

COMMERCE RESOURCES CORP.
REPORT AND FINANCIAL STATEMENTS
October 31, 2005 and 2004

AUDITORS' REPORT

To the Shareholders of
Commerce Resources Corp.

We have audited the balance sheets of Commerce Resources Corp. as at October 31, 2005 and 2004 and the statements of loss 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 October 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.

Vancouver, Canada
February 14, 2006

"AMISANO HANSON"
Chartered Accountants

COMMERCE RESOURCES CORP.
BALANCE SHEETS
October 31, 2005 and 2004

<u>ASSETS</u>	<u>2005</u>	<u>2004</u>
Current		
Cash	\$ 35,496	\$ 62,572
Marketable securities (market value – \$58,177)	53,352	35,565
Amounts receivable	9,046	1,662
Prepaid expenses – Note 7	-	5,758
GST receivable	<u>11,879</u>	<u>5,945</u>
	109,773	111,502
Reclamation bonds	12,000	12,000
Due from related parties – Note 7	40,208	18,500
Equipment – Note 3	3,783	4,883
Resource properties – Notes 4, 7 and Schedule I	<u>1,115,628</u>	<u>988,808</u>
	<u>\$ 1,281,392</u>	<u>\$ 1,135,693</u>

LIABILITIES

Current		
Accounts payable – Note 7	\$ 108,742	\$ 77,020
Accrued interest payable – Note 6	-	80,000
Due to related party – Note 7	<u>-</u>	<u>38,068</u>
	<u>108,742</u>	<u>195,088</u>

SHAREHOLDERS' EQUITY

Share Capital – Notes 5 and 11	3,744,715	3,055,540
Convertible debenture – Note 6	-	250,000
Common shares subscribed – Notes 9 and 11	193,552	96,750
Contributed surplus	147,750	141,250
Deficit	<u>(2,913,367)</u>	<u>(2,602,935)</u>
	<u>1,172,650</u>	<u>940,605</u>
	<u>\$ 1,281,392</u>	<u>\$ 1,135,693</u>

Nature and Continuance of Operations – Note 1
 Commitments – Notes 5 and 11
 Contingency – Note 10
 Subsequent Events – Notes 4, 5 and 11

APPROVED BY THE DIRECTORS:

<u>“Shaun Ledding”</u> Director Shaun Ledding	<u>“David Hodge”</u> Director David Hodge
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SEE ACCOMPANYING NOTES

COMMERCE RESOURCES CORP.
STATEMENTS OF LOSS AND DEFICIT
for the years ended October 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Administrative costs		
Accounting fees	\$ 33,200	\$ 29,275
Administration fees – Note 7	25,200	25,200
Advertising	40,959	33,376
Amortization	1,101	1,443
Bank charges and interest	833	11,697
Consulting fees – Note 7	13,689	13,462
Filing fees	7,076	7,918
Interest on convertible debenture	6,630	80,000
Investor relations	14,760	-
Office and miscellaneous	24,544	16,111
Printing and shareholder information	2,057	6,531
Rent – Note 7	14,000	12,000
Stock-based compensation – Note 5	10,000	46,500
Telephone	7,596	6,823
Transfer agent fees	11,481	10,037
Travel and promotion	25,263	13,047
Wages and benefits – Note 7	<u>95,744</u>	<u>83,257</u>
Loss before other	(334,133)	(396,677)
Other:		
Miscellaneous income	1,102	4,122
Loss on disposition of marketable securities	(13,691)	-
Write-down of resource properties	-	(294,946)
Foreign exchange gain (loss)	506	(39,511)
Excess of proceeds over cost from disposition of resource properties	35,784	137,999
Write-down of marketable securities	<u>-</u>	<u>(16,605)</u>
Net loss for year	(310,432)	(605,618)
Deficit, beginning of the year	<u>(2,602,935)</u>	<u>(1,997,317)</u>
Deficit, end of the year	\$ <u>(2,913,367)</u>	\$ <u>(2,602,935)</u>
Basic and diluted loss per share	\$ <u>(0.01)</u>	\$ <u>(0.03)</u>
Weighted average number of shares outstanding	<u>25,851,178</u>	<u>20,608,387</u>

