, 2006;
- 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;

If these requirements are not met, the conditional interests will revert back to Falconbridge.

The Company may increase its interest in the Bucko Deposit to 100% by making a decision within six-months of the completion of the bankable feasibility study to put the Bucko Deposit into commercial production and to complete a financing for and commence construction of the production facilities. The Company may elect to increase its interest in the other claims to 50% by providing funding to Falconbridge as operator of $7,000,000 plus administrative charges of 10% of expenditures for exploration by April 13, 2013 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.

The agreement also provides Falconbridge a back in right, property buy back right, Joint Venture bump up option, Net Smelter Returns royalty and an off take right.

Thompson Nickel Belt North

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.

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 (paid);
- $1,000,000 by April 30, 2006;
- $1,000,000 by April 30, 2007;
- $1,000,000 by April 30, 2008; and
- $700,000 by April 30, 2009.

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NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2005 and December 31, 2004

4. EXPLORATION EXPENDITURES AND DEFERRED EXPLORATION EXPENDITURES (continued)

Thompson Nickel Belt North (continued)

In addition to the expenditures, the Company issued to Falconbridge 400,000 common shares and warrants to purchase 1,000,000 common shares for a two-year period from the date of issue. The 1,000,000 warrants consist of 500,000 warrants exercisable at $0.35 and 500,000 warrants exercisable at $0.75. The fair value of the common shares was determined to be $120,000 using the quoted market value of the Company's stock at the date of issuance. The fair value of the warrants was estimated to be $106,500. The value of the warrants was estimated using the Black Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 90%; risk free interest rate of 2.9%; and an expected life of two years.

The agreement also provides Falconbridge a back in right, property buy back right, Joint Venture bump up option, Net Smelter Returns royalty and an off take right.

During the year ended December 31, 2005, the Company applied for and was approved for financial assistance under the Manitoba Mineral Exploration Assistance Program (“MEAP”) and received $158,474 in government assistance. Subsequent to the year end, the Company received an additional $80,394 in government assistance.

SUDBURY, ONTARIO
AER Kidd Property

The Company acquired the AER Kidd Property in 2003 for $150,000 cash, 1,000,000 common shares, and 1,000,000 common share purchase warrants that expired unexercised, and a 3% net smelter royalty. The Company may purchase up to 50% of this royalty for $1,250,000 up to the time when commercial production commences. A $50,000 advance royalty payment payable semi-annually commenced January 31, 2001. All required advance royalty payments to date have been made.

Airport property

In 2003, the Company signed a Participation and Joint Venture Agreement with Millstream Mines Ltd. to earn an undivided 50% interest in certain Airport Property claim blocks in the Sudbury Mining Camp. To earn this interest, the Company is required to:

- Fund a mutually approved $325,000 Phase I exploration program (funded);
- Fund an additional $600,000 for Phase II exploration subsequent to the completion of Phase I ($390,000 funded); and
- Make annual advance royalty payments of $30,000 annually commencing November 1, 2003 (paid to November 2004).

In December 2005, the Company elected to no longer fund Phase II of the exploration program. Consequently, the Company's interest in the property has been diluted to 30%.

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NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2005 and December 31, 2004

4. EXPLORATION EXPENDITURES AND DEFERRED EXPLORATION EXPENDITURES (continued)

Mystery Offset Dyke Property

Pursuant to agreements dated April 8, 2004, May 31, 2004 and January 1, 2005, the Company acquired an option to acquire 100% of the Mystery Offset Dyke Property ("MOD Property") along the Mystery Offset Dyke, located in Lorne Township of the South Range sector of the Sudbury Basin.
During the year ended December 31, 2005, the Company decided not to pursue its option to acquire the Mystery Offset Dyke Property, and consequently, an amount of $228,349 in expenditures was written off to operations.

Peter's Roost Property

In the first half of 2004, the Company acquired by staking the Peter's Roost Property, a land package along the North Range of the Sudbury Basin.

Subsequent to the year end, the Company acquired by staking an additional 32 mining units, and allowed 14 existing mining claims to lapse, leaving the Company with a 100% interest in 72 claims totaling 916 exploration units (approximately 146 square kilometres).

