Redhawk Resources, Inc.

(A Development Stage Company)

Consolidated Financial Statements

March 31, 2006 and 2005

Staley, Okada & Partners
CHARTERED ACCOUNTANTS

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AUDITOR'S REPORT

To the shareholders of Redhawk Resources, Inc. :

We have audited the consolidated balance sheets of Redhawk Resources, Inc. as at March 31, 2006 and 2005 and the consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the company as at March 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, B.C.
July 20, 2006

"Staley, Okada & Partners"
CHARTERED ACCOUNTANTS

Redhawk Resources, Inc.

Statement 1

(A Development Stage Company)
Consolidated Balance Sheets
As at March 31
Canadian Funds

ASSETS		2006		2005
Current				
Cash	$	3,508,335	$	539,539
Term deposits		2,500		330,693
Short-term investments		8,866		8,866
Accounts receivable and prepaid expenses		80,441		44,476
		3,600,142		923,574
Reclamation Bond		11,640		13,514
Property and Equipment *(Note 4)*		80,277		5,842
Resource Properties- *Schedule (Note 5)*		5,546,565		2,954,133
	$	9,238,624	$	3,897,063

LIABILITIES				
Current				
Accounts payable and accrued liabilities	$	342,380	$	80,011

SHAREHOLDERS' EQUITY				
Share Capital - *(Note 6)*		12,742,021		6,855,980
Contributed Surplus *(Note 6 (b))*		668,937		371,376
Deficit – *Statement 2*		(4,514,714)		(3,410,304)
		8,896,244		3,817,052
Commitments - *(Note 10)*				
	$	9,238,624	$	3,897,063

ON BEHALF OF THE BOARD:

Director: “Frederick W. Davidson”

Director: “Bruce Briggs”

Redhawk Resources, Inc.

Statement 2

(A Development Stage Company)

Consolidated Statements of Loss and Deficit
For the Years Ended March 31
Canadian Funds

	2006	2005
Administrative Costs		
Accounting and audit	$ 29,750	$ 6,000
Amortization	12,475	1,494
Filing fees	11,360	13,326
Insurance	20,062	14,881
Investor relations	101,130	69,100
Legal	227,788	91,537
Management fees and consulting	266,581	90,000,
Office and sundry	25,058	21,494
Office services	42,116	20,365
Rent	37,516	15,180
Stock based compensation expense - *(Note 6b)*	297,561	233,634
Transfer agent	10,486	9,585
Travel and accommodation	18,928	16,328
Loss Before the Following	1,100,811	602,924
Other Expenses (Income)		
Interest income	(4,498)	(17,542)
Other taxes	312	3,200
Write-down of short-term investments	-	4,988
Write-off of resource properties	7,785	91,897
	3,599	82,543
Loss for the Year	1,104,410	685,467
Deficit - Beginning of Year	3,410,304	2,724,837
Deficit - End of Year	$ 4,514,714	$ 3,410,304
Loss per Share – Basic and diluted	$ 0.04	$ 0.03
Weighted Average Share Outstanding	30,651,310	2,623,094

The accompanying notes form an integral part of these financial statements

Redhawk Resources, Inc.

(A Development Stage Company)

