ELECTRA GOLD LTD.

FINANCIAL STATEMENTS

DECEMBER 31, 2005

DALE MATHESON
CARR-HILTON LABONTE
CHARTERED ACCOUNTANTS

Partnership of:
Robert J. Burkart, Inc.
Alvin F. Dale, Ltd.
Wilfred A. Jacobson, Inc.
Robert J. Matheson, Inc.
Fraser G. Ross, Ltd.
Anthony L. Soda, Inc.
James F. Carr-Hilton, Ltd.
Peter J. Donaldson, Inc.
Reginald J. LaBonte, Ltd.
Rakesh I. Patel, Inc.
Brian A. Shaw, Inc.

AUDITORS' REPORT

To the Shareholders of
Electra Gold Ltd.

We have audited the balance sheets of Electra Gold Ltd. as at December 31, 2005 and 2004 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 December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"*Dale Matheson Carr-Hilton LaBonte*"

Chartered Accountants

Vancouver, Canada
April 11, 2006

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ELECTRA GOLD LTD.
BALANCE SHEETS
AS AT DECEMBER 31

	2005	2004
ASSETS		
Current		
Cash	$ 186,874	$ 57,965
Receivables	172,197	241,111
Inventory	52,500	-
	411,571	299,076
Reclamation bond (Note 4)	50,000	50,000
Equipment (Note 3)	424,553	115,511
Mineral properties (Note 4)	636,112	617,626
	$ 1,522,236	$ 1,082,213
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
Current		
Accounts payable and accrued liabilities	$ 226,662	$ 373,043
Royalties payable (Note 14)	28,644	112,057
Loan payable (Note 6)	467,773	-
Due to related parties (Note 5)	99,895	115,382
	794,330	600,482
Royalties payable (Note 14)	118,002	57,700
	912,332	658,182
Shareholders' equity (deficiency)		
Share capital (Note 7)	13,233,589	12,766,374
Contributed surplus (Note 7)	450,188	352,291
Common shares to be issued (Note 8)	-	252,047
Deficit	(13,073,873)	(12,946,681)
	609,904	424,031
	$ 1,522,236	$ 1,082,213

Nature and continuance of operations (Note 1)
Commitments and contingencies (Notes 4, 6 and 15)
Subsequent events (Note 16)

On behalf of the Board:

_________________________ Director   _________________________ Director

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

ELECTRA GOLD LTD.
STATEMENTS OF OPERATIONS AND DEFICIT
YEARS ENDED DECEMBER 31

	2005	2004
SALES	$ 2,485,269	$ 1,588,115
COST OF SALES		
Cost of production	1,880,619	1,339,664
Royalties	269,854	166,341
Depletion	22,214	15,207
	2,172,687	1,521,212
GROSS PROFIT	312,582	66,903
EXPENSES		
Amortization	62,896	3,476
Consulting and financing fees (Note 7)	134,517	15,362
Filing fees	16,110	24,071
Management fees	48,600	47,345
Office and general	66,716	36,740
Professional fees	41,262	34,764
Property investigation expenses	12,916	10,623
Management fees - Stock-based compensation (Note 7)	85,917	2,000
	468,934	174,381
Loss before income tax	(156,352)	(107,478)
Future income tax recovery (Note 9)	29,160	-
Loss for the year	(127,192)	(107,478)
Deficit, beginning of year	(12,946,681)	(12,839,203)
Deficit, end of year	(13,073,873)	(12,946,681)
Basic and diluted loss per share	$ (0.01)	$ (0.01)
Weighted average number of shares outstanding	20,587,508	19,103,793

