

Plexmar Resources Inc.

(an exploration company)

Consolidated Financial Statements
December 31, 2005 and 2004

Auditors' Report

To the Shareholders of Plexmar Resources Inc.

We have audited the consolidated balance sheets of **Plexmar Resources Inc.** (an exploration company) as at December 31, 2005 and 2004 and the consolidated statements of earnings, deficit, contributed surplus and 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 consolidated 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 consolidated 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.

PricewaterhouseCoopers LLP

Chartered Accountants

Quebec, Quebec, Canada
March 10, 2006, except for note 10d) dated April 18, 2006

Plexmar Resources Inc.

(an exploration company)

Consolidated Balance Sheets

As at December 31, 2005 and 2004

	2005 \$	2004 \$
Assets		
Current assets		
Cash	23,123	237,072
Exploration funds	-	495,668
Amounts receivable (note 3)	37,860	70,059
Prepaid expenses	43,157	84,465
	<u>104,140</u>	<u>887,264</u>
Commodity taxes receivable	174,030	161,800
Mining properties (note 4)	1,590,198	613,328
Property, plant and equipment (note 5)	187,834	244,159
	<u>2,056,202</u>	<u>1,906,551</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities		
Suppliers	333,301	54,811
Companies controlled by directors	-	1,225
Balances of purchase price payable (note 10a and d)	116,300	162,270
Current portion of convertible debenture	132,285	-
	<u>581,886</u>	<u>218,306</u>
Convertible debenture (note 6)	-	92,619
	<u>581,886</u>	<u>310,925</u>
Shareholders' Equity		
Share capital (notes 7, 8 and 9)	14,527,654	13,985,285
Conversion option related to the convertible debenture (note 6)	94,719	94,719
Warrants (note 9)	1,070,065	1,155,859
Stock options (note 8)	572,797	572,900
Contributed surplus	511,130	78,762
Deficit	(15,302,049)	(14,291,899)
	<u>1,474,316</u>	<u>1,595,626</u>
	<u>2,056,202</u>	<u>1,906,551</u>
Nature of activities and going concern (note 1)		
Commitments (note 13)		
Subsequent events (notes 10d and 17)		

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

Approved by the Board of Directors

(signed) GUY BÉDARD _____ Director

(signed) LOUIS LESSARD _____ Director

(2)

Plexmar Resources Inc.

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Consolidated Statements of Deficit

For the years ended December 31, 2005 and 2004

	2005 \$	2004 \$
Balance – Beginning of year	14,291,899	11,140,333
Loss for the year	1,010,150	2,605,455
Share issue expenses	-	546,111
Balance – End of year	<u>15,302,049</u>	<u>14,291,899</u>

Consolidated Statements of Contributed Surplus

For the years ended December 31, 2005 and 2004

	2005 \$	2004 \$
Balance – Beginning of year	78,762	-
Warrants matured or cancelled during the year (note 9)	252,708	54,481
Warrants related to the convertible debenture and matured during the year (note 6)	-	24,281
Stock options matured or cancelled during the year (note 8)	179,660	-
Balance – End of year	<u>511,130</u>	<u>78,762</u>

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

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Consolidated Statements of Earnings

For the years ended December 31, 2005 and 2004

	2005 \$	2004 \$
Revenues		
Interest	2,317	15,180
Other	2,092	-
	<hr/> 4,409	<hr/> 15,180
Expenses		
Professional fees	513,526	500,949
Management fees	95,040	120,000
Salaries and fringe benefits	215	39,882
Net stock-based compensation costs	113,534	17,876
Rents – Offices	21,850	42,500
Office sublease	(5,610)	(20,470)
Maintenance fees	24,098	59,236
Information to shareholders	6,371	12,896
Insurance	19,376	19,746
Printing expenses and communication expenses	7,293	31,807
Office expenses and others	64,044	54,528
Travelling	51,490	91,316
Search for properties	1,700	192,109
Depreciation of property, plant and equipment	4,815	13,425
Cost of mining properties abandoned	32,980	1,364,841
Interest on convertible debenture (note 6)	17,999	18,002
Accretion on convertible debenture	39,666	39,775
Loss on disposal of property, plant and equipment	18,564	-
Exchange loss (gain)	(12,392)	22,217
	<hr/> 1,014,559	<hr/> 2,620,635
Loss for the year	<hr/> 1,010,150	<hr/> 2,605,455
Basic and diluted loss per share (note 14)	<hr/> 0.02	<hr/> 0.06

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

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Consolidated Statements of Cash Flows