SEE ACCOMPANYING NOTES

COMMERCE RESOURCES CORP.
STATEMENTS OF CASH FLOWS
for the years ended October 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Operating Activities:		
Net loss for the year	\$ (310,432)	\$ (605,618)
Add (deduct) items not affecting cash:		
Write-down of marketable securities	-	16,605
Loss on disposition of marketable securities	13,691	1,355
Amortization	1,101	1,443
Excess of proceeds over cost from disposition of resource properties	(35,784)	(137,999)
Consulting fees	4,000	80,000
Foreign exchange on convertible debenture	-	38,415
Stock-based compensation	10,000	46,500
Miscellaneous income	(169)	-
Write-down of resource properties	<u>-</u>	<u>294,946</u>
	(317,593)	(264,353)
Changes in non-cash working capital items related to operations:		
Amounts receivable	(7,384)	(162)
Prepaid expenses	5,758	(5,758)
GST receivable	(5,934)	(1,843)
Accounts payable	31,722	6,526
Accrued interest payable	(20,000)	80,000
Advance on exploration expenditures	<u>-</u>	<u>(32,654)</u>
Cash used in operating activities	<u>(313,431)</u>	<u>(298,244)</u>
Financing Activities:		
Issue of share capital for cash	278,925	145,087
Common shares subscribed	193,552	96,750
Advances from (to) related parties	<u>(59,776)</u>	<u>22,791</u>
Cash provided by financing activities	<u>412,701</u>	<u>264,628</u>
Investing Activities:		
Acquisition of resource properties	(19,767)	(13,000)
Proceeds from property option agreements	10,000	50,000
Mining tax credit received	9,351	-
Proceeds from sale of marketable securities	31,474	125,500
Acquisition of marketable securities	-	(10,100)
Deferred exploration and development costs	<u>(157,404)</u>	<u>(64,559)</u>
Cash provided by (used in) investing activities	<u>(126,346)</u>	<u>87,841</u>
Increase (decrease) in cash during the year	(27,076)	54,225
Cash, at beginning of year	<u>62,572</u>	<u>8,347</u>
Cash, at end of year	<u>\$ 35,496</u>	<u>\$ 62,572</u>

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SEE ACCOMPANYING NOTES

COMMERCE RESOURCES CORP.
STATEMENTS OF CASH FLOWS
for the years ended October 31, 2005 and 2004

Continued

	<u>2005</u>	<u>2004</u>
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	\$ <u> -</u>	\$ <u> -</u>
Income taxes	\$ <u> -</u>	\$ <u> -</u>

Non-cash Transactions – Note 9

SEE ACCOMPANYING NOTES

COMMERCE RESOURCES CORP.
SCHEDULE OF RESOURCE PROPERTIES
for the year ended October 31, 2005