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

ELECTRA GOLD LTD.
STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	$ (127,192)	$ (107,478)
Items not affecting cash:		
Amortization	62,896	3,476
Accrued interest on loan payable	35,837	-
Future income tax recovery	(29,160)	-
Loan repayment deducted from sales	(85,915)	-
Stock issued for finance fee	21,120	-
Stock-based compensation	95,105	2,000
Depletion	22,214	15,207
Accrued royalties	60,302	57,700
Changes in non-cash working capital items:		
Decrease in receivables	68,914	17,202
Decrease in account payable and accrued liabilities	(156,144)	(15,658)
Net cash used in operating activities	(32,023)	(27,551)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of mineral properties	(40,700)	(125,695)
Reclamation bond	-	(50,000)
Net cash used in investing activities	(40,700)	(175,695)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from(repayments to) related parties	(19,368)	34,681
Proceeds from share issuances	221,000	224,300
Net cash provided by financing activities	201,632	258,981
Increase in cash during the year	128,909	55,735
Cash, beginning of year	57,965	2,230
Cash, end of year	$ 186,874	$ 57,965
Cash paid during the year for interest	$ 35,837	$ 759
Cash paid during the year for income taxes	$ -	$ -

Supplemental disclosure with respect to cash flows (Note 10)

1. NATURE AND CONTINUANCE OF OPERATIONS

Electra Gold Ltd. (the "Company") is a mining company, specializing in the development of industrial minerals. The Company was incorporated in the Province of British Columbia on December 31, 1981 as a result of the amalgamation of Electra Mining Corporation and Pacific North West Resources Ltd.

The Company is in the process of developing its mineral properties and is in the initial phase of commercial production. The majority of the Company's mineral production is currently being purchased by one customer who also has provided a loan facility to the Company to finance the purchase of production equipment as described in Note 6. The recoverability of the amounts shown for mineral properties and related deferred expenditures is dependent upon the continued production of economically recoverable reserves, the ability of the Company to obtain necessary financing as required to continue the development of those reserves and upon future profitable production.

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has incurred substantial losses since inception and has a working capital deficiency of $500,760 at December 31, 2005. Should the going concern assumption not continue to be appropriate, further adjustments to carrying values may be required. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to generate profitable operations in the future.

The financial statements do not include any adjustments relating to the recoverability of assets and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and are presented in Canadian dollars.

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant areas requiring the use of management estimates relate to the determination of impairment of long-lived assets, useful lives for depletion and amortization, allocations of exploration and related overhead costs to specific mineral property interests and the fair value of stock options granted.

Foreign currency translation

The monetary assets and liabilities of the Company that are denominated in foreign currencies are translated into Canadian dollar equivalents at the rate of exchange at the balance sheet date and non-monetary items are translated at historical rates. Revenues and expenses are translated at the average exchange rate for the year. Exchange gains and losses arising on translation are included in the statement of operations.

Revenue recognition

Sales of chalky geyserite are recognized and recorded at agreed prices, when title transfers, and the rights and obligations of ownership pass to the customer and collection is reasonably assured.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Inventory

Inventory is recorded at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

Equipment

Computer equipment, trailers and trucks are recorded at cost. The Company amortizes its equipment using the declining balance method as follows:

Computer equipment	30% per annum
Trailers	20% per annum
Trucks	30% per annum

In the year of acquisition, amortization is taken at half the normal rate.

Long-lived assets and intangibles

The carrying value of long-lived assets with fixed or determinable lives are reviewed for impairment whenever events or changes in circumstances indicate the recoverable value may be less than the carrying amount. Recoverable value determinations are based on management's estimates of undiscounted future net cash flows expected to be recovered from specific assets or groups of assets through use or future disposition. Impairment charges are recorded in the period in which determination of impairment is made by management.

Assets with indefinite or indeterminable lives are not amortized and are reviewed for impairment on a reporting basis using fair value determinations through management's estimate of recoverable value.

Mineral properties

The Company records its interests in mineral properties and areas of geological interest at cost. All direct and indirect costs relating to the acquisition of these interests are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold or management has determined there to be an impairment. These costs are amortized on the basis of units produced in relation to the estimated mineable reserves available on the related property following commencement of production. Mineral properties which are sold before that property reaches the production stage will have all revenues from the sale of the property credited against the cost of the property. Properties which have reached the production stage will have a gain or loss calculated based on the portion of that property sold.