Marble Mountain Property

The Company had entered into an option agreement to earn a 100% interest in 73 claims in the Marble Mountain Property in Pankin Township, Sudbury.

During 2004, the Company decided to no longer pursue the exploration of this property, and consequently, $203,512 in expenditures were written off to operations.

Copenhagen Property

On February 19, 2004 the Company entered into an option agreement to acquire a 100% interest in 624 hectares of the Copenhagen Property in the Sudbury Basin.

During 2004, the Company has decided to no longer pursue the exploration of this property. Consequently, the February 2005 payments of shares and cash were not made and, $83,849 in expenditures were written off to operations.

Continued...

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2005 and December 31, 2004

5. 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) Common shares issued

Common shares issued	Number of Shares	Value
Balance, December 31, 2003	50,462,651	$ 21,132,600
Adjustment	(110)	-
Private placement (iii)	5,000,000	1,000,000
Private placement - non flow-through (iv)	5,880,713	2,058,250
Private placement - flow-through (v)	7,335,000	2,934,000
Private placement (vi)	750,000	300,000
Issue of warrants - warrant valuation (iii, iv, v, vi)	-	(1,765,139)
Shares issued in acquisition of properties (Note 4)	2,050,000	615,050
Exercise of warrants	255,000	51,000
Exercise of warrants - warrant valuation	-	24,026
Exercise of stock options	25,000	8,750
Exercise of options - option valuation	-	10,140
Cost of issue	-	(516,721)
Balance, December 31, 2004	71,758,254	$ 25,851,956
Private placement - non flow-through (i)	5,000,000	1,250,000
Private placement - flow-through (i)	14,903,000	3,725,750
Private placement (ii)	3,000,000	750,000
Issue of warrants - warrant valuation (i, ii)	-	(699,787)
Shares issued in acquisition of properties (Note 4)	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)
Balance, December 31, 2005	**98,621,254**	**$ 30,375,246**

(i) In June, 2005 the Company completed a private placement offering in two tranches. In the first tranche, 14,803,000 flow-through units and 5,000,000 non flow-through units were issued for gross proceeds of $4,950,750. The flow-through units were priced at $0.25 per flow-through unit and consisted of one flow-through 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 $0.40 until December 8, 2006. The non flow-through units were priced at $0.25 per unit and 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 one common share of the Company at an exercise price of $0.40 until December 8, 2006.

In the second tranche of this private placement, 100,000 flow-through units were issued at a price of $0.25 per flow-through unit, for gross proceeds of $25,000. The flow-through units consist of one flow-through 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 $0.40 until December 18, 2006.

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NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2005 and December 31, 2004

5. CAPITAL STOCK (continued)

The fair value of the warrants of $578,287 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 90%; risk free interest rate of 2.9%; and an expected life of 18 months.

(ii) In September 2005, the Company completed a private placement offering through the issuance of 3,000,000 units to Golden Omega Fund LP at $0.25 per unit for gross proceeds of $750,000. 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 $0.40 until March 8, 2007. All of the shares and warrants are subject to a hold period that will expire on January 9, 2006.

The fair value of the warrants of $121,500 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 90%; risk free interest rate of 3.4%; and an expected life of 18 months.

(iii) In October of 2004, the Company completed a private placement issuing a total of 5,000,000 units at a price of $0.20 per unit for gross proceeds of $1,000,000. Each unit consists of one common share and one common share purchase warrant. Each share purchase warrant entitles the holder to acquire one common share at an exercise price of $0.30 for a period of two years. The fair value of the warrants was estimated using the Black-Scholes option pricing model under the following assumptions: estimated dividend yield of 0%, risk-free interest rate of 3.1%, estimated volatility of 100% and estimated life of two years. The gross proceeds have been prorated to common shares and warrants based on the fair value of each component as follows: common shares - $350,000; warrants - $650,000.