Schedule I

	<u>Au/WEN</u> <u>Property</u>	<u>Verity & Fir</u> <u>Claims</u>	<u>Other</u> <u>Claims</u>	<u>Totals</u>
Acquisition costs				
Balance, beginning of the year	\$ 50,000	\$ -	\$ -	\$ 50,000
Cash	-	-	19,767	19,767
Less: option proceeds	<u>(41,000)</u>	<u>-</u>	<u>-</u>	<u>(41,000)</u>
Balance, end of the year	<u>9,000</u>	<u>-</u>	<u>19,767</u>	<u>28,767</u>
Deferred exploration and development costs				
Balance, beginning of the year	<u>-</u>	<u>938,808</u>	<u>-</u>	<u>938,808</u>
Drilling	-	129,859	-	129,859
Equipment rent	-	2,998	-	2,998
Geological consulting fees	-	4,922	-	4,922
Lab analysis	-	8,664	-	8,664
Overhead	-	1,054	-	1,054
Recording fees	840	-	5,452	6,292
Supplies and miscellaneous	-	475	-	475
Travel	-	3,140	-	3,140
Less: mining tax credit received	<u>-</u>	<u>(9,351)</u>	<u>-</u>	<u>(9,351)</u>
	<u>840</u>	<u>141,761</u>	<u>5,452</u>	<u>148,053</u>
Balance, end of the year	<u>840</u>	<u>1,080,569</u>	<u>5,452</u>	<u>1,086,861</u>
Balance, October 31, 2005	<u>\$ 9,840</u>	<u>\$ 1,080,569</u>	<u>\$ 25,219</u>	<u>\$ 1,115,628</u>

SEE ACCOMPANYING NOTES

COMMERCE RESOURCES CORP.
SCHEDULE OF RESOURCE PROPERTIES
for the year ended October 31, 2004

Schedule I

	<u>Au/WEN Property</u>	<u>Aubyrd Claims</u>	<u>Comm Claims</u>	<u>Commerce Claims</u>	<u>Verity & Fir Claims</u>	<u>Other Claims</u>	<u>Totals</u>
Acquisition costs							
Balance, beginning of the year	\$ 50,000	\$ 84,508	\$ 84,513	\$ 138,750	\$ -	\$ -	\$ 357,771
Cash	-	-	-	-	-	13,000	13,000
Marketable securities	-	-	-	-	-	10,000	10,000
Balance, end of the year	<u>50,000</u>	<u>84,508</u>	<u>84,513</u>	<u>138,750</u>	<u>-</u>	<u>23,000</u>	<u>380,771</u>
Deferred exploration and development costs:							
Balance, beginning of the year	-	<u>5,175</u>	<u>5,175</u>	<u>5,175</u>	<u>828,670</u>	<u>9,875</u>	<u>854,070</u>
Assays	-	-	-	-	8,402	-	8,402
Drafting	-	-	-	-	795	-	795
Drilling	-	13,449	-	-	-	-	13,449
Equipment rent	-	-	-	-	2,340	-	2,340
Geological consulting fees	-	3,464	-	-	5,184	527	9,175
Geological modelling	-	-	-	-	425	-	425
Lab analysis	-	774	-	-	24,906	-	25,680
Metallurgy	-	-	-	-	3,717	-	3,717
Overhead	-	1,381	-	-	387	1,333	3,101
Recording fees	-	-	-	-	-	3,620	3,620
Road	-	12,000	-	-	-	-	12,000
Sampling	-	-	-	-	-	1,000	1,000
Staking	-	4,330	-	-	-	3,466	7,796
Supplies and miscellaneous	-	-	-	-	427	-	427
Travel	-	4,906	-	-	-	380	5,286
Less: exploration costs recovered	-	<u>(32,654)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(32,654)</u>
	<u>-</u>	<u>7,650</u>	<u>-</u>	<u>-</u>	<u>46,583</u>	<u>10,326</u>	<u>64,559</u>
Balance, end of the year	<u>-</u>	<u>12,825</u>	<u>5,175</u>	<u>5,175</u>	<u>875,253</u>	<u>20,201</u>	<u>918,629</u>
Total before proceeds and write-downs	50,000	97,333	89,688	143,925	875,253	43,201	1,299,400
Less: proceeds on disposition of interests	-	(12,000)	(12,000)	(12,000)	-	(181,200)	(217,200)
Less: write-downs of resource property	-	(85,333)	(77,688)	(131,925)	-	-	(294,946)
Adjustment of mineral exploration tax credit – Note 4	-	-	-	-	63,555	-	63,555
Excess of proceeds over cost from disposition of resource properties	50,000	-	-	-	938,808	(137,999)	850,809
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>137,999</u>	<u>137,999</u>
Balance, October 31, 2004	<u>\$ 50,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 938,808</u>	<u>\$ -</u>	<u>\$ 988,808</u>