Consolidated Statements of Cash Flows
For the Years Ended March 31

Canadian Funds

Cash Resources Provided by (Used in)	**2006**	2005
Operating Activities		
Loss for the year	**$ (1,104,410)**	$ (685,467)
Items not affected by cash		
Amortization	**12,475**	1,494
Unrealized foreign exchange loss	**1,874**	(221)
Stock-based compensation expense	**297,561**	233,634
Write-down of short-term investments	**-**	4,988
Write-off of resource properties	**7,785**	91,897
Changes in non-cash working capital	**226,404**	6,056
	(558,311)	(347,619)
Investing Activities		
Property and equipment	**(86,910)**	(3,309)
Resource property expenditures	**(2,580,217)**	(722,566)
	(2,667,127)	(725,875)
Financing Activities		
Share capital issued for cash	**6,002,550**	887,150
Share issuance costs	**(136,509)**	(38,400)
	5,866,041	848,750
Net Increase (Decrease) in Cash	**2,640,603**	(224,744)
Cash position - Beginning of Year	**870,232**	1,094,976
Cash Position - End of Year	**$ 3,510,835**	$ 870,232
Cash position consists of:		
Cash	**$ 3,508,335**	$ 539,539
Term deposits	**2,500**	330,693
	$ 3,510,835	$ 870,232
Supplemental Schedule of Non-Cash Transactions		
Shares issued for financing as finder's fees	**$ 243,000**	$ -
Shares issued for resource properties	**$ 20,000**	$ 6,750

Redhawk Resources, Inc.

Schedule

(A Development Stage Company)

Consolidated Schedule of Resource Properties

For the Years Ended March 31

Canadian Funds

	2006	2005
Red Bird, Kootenay Land District, B.C. - *(Note 5 (a)(b))*		
Deferred Expenditures		
Camp and general	**$ -**	$ 3,172
Drilling	**-**	65,109
Engineering and consulting	**24,645**	9,833
Equipment rental	**-**	20,289
Field costs	**15,516**	5,409
Government fee	**-**	2,590
Labour	**-**	18,787
Permit and fees	**1,804**	-
Travel and accommodation	**-**	2,649
	41,965	127,838
Reeves, Kootenay Land District, B.C. - *(Note 5 (c))*		
Acquisition costs	**57,495**	37,631
Deferred Expenditures		
Engineering and consulting	**763**	7,367
Equipment rental	**-**	2,389
Field costs	**3,169**	-
	3,932	9,756
	61,427	47,387
Ramona, Nevada, USA - *(Note 5 (e))*		
Acquisition costs	**24,615**	20,606
Deferred Expenditures		
Engineering and consulting	**18,230**	39,883
Field costs	**6,327**	433
Vehicle	**980**	-
	25,537	40,316
	50,152	60,922
Subtotal	**$ 153,544**	$ 236,147

Redhawk Resources, Inc.

Schedule

(A Development Stage Company)

Consolidated Schedule of Resource Properties

For the Year Ended March 31

Canadian Funds

		2006		2005
Balance forward	**$**	**153,544**	$	236,147
Alien , Nevada, USA - *(Note 5 (d))*				
Acquisition costs		**25,600**		9,378
Deferred Expenditures				
Assaying and laboratory		**-**		9,801
Camp and general		**654**		5,696
Drilling		**-**		230,986
Engineering and consulting		**3,150**		88,017
Field costs		**2,618**		6,466
Option payments		**-**		6,750
Permits and fees		**30,466**		37,455
Travel and accommodation		**-**		1,593
Vehicles		**1,137**		5,130
		38,025		391,894
		63,625		401,272
Copper Creek, Arizona, USA *(Note 5 (f))*				
Acquisition costs		**1,821,061**		-
Deferred Expenditures				
Assaying and laboratory		**13,580**		-
Camp and general		**11,950**		-
Engineering and consulting		**401,244**		-
Field costs		**43,844**		-
Permits and fees		**49,739**		-
Travel and accommodation		**5,868**		-
Vehicles		**27,977**		-
		554,202		-
		2,375,263		-
Other Properties				
Deferred Expenditures				
Assaying and laboratory		**3,319**		3,270
Engineering and consulting		**3,139**		77,588
Field costs		**1,327**		8,375
Travel and accommodation		**-**		2,664
		7,785		91,897
Write-off of resource properties		**(7,785)**		(91,897)
		-		-
Deferred Exploration Costs for the Year		**2,592,432**		637,419
Balance – Beginning of Year		**2,954,133**		2,316,714
Balance – End of Year	**$**	**5,546,565**	$	2,954,133

The accompanying notes form an integral part of these financial statements

1. Nature of Operations

Redhawk Resources, Inc. (the "Company") engages principally in the acquisition, exploration and development of resource properties. As discussed in the notes to the financial statements, the recovery of the Company's investment in resource properties and the attainment of profitable operations is dependent upon the discovery and development of economic ore reserves and the ability to arrange sufficient financing to bring the ore reserves into production. The ultimate outcome of these matters cannot presently be determined because they are contingent on future events.