For the years ended December 31, 2005 and 2004

	2005 \$	2004 \$
Cash flows from operating activities		
Loss for the year	(1,010,150)	(2,605,455)
Items not affecting cash		
Depreciation of property, plant and equipment	4,815	13,425
Loss on disposal of property, plant and equipment	18,564	-
Cost of mining properties abandoned	32,980	1,364,841
Accretion on convertible debenture	39,666	39,775
Net stock-based compensation costs and stock-based payment for professional fees	179,557	25,615
Expenses related to the issuance of shares and warrants without consideration	-	23,065
Interest on convertible debenture paid through the issuance of shares	17,999	18,002
	<u>(716,569)</u>	<u>(1,120,732)</u>
Change in non-cash working capital items		
Amounts receivable	30,924	(4,495)
Prepaid expenses	41,308	(77,832)
Accounts payable and accrued liabilities	160,336	(6,707)
	<u>232,568</u>	<u>(89,034)</u>
	<u>(484,001)</u>	<u>(1,209,766)</u>
Cash flows from financing activities		
Issuance of share capital and warrants	663,500	3,869,665
Share issue expenses	-	(428,794)
	<u>663,500</u>	<u>3,440,871</u>
Cash flows from investing activities		
Increase in commodity taxes receivable	(12,230)	(161,800)
Variation in exploration funds	495,668	(495,668)
Purchase of mining properties	(911,107)	(1,377,146)
Additions to property, plant and equipment	-	(253,334)
Proceeds from disposal of property, plant and equipment	32,946	-
Tax credits cashed related to exploration costs applied against mining properties	1,275	93,334
	<u>(393,448)</u>	<u>(2,194,614)</u>
Net change in cash	(213,949)	36,491
Cash – Beginning of year	<u>237,072</u>	<u>200,581</u>
Cash – End of year	<u>23,123</u>	<u>237,072</u>
Additional information		
Items not affecting cash related to financing and investing activities		
Tax credits receivable related to exploration costs applied against mining properties	13,261	14,536
Acquisition of mining properties in consideration of the issuance of shares and warrants	27,784	126,532
Acquisition of mining properties included in accounts payable and accrued liabilities	135,124	18,195
Balances of purchase price payable on the acquisition of mining properties	116,300	162,270
Interest cashed	(2,317)	(15,180)

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

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1 Incorporation, nature of activities and going concern

The company, incorporated under the Canada Business Corporations Act, is in the business of acquiring and exploring mining properties. It has not yet determined whether its properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for mining properties is dependent upon the existence of economically recoverable reserves, the ability to obtain necessary financing to complete exploration and development of the company's properties, and upon future profitable production or proceeds from the disposal of properties.

For the year ended December 31, 2005, the company recorded a loss of \$1,010,150. In addition to ongoing working capital requirements, the company must secure sufficient funding for meeting its existing commitments for exploration and development programs and general and administration costs.

Management is periodically seeking additional forms of financing through the issuance of new equity instruments, the exercise of existing warrants for the purchase of common shares and the exercise of stock options to continue its activities as a going concern, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future. Without new funding being available, the company may be unable to continue its operations, and amounts realized for assets may be less than amounts reflected in these financial statements.

Although management has taken steps to verify title to mining properties in which the company 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 unregistered prior agreements and non-compliance with regulatory requirements.

These financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern, and do not reflect the adjustments to the carrying value of assets and liabilities, the reported revenue and expenses and the balance sheet classifications that would be necessary were the going concern assumption inappropriate. These adjustments could be material.

2 Summary of significant accounting policies

New accounting standards

In July 2003, the Canadian Institute of Chartered Accountants (CICA) issued Sections 1100 and 1400 "Generally Accepted Accounting Principles" and "General Standards of Financial Statement Presentation". These new sections apply to fiscal years beginning on or after October 1, 2003 and define generally accepted accounting principles (GAAP), establish the relative authority of various types of CICA Accounting Standards Board pronouncements, and clarify the role of industry practice in setting GAAP. The company adopted these new sections on January 1, 2004 and they had no impact on the company's consolidated financial statements.

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The company also adopted the new recommendations of the CICA relating to the impairment of long-lived assets. Pursuant to these new standards, a long-lived asset should be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss should be recognized when the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. The adoption of these new recommendations did not have any impact on the company's consolidated financial statements.

In January 2005, the CICA issued four new accounting standards in relation with financial instruments: Section 3855, "Financial Instruments — Recognition and Measurement", Section 3865, "Hedges", Section 1530, "Comprehensive Income", and Section 3251, "Equity".

Section 3855 expands on Section 3860, "Financial Instruments — Disclosure and Presentation", by prescribing when a financial instrument is to be recognized on the balance sheet and at what amount. It also specifies how financial instrument gains and losses are to be presented in the financial statements.

Section 3865 provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline AcG-13, "Hedging Relationships", and the hedging guidance in Section 1650, "Foreign Currency Translation", by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

Section 1530 "Comprehensive Income" introduces a new requirement to temporarily present certain gains and losses outside net income.

Consequently, Section 3250 "Surplus" has been revised as Section 3251 "Equity".

Sections 1530, 3251, 3855 and 3865 apply to fiscal years beginning on or after October 1, 2006. The company will adopt these new standards on January 1, 2007, and has not yet determined their impact on its financial statements.