SEE ACCOMPANYING NOTES

COMMERCE RESOURCES CORP.
NOTES TO THE FINANCIAL STATEMENTS
October 31, 2005 and 2004

Note 1 Nature and Continuance of Operations

Commerce Resources Corp. (the "Company") is a public company listed on the TSX Venture Exchange trading under the symbol CCE. The Company was incorporated on May 19, 1999 under the Company Act of British Columbia and is in the business of acquiring, exploring, developing and evaluating mineral resource properties, and either joint venturing or developing these properties further or disposing of them when the evaluation is completed. At October 31, 2005, the Company was in the exploration stage and had interests in properties located in British Columbia.

The recoverability of amounts shown for resource properties is dependent upon the discovery of economically recoverable reserves, continuation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain financing to complete their development, and future profitable production or disposition thereof.

These financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Realization values may be substantially different from carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. At October 31, 2005, the Company had not yet achieved profitable operations, and has accumulated losses of \$2,913,367 since its inception, and expects to incur further losses in the development of its business, all of which casts substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to generate future profitable operations and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due.

Note 2 Summary of Significant Accounting Policies

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles in Canada. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates which have been made using careful judgement. Actual results could vary from these estimates.

The financial statements, have in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

Note 2 Summary of Significant Accounting Policies – (cont'd)

a) Marketable Securities

Marketable securities are carried at the lower of cost and market value.

b) Resource Properties

The Company defers the cost of acquiring, maintaining its interest, exploring and developing mineral properties until such time as the properties are placed into production, abandoned, sold or considered to be impaired in value. Costs of producing properties will be amortized on a unit of production basis and costs of abandoned properties are written-off. Proceeds received on the sale of interests in mineral properties are credited to the carrying value of the mineral properties, with any excess included in operations. Write-downs due to impairment in value are charged to operations.

The Company is in the process of exploring and developing its mineral properties and has not yet determined the amount of reserves available. Management reviews the carrying value of mineral properties on a periodic basis and will recognize impairment in value based upon current exploration results, the prospect of further work being carried out by the Company, the assessment of future probability of profitable revenues from the property or from the sale of the property. Amounts shown for properties represent costs incurred net of write-downs and recoveries, and are not intended to represent present or future values.

c) Equipment

Equipment is recorded at cost and amortized over their useful lives using the declining balance method using the following annual rates:

Furniture and equipment	20%
Computer equipment	30%

Additions during the year are amortized at one-half the annual rates.

d) Basic and Diluted Loss Per Share

Basic loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflect the potential dilution that could occur if potentially dilutive securities are exercised or converted to common stock. The dilutive effect of options and warrants and their equivalent is computed by application of the treasury stock method and the effect of convertible securities if the “if converted” method. Fully dilutive amounts are not presented when the effect of the computations are anti-dilutive due to the losses incurred. Accordingly, there is no difference in the amounts presented for basic and diluted loss per share.

Note 2 Summary of Significant Accounting Policies – (cont'd)

e) Fair Market Value of Financial Instruments

The carrying value of the Company's financial instruments, consisting of cash, marketable securities, amounts receivable, accounts payable and due to related party approximate their fair values due to the short maturity of such instruments. The carrying value of amounts due from related parties is also assumed to approximate their fair value. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

f) Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes only if it is more likely-than-not that they can be realized.

g) Impairment of Long-lived Assets

Canadian generally accepted accounting principles require that long-lived assets and intangibles to be held and used by the Company be reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If changes in circumstances indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, future cash flows expected to result from the use of the asset and its disposition must be estimated. If the undiscounted value of the future cash flows is less than the carrying amount of the asset, impairment is recognized. Management believes there has been no impairment of the Company's long-lived assets as at October 31, 2005.

