

**TRIGON EXPLORATION CANADA LTD.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2005**

## AUDITORS' REPORT

To the Shareholders of  
Trigon Exploration Canada Ltd.

We have audited the balance sheets of Trigon Exploration Canada 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.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Accountants

February 3, 2006

A Member of *SC INTERNATIONAL*

**TRIGON EXPLORATION CANADA LTD.**  
**BALANCE SHEETS**  
**AS AT DECEMBER 31**

	2005	2004
<b>ASSETS</b>		
<b>Current</b>		
Cash and equivalents	\$ 3,624,170	\$ 3,857,699
Receivables	145,328	638,233
Prepaid expenses	<u>27,385</u>	<u>194,782</u>
	3,796,883	4,690,714
<b>Property and equipment</b> (Note 3)	404,501	255,480
<b>Long-term investment</b> (Note 4)	37,500	120,000
<b>Mineral properties</b> (Note 5)	<u>3,758,154</u>	<u>1,727,649</u>
	<u>\$ 7,997,038</u>	<u>\$ 6,793,843</u>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

<b>Current</b>		
Accounts payable and accrued liabilities	\$ 107,114	\$ 170,238
<b>Shareholders' equity</b>		
Capital stock (Note 6)	9,625,422	7,536,864
Contributed surplus (Note 6)	282,045	257,915
Deficit	<u>(2,017,543)</u>	<u>(1,171,174)</u>
	<u>7,889,924</u>	<u>6,623,605</u>
	<u>\$ 7,997,038</u>	<u>\$ 6,793,843</u>

**Nature and continuance of operations** (Note 1)

**Commitments** (Note 10)

**Subsequent event** (Note 14)

**On behalf of the Board:**

*"Sidney Himmel"*

Director

*"Magnus Haglund"*

Director

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

**TRIGON EXPLORATION CANADA LTD.**  
**STATEMENTS OF OPERATIONS AND DEFICIT**  
**YEAR ENDED DECEMBER 31**

	2005	2004
<b>EXPENSES</b>		
Amortization	\$ 83,481	\$ 13,936
Conferences	17,643	8,397
Consulting	24,600	82,378
Investor relations	180,946	74,625
Office and miscellaneous	128,710	77,088
Professional fees	132,801	148,643
Property investigation costs	141,836	-
Rent and storage	36,002	19,520
Stock-based compensation (Note 7)	24,130	106,681
Transfer agent and filing fees	35,520	2,841
Travel and related costs	91,200	107,442
Wages and benefits	<u>292,306</u>	<u>169,209</u>
<b>Loss before other items and income taxes</b>	<u>(1,189,175)</u>	<u>(810,760)</u>
<b>OTHER ITEMS</b>		
Interest	71,497	-
Write-off of mineral properties (Note 5)	(225,908)	(96,670)
Write-down of long-term investment (Note 4)	<u>(82,500)</u>	<u>-</u>
	<u>(236,911)</u>	<u>(96,670)</u>
<b>Loss before income taxes</b>	(1,426,086)	(907,430)
<b>Future income tax recovery (Note 11)</b>	<u>579,717</u>	<u>158,125</u>
<b>Loss for the year</b>	(846,369)	(749,305)
<b>Deficit, beginning of year</b>	<u>(1,171,174)</u>	<u>(421,869)</u>
<b>Deficit, end of year</b>	<u>\$ (2,017,543)</u>	<u>\$ (1,171,174)</u>
<b>Basic and diluted loss per common share</b>	\$ (0.03)	\$ (0.04)
<b>Weighted average number of common shares outstanding</b>	28,650,429	16,665,558