(iv) In November 2004, the Company issued 5,880,713 units at a price of $0.35 per unit for gross proceeds of $2,058,250. Each unit consists of one common share and one-half share purchase warrant. Each whole share purchase warrant entitles the holder to acquire one common share at a price of $0.50 for a period of two years. The fair value of these warrants was estimated using the Black-Scholes option pricing model under the same assumptions as described in Note 5(a)(iii). The gross proceeds have been prorated to common shares and warrants based on the fair value of each component as follows: common shares - $1,555,449; warrants - $502,801.

(v) In November 2004, the Company also issued 7,335,000 flow-through units at a price of $0.40 per unit for gross proceeds of $2,934,000. Each unit consists of one flow-through share and one-half share purchase warrant. Each whole warrant entitles the holder to acquire one common share at a price of $0.60 for a period of two years. The fair value of these warrants was estimated using the Black-Scholes option pricing model under the same assumptions as described in Note 5(a)(iii). The gross proceeds have been prorated to common shares and warrants based on the fair value of each component as follows: common shares - $2,365,538; warrants - $568,463.

(vi) In December 2004, the Company completed an offering of 750,000 flow-through units at a price of $0.40 per flow-through unit for gross proceeds of $300,000. Each flow-through unit consists of one common share and one-half common share purchase warrant. Each whole warrant entitles the holder to acquire one common share of the Company exercisable at a price of $0.60 per share for a period of 2 years. Each of the common shares and shares issued upon the exercise of the warrants are subject to a hold period that will expire on April 30, 2005. The fair value of these warrants was estimated using the Black-Scholes option pricing model under the same assumptions as described in Note 5(a)(iii). The gross proceeds have been prorated to common shares and warrants based on the fair value of each component as follows: common shares - $256,125; warrants - $43,875.

Continued...

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2005 and December 31, 2004

5. CAPITAL STOCK (continued)

b) Warrants

The following is a summary of warrant transactions during 2005 and 2004:

	2005		2004	
	Number of warrants	Weighted Average Exercise price	Number of warrants	Weighted Average Exercise price
Balance, beginning of year	26,033,465	$0.42	12,292,276	$0.52
Granted, private placements	11,451,500	0.40	11,982,856	0.45
Granted property acquisition	1,000,000	0.55	5,000,000	0.55
Exercised	(2,560,000)	0.20	(255,000)	0.20
Expired or cancelled	(6,490,609)	0.36	(2,986,667)	1.15
Balance, end of year	29,434,356	$0.45	26,033,465	$0.42

A summary of the outstanding warrants as of December 31, 2005 are as follows:

Value ($)	Number of Warrants	Exercise Price ($)	Expiry Date
377,500	2,500,000	0.35	June 17, 2006
242,500	2,500,000	0.75	June 17, 2006
650,000	5,000,000	0.30	October 12, 2006
568,462	3,667,500	0.60	November 4, 2006
502,801	2,940,356	0.50	November 4, 2006
574,287	9,901,500	0.40	December 8, 2006
4,000	50,000	0.40	December 17, 2006
43,875	375,000	0.60	December 29, 2006
67,500	500,000	0.35	January 18, 2007
39,000	500,000	0.75	January 18, 2007
121,500	1,500,000	0.40	March 8, 2007
3,191,425	29,434,356		

Continued...

NOTES TO THE FINANCIAL STATEMENTS
For the years ended December 31, 2005 and December 31, 2004

5. CAPITAL STOCK (continued)

c) Stock Options

The following is a summary of stock option transactions during 2005 and 2004:

	2005		2004	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Balance, beginning of year	5,755,000	$0.36	4,525,000	$0.41
Granted	1,650,000	0.31	3,542,500	0.41
Exercised	-	-	(25,000)	0.35
Expired or cancelled	-	-	(2,287,500)	0.54
Balance, end of year	7,405,000	$0.30	5,755,000	$0.36

As of December 31, 2005, the following stock options were outstanding:

	Value ($)	Number of Options	Exercise Price ($)	Expiry Date
	60,840	150,000	0.60	September 18, 2006
	19,000	100,000	0.30	December 31, 2007
	973,440	2,400,000	0.20	June 5, 2008
	121,680	300,000	0.35	June 5, 2008
	152,100	375,000	0.35	July 18, 2008
	40,560	100,000	0.56	November 21, 2008
	20,280	50,000	0.70	November 17, 2008
	76,050	187,500	0.62	December 11, 2008
	86,000	200,000	0.56	January 20, 2009
	37,312	187,500	0.62	June 17, 2009
	11,150	50,000	0.35	June 17, 2009
	4,050	30,000	0.20	October 1, 2009
	285,000	1,425,000	0.25	October 12, 2009
	14,850	50,000	0.39	October 20, 2009
	40,050	150,000	0.35	November 8, 2009
	19,600	100,000	0.30	January 10, 2010
*	28,126	200,000	0.28	February 14, 2010
	39,600	200,000	0.29	February 21, 2010
*	166,074	1,000,000	0.33	March 1, 2010
	7,100	50,000	0.20	July 14, 2010
**	-	100,000	0.24	October 18, 2010
		7,405,000		

Continued...

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2005 and December 31, 2004

5. CAPITAL STOCK (continued)

The Company has a stock option plan designed to advance the interest of the Company by encouraging employees, officers, directors and consultants of the Company to have equity participation in the Company though the acquisition of common shares. The Company may issue options to purchase common shares equal to 10% of the issued and outstanding common shares of the Company. Options are non-transferable, non-assignable and may be granted for a term not exceeding five years. The exercise price of the options and vesting provisions, if any, are fixed by the board of directors of the Company at the time of grant at a price not below the market price of the common shares at the time of grant, subject to all applicable regulatory requirements.

During the year ended December 31, 2005, 1,650,000 stock options (2004 - 3,542,500) were granted to directors, officers and consultants of the Company with a weighted average grant date fair value of $0.16 (2004 - $0.32). Of these options granted, 1,200,000 options vest one eighth every quarter from the date of grant over a two year term(*) and 100,000 options vest one quarter every three months from the three month grant anniversary(**). At December 31, 2005, 450,000 of these options are currently exercisable. The remaining options granted during the period vested immediately. The fair value of each option was estimated on the date of grant using the Black Scholes option pricing model with the following weighted average assumptions: expected dividend yield of 0% (2004 - 0%); expected volatility of 90% (2004 - 100%); risk-free interest rates ranging from 3.4% to 3.75% (2004 - 4%); and an expected average life of 5 years (2004 - 5 years). For the year ended December 31, 2005, an amount of $260,500 (2004 - $1,138,122) was recorded as stock based compensation expense.

d) Contributed Surplus

		2005		2004
Balance, beginning of year	$	3,049,199	$	1,808,655
Stock options granted and/or vested during the year:				
Directors and officers		214,000		110,000
Consultants		46,500		1,028,122
Exercise of stock options, reallocation of valuation		-		(10,140)
Expiry of warrants, reallocation of valuation		533,015		112,562
Balance, end of year	$	3,842,714	$	3,049,199

Compensation Units

During 2003, the Company completed a private placement and issued 204,408 compensation options to the underwriter. Each compensation option entitles the holder to purchase one compensation unit at a price of $0.42 per compensation unit until August 20, 2005. Each compensation unit consisted of one common share and one-half common share warrant. Each whole warrant entitled the holder to purchase one additional common share at a price of $0.60 per share until August 20, 2005. A value of $24,549 was recorded as cost of issue, with an offsetting entry to contributed surplus in 2003. These units expired unexercised on August 20, 2005.

Continued...