Basis of consolidation

These consolidated financial statements include the accounts of the company and those of its wholly-owned subsidiary, Minera Chan Chan S.A.C. This Peruvian subsidiary, incorporated on December 12, 2003, has been created in order to enable the company to manage its exploration activities on the properties located in Peru.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates that affect the amounts of assets and liabilities reported in the financial statements. Those estimates also affect the disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the years. Significant estimates include the carrying value of mining properties, the useful lives of property, plant and equipment and certain accrued liabilities. Actual results could differ from those estimates.

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Foreign currency translation

Foreign currency transactions

Transactions denominated in currencies other than Canadian dollars are translated into the functional currency as follows: monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date and revenues and expenses are translated at the average exchange rate for the year. Non-monetary assets and liabilities are translated at historical rates. Gains and losses arising from such translation are reflected in the statements of earnings.

Foreign subsidiary

Minera Chan Chan S.A.C. is considered to be an integrated foreign operation. As a result, the foreign subsidiary's accounts are remeasured into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities are remeasured at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are remeasured at historical rates. Revenues and expenses are remeasured at the average rate for the year. Gains and losses resulting from remeasurement are reflected in the statements of earnings.

Exploration funds

Exploration funds, which include cash, represent the unexpended proceeds of financing under the terms of which the company committed to spending the amounts on the exploration or acquisition of mining properties.

Mining properties

The company records its interests in mining properties and areas of geological interest at cost less option payments and other recoveries. Exploration costs relating to these interests and projects are capitalized on the basis of specific claim blocks or areas of geological interest until the mining properties to which they relate are placed into production, sold or allowed to lapse. Management reviews the carrying values of mining properties on a regular basis to determine whether any writedowns are necessary. These costs will be amortized over the estimated useful life of mining properties following commencement of production or written off if the mining properties or projects are sold or allowed to lapse. General exploration expenditures not related to specific mining properties are expensed as incurred.

Credit on duties refundable for loss and refundable tax credit for resources

The company is entitled to a credit on duties refundable for loss on mining exploration expenses incurred in the Province of Quebec. This tax credit has been applied against the costs incurred.

Furthermore, the company is entitled to the refundable tax credit for resources on qualified expenditures. The refundable tax credit may reach 33.75% of qualified expenditures incurred before March 30, 2004 and 38.75% thereafter. This tax credit has been applied against the costs incurred.

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Property, plant and equipment

Property, plant and equipment are recorded at cost and are depreciated using the straight-line method over the periods mentioned in note 5.

Share capital

Share capital issued for non-monetary consideration is generally recorded at the quoted market price of the shares over a reasonable period of time before and after the agreement to issue the shares was announced.

Share issue expenses are charged to deficit.

Income taxes

The company provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between financial statement values and tax values of assets and liabilities using enacted or substantially enacted income tax rates expected to be in effect for the year in which the differences are expected to reverse.

The company establishes a valuation allowance against future income tax assets if, based on available information, it is more likely than not that some or all of the future income tax assets will not be realized.

Basic and diluted earnings per share

Basic earnings per share are determined using the weighted average number of participating shares outstanding during the year.

Diluted earnings per share are determined using the weighted average number of participating shares outstanding during the year, plus the effects of dilutive potential participating shares outstanding during the year. The calculation of diluted earnings per share is made using the treasury stock method, as if all dilutive potential shares had been exercised at the later of the beginning of the year or the date of issuance, as the case may be, and that the funds obtained thereby be used to purchase participating shares of the company at the average market value of the participating shares during the year.

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Stock-based compensation plan

The company maintains a stock option plan, which is described in note 8. In accordance with Canadian generally accepted accounting principles, stock-based compensation costs are accounted for when stock options are granted to plan participants. Any consideration received from plan participants upon the exercise of stock options is credited to share capital.

3 Amounts receivable

	2005	2004
	\$	\$
Commodity taxes receivable	22,755	19,939
Credit on duties refundable for loss	13,261	13,261
Refundable tax credit for resources	-	1,275
Other receivables	1,844	35,584
	<hr/>	<hr/>
	37,860	70,059
	<hr/>	<hr/>

Plexmar Resources Inc.

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Notes to Consolidated Financial Statements

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4 Mining properties

December 31, 2005

	Undivided interest %	Balance as at January 1, 2005 \$	Costs incurred \$	Mining properties abandoned and tax credits \$	Balance as at December 31, 2005 \$
Winchester (49 claims)					
Mining property	50	495	-	(495)	-
Exploration costs		32,485	-	(32,485)	-
		32,980	-	(32,980)	-
Marilia I, II & III (Peru) (note 10a)					
Mining property	100	139,446	5,816	-	145,262
Exploration costs		8,298	-	-	8,298
		147,744	5,816	-	153,560
Lucma (Cascajal) (Peru) (note 10c)					
Mining property	100	68,856	1,090	-	69,946
Oro Del Norte I, II & III (Cascajal) (Peru) (note 10d)					
Mining property	100	363,518	5,816	-	369,334
Gran chimu I & II (Cascajal) (Peru)					
Mining property	100	230	1,431	-	1,661
Angolos (Bolsa Del Diablo) (Peru) (note 10e)					
Mining property	100	-	449,634	-	449,634
Exploration costs		-	546,063	-	546,063
		-	995,697	-	995,697
		613,328	1,009,850	(32,980)	1,590,198