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

**TRIGON EXPLORATION CANADA LTD.**  
**STATEMENTS OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31**

	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the year	\$ (846,369)	\$ (749,305)
Items not affecting cash:		
Amortization	83,481	13,936
Stock-based compensation	24,130	106,681
Future income tax recovery	(579,717)	(158,125)
Write-off of mineral properties	225,908	96,670
Write-down of long-term investment	82,500	-
Changes in non-cash working capital items:		
(Increase) decrease in receivables	638,233	(601,815)
(Increase) decrease in prepaid expenses	17,397	(194,782)
Increase (decrease) in accounts payable and accrued liabilities	<u>(83,613)</u>	<u>63,431</u>
Net cash used in operating activities	<u>(438,050)</u>	<u>(1,423,309)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property and equipment	(82,502)	(258,521)
Mineral property expenditures	(3,677,687)	(2,335,952)
Mineral property recoveries	<u>1,296,435</u>	<u>1,636,060</u>
Net cash used in investing activities	<u>(2,463,754)</u>	<u>(958,413)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of capital stock	3,124,948	6,789,600
Share issuance costs	<u>(456,673)</u>	<u>(1,215,154)</u>
Net cash provided by financing activities	<u>2,668,275</u>	<u>5,574,446</u>
<b>Change in cash and equivalents for the year</b>	<b>(233,529)</b>	<b>3,192,724</b>
<b>Cash and equivalents, beginning of year</b>	<u><b>3,857,699</b></u>	<u><b>664,975</b></u>
<b>Cash and equivalents, end of year</b>	<u><b>\$ 3,624,170</b></u>	<u><b>\$ 3,857,699</b></u>
<b>Cash and equivalents consist of:</b>		
Cash	\$ 524,170	\$ 857,699
Term deposits	<u>3,100,000</u>	<u>3,000,000</u>
	<u><b>\$ 3,624,170</b></u>	<u><b>\$ 3,857,699</b></u>

**Supplemental disclosure with respect to cash flows (Note 9)**

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

## **1. NATURE AND CONTINUANCE OF OPERATIONS**

Trigon Exploration Canada Ltd. (the “Company”) was incorporated under the Canada Business Corporations Act on November 8, 2002. The Company’s primary business is the acquisition and exploration of mineral properties and it is considered to be in the exploration stage. On June 28, 2004, the Company reorganized its capital stock and converted all Class B multiple voting shares into common shares on a 1:1 basis. On November 1, 2004, the Company completed its initial public offering (“IPO”).

The Company has not yet determined whether its mineral properties contain economically recoverable ore reserves. The recovery of the amounts comprising mineral properties and deferred exploration costs are dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain necessary financing to successfully complete the exploration and 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 continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. These financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

## **2. SIGNIFICANT ACCOUNTING POLICIES**

### **Estimates**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Cash and equivalents**

Cash and equivalents consist of cash and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### **Property and equipment**

Equipment is recorded at cost less accumulated amortization. Amortization is recorded at the following annual rates and methods:

Furniture and fixtures	20% declining balance
Computer equipment	30% declining balance
Exploration equipment	20% declining balance
Drilling equipment	20% declining balance
Leasehold improvements	5 years straight-line

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Long-term investment**

Long-term investment consists of shares in a publicly traded company and is accounted for on the cost basis. Declines in market value below costs are recognized when such declines are considered to be other than temporary.

**Mineral properties**

All costs related to the acquisition, exploration and development of mineral properties are capitalized by property. If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated net realizable value. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

The amounts shown for mineral properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

**Asset retirement obligation**

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease to the carrying amount of the liability and the related long-lived asset.

**Stock-based compensation**

The Company accounts for the granting of stock options and direct awards of stock to employees and non-employees using the fair value method whereby all awards to employees and non-employees will be recorded at fair value on the date of grant and amortized over the vesting period. The Company estimates the fair value of each stock option at the date of grant using the Black-Scholes option pricing model. Any consideration paid on the exercise of stock options is credited to capital stock.

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Income taxes**

Future income taxes are recorded using the asset and liability method whereby 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 year that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset would be recovered, it provides a valuation allowance against the excess.

**Flow-through shares**

Canadian tax legislation permits a company to issue flow-through shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company. Recording these expenditures for accounting purposes gives rise to taxable temporary differences.

Effective March 19, 2004, the Emerging Issues Committee of the Canadian Institute of Chartered Accountants requires that, when flow-through expenditures are renounced, a portion of the future income tax assets that were not recognized in previous years, due to the recording of a valuation allowance, be recognized as a recovery of income taxes in the statement of operations.

**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 and warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year. For the years presented, this calculation proved to be anti-dilutive.

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

**TRIGON EXPLORATION CANADA LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Comparative figures**

Comparative figures have been reclassified to conform with the current year's presentation.