The Company defers all exploration and development costs relating to mineral properties and areas of geological interest until the properties to which they relate are placed into production, sold or abandoned. These costs will be amortized over the estimated proven reserves available on the related property following commencement of production. The recorded amount may not reflect recoverable value as this will be dependant on the development program, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to bring its projects into production.

Asset retirement obligations

The Company follows the accounting standard of the Canadian Institute of Chartered Accountants ("CICA"), Handbook Section 3110, "*Asset Retirement Obligations*". The standard requires the recognition of legal obligations associated with the retirement of a tangible long-lived asset, including rights to explore for or exploit nature resources. When such obligations are identified and measurable they are recorded at fair value and subsequently

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Asset retirement obligations (cont'd…)

adjusted for any changes resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows.

Expenses related to environmental and site restoration activities are accrued when a liability to incur the expenditure is known and can be measured. Actual expenditures are charged against the related provision. Provisions for future site restoration and reclamation and other post closure costs in respect of operating sites are charged to earnings over the estimated life of the assets, commencing when a reasonable estimate of the cost can be made.

Share capital – flow-through shares

The Company provides certain share subscribers with a flow-through component for tax incentives available on qualifying Canadian exploration expenditures. The Company renounces the qualifying expenditures upon issuance of the respective flow-though common shares and accordingly is not entitled to the related taxable income deductions for such expenditures.

The Company follows recommendations by the Emerging Issues Committee ("EIC") of the CICA relating to the issuance of flow-through shares. EIC 146, *"Flow-through shares,"* requires the recognition of future income tax liabilities relating to the issuance of flow-through shares as a direct reduction in share capital upon renunciation to subscribers the qualified expenditures. Upon completion of applicable tax filings, the Company will recognize future income tax recoveries by applying available non-capital losses of prior years not previously recognized to offset any future income tax liability resulting from the issuance of flow-through shares. The resulting recovery is recognized in income in the period of renunciation.

Stock-based compensation

The Company may grant from time to time, stock options to executive officers, directors and consultants. The Company records all awards made using the fair value method. All awards to employees and non-employees are expensed in the period of granting, vesting or pricing revision.

The fair value of options and other stock based awards to employees or consultants, issued or altered in the period, are determined using the Black-Scholes option pricing model.

Loss per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. For the years presented, this calculation proved to be anti-dilutive.

Basic loss per share is calculated using the weighted average number of shares outstanding during the year.

Future income taxes

Future income taxes are recorded using the asset and liability method. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Future income taxes (cont'd…)

consider it to be more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Risk Management

The Company is engaged primarily in development and production of industrial mineral and manages related industry risk issues directly. The Company has one major customer for its product. Refer to Note 6.

The Company is at risk for environmental issues relating to mineral exploration. In management's opinion, the Company develops and follows policies that comply with and follow government and industry environmental regulations related to its principal activity. The Company is subject to a reclamation program on the Apple Bay operations as described in Note 4.

The Company is exposed to credit risk only with respect to uncertainties as the timing and amount of collectibility of receivables. The Company mitigates credit risk through standard credit and reference checks. The Company is not exposed to significant interest rate risk.

The Company's functional currency is the Canadian dollar. All current operations occur within Canada. There is no significant foreign exchange risk to the Company. The Company does not engage in any form of derivative or hedging instruments.

Financial instruments

The fair value of the Company's financial instruments included in current assets and current liabilities are estimated by management to approximate their carrying values based on their immediate or short-term maturity. The fair values of the Company's financial instruments are estimated by management to approximate their carrying amount unless otherwise noted.

3. EQUIPMENT

	2005			2004		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	$ 8,288	$ 5,338	$ 2,950	$ 8,288	$ 4,603	$ 3,685
Trailers	109,332	23,382	85,950	113,721	1,895	111,826
Trucks	376,327	40,674	335,653	-	-	-
	$ 493.947	$ 69,394	$ 424,553	$ 122,009	$ 6,498	$ 115,511

During the year ended December 31, 2005 the Company acquired two trucks at a cost of $376,327 which was financed by way of a loan from its major customer Refer to Note 6.