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Notes to Consolidated Financial Statements

December 31, 2005 and 2004

December 31, 2004

	Undivided interest %	Balance as at January 1, 2004 \$	Costs incurred \$	Mining properties abandoned and tax credits \$	Balance as at December 31, 2004 \$
Papaskwasati (111 claims)					
Mining property	100	9,990	-	(9,990)	-
Exploration costs		170,081	-	(170,081)	-
		<u>180,071</u>	<u>-</u>	<u>(180,071)</u>	<u>-</u>
Lac Daran (25 claims)					
Mining property	100	2,625	-	(2,625)	-
Winchester (49 claims)					
Mining property	50	495	-	-	495
Exploration costs		32,485	-	-	32,485
		<u>32,980</u>	<u>-</u>	<u>-</u>	<u>32,980</u>
Marilia I, II & III (Peru) (note 10a)					
Mining property	100	-	139,446	-	139,446
Exploration costs		6,405	1,893	-	8,298
		<u>6,405</u>	<u>141,339</u>	<u>-</u>	<u>147,744</u>
Cascajal (Peru) (note 10b)					
Mining property	-	13,530	295,544	(309,074)	-
Exploration costs		23,369	877,279	(900,648)	-
		<u>36,899</u>	<u>1,172,823</u>	<u>(1,209,722)</u>	<u>-</u>
Lucma (Cascajal) (Peru) (note 10c)					
Mining property	100	66,400	2,456	-	68,856
Oro Del Norte I, II & III (Cascajal) (Peru) (note 10d)					
Mining property	100	-	363,518	-	363,518
Lac Heslin					
Exploration costs	-	-	3,777	(3,777)	-
Gran chimu I & II (Cascajal) (Peru)					
Mining property	100	-	230	-	230
		<u>325,380</u>	<u>1,684,143</u>	<u>(1,396,195)</u>	<u>613,328</u>

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Detailed analysis of deferred exploration costs and expenses

	2005	2004
	\$	\$
Balance – Beginning of year	613,328	325,380
Costs incurred during the year		
Cost of claims	463,787	801,194
Drilling	24,936	224,324
Geophysics	85,266	92,548
Sampling and analyses	9,436	159,602
Geologists and other salaries	237,331	209,779
Community relations	82,829	-
Equipment rental	-	137,878
Fuel and maintenance of vehicles	14,157	23,327
Maintenance of facilities	73,172	35,491
Accommodation	18,936	-
Tax credits	-	(31,354)
Mining properties abandoned	(32,980)	(1,364,841)
	<u>1,590,198</u>	<u>613,328</u>
Balance – End of year	<u>1,590,198</u>	<u>613,328</u>

5 Property, plant and equipment

		2005		2004	
	Depreciation periods (years)	Cost \$	Accumulated depreciation \$	Cost \$	Accumulated depreciation \$
Office furniture	5	1,719	892	1,719	548
Hardware	3 to 5	22,160	16,501	22,160	13,365
Camp	5	4,044	995	4,466	186
Vehicles	5	-	-	57,836	6,748
Equipment	10	5,263	964	5,263	438
Concentrator *	15	174,000	-	174,000	-
		<u>207,186</u>	<u>19,352</u>	<u>265,444</u>	<u>21,285</u>
Less: Accumulated depreciation		<u>19,352</u>		<u>21,285</u>	
Net amount		<u>187,834</u>		<u>244,159</u>	

* The concentrator has not been depreciated since it is not in operation as at December 31, 2005 and 2004. It will be depreciated over a 15-year period when it will be put into use.

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6 Convertible debenture

	2005 \$	2004 \$
Liability component of unsecured debenture with a par value of \$150,000, redeemable at the latest on June 13, 2006 in cash or in common shares of the company based on a predetermined formula if the holder is notified at the latest on April 13, 2006. Interest is calculated at 12% and is payable half-yearly in common shares of the company's share capital according to the terms described below. This debenture is convertible at the holder's option and is redeemable at the company's option, subject to certain conditions. The holder of this debenture may require its redemption before the maturity date in case of default by the company, or if the latter makes an investment in common shares at a price lower than \$0.15 per share, or an investment in securities convertible into common shares or exchangeable for such shares	132,285	92,619
Less: Current portion	132,285	-
	<hr/>	<hr/>
	-	92,619
	<hr/>	<hr/>

Interest payment terms

The number of shares issued upon the payment of interest is based on the following formula: 6% of the principal outstanding on the date of interest instalment at the base rate preceding immediately the date of interest instalment.

No interest was payable for the first two six-month periods ended June 13, 2004 if the base rate of the company's common shares exceeded \$0.225 for the twenty-day reference period preceding the expected instalment date, and no interest will be payable for each subsequent six-month period if the base rate exceeds \$0.30 during the same period. During fiscal 2005, an amount of \$17,999 was included in earnings as interest expense (\$18,002 in 2004).