**3. PROPERTY AND EQUIPMENT**

	2005			2004		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Furniture and fixtures	\$ 31,403	\$ 6,060	\$ 25,343	\$ 10,952	\$ 747	\$ 10,205
Computer equipment	99,227	37,262	61,965	91,792	13,200	78,592
Exploration equipment	110,252	21,955	88,297	107,400	-	107,400
Drilling equipment	200,000	20,000	180,000	-	-	-
Leasehold improvements	62,947	14,051	48,896	61,183	1,900	59,283
	<u>\$ 503,829</u>	<u>\$ 99,328</u>	<u>\$ 404,501</u>	<u>\$ 271,327</u>	<u>\$ 15,847</u>	<u>\$ 255,480</u>

**4. LONG-TERM INVESTMENT**

Long-term investment consists of 75,000 shares in Contact Diamond Corporation ("CDC"), formerly Sudbury Contact Mines Ltd, (Note 5) with a market value as at December 31, 2005 of \$37,500 (2004 - \$58,580). During the year ended December 31, 2005, the Company wrote down the investment by \$82,500 (2004 - \$Nil).

**TRIGON EXPLORATION CANADA LTD.**  
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**5. MINERAL PROPERTIES**

	2005								
	Ram	Bam	Zyena	Ganesh	Tim	Viking	Alliance	Other	Total
<b>Acquisition costs</b>									
Balance, beginning of year	\$ 1,143,874	\$ -	\$ 101,972	\$ 693,374	\$ 14,754	\$ 37,569	\$ -	98,883	\$ 2,090,426
Additions during the year									
Planning and data	90,105	100	2,863	25,085	2,763	15,046	53,772	17,013	206,747
Permitting and recording	21,329	43	-	2,192	1,503	10	36,888	93	62,058
Staking	215	-	-	-	-	11,663	107,576	3,862	123,316
Acquisition	<u>44,848</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>250,000</u>	<u>-</u>	<u>294,848</u>
	<u>156,497</u>	<u>143</u>	<u>2,863</u>	<u>27,277</u>	<u>4,266</u>	<u>26,719</u>	<u>448,236</u>	<u>20,968</u>	<u>686,969</u>
Total acquisition costs	<u>1,300,371</u>	<u>143</u>	<u>104,835</u>	<u>720,651</u>	<u>19,020</u>	<u>64,288</u>	<u>448,236</u>	<u>119,851</u>	<u>2,777,395</u>
<b>Deferred exploration costs</b>									
Balance, beginning of year	<u>1,249,442</u>	<u>-</u>	<u>-</u>	<u>320,536</u>	<u>-</u>	<u>15,422</u>	<u>-</u>	<u>14,576</u>	<u>1,599,976</u>
Additions during the year									
Planning and data	15,679	-	-	3,480	803	4,776	11,285	1,721	37,744
Sampling	170,009	1,677	16,349	132,804	18,046	86,525	108,742	10,693	544,845
Geology	4,506	100	111	1,766	19,701	170	14,422	5,043	45,819
Laboratory and mineral analysis	149,092	5,949	13,581	63,413	-	158,545	8,385	34,017	432,982
Geophysics	402,741	-	-	246,720	-	98,217	178,762	-	926,440
Drilling	<u>706,218</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>317,159</u>	<u>-</u>	<u>1,023,377</u>
	<u>1,448,245</u>	<u>7,726</u>	<u>30,041</u>	<u>448,183</u>	<u>38,550</u>	<u>348,233</u>	<u>638,755</u>	<u>51,474</u>	<u>3,011,207</u>
Total deferred exploration costs	<u>2,697,687</u>	<u>7,726</u>	<u>30,041</u>	<u>768,719</u>	<u>38,550</u>	<u>363,655</u>	<u>638,755</u>	<u>66,050</u>	<u>4,611,183</u>

- Continued -

**TRIGON EXPLORATION CANADA LTD.**  
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**5. MINERAL PROPERTIES (cont'd...)**

	2005								
	Ram	Bam	Zyena	Ganesh	Tim	Viking	Alliance	Other	Total
<i>Continued...</i>									
<b>Recoveries</b>									
Balance, beginning of year	(1,612,753)	-	-	(350,000)	-	-	-	-	(1,962,753)
Additions during the year									
Option payments received	(811,424)	-	-	(561,844)	(17,683)	-	-	-	(1,390,951)
Management fees	(24,986)	-	-	(25,299)	(527)	-	-	-	(50,812)
	(836,410)	-	-	(587,143)	(18,210)	-	-	-	(1,441,763)
Total recoveries	(2,449,163)	-	-	(937,143)	(18,210)	-	-	-	(3,404,516)
<b>Written-off during the year</b>	-	(7,869)	(134,876)	-	-	-	-	(83,163)	(225,908)
<b>Total</b>	<b>\$1,548,895</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 552,227</b>	<b>\$ 39,360</b>	<b>\$ 427,943</b>	<b>\$1,086,991</b>	<b>\$ 102,738</b>	<b>\$3,758,154</b>