4. MINERAL PROPERTIES

	2005 Balance, Beginning of Year	Acquisition Costs	Deferred Expenditures	Option Payment	Accumulated Depletion	2005 Balance, End of Year
Apple Bay	$ 517,626	$ -	$ 60,700	$ (20,000)	$ (22,214)	$ 536,112
Hankin Point	50,000	-	-	-	-	50,000
Lang Bay	50,000	-	-	-	-	50,000
Total	$ 617,626	$ -	$ 60,700	$ (20,000)	$ (22,214)	$ 636,112

	2004 Balance, Beginning of Year	Acquisition Costs	Deferred Expenditures	Option Payment	Accumulated Depletion	2004 Balance, End of Year
Apple Bay	$ 407,138	$ -	$ 125,695	$ -	$ (15,207)	$ 517,626
Hankin Point	50,000	-	-	-	-	50,000
Lang Bay	50,000	-	-	-	-	50,000
Total	$ 507,138	$ -	$ 125,695	$ -	$ (15,207)	$ 617,626

Apple Bay

The Company signed lease and sublease agreements dated September 30, 2002 with Homegold Resources Ltd. (“Homegold”), Robert W. Howich (“Howich”) and Johan Shearer (“Shearer”), the Company’s president. Homegold is owned by Shearer who was appointed as a director of the Company on April 11, 2003. Pursuant to the agreements, the Company leased the mineral rights to the Apple Bay property located near Port Hardy on Vancouver Island for an initial term expiring February 7, 2031. This property is an industrial mineral property containing cement feedstock and kaolin. In consideration for the lease of mineral rights, the Company issued 1,500,000 common shares at $0.10 to Homegold and 1,500,000 common shares at $0.10 to Howich for a total of 3,000,000 common shares. The Company pays two royalties, which total $1.00 per metric tonne of industrial product sold on the property. The Company may purchase one half of each of the royalties for $500,000, respectively. Both royalty holders have provided a right of first refusal to the Company’s major customer providing the right to purchase these royalties. The Company also agreed to spend $100,000 in exploration expenditures during the first year of the agreement (spent) and an aggregate of $300,000 within five years (approximately $260,000 spent to December 31, 2005). The Company will also pay a 3% net smelter returns royalty (“NSR”) for all base and precious metals produced from the property.

Pursuant to an agreement dated June 25, 2003, the Company purchased additional Apple Bay claims for $13,140 from Shearer, representing his out of pocket costs plus a 0.5% NSR on all base and precious metals produced from the property.

The Company also entered into a Participation and Royalty Agreement with the Quatsino First Nation dated August 20, 2003 which grants the Company the exclusive right to mine certain claims over the term of the agreement expiring June 30, 2013. As consideration, Homegold transferred 400,000 common shares of the Company to the Quatsino first Nation and a member has been appointed as director of the Company. A royalty of

$1.00 per metric tonne is also payable. Payment for one half of the royalty is deferred until production exceeds 200,000 metric tonnes

4. MINERAL PROPERTIES (cont'd…)

Apple Bay (cont'd…)

in a calendar year. As at December 31, 2005 an amount of $118,000 (2004 - $57,700) is owing under this deferral arrangement.

During the year ended December 31, 2004 the Company provided a $50,000 irrevocable letter of credit as a condition of approval to a Work System and Reclamation Program Permit issued by B.C. Ministry of Energy and Mines. The Company secured the Letter of Credit by placing a $50,000 term deposit with its bank and received the Permit on April 8, 2004 which allows it to mine 110,000 tonnes of product. Additionally, as a condition of obtaining the permit, the Company agreed to post additional security at the rate of $1.00 per tonne mined in 20,000 metric tonne increments up to 110,000 metric tonnes. The Company is also subject to certain other operational inspections. The increased reclamation obligation of $110,000 was met in 2005 by additional security provided by directors, officers and certain other associates of these related parties by way of irrevocable letters of credit. In consideration for this provision of security, the Company issued 176,000 shares (Note 7) to these directors officers and other parties. The term of the agreements are for one and a half years from March 10, 2005 to September 18, 2006. The Company reserves the right to replace the letters of credit at any time before the end of the term of the agreements and release these parties from their obligation to the Department of Mines.