This debenture had 500,000 accompanying warrants, each of them entitling the holder to subscribe for one common share of the company at a price of \$0.20 per share at all times until March 13, 2004, and 500,000 accompanying warrants, each of them entitling the holder to subscribe for one common share of the company at a price of \$0.30 per share at all times until December 13, 2004. The value allocated to these warrants of \$24,281 recorded under the caption "Conversion option related to the convertible debenture" under Shareholders' Equity has been charged to the contributed surplus at maturity.

The fair value of the conversion option and warrants related to the convertible debenture is recorded as "Conversion option related to the convertible debenture" under Shareholders' Equity. The accretion on debenture is charged to earnings to maturity.

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7 Share capital

Authorized

Unlimited number of common shares, without par value

Variation of issued share capital:

	2005		2004	
	Number	Stated value \$	Number	Stated value \$
Balance – Beginning of year	46,477,822	13,985,285	29,604,671	10,465,974
Private placements *	13,270,000	496,586	13,420,000	2,602,733
Purchase of a mining property	-	-	500,000	115,000
Professional fees	396,900	27,784	-	-
Exercise of warrants	-	-	2,411,665	683,526
Exercise of stock options	-	-	400,000	100,050
Interest on convertible debenture	263,993	17,999	141,486	18,002
Balance – End of year	60,408,715	14,527,654	46,477,822	13,985,285

* Private placements are presented net of the fair value of the related warrants totalling \$166,914 (\$752,267 in 2004), which has been determined using the Black-Scholes model (see note 9).

Issuance of shares and warrants upon private placements

On September 20, 2005, the company issued 4,260,000 common shares of its share capital at a price of \$0.05 per share and 4,260,000 warrants entitling to subscribe for one common share of the company at a price of \$0.10 over a 24-month period following the closing of the placement.

On December 5, 2005, the company issued 9,010,000 common shares of its share capital at a price of \$0.05 per share and 9,010,000 warrants entitling to subscribe for one common share of the company at a price of \$0.10 over a 24-month period following the closing of the placement.

8 Stock option plan

In accordance with a stock option plan established by the company, some managers, directors, key employees and consultants may be granted stock options for shares of the company. A maximum of 9,136,600 stock options may be granted (maximum of 5% of the number of common shares outstanding in favour of one person for the managers, directors and key employees and 2% for the consultants).

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Options granted expire after a maximum of five years following the granting date. Options granted to managers, directors and key employees vest over an eighteen-month period at the rate of 1/6 for every three-month period. These costs will be amortized on a straight-line basis over their vesting period. Options granted to consultants vest over a twelve-month period at the rate of 1/4 for every three-month period. However, the related expense is reflected in earnings when services are received.

On February 4, 2005, the company granted 550,000 stock options at an exercise price of \$0.15 per share. These options will generate aggregate stock-based compensation costs of \$52,063.

On July 21, 2004, the company granted 2,860,000 stock options at an exercise price of \$0.25 per share. These options will generate aggregate stock-based compensation costs of \$306,360.

On July 21, 2004, the company granted 400,000 stock options at an exercise price of \$0.20 per share. These options will generate aggregate stock-based compensation costs of \$23,600.

The following tables present the stock option activity since January 1, 2004 and summarize information about stock options outstanding and exercisable as at December 31, 2005 and 2004:

	2005			2004		
	Number	Carrying value \$	Weighted average exercise price \$	Number	Carrying value \$	Weighted average exercise price \$
Outstanding – Beginning of year	6,450,000	572,900	0.21	4,305,000	587,335	0.19
Granted	550,000	-	0.15	3,260,000	-	0.24
Exercised	-	-	-	(400,000)	(40,050)	0.15
Matured or cancelled	(2,250,000)	(179,660)	0.20	(715,000)	-	0.26
Net stock-based compensation costs	-	179,557	-	-	25,615	-
Outstanding – End of year	4,750,000	572,797	0.21	6,450,000	572,900	0.21
Exercisable – End of year	4,341,666	-	0.21	4,233,334	-	0.20

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		<u>Options outstanding</u>		
Exercise price		Number	Weighted average remaining contractual life (years)	Weighted average exercise price \$
\$0.12 to \$0.25	Directors and managers	2,987,500	2.63	0.19
\$0.35	Directors and managers	400,000	1.08	0.35
\$0.12 to \$0.28	Key employees	475,000	2.24	0.20
\$0.15 to \$0.25	Consultants	887,500	3.31	0.24
		<u>4,750,000</u>		

		<u>Options currently exercisable</u>		
Exercise price		Number	Weighted average remaining contractual life (years)	Weighted average exercise price \$
\$0.12 to \$0.25	Directors and managers	2,764,583	2.55	0.18
\$0.35	Directors and managers	400,000	1.08	0.35
\$0.12 to \$0.28	Key employees	425,000	2.02	0.20
\$0.15 to \$0.25	Consultants	752,083	3.26	0.24
		<u>4,341,666</u>		