**TRIGON EXPLORATION CANADA LTD.**  
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**5. MINERAL PROPERTIES (cont'd...)**

	2004							Total
	Ram	Bam	Zyena	Ganesh	Tim	Viking	Other	
<b>Acquisition costs</b>								
Balance, beginning of year	\$ 877,650	\$ 40,756	\$ 84,060	\$ 97,496	\$ -	\$ -	\$ 14,271	\$1,114,233
Additions during the year								
Permitting and recording	52,525	-	1,289	17,992	14,754	-	12,108	98,668
Planning and data	107,379	4,636	8,143	71,873	-	37,569	72,504	302,104
Staking	106,320	127	8,480	506,013	-	-	-	620,940
	<u>266,224</u>	<u>4,763</u>	<u>17,912</u>	<u>595,878</u>	<u>14,754</u>	<u>37,569</u>	<u>84,612</u>	<u>1,021,712</u>
Balance, end of year	<u>1,143,874</u>	<u>45,519</u>	<u>101,972</u>	<u>693,374</u>	<u>14,754</u>	<u>37,569</u>	<u>98,883</u>	<u>2,135,945</u>
<b>Deferred exploration costs</b>								
Balance, beginning of year	327,197	-	-	-	-	-	9,690	336,887
Additions during the year								
Geophysics	561,022	-	-	-	-	-	4,886	565,908
Laboratory and mineral analysis	227,750	21,850	-	105,324	-	-	-	354,924
Sampling	133,473	29,301	-	215,212	-	-	15,422	393,408
	<u>922,245</u>	<u>51,151</u>	<u>-</u>	<u>320,536</u>	<u>-</u>	<u>-</u>	<u>20,308</u>	<u>1,314,240</u>
Balance, end of year	<u>1,249,442</u>	<u>51,151</u>	<u>-</u>	<u>320,536</u>	<u>-</u>	<u>-</u>	<u>29,998</u>	<u>1,651,127</u>
<b>Recoveries</b>								
Balance, beginning of year	(206,693)	-	-	-	-	-	-	(206,693)
Additions during the year								
Option payments received	(1,369,490)	-	-	(350,000)	-	-	-	(1,719,490)
Management fees received	(36,570)	-	-	-	-	-	-	(36,570)
	<u>(1,406,060)</u>	<u>-</u>	<u>-</u>	<u>(350,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,756,060)</u>
Balance, end of year	<u>(1,612,753)</u>	<u>-</u>	<u>-</u>	<u>(350,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,962,753)</u>
<b>Written-off during the year</b>								
	-	(96,670)	-	-	-	-	-	(96,670)
Total	\$ 780,563	\$ -	\$ 101,972	\$ 663,910	\$ 14,754	\$ 37,569	\$ 128,881	\$1,727,649

**5. MINERAL PROPERTIES** (cont'd...)

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and to the best of its knowledge, title to the properties are in good standing.

a) Ram property

During the year ended December 31, 2003, the Company purchased a 100% interest in the Ram property, consisting of the Ram, Hugo and Green claims, in the Southern Slave Lake area in the North West Territories by issuing 4,983,153 common shares valued at \$653,435. Thereafter, the Company staked additional interests in this area.

During the year ended December 31, 2005, CDC earned a 53.2% undivided ownership interest in the Ram property pursuant to an option agreement. The Company received \$50,000, 75,000 CDC shares with a value of \$120,000 and funding of \$2,449,163 of exploration work on the Ram property.

CDC may earn up to a 65% interest in the Ram property by funding a cumulative total of \$4,450,000 of exploration work on the property.

b) Bam property

During the year ended December 31, 2003, the Company purchased a 100% interest in the Bam property in the Southern Slave Lake area in the North West Territories by issuing 310,809 common shares valued at \$40,756. During the year ended December 31, 2004, the Company determined the property was not economically viable and allowed the claims to lapse and accordingly, the property was written-off to operations. Additional costs of \$7,869 incurred during the year ended December 31, 2005 have been written off.

c) Zyena property

During the year ended December 31, 2003, the Company staked claims located north of Munn Lake in the Slave Lake Craton of the Northwest Territories. During the year ended December 31, 2005, the Company determined that the property was not economically viable and the property was written off to operations.

d) Ganesh and Tim properties

During the year ended December 31, 2003, the Company obtained a 100% interest in the Ganesh property, consisting of the IC and LO claims, in the Committee Bay area of Nunavut.