The Company entered into a Letter Agreement dated February 3, 2005 with Lumina Copper Corp. ("Lumina") for the exploration development and mining of mineral resources within the North Island Apple Bay Claims. Lumina may earn a 100% interest in the property by making a total of $200,000 in cash payments over a period of three years to the Company and upon a production decision, paying an additional $800,000 in cash or shares. The Company retains the right to explore and exploit the property for non-metallic industrial minerals, and in addition, Lumina grants the right to the Company to explore its Hushamu claims for non-metallic industrial minerals. At December 31, 2005, the Company has received a $20,000 option payment from Lumina and received an additional $40,000 subsequent to December 31, 2005, pursuant to the terms of the Letter Agreement.

Hankin Point

On April 11, 2003, the Company purchased 100% of the interest in the Hankin Point and Coal Harbor claims from Homegold and Shearer, all of which are situated in the Nanaimo Mining Division, British Columbia for a royalty equal to $0.60 for each metric tonne of limestone produced or removed from the claims and 500,000 common shares valued at $50,000.

Lang Bay

On June 25, 2003, the Company acquired the Lang Bay claims from directors of the Company in exchange for 500,000 common shares valued at $50,000. These claims are located approximately 15 kilometers south east of Powell River, British Columbia.

5. DUE TO RELATED PARTIES

At December 31, 2005 a total of $99,895 (2004 - $115,382) is payable to directors for fees, royalties and expenses. These outstanding amounts payable are unsecured and non-interest bearing with no fixed terms of repayment. The fair value of the debt is not determinable as it has no repayment terms.

6. LOAN AGREEMENT – MAJOR CUSTOMER

During 2005, $2,441,269 (2004 - $1,588,115) of the Company's sales were to one customer located in the USA. These sales are pursuant to a purchase agreement dated April 1, 2004 which is for an initial term of five years.

Concurrent with this purchase agreement the Company and its major customer entered into a loan agreement dated April 1, 2004 whereby the major customer agreed to establish a secured demand loan facility to enable the Company to purchase production equipment. All advances bear interest at 8% per annum and are repayable on the basis of $1.00 per tonne of product purchased by the major customer by deducting the appropriate balance from the sales invoice representing the purchase by this major customer. During 2005 under this arrangement, a total of $517,851 was advanced for purchase of trucks and equipment (refer to Note 3), $85,915 was repaid, and interest of $35,837 was accrued. As of December 31, 2005 the Company owed $467,773 under this loan facility.

7. SHARE CAPITAL

	Number of Shares	Share Capital $	Contributed Surplus $	Total $
Authorized				
100,000,000 common shares without par value				
Issued				
Balance as at December 31, 2003	18,230,049	12,542,074	350,291	12,892,365
Exercise of warrants	750,000	112,500	-	112,500
Private placement	447,200	111,800	-	111,800
Stock-based compensation	-	-	2,000	2,000
Balance as at December 31, 2004	19,427,249	12,766,374	352,291	13,118,665
Shares issued in settlement of debt	975,334	252,047	-	252,047
Exercise of stock options	50,000	7,000	(2,000)	5,000
Shares issued for finance fees	176,000	21,120	-	21,120
Private placement at $0.08 per share	1,637,500	131,000	-	131,000
Private placement at $0.08 per share	1,250,000	100,000	-	100,000
Finders' fees for private placement				
Cash	-	(10,000)	-	(10,000)
Agent's warrants	-	(4,792)	4,792	-
Renounced flow through share expenditures	-	(29,160)	-	(29,160)
Stock-based compensation	-	-	95,105	95,105
Balance as at December 31, 2005	23,516,083	13,233,589	450,188	13,683,777

2005 share capital transactions

On January 24, 2005, the Company issued 975,334 common shares pursuant to debt settlement agreements with a director and a company controlled by a directly for the settlement of $252,047 of indebtedness (Note 8).