h) Asset Retirement Obligations

The fair value of obligations associated with the retirement of tangible long-lived assets are recorded in the period the asset is put into use, with a corresponding increase to the carrying amount of the related asset. The obligations recognized are statutory, contractual or legal obligations. The liability is accreted over time for changes in the fair value of the liability through charges to accretion, which is included in depletion, depreciation and accretion expense. The costs capitalized to the related assets are amortized in a manner consistent with the depletion and depreciation of the related asset. At October 31, 2005, the Company cannot reasonably estimate the fair value of the resource properties' site restoration costs, if any.

Note 2 Summary of Significant Accounting Policies – (cont'd)

i) Mining Tax Credits

Mining tax credits are recorded in the accounts when there is reasonable assurance that the Company has complied with, and will continue to comply with, all conditions needed to obtain the credits. These non-repayable mining tax credits are earned in respect to exploration costs incurred in British Columbia, Canada and are recorded as a reduction of the related deferred exploration expenditures.

j) Foreign Currency Translation

Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars at exchange rates prevailing at the balance sheet date and non-monetary assets and liabilities are translated at exchange rates prevailing at the transaction dates. Foreign currency denominated revenues and expenses are translated at exchange rates prevailing at the transaction dates. Gains or losses arising from the translations are recognized in the current year.

k) Stock-based Compensation

The fair value of all share purchase options granted is expensed over their vesting period with a corresponding increase to contributed surplus. Upon exercise of share purchase options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

The Company uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate and, therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's share purchase options.

l) Flow-through Shares

Under the terms of flow-through share agreements, the related expenditures are renounced to the subscribers of such shares. In March 2004, the CICA issued Emerging Issue Committee Abstract No. 146, Flow-through Shares, which clarifies the recognition of previously unrecorded future income tax assets caused by renouncement of expenditures relating to flow-through shares. For flow-through shares issued after March 19, 2004, the Company records the tax effect related to the renounced deductions as a reduction of income tax expense in the statement of operations on the date that the Company renounces the deductions for investors.

Note 3 Equipment

	2005			2004
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>	<u>Net</u>
Computer equipment	\$ 4,261	\$ 3,392	\$ 869	\$ 1,242
Furniture and equipment	<u>7,903</u>	<u>4,989</u>	<u>2,914</u>	<u>3,642</u>
	<u>\$ 12,164</u>	<u>\$ 8,381</u>	<u>\$ 3,783</u>	<u>\$ 4,884</u>

Note 4 Resource Properties

Au/WEN Property

The Company has a 100% interest (subject to a 2% net smelter return royalty) in certain mineral claims located in the Nicola Mining Division of British Columbia known as the Au Property. During the year ended October 31, 2005, the Company granted an option to another non-related public company, Victory Resources Corp. (“Victory”), to earn up to a 70% interest in the Au property. Consideration for an initial 50% interest in the property is as follows:

- a) Cash payments of \$20,000:
 - \$10,000 upon execution of the agreement (received);
 - \$10,000 on or before March 1, 2006;
- b) Issue 200,000 common shares:
 - 100,000 shares upon regulatory approval (received);
 - 100,000 shares on or before March 1, 2006;
- c) Incur \$250,000 in exploration and development expenditures on the property on or before March 1, 2007

The additional 20% interest in the property will be earned by paying to the Company, on or before the third anniversary of the agreement, additional consideration of \$10,000 cash and 50,000 common shares.

Subsequent to October 31, 2005, the Company acquired an option to earn a 100% interest in three mineral claims adjacent to the Au property. Consideration is one-half of the amounts received from Victory, payable as follows:

- a) \$5,000 on the first cash payment received from Victory (subsequently paid);
- b) 50,000 common shares of Victory on the first issuance of common shares of Victory received by the Company (subsequently issued);

Note 4 Resource Properties – (cont'd)

Au/WEN Property – (cont'd)

- c) \$5,000 on the second cash payment from Victory when received by the Company;
- d) 50,000 common shares of Victory on the second issuance of common shares from Victory when received by the Company.