During the year ended December 31, 2004, the Company was granted a 51% interest in respect of diamond interests on the Tim property located in the Committee Bay area of Nunavut adjoining the IC claim.

During the year ended December 31, 2005, CDC earned 49% of the Company's interest in the Ganesh and Tim properties pursuant to option agreements. As at December 31, 2005, the Company has received funding of \$955,353 of exploration work on the properties.

CDC may earn up to a 60% interest in the Ganesh property by funding a cumulative total of \$3,900,000 of exploration work on the property.

**TRIGON EXPLORATION CANADA LTD.**  
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**5. MINERAL PROPERTIES (cont'd...)**

e) Viking property

During the year ended December 31, 2005, the Company staked claims located in the Superior Craton area of Ontario.

f) Alliance/ Attawapiskat properties

During the year ended December 31, 2005, the Company acquired an option to earn a 50% interest in the Alliance and Attawapiskat properties located in the James Bay Lowlands area of Northern Ontario. Under the terms of the option agreement, the Company paid \$250,000 and is required to incur exploration expenditures of \$1,500,000 by April 30, 2006. The Company may increase its interest in both properties to 60% by spending an additional \$1,500,000 by April 30, 2008.

During the year ended December 31, 2005, the Company terminated its option on the Attawapiskat property. There were no costs associated with this property.

g) Other

Other acquisition and deferred exploration costs pertain to future potential mineral properties.

**6. CAPITAL STOCK AND CONTRIBUTED SURPLUS**

	Number of Shares	Capital Stock	Contributed Surplus
Authorized			
Unlimited common shares			
Common shares issued			
Balance as at December 31, 2003	11,366,102	\$ 2,092,152	\$ 21,500
Private placements for cash	5,087,777	2,289,500	-
Initial public offering	8,182,000	4,500,100	-
Agent's shares	100,000	55,000	-
Share issue costs	-	(1,270,154)	-
Agent's fee	186,402	(84,016)	84,016
Agent's warrants	-	(45,718)	45,718
Stock-based compensation	-	-	106,681
Balance as at December 31, 2004	24,922,281	7,536,864	257,915
Private placements for cash	9,875,305	3,124,948	-
Share issue costs	-	(206,668)	-
Agent's fee	-	(250,005)	-
Stock-based compensation	-	-	24,130
Future income tax on exploration costs renounced to shareholders	-	(579,717)	-
Balance as at December 31, 2005	34,797,586	\$ 9,625,422	\$ 282,045

**6. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)**

Included in issued share capital stock at December 31, 2005 are 3,857,339 (2004 – 5,786,009) common shares being held in escrow that may not be traded without regulatory approval.

**Share reorganization**

At the Company's Annual and Special Meeting of Shareholders held on June 24, 2004, shareholders approved a reorganization of the Company's share capital, effective June 28, 2004, whereby the Company's Class A subordinate voting shares were cancelled and all outstanding Class B multiple voting shares were converted into an equal number of common shares. All references to previously issued shares have been restated to reflect this reorganization.

**Share issuances**

On December 20, 2005, the Company issued 5,113,400 flow-through common shares at \$0.22 per share for gross proceeds of \$1,124,948. The Company incurred \$149,968 in costs associated with this private placement.

On April 7, 2005, the Company issued 713,905 flow-through common shares at a price of \$0.42 per share for gross proceeds of \$299,840. The Company incurred costs of \$77,335 associated with this private placement.

On March 3, 2005, the Company issued 4,048,000 flow-through common shares at a price of \$0.42 per share for gross proceeds of \$1,700,160. The Company incurred costs of \$229,370 associated with this private placement.