7. SHARE CAPITAL (cont'd…)

2005 share capital transactions (cont'd…)

During the year ended December 31, 2005, 50,000 stock options were exercised at a value of $5,000 which the Company offset from $5,000 in accounts payable and accrued liabilities for a director of the Company. As a result, $2,000 was reallocated to capital stock from contributed surplus.

During the year ended December 31, 2005 the Company provided a $110,000 irrevocable letter of credit as a condition of approval to a Work System and Reclamation Program Permit issued by B.C. Ministry of Energy and Mines (Note 4). This security was provided by directors, officers and certain other associates of these related parties in consideration for the issuance of 176,000 shares, which have been valued at $21,120.

On November 28, 2005 pursuant to a Private Placement Agreement, the Company issued 1,637,500 flow-through units at $0.08 per unit for total proceeds of $131,000. Each flow-through unit consisted of one flow-through share and a non flow-through warrant. One non flow-through warrant will entitle the holder, on exercise, to purchase one common share at a price of $0.10 to November 28, 2006.

On December 15, 2005, pursuant to a Private Placement Agreement, the Company issued 1,250,000 units at $0.08 per unit for total proceeds of $100,000. Each unit consisted of one share purchase warrant, entitling the holder, on exercise, to purchase one common share at a price of $0.10 until December 15, 2006. Finders' fees included the Company paying $10,000 and issuing 125,000 agent's warrants exercisable into additional common shares at $0.10 per share until December 15, 2006. The agent's warrants have been recorded at a fair value of $4,792.

Flow-through shares
In accordance with accounting recommendations relating to the issuance of flow-through shares (Note 2), the Company reduced from flow-through share proceeds assigned to share capital and recognized as a future tax liability, the estimated tax effect of the timing difference resulting from renouncing exploration expenditures using currently enacted tax rates and laws.

Concurrently the Company recognized a future income tax recovery from the utilization of available tax losses of prior periods to offset the future tax liability recognized. The Company has not previously recognized tax benefits relating to losses of prior periods as the criteria for recognition has not been met.

2004 share capital transactions

During the year ended December 31, 2004, 750,000 warrants were exercised to purchase 750,000 shares at a price of $0.15 per share for proceeds of $112,500.

During the year ended December 31, 2004, pursuant to a Private Placement Agreement the Company issued 340,000 flow-through units and 107,200 non flow-through units at $0.25 per unit for total proceeds of $111,800. Each flow-through unit consisted of one flow-through share and a non flow-through warrant. Each non flow-through unit consisted of one non flow-through common share and a non flow-through warrant. One non flow-through warrant will entitle the holder, on exercise, to purchase one common share at a price of $0.35 to April 16, 2005 (subsequently expired unexercised).

Stock options

The Company follows the policies of the TSX Venture Exchange (TSX-V) under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common shares of the Company. Under the policies, the exercise price of each option equals the market price of the Company's shares as calculated on the date of grant. The options can be granted for a maximum term of 5 years.

7. SHARE CAPITAL (cont'd…)

Stock options transactions are summarized as follows:

	2005		2004	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, beginning of year	1,350,000	$ 0.10	1,300,000	$ 0.10
Granted	1,550,000	0.10	50,000	0.10
Exercised	(50,000)	0.10	-	-
Expired	(1,300,000)	0.10	-	-
Outstanding, end of year	1,550,000	$ 0.10	1,350,000	$ 0.10
Exercisable, end of year	1,175,000	$ 0.10	1,350,000	$ 0.10

The following table summarizes the Company's stock options outstanding:

2005			2004		
Number	Exercise Price	Expiry Date	Number	Exercise Price	Expiry Date
500,000	$ 0.10	November 1, 2006			
400,000	$ 0.10	January 6, 2007	1,300,000	$ 0.10	April 11, 2005
200,000	$ 0.12	April 15, 2007	50,000	$ 0.10	June 10, 2005
450,000	$ 0.10	April 27, 2007			

The weighted average life of all outstanding stock options at December 31, 2005 is 1.08 years (2004 – 0.28 years).