Verity and Fir Claims

The Company has a 100% interest in its Verity and Fir claims, located in the Blue River region of the Kamloops Mining District of British Columbia, which were previously acquired by staking.

Other Claims

a) Cable Creek

During the year ended October 31, 2004, the Company acquired an option to earn a 100% interest in certain mineral claims located in the Skeena Mining District of British Columbia known as the Cable Creek project. Consideration payable was \$5,000 upon signing and incurring exploration expenditures of \$250,000 including \$5,000 annual payments beginning in February 2005. Prior to incurring any exploration expenditures, the Company assigned the option agreement to another non-related public company (the "Assignee") for \$20,000 and 120,000 shares of the other public company.

During the year ended October 31, 2005, the Assignee incurred total exploration expenditures of \$77,578 on the property before deciding to abandon the project. The Company has decided to continue with the original option agreement and paid the original optionor \$5,000 for the annual payment required. In addition, a finder's fee of \$500 was paid.

b) Mud Lake

During the year ended October 31, 2005, the Company acquired a 100% interest in six mineral claims located in the Blue River region of the Kamloops Mining District of British Columbia for total consideration of \$13,205.

c) Carbo Claims

During the year ended October 31, 2005, the Company acquired three mineral claims (Carbo 1, 2 and 3) located in British Columbia by incurring staking costs of \$1,062.

Note 4 Resource Properties – (cont'd)

d) Other

During the year ended October 31, 2003, the Company granted an option to another non-related public company to earn a 50% interest in the Company's Aubyrd, Comm and Commerce claims. Consideration was \$10,000 cash, \$300,000 in exploration expenditures and 300,000 shares of the optionee. The Company received \$10,000 cash and 100,000 shares of the optionee during the year ended October 31, 2003. During the year ended October 31, 2004, the optionee decided not to proceed further and the Company wrote-off the carrying costs of \$294,946.

Note 5 Share Capital – Note 11

Authorized:

100,000,000 common shares without par value

Issued:

		<u>Number</u>	<u>Amount</u>
Balance, October 31, 2003		18,642,695	\$ 2,774,052
Issued to settle debts	- at \$0.11	1,240,010	136,401
Issued for cash:			
– Private placement	- at \$0.10	1,235,869	123,587
– Exercise of warrants	- at \$0.10	<u>215,000</u>	<u>21,500</u>
Balance, October 31, 2004		21,333,574	\$ 3,055,540
Issued for cash:			
– Private placement	- at \$0.15	1,300,000	195,000
Less: finders fee		-	(5,250)
– Exercise of warrants	- at \$0.10	1,020,851	102,085
	- at \$0.12	536,000	64,320
	- at \$0.14	103,000	14,420
– Exercise of options	- at \$0.10	25,000	2,500
	- at \$0.13	20,000	2,600
Transfer of contributed surplus on exercise of options		-	3,500
Issued on conversion of a convertible debenture			
– Principal	- at \$0.12	2,083,333	250,000
– Interest	- at \$0.15	<u>400,000</u>	<u>60,000</u>
Balance, October 31, 2005		<u>26,821,758</u>	<u>\$ 3,744,715</u>

Note 5 Share Capital – Note 11 – (cont'd)

Commitments:

Stock-based Compensation Plan

The Company has granted employees and directors common share purchase options. These options were granted with an exercise price equal to their fair value on the date of the grant and vest immediately.