The fair value of options granted for the years ended December 31, 2005 and 2004 was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2005	2004
Weighted average risk-free interest rate	3.53%	3.71%
Expected volatility	100%	100%
Dividend yield	nil	nil
Weighted average expected life	60 months	36 months
Weighted average fair value of options granted	\$0.096	\$0.101

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9 Warrants

The following tables present the warrant activity since January 1, 2004 and summarize information about warrants outstanding and exercisable as at December 31, 2005 and 2004:

	2005			2004		
	Number	Carrying value \$	Weighted average exercise price \$	Number	Carrying value \$	Weighted average exercise price \$
Outstanding and exercisable –						
Beginning of year	14,740,334	1,155,859	0.36	7,716,666	535,020	0.21
Granted	13,270,000	166,914	0.10	12,232,000	904,181	0.38
Exercised	-	-	-	(2,411,665)	(228,861)	0.19
Matured or cancelled	(2,508,334)	(252,708)	0.25	(2,796,667)	(54,481)	0.24
Outstanding and exercisable – End of year	25,502,000	1,070,065	0.24	14,740,334	1,155,859	0.36

Exercise price	Warrants outstanding and exercisable as at December 31, 2005	Weighted average remaining contractual life (years)
\$0.10	13,270,000	1.86
\$0.25	1,312,000	0.21
\$0.30	300,000	0.38
\$0.40	10,620,000	0.21
	<u>25,502,000</u>	

The fair value of warrants granted for the years ended December 31, 2005 and 2004 was estimated using the Black-Scholes warrant pricing model with the following weighted average assumptions:

	2005	2004
Weighted average risk-free interest rate	3.61%	2.32%
Expected volatility	90%	110%
Dividend yield	nil	nil
Weighted average expected life	24 months	24 months
Weighted average fair value of warrants granted	\$0.013	\$0.074

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10 Agreements

a) Marilia property

On February 16, 2004, the company signed an agreement for the acquisition of all mining rights in the Marilia gold property located in the Cajamarca area to the north of Peru for a total cash consideration of US\$70,000. This amount was paid in two equal instalments of US\$35,000 on March 6, 2004 and February 7, 2005.

Furthermore, on March 30, 2004, the company acquired mining rights in an adjacent piece of land with the view to extending the Marilia property. The company paid the seller a cash consideration of US\$30,000. A 1.5% royalty on the net smelter return will be payable to the seller. This royalty is redeemable at any time for an amount of US\$1,500,000.

b) Cascajal property

On February 18, 2004, the company signed an agreement for the acquisition of exploration and exploitation rights, over a five-year period, in the Cascajal property (gold and silver) located to the north of Peru for a total cash consideration of US\$575,000.

Under this agreement, the company could give up the project at any time if the results of exploration work were not conclusive. In October 2004, the company terminated the contract signed on February 18, 2004 on this part of the Cascajal property after a thorough review of the drilling and exploration results obtained. Therefore, the company was discharged from the payments scheduled for 2005 to 2009 for an amount of US\$425,000. In 2004, an amount of US\$150,000 was paid, included in mining properties and written off thereafter.

c) Lucma property

Following the acquisition of the rights of ownership, the company committed to paying a 2% royalty on net proceeds from future output sales.

d) Oro Del Norte I & II property

On March 29, 2004, the company signed an agreement for the acquisition of mining rights in a piece of land adjacent to the Cascajal property (Oro Del Norte II). This agreement was amended on December 27, 2004. Pursuant to the amended agreement, a 1.5% royalty on the net smelter return will be payable to the seller.

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On April 16, 2004, the company signed an agreement for the acquisition of mining rights in a piece of land adjacent to the Cascajal property (Oro Del Norte I), which agreement was modified in October 2004, in December 2004 and on April 18, 2006. Pursuant to the amended agreement, all the rights will be acquired upon receipt of a last payment in the amount of US\$100,000, due on October 30, 2006, an amount of US\$100,000 having already been paid during fiscal 2004. As at December 31, 2005, a balance of purchase price payable has been accounted for in the amount of \$116,300 (US\$100,000). Furthermore, the company committed to paying a royalty of US\$3 per ounce of gold upon establishment of proven reserves.

e) Angolos property

On March 14, 2005, the company signed an agreement whereby it has the option to acquire all the mining rights in the Angolos gold property located in the Piura area to the north of Peru in consideration of future cash payments amounting to US\$1,600,000. During fiscal 2005, an amount of US\$225,000 has been paid in relation to this agreement. On January 19, 2006, an amount of US\$50,000 has also been paid. Other payments are as follows:

	US\$
March 12, 2006	150,000
September 12, 2006	200,000
March 12, 2007	200,000
September 12, 2007	250,000
March 12, 2008	250,000
September 12, 2008	275,000
	<hr/>
	1,325,000
	<hr/>

The company can terminate this agreement at any time if a notice is given to the property owner. In the case of a termination, the company shall pay the owner an amount corresponding to the number of days that have elapsed between two instalment dates multiplied by the next payable amount.