On November 1, 2004, the Company completed its IPO and issued 3,091,000 flow-through common shares at a price of \$0.55 per flow-through share and issued 5,091,000 units at a price of \$0.55 per unit for gross proceeds of \$4,500,100. Each unit consisted of one non-flow through common share and one-half of one warrant, with each whole warrant entitling the holder to purchase one common share of the Company for \$0.75 until May 1, 2006. The Company issued 100,000 non flow-through shares and 908,200 warrants, exercisable at \$0.55 per common share until November 1, 2005 as agent's compensation in connection with the IPO. The agent's shares have been recorded as share issue costs at a relative fair value of \$55,000, and agent warrants at a fair value of \$45,718 based on the Black-Scholes option pricing model, assuming a risk free rate of 2.90%, volatility of 56.96%, expected life of 1 year, and a dividend rate of 0.00%.

On April 29, 2004, the Company issued 427,722 units at a price of \$0.45 per unit for gross proceeds of \$192,475 pursuant to a private placement. The units consisted of one common share and one-half of one share purchase warrant. Each full share purchase warrant enables the holder to purchase one common share of the Company for \$0.60 until April 29, 2006.

On March 26, 2004, the Company issued 4,660,055 units at a price of \$0.45 per unit pursuant to a private placement for gross proceeds of \$2,097,025. Each unit consisted of one common share and one-half of one share purchase warrant. Each full share purchase warrant enables the holder to purchase one common share of the Company for \$0.60 until March 26, 2006. The Company issued 186,402 units as agent's compensation in connection with the private placement. The agent's units have been recorded at a relative fair value of \$84,016 and applied against the proceeds allocated to capital stock in contributed surplus.

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**7. STOCK OPTIONS AND WARRANTS**

**Stock options**

The Company has an incentive stock option plan (the "Plan") whereby the Company may grant stock options to eligible employees, officers, directors and consultants at an exercise price to be determined by the board of directors, provided the exercise price is not lower than the market value at time of issue. The Plan provides for the issuance of up to 10% of the Company's issued common shares as at the date of grant with each stock option having a maximum term of five years. The board of directors has the exclusive power over the granting of options and their vesting provisions.

As at December 31, 2005, stock options were outstanding enabling the optionees to acquire the following number of common shares:

Number of Shares	Exercise Price	Expiry Date
345,993	\$ 0.20	March 31, 2006
170,000	0.55	December 3, 2007
150,000	0.30	November 24, 2008
475,000	0.55	December 3, 2009
525,000	0.55	January 17, 2010

Stock option transactions are summarized as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 2003	345,993	\$ 0.20
Granted	<u>695,000</u>	0.55
Outstanding at December 31, 2004	1,040,993	0.43
Granted	675,000	0.49
Expired	<u>(50,000)</u>	0.55
Outstanding at December 31, 2005	1,675,993	\$ 0.45
Number of options currently exercisable	1,515,993	\$ 0.47

**Stock-based compensation**

During the year ended December 31, 2005, the Company granted 675,000 (2004 - 695,000) options to directors, senior officers, employees and consultants. Each option gives the holder the right to acquire one share for \$0.55 (2004 - \$0.55). The fair value of the options, as determined by the Black-Scholes option pricing model, was \$24,130 (2004 - \$106,681). The weighted average fair value of options granted during the year ended December 31, 2005 was \$0.05 (2004 - \$0.15) per option. Vesting periods ranged from the grant date to one year from the grant date.

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**7. STOCK OPTIONS AND WARRANTS (cont'd...)**

**Stock-based compensation (cont'd...)**

The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted during the year:

	2005	2004
Risk-free interest rate	4.02 %	2.90%
Expected life of options/warrants	5 years	1 - 5 years
Annualized volatility	19.47%	56%
Dividend rate	0%	0.00%

**Warrants**

As at December 31, 2005, the Company had outstanding share purchase warrants, enabling the holders to acquire common shares as follows:

Number of Shares	Exercise Price	Expiry Date
2,423,228	\$ 0.60	March 26, 2006
213,860	0.60	April 29, 2006
2,545,500	0.75	May 1, 2006
837,500	0.30	November 20, 2006
1,270,850	0.30	November 28, 2006
698,784	0.30	December 12, 2006

Warrant transactions are summarized as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 2003	2,807,133	\$ 0.30
Issued	<u>6,090,789</u>	0.66
Outstanding at December 31, 2004	8,897,922	0.54
Expired	<u>(908,200)</u>	0.55
Outstanding at December 31, 2005	<u>7,989,722</u>	\$ 0.54

**8. RELATED PARTY TRANSACTIONS**

The Company entered into the following transactions with related parties not disclosed elsewhere in these financial statements.