A summary of the stock option plan is presented below:

	Years ended October 31,			
	2005		2004	
	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding at the beginning of the year	1,960,000	\$0.11	1,400,000	\$0.10
Granted	100,000	\$0.20	710,000	\$0.14
Exercised	(45,000)	\$0.11	-	-
Cancelled	<u>(250,000)</u>	<u>\$0.10</u>	<u>(150,000)</u>	<u>\$0.11</u>
Options outstanding and exercisable at the end of the year	<u>1,765,000</u>	<u>\$0.12</u>	<u>1,960,000</u>	<u>\$0.11</u>

During the year ended October 31, 2005, a compensation charge associated with stock-based compensation in the amount of \$10,000 (2004: \$46,500) has been recorded in the financial statements. The fair value of the compensation charges have been determined using the Black-Scholes option pricing model with the following assumptions:

	<u>2005</u>	<u>2004</u>
Weighted average fair value of options granted	\$0.10	\$0.065
Expected dividend yield	0.0%	0.0%
Expected volatility	90.8%	79.2 – 87.1
Risk-free interest rate	3.06%	1.98 – 2.88%
Expected term in years	2 years	2 years

Note 5 Share Capital – Note 11 – (cont'd)

Commitments: – (cont'd)

Stock-based Compensation Plan – (cont'd)

At October 31, 2005, the Company had 1,765,000 share purchase options outstanding entitling the holders thereof the right to purchase one common share as follows:

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
500,000	\$0.14	December 29, 2005*
140,000	\$0.13	April 30, 2006
100,000	\$0.20	January 6, 2007
650,000	\$0.10	January 23, 2007
<u>375,000</u>	\$0.10	July 24, 2007
<u>1,765,000</u>		

* These options expired subsequent to October 31, 2005 with none being exercised.

Warrants

At October 31, 2005, the following share purchase warrants were outstanding entitling the holders thereof the right to purchase one common share for each warrant held:

<u>Number of Warrants</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
650,000	\$0.25	November 9, 2005*
<u>2,083,333</u>	\$0.12	January 18, 2007
<u>2,733,333</u>		

* These warrants expired subsequent to October 31, 2005 with none being exercised.

Note 6 Convertible Debenture

The convertible debenture of US\$160,462 was secured by a charge over the assets of the Company. During the year ended October 31, 2004, the date due was amended to March 1, 2005 and the Company and the lender agreed to fix the amount at CDN\$250,000 and to retroactively pay interest at 12% per annum. Accrued interest payable of \$80,000 was recorded during the year ended October 31, 2004. The debenture can be converted into units of the Company at the rate of \$0.12 per unit, at the option of the lender, at any time prior to the due date provided a minimum of \$50,000 is converted. Each unit is to consist of one common share and one non-transferable share purchase warrant entitling the lender the right to purchase one additional common share of the Company for a period of two years at \$0.12 per share. During the year ended October 31, 2005, the debenture was converted into 2,083,333 units of the Company and \$60,000 of the accrued interest payable was paid by the issuance of 400,000 common shares.

Note 7 Related Party Transactions

The Company incurred charges with directors of the Company and a company with a common director as follows:

	Years ended October 31,	
	<u>2005</u>	<u>2004</u>
Administration fees	\$ 25,200	\$ 25,200
Consulting fees	4,149	9,288
Deferred exploration and development costs	5,505	16,676
Rent	14,000	12,000
Wages and benefits	<u>91,494</u>	<u>83,257</u>
	<u>\$ 140,348</u>	<u>\$ 146,421</u>

These charges were measured by the exchange amount, which is the amount agreed upon by the transacting parties.

At October 31, 2005, due from related parties of \$40,208 (2004: \$18,500) is due from a director of the Company and a company with a director in common. The amounts are unsecured, non-interest bearing and have no specific terms of repayment.

At October 31, 2005, prepaid expenses includes \$Nil (2004: \$5,758) paid to a company controlled by a director of the Company.

At October 31, 2005, accounts payable includes \$35,652 (2004: \$Nil) due to directors of the Company and to a company with a common director.

At October 31, 2005, due to related party of \$Nil (2004: \$38,068) is due to a company with common directors, unsecured, non-interest bearing and has no specific terms for repayment.