A 2% royalty on the net smelter return will be payable to the owner.

f) On September 20, 2004, the company signed a letter of intent in order to acquire an option on all of the mining rights of the Molinetes property in consideration of future cash payments amounting to US\$350,000.

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11 Related party transactions

The company entered into the following transactions mainly with companies controlled by directors:

	2005 \$	2004 \$
Management fees	95,040	120,000
Professional fees	127,175	114,750
Rent – Office	21,850	42,500
Office sublease	(5,610)	(20,470)

Furthermore, mining properties include costs charged by a related company amounting to \$121,050 (\$39,550 in 2004).

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

12 Income taxes

The income tax recovery differs from the amount that would have been calculated by applying the Canadian federal and provincial combined statutory tax rate of 35.02% (36.02% in 2004) as follows:

	<u>Years Ended December 31,</u>	
	2005 \$	2004 \$
Income tax recovery at the Canadian combined statutory tax rate	(369,885)	(938,485)
Increase (decrease) from:		
Share issue expenses not affecting earnings	-	(197,000)
Non-deductible expenses for fiscal purposes	94,000	91,000
Difference in statutory and future tax rates	(83,000)	120,000
Expiration of deferred losses from operations	36,000	64,000
Variances attributable to the subsidiary	30,885	134,000
Others	-	(11,515)
Change in valuation allowance	292,000	738,000
	<u>-</u>	<u>-</u>

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The company is entitled to the following tax benefits:

- As at December 31, 2005, the company has accumulated, for federal and provincial income tax purposes, non-capital losses which can be applied against future years' taxable income and which will expire as follows:

	Federal \$	Provincial \$
2006	101,000	101,000
2007	165,000	165,000
2008	347,000	347,000
2009	334,000	334,000
2010	490,000	474,000
2014	765,000	706,000
2015	644,000	587,000
	<hr/> <u>2,846,000</u>	<hr/> <u>2,714,000</u>

- During the year, the company has accumulated, for Peruvian income tax purposes, a non-capital loss totalling \$US1,019,000 (S/.3,482,000). This loss can be applied against taxable income according to the following method: the total loss can be applied against taxable income over the four-year period from the first year of taxable income.
- The tax value of mining properties exceeds the carrying value by approximately \$1,038,000 at the federal (\$1,804,000 in 2004) and \$1,208,000 at the provincial (\$1,975,000 in 2004). The difference between the tax value and the amounts capitalized in the financial statements mainly results from writeoffs of mining properties.
- The unamortized balance, for income tax purposes, of share issue expenses amounts to \$362,731 and will be deductible during the next four years.

The company recorded a valuation allowance corresponding to 100% of the possible tax benefits resulting from these items.

13 Commitments

Operating lease

The company's minimum aggregate commitments under a lease for its office spaces with a related company, which expires on December 31, 2006, amount to \$24,000 (note 11).

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Other commitments

During fiscal 2005, the company signed two agreements regarding professional fees with companies controlled by directors. Under these agreements, the company's minimum aggregate commitments expiring on December 31, 2007 amount to approximately \$122,000, and minimum annual payments amount to \$62,000 in 2006 and \$60,000 in 2007.

14 Earnings per share

The following table summarizes the reconciliation of the basic weighted average number of shares outstanding and the diluted weighted average number of shares outstanding used in the diluted loss per share calculations:

	2005	2004
Basic weighted average number of shares outstanding	48,397,839	42,762,777
Options	-	810,836
Warrants	-	303,117
	<hr/>	<hr/>
Diluted weighted average (potentially dilutive) number of shares outstanding	48,397,839	43,876,730
	<hr/>	<hr/>
Items excluded from the calculation of potentially dilutive number of shares because the exercise price was greater than the average market price of the common shares		
Options	4,750,000	3,625,000
Warrants	25,502,000	14,740,334

For the years ended December 31, 2005 and 2004, the diluted loss per share was the same as the basic loss per share since the dilutive effect of stock options and warrants was not included in the calculation; otherwise, the effect would have been anti-dilutive. Accordingly, the diluted loss per share for those years was calculated using the basic weighted average number of shares outstanding.

15 Financial instruments

Fair value

The fair value of cash, exploration funds, amounts receivable, accounts payable and accrued liabilities and balances of purchase price payable approximates their carrying value due to their short-term maturity or to current market rates. The estimated fair value of the convertible debenture, amounting to \$140,300 as at December 31, 2005, has been established by discounting the future disbursements at an interest rate which the company would currently be able to obtain for a loan with similar terms and maturity date.