- a) Paid or accrued laboratory and mineral analysis costs, included in deferred exploration costs, of \$239,545 (2004 - \$187,887) to a corporation controlled by directors of the Company.
- b) Paid or accrued planning and data costs, included in deferred exploration costs of \$Nil (2004 - \$78,333) to a corporation controlled by a director of the Company.
- c) Paid or accrued wages and benefits of \$221,295 (2004 - \$160,000) to directors of the Company and wages which are capitalized to mineral property planning and data costs of \$Nil (2004 - \$106,666) to a director of the Company.
- d) Purchased exploration equipment for \$Nil (2004 - \$107,400) from a corporation controlled by directors of the Company.

Included in accounts payable is \$3,889 (2004 - \$ Nil) due to directors of the Company. Included in prepaid expenses is \$Nil (2004 - \$19,679) and in receivables is \$Nil (2004 - \$14,478) advanced to or owing from directors of the Company.

These transactions were in the normal course of operations and were measured at the exchange value which represented the amount of consideration established and agreed to by the related parties.

**9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

The significant non-cash transactions for the year ended December 31, 2005 were as follows:

- a) incurred mineral property expenditures of \$20,489 through accounts payable;
- b) recorded \$145,328 of mineral property recoveries in receivables; and
- c) received mineral exploration equipment of \$150,000 prepaid in the year ended December 31, 2004.

The significant non-cash transactions for the year ended December 31, 2004 were as follows:

- a) the receipt of long-term investments with a value of \$120,000 (Note 4), which was included in mineral property recoveries;
- b) the issuance of 186,402 units as agent's compensation with a fair value of \$84,016 as a share issuance cost;
- c) the issuance of 100,000 common shares as agents' compensation with a fair value of \$55,000, which was included in common stock; and
- d) the issuance of 908,200 warrants as agent's compensation with a fair value of \$45,718 as a share issuance cost.

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**10. COMMITMENTS**

The Company has entered into an operating lease agreement for premises. The annual lease commitments under the lease are approximately as follows:

2006	\$	27,991
2007		27,991
2008		27,991
2009		<u>27,991</u>
	\$	<u>111,964</u>

**11. INCOME TAXES**

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

	2005	2004
Loss before income taxes	\$ (1,426,086)	\$ (907,430)
Expected income tax (recovery)	\$ (554,320)	\$ (323,046)
Items not deductible for income tax purposes	491,086	248,116
Items deducted for income tax purposes	(63,233)	(94,104)
Other items	<u>(453,250)</u>	<u>10,909</u>
Future income tax recovery	\$ (579,717)	\$ (158,125)

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

	2005	2004
Future income tax assets (liabilities):		
Non-capital loss carryforwards	\$ -	\$ 218,057
Equipment	(14,525)	5,642
Investments	29,799	-
Share issue costs	414,672	372,746
Mineral properties	<u>(173,220)</u>	<u>(256,586)</u>
	256,726	339,859
Valuation allowance	<u>(256,726)</u>	<u>(339,859)</u>
Net future income tax asset	\$ -	\$ -

**11. INCOME TAXES (cont'd...)**

The Company has resource expenditures of approximately \$3,278,000 available to reduce taxable income in future years.

During the year ended December 31, 2005, the Company issued 9,875,305 (2004 - 3,091,000) common shares on a flow-through basis for proceeds of \$3,124,948 (2004 - \$1,700,050). The flow-through agreements require the Company to renounce certain tax deductions for Canadian exploration expenditures incurred on the Company's mineral properties to the flow-through participants.

During the year ended December 31, 2005, the Company renounced exploration expenditures relating to these flow-through shares of \$1,700,050 resulting in a future income tax liability and a charge against capital stock. This liability has been offset by future income tax assets resulting in a future income tax recovery of \$579,717.

**12. SEGMENTED INFORMATION**

The Company conducts substantially all of its operations in Canada in one business segment, being the acquisition and exploration of mineral properties.

**13. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash and equivalents, receivables, long-term investment, accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or currency risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

**Credit risk**

The financial instruments that potentially expose the Company to a concentration of credit risk are cash and equivalents and receivables. The Company limits its exposure to credit loss for cash and equivalents by placing its cash with high quality financial institutions and for receivables by standard credit checks.

**14. SUBSEQUENT EVENT**

Subsequent to December 31, 2005, the Company extended the expiry date on 345,993 director's stock options from March 31, 2006 to March 31, 2008.