During the year ended October 31, 2005, the Company issued 360,000 shares valued at \$48,010 to directors and an officer pursuant to a private placement and the exercise of share purchase warrants and options.

Note 8 Corporation Income Taxes

The Company has accumulated \$1,191,982 of Canadian development and resource expenditures and non-capital losses totalling \$1,707,148 that is available to offset future years' taxable income. The non-capital losses expire as follows:

2007	\$	29,847
2008		386,319
2009		386,658
2010		254,663
2014		296,389
2015		<u>353,272</u>
	\$	<u>1,707,148</u>

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

	<u>2005</u>	<u>2004</u>
Non-capital losses	\$ 608,000	\$ 482,251
Canadian development and exploration expenditures	13,000	12,593
Other	<u>15,000</u>	<u>2,593</u>
	636,000	497,437
Less: valuation allowance	<u>(636,000)</u>	<u>(497,437)</u>
	<u>\$ -</u>	<u>\$ -</u>

The Company has recorded a valuation allowance against its future income tax assets based on the extent to which it is more-likely-than-not that sufficient taxable income will not be realized during the carry-forward period to utilize all the future tax assets.

Note 9 Non-cash Transactions

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the statement of cash flows. The following transactions have been excluded from the statement of cash flows:

During the year ended October 31, 2005:

- a) the Company issued 2,083,333 units at \$0.12 per unit for a total of \$250,000 pursuant to the conversion of a convertible debenture.
- b) The Company issued 400,000 common shares at \$0.15 per share for a total of \$60,000 for interest owing on a convertible debenture.
- c) The Company issued 645,000 units at \$0.15 per unit for a total of \$96,750 in respect of common share subscriptions previously received.

Note 9 Non-cash Transactions – (cont'd)

- d) The Company received 175,000 common shares of public companies, having a market value of \$35,784, pursuant to agreements to sell certain mineral claims.

During the year ended October 31, 2004:

- a) the Company issued 1,137,010 shares at \$0.11 per share and 103,000 units at \$0.11 per unit pursuant to agreements to settle debts totalling \$136,401;
- b) the Company received 580,000 common shares of public companies, having a market value of \$157,200, pursuant to agreements to sell certain mineral claims;
- c) the Company acquired mineral claims for consideration that included marketable securities having a value of \$10,000.
- d) the mineral exploration tax credit, previously credited to the cost of resource properties was added back to resource property costs.

Note 10 Contingency

A claim has been filed against the Company seeking an enforcement of a trust agreement in respect of certain mineral claims. Management is of the opinion that this claim is without merit. The amount of potential loss, if any, from this claim is not determinable.

Note 11 Subsequent Events – Note 5

Subsequent to October 31, 2005, the Company issued 11,659,366 common shares pursuant to the following private placements:

- a) Issued 2,441,000 units at \$0.12 per unit for total proceeds of \$292,920. Each unit consists of one common share and one share purchase warrant entitling the holder thereof to purchase an additional common share for each warrant held for \$0.18 per share for a period of one year. As at October 31, 2005, the Company had received \$103,520 of the total proceeds.
- b) Issued 930,950 units at \$0.16 per unit for total proceeds of \$148,952. Each unit consists of one flow-through common share and one share purchase warrant entitling the holder thereof to purchase an additional common share for each warrant held for \$0.18 per share for a period of one year. Finders' fees relating to this offering were 102,416 common shares and cash of \$12,090. As at October 31, 2005, the Company had received \$92,432 of the total proceeds and paid a finder's fee of \$2,400.
- c) Issued 8,135,000 units at \$0.12 per unit for total proceeds of \$976,200. Each unit consists of one common share and one share purchase warrant entitling the holder thereof to purchase an additional common share for each warrant held for \$0.18 per share for a period of one year. A finder's fee of 50,000 common shares and cash of \$5,000 was paid.