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2005 and December 31, 2004

6. INCOME TAXES

a) Provision for income taxes

The major items causing the Company's income tax expense to differ from the Canadian combined federal and provincial statutory rate of 36% (2004 - 36%) were:

	2005	2004
Net loss for the year	$ (1,633,410)	$ (2,530,368)
Expected recoverable income taxes at statutory rates	(588,000)	(911,000)
Increase (decrease) resulting from:		
Writedown of exploration properties and deferred exploration expenditures	88,000	103,000
Share issue costs	(159,000)	(100,000)
Stock based compensation	94,000	410,000
Other	463,760	15,000
Change in valuation allowance	(1,661,000)	483,000
Provision for income taxes	$ 1,762,240	$ -

b) Future tax balances

The tax effect of temporary differences that give rise to future income tax assets and liabilities in Canada at December 31, 2005 and 2004 are as follows:

Future income tax assets (liabilities)	2005	2004
Non-capital losses	$ 1,136,000	$ 1,388,000
Resources properties	(1,125,000)	(202,000)
Share issue costs	377,000	287,000
Other assets	210,000	188,000
Valuation allowance	-	(1,661,000)
	$ 598,000	$ -

The Company has non-capital losses in Canada which, under certain circumstances, can be used to reduce the taxable income of future years. The losses and expiry dates are as follows:

Expiry Date	Amount ($)
2006	163,000
2007	290,000
2008	219,000
2009	216,000
2010	1,584,000
2014	299,000
2015	384,000
	3,155,000

The Company has approximately $17,882,000 of development and exploration expenditures as at December 31, 2005 which under certain circumstances may be utilized to reduce the taxable income of future years.

The Company will record an additional income tax liability of approximately $1,341,000 upon renunciation of flow-through expenditures in 2006. See Note 8(a).

Continued...

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2005 and December 31, 2004

7. 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 December 31, 2005 an amount of $43,180 (2004 - $95,109) is payable in relation to these expenses. As well, the Company is owed $15,883 (2004 - $26,000) at December 31, 2005 for shared expenses.

During 2005, directors of the Company subscribed for 1,300,000 units as part of the private placement described in Note 5(a)(i).

During 2004, a director of the Company subscribed for 1,250,000 units of the private placement described in Note 5(a)(iv) for gross proceeds of $436,500.

8. COMMITMENTS AND CONTINGENCIES

(a) 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 December 31, 2005, the Company has expended $3,594,265 related to these flow through funds and will be committed to expend the balance of $131,485 between January 1 and December 31, 2006.

(b) The Company is party to certain management contracts. These contracts require monthly payments and termination payments totaling approximately $1,628,000 as follows: 2006 - $664,000; 2007 - $445,000; and 2008 - $519,000). These contracts also contain clauses requiring additional payments of up to $890,000 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.

9. FINANCIAL INSTRUMENTS

Fair value:
Canadian generally accepted accounting principles require that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The carrying value of amounts receivable and accounts payable and accrued liabilities reflected in the balance sheet approximate fair value because of the limited term of these instruments.

Commodity Price Risk:
The ability of the Company to develop its properties and the future profitability of the Company are directly related to the market price of certain minerals.

Continued...

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2005 and December 31, 2004

10. SUBSEQUENT EVENTS

In January 2006, the Company completed the first tranche of a private placement financing 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 consists 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 a price of $0.30 until July 20, 2007. All of the shares and warrants are subject to a hold period that will expire on May 21, 2006.

In February 2006, the Company completed the second tranche of a private placement financing through the issuance of 6,050,000 units at a price of $0.19 per unit and the issuance of 1,177,776 flow-through shares at a price of $0.225 per flow-through share for total gross proceeds of $1,414,500. Each unit consists 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 a price of $0.30 until August 29, 2007. All of the shares and warrants are subject to a hold period that will expire on June 29, 2006.

Also in February 2006, the Company completed a brokered private placement of 9,200,000 flow-through common shares at a price of $0.225 per flow-through share for total gross proceeds of $2,070,000. Dundee Securities Corporation ("Dundee") acted as agent in connection with this private placement, and was issued 460,000 common shares as a portion of its commission (the "Fee Shares"). Additionally, Dundee was issued 460,000 Broker Warrants which are exercisable into common shares of the Company at a price of $0.225 per common share until August 28, 2007. The shares, Fee Shares and common shares issuable upon the exercise of the Broker Warrants are subject to a hold period that will expire on June 29, 2006.

In March 2006, the Company granted 3,120,000 stock options to directors, officers and consultants of the Company with an exercise price of $0.225 and an expiry date of March 13, 2011.