Stock-based compensation

The total stock-based compensation recognized in the year was $95,105, of which $85,917 (2004 - $2,000) was recorded as stock-based compensation for stock options granted to directors and employees, and $9,188 (2004 – nil) was recorded as consulting and financing fees for stock options granted to consultants. An additional $27,564 relating to 375,000 options granted to consultants will be recorded upon vesting of the underlying stock options equally at February 1, 2006, May 1, 2006 and August 1, 2006.

The following weighted-average assumptions were used for the Black-Scholes option pricing valuation of stock options granted during the year ended December 31, 2005 and 2004:

	2005	2004
Risk-free interest rate	3.47%	3.00%
Expected life of options	1.08 years	0.69 years
Annualized volatility	200%	132%

Dividend rate	0.0%	0.0%

7. SHARE CAPITAL (cont'd…)

Warrants

Warrant transactions are summarized as follows:

	2005		2004	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, beginning of year	447,200	$ 0.35	750,000	$ 0.15
Granted	3,012,500	0.10	447,200	0.35
Exercised	-	0.10	(750,000)	0.15
Expired	(447,200)	0.35	-	-
Outstanding, end of year	3,012,500	$ 0.10	447,200	$ 0.35

The following table summarizes the Company's warrants outstanding:

2005			2004		
Number	Exercise Price	Expiry Date	Number	Exercise Price	Expiry Date
1,637,500	$ 0.10	November 28, 2006			
1,375,000	$ 0.10	December 15, 2006	447,200	$ 0.35	April 16, 2005

8. COMMON SHARES TO BE ISSUED

	Shares to be issued	Amount
Balance as at December 31, 2003	-	$ -
Pursuant to debt settlement agreements, December 1, 2004	975,334	252,047
Balance as at December 31, 2004	975,334	252,047
Transferred to share capital (Note 7)	(975,334)	(252,047)
Balance at December 31, 2005	-	-

During the year ended December 31, 2004, the Company entered into debt settlement agreements with creditors and has agreed to issue 975,334 common shares for the settlement of $252,047 of indebtedness. During the year ended December 31, 2005, these shares were issued (Note 7).

9. INCOME TAXES

A reconciliation of income taxes at statutory rates with reported taxes is as follows:

	2005	2004
Rate	34.10%	37.60%
Loss before income taxes	$ (156,352)	$ (107,478)
Income tax recovery at statutory rates	$ (53,300)	$ (40,411)
Stock-based compensation	39,600	752
Unrecognised benefit (use) of net operating losses carried forward	(15,460)	39,659
Future income tax recovery	$ (29,160)	$ -

The Company has certain deductions and loss carry-forwards which may be available for income tax purposes to reduce future years' taxable income. Due to the uncertainty of realization of these loss carryforwards, the benefit is not reflected in the financial statements as the Company has provided a full valuation allowance for the potential future tax assets resulting from these loss carryforwards.

a) As at December 31, 2005 the Company has Canadian and foreign acquisition, exploration and development expenses amounting to approximately $1,700,000 which may be used indefinitely to offset future taxable income.

b) As at December 31, 2005 the Company has non-capital losses carried forward of approximately $1,160,000 which may be used to reduce future taxable income and which expire between fiscal 2006 to 2015.