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Interest rate risk

As at December 31, 2005 and 2004, the company's exposure to interest rate risk is summarized as follows:

Cash	Variable interest rate
Exploration funds	Variable interest rate
Amounts receivable	Non-interest bearing
Commodity taxes receivable	Non-interest bearing
Accounts payable and accrued liabilities	Non-interest bearing
Balances of purchase price payable	Non-interest bearing
Convertible debenture	As described in note 6

Foreign exchange risk

The company is subject to a variety of currency risks, including the risks that currencies will not be convertible at satisfactory rates, that the official conversion rates between the different currencies in which the company operates may not accurately reflect the relative value of goods and services available or required in the foreign jurisdictions in which the company operates and that inflation will lead to the devaluation of the currencies in the foreign countries in which the company has operations.

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16 Consolidated segment information by geographic region

The company is organized under two geographic regions, which are Canada and Peru. The accounting policies used for these reportable segments are consistent with those described in the summary of significant accounting policies. The principal financial information for each of these segments is detailed as follows:

For the year ended December 31, 2005

	Peru \$	Canada \$	Total \$
Interest revenue	-	2,317	2,317
Other revenue	2,092	-	2,092
Professional fees	(122,986)	(390,540)	(513,526)
Management fees	-	(95,040)	(95,040)
Salaries and fringe benefits	-	(215)	(215)
Net stock-based compensation costs	-	(113,534)	(113,534)
Rents – Office	-	(21,850)	(21,850)
Office sublease	-	5,610	5,610
Maintenance fees	-	(24,098)	(24,098)
Information to shareholders	-	(6,371)	(6,371)
Insurance	-	(19,376)	(19,376)
Printing and communication expenses	-	(7,293)	(7,293)
Office expenses and others	(34,350)	(29,694)	(64,044)
Travelling	-	(51,490)	(51,490)
Search for properties	-	(1,700)	(1,700)
Depreciation of property, plant and equipment	(2,437)	(2,378)	(4,815)
Cost of mining properties abandoned	-	(32,980)	(32,980)
Interest on convertible debenture	-	(17,999)	(17,999)
Accretion on convertible debenture	-	(39,666)	(39,666)
Exchange gain	12,392	-	12,392
Loss on disposal of property, plant and equipment	(18,564)	-	(18,564)
Loss for the year	(163,853)	(846,297)	(1,010,150)
Segment assets	1,964,656	91,546	2,056,202
Additions to mining properties	1,009,850	-	1,009,850

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For the year ended December 31, 2004

	Peru \$	Canada \$	Total \$
Interest revenue	-	15,180	15,180
Professional fees	(69,134)	(431,815)	(500,949)
Management fees	-	(120,000)	(120,000)
Salaries and fringe benefits	-	(39,882)	(39,882)
Net stock-based compensation costs	-	(17,876)	(17,876)
Rents – Office	-	(42,500)	(42,500)
Office sublease	-	20,470	20,470
Maintenance fees	-	(59,236)	(59,236)
Information to shareholders	-	(12,896)	(12,896)
Insurance	-	(19,746)	(19,746)
Printing and communication expenses	-	(31,807)	(31,807)
Office expenses and others	(26,087)	(28,441)	(54,528)
Travelling	(254)	(91,062)	(91,316)
Search for properties	(153,630)	(38,479)	(192,109)
Depreciation of property, plant and equipment	(8,002)	(5,423)	(13,425)
Cost of mining properties abandoned	(1,096,796)	(268,045)	(1,364,841)
Interest on convertible debenture	-	(18,002)	(18,002)
Accretion on convertible debenture	-	(39,775)	(39,775)
Exchange loss	(22,217)	-	(22,217)
Loss for the year	<u>(1,376,120)</u>	<u>(1,229,335)</u>	<u>(2,605,455)</u>
Segment assets	<u>1,040,113</u>	<u>866,438</u>	<u>1,906,551</u>
Additions to property, plant and equipment	<u>247,068</u>	<u>6,266</u>	<u>253,334</u>
Additions to mining properties	<u>1,684,143</u>	<u>-</u>	<u>1,684,143</u>

17 Subsequent events

a) Stock option plan

On January 13, 2006, the company granted 3,250,000 stock options to directors and managers under its stock option plan. These options are exercisable at a price of \$0.105 per share until January 13, 2011 and vest over the periods provided for in the plan. The fair value of stock options granted amount to \$258,951.

On the same date, the company granted 500,000 stock options to consultants under its stock option plan. These options are exercisable at a price of \$0.105 per share until January 13, 2007 and vest over the periods provided for in the plan. The fair value of stock options granted amounts to \$18,989.

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b) Issuance of shares and warrants upon private placements

On February 9, 2006, the company issued 20,833,333 common shares of its share capital at a price of \$0.06 per share and 20,833,333 warrants entitling to subscribe for one common share of the company at price of \$0.12 over an 18-month period following the closing of the placement. The fair value of warrants related to the private placement amounts to \$302,708.

In connection with the private placement, the company paid the agent a cash commission of \$9,870 and granted warrants entitling to subscribe for 104,000 common shares at price of \$0.12 per share over an 18-month period following the closing of the placement. The fair value of these warrants amounts to \$1,307.

18 Comparative figures

Certain comparative figures have been reclassified to comply with the current year presentation.