10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions for the year ended December 31, 2005:

a) The Company recorded a loan payable for $517,851 relating to the purchase of equipment paid for by way of a loan with its major customer. The Company paid interest in the amount of $35,837 (2004 - $Nil) and principal of $50,078 (2004 - $Nil) by way of reductions on sales invoices to this customer. (Note 6).
b) The Company recorded $21,120 as finance fees for the issuance of 176,000 shares to directors, officers and certain other associates of these related parties in consideration for posting $110,000 of irrevocable letters of credit to secure the Company's reclamation bond. (Note 4).
c) 50,000 stock options were exercised at a value of $5,000 which the Company offset from $5,000 in accounts payable and accrued liabilities for a director of the Company.
d) The Company issued 975,334 common shares pursuant to debt settlement agreements with a director and a company controlled by a directly for the settlement of $252,047 of indebtedness.

Significant non-cash transactions for the year ended December 31, 2004:

a) The Company agreed to settle $252,047 of indebtedness by the issuance of 975,334 common shares.
b) The Company purchased equipment worth $121,160 including applicable taxes which amount was included in accounts payable at year end. Subsequently this amount was paid by way of a loan (Note 6).

11. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

a) Paid or accrued management fees of $35,700 (2004 - $43,700) to an officer of the Company.
b) Paid or accrued geological fees of $60,700 (2004 - $73,800) to the Company's president that were included in deferred exploration costs pursuant to the Apple Bay Agreement.
c) Paid or accrued royalties totaling $75,134 (2004- $35,621) and $30,057 (2004 - $14,680) of general expenses to the president and a company controlled by the president.
d) Issuing 64,000 shares to directors and officers of the Company in consideration for securing $40,000 of the $110,000 irrevocable letter of credit (Note 4).
e) Recording $5,000 in share capital for the exercise of 50,000 stock options by a director of the Company, which was offset from accounts payable and accrued liabilities.
f) Issued 975,334 common shares pursuant to debt settlement agreements with a director and a company controlled by a directly for the settlement of $252,047 of indebtedness.

The Company also acquired mineral properties and leased mineral properties from related parties as disclosed in Note 4.

These amounts 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.

13. SEGMENTED INFORMATION

The Company currently conducts substantially all of its operations in Canada in one business segment, being the exploration and development of mineral properties. A total of $2,441,269 (2004 - $1,588,115) sales were to customers in the United States. A total of $1,481,358 (2004 -$1,128,088) of cost of sales were paid to one supplier in Canada.

14. ROYALTIES PAYABLES

The Company entered into a Participation and Royalty Agreement with the Quatsino First Nation dated August 20, 2003 which grants the Company the exclusive right to mine certain claims over the term of the agreement expiring June 30, 2013. As consideration, Homegold transferred 400,000 common shares of the Company to the Quatsino First Nation and a member has been appointed as director of the Company. A royalty of $1.00 per metric tonne is also payable. Payment for one half of the royalty is deferred until production exceeds 200,000 metric tonnes in a calendar year. As at December 31, 2005 an amount of $118,002 (December 31, 2004 $57,700) is owing under this deferral arrangement. Subsequent to December 31, 2005, the Company received a long-term permit from the B.C. Ministry of Energy and Mines to mine up to 249,000 metric tonnes annually. The Company does not expect to produce in excess of 200,000 metric tonnes in 2006 and therefore the amount owing under the deferral arrangement has been classified as a non-current liability at December 31, 2005.

15. COMMITMENTS

a) On November 1, 2005, the Company entered into an agreement with Syndicated Capital Corp. ("Syndicated"), whereby the Company would pay Syndicated $5,000 per month for public relations and investor relations services. The term of the agreement is for one year.

b) Refer to Notes 4 and 14

16. SUBSEQUENT EVENTS

Subsequent to December 31, 2005, the Company entered into an agreement with Lehigh Company ("Lehigh") whereby the Company will purchase 5,870 metric tonnes of stockpile of chalky geyserite from Lehigh for a fee of $81,065 from March 1, 2006 to December 31, 2006.

The Company entered into a six month term letter of understanding with Thor Gauti ("Thor"), for consulting services, whereby the Company will compensate Thor by the issuance of 500,000 stock options, issued at market price.