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2. Significant Accounting Policies

a) Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries Redhawk Resources (USA) Inc., located in Nevada, USA and Redhawk Copper, Inc., located in Arizona. These subsidiaries have been accounted for using the purchase method. All inter-company transactions and balances have been eliminated.

b) Mineral Operations

The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain ore reserves that are economically recoverable.

Mineral exploration and development costs, including indirect costs relating to the exploration program's field office, are capitalized on an individual prospect basis until such time as an economic ore body is defined or the prospect is abandoned. Costs for a producing prospect are amortized on a unit-of-production method based on the estimated life of the ore reserves, while those costs for the prospects abandoned are written off.

The recoverability of the amounts capitalized for the undeveloped mineral properties is dependent upon the determination of economically recoverable ore reserves, confirmation of the Company's interest in the underlying mineral claims, the ability to obtain the necessary financing to complete their development, and future profitable production or proceeds from the disposition thereof.

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 knowledge, title to all of its properties is in good standing.

c) Property Option Payments

From time to time, the Company may acquire or dispose of properties pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as resource property costs or recoveries when the payments are made or received. The Company does not accrue the estimated costs of maintaining its interests in good standing.

2. Significant Accounting Policies - *continued*

d) Loss per Share

Loss per share amounts have been calculated and presented in accordance with the recommendations of the Canadian Institute of Chartered Accountants. Basic earnings per share are computed by dividing income available to common shareholders by the weighted average number of shares outstanding during the period. The computation of diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share by application of the treasury stock method.

e) Management's Estimates

The preparation of financial statements in conformity 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 dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates.

f) Investments

Investments in which the Company has less than a 20% interest and does not have significant influence are recorded at the lower of cost or market value. Investments are written down to market value when the decline in market value is deemed to be other than temporary.

g) Future Income Taxes

The asset and liability method is used for determining future income taxes. Under the asset and liability method, the change in the net future tax asset or liability is included in income. The income tax effects of temporary differences in the time when income and expenses are recognized in accordance with Company accounting practises and the time they are recognized for income tax purposes are reflected as future income tax assets or liabilities. Future income tax assets and liabilities are measured using statutory rates that are expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled.

h) Stock-Based Compensation

All stock-based awards made to employees and non-employees are measured and recognized using a fair value based method. For employees, the fair value of the options is measured at the date of the grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is complete or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. For employees and non-employees, the fair value of the options is accrued and charged to operations, with the offsetting credit to contributed surplus, on a straight-line basis over the vesting period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

i) Share Capital

i) The proceeds from the exercise of stock options and warrants are recorded as share capital in the amount for which the option or warrant are enabled the holder to purchase a share in the Company.

ii) Share capital issued for non-monetary consideration is recorded at an amount based on fair market value.

j) Property and equipment

The Company provides for amortization of its office equipment on a 20% declining balance and its computer equipment and software on a 30% declining balance basis.

2. Significant Accounting Policies - *continued*

k) Cash and Cash Equivalents

For purposes of reporting cash flows, the Company considers cash and cash equivalents to include amounts held in banks and highly liquid debt investments with remaining maturities at point of purchase of three months or less. The Company places its cash and cash investments with institutions of high credit worthiness. At times, such investments may be in excess of federal insurance limits.

l) Asset Retirement Obligations

The Company's mineral exploration and development activities are subject to various laws and regulations regarding protection of the environment. As a result the Company incurs expenses from time to time to discharge its obligations under these laws and regulations. Certain of these expenses meet the definition of an asset and other expenses do not meet this definition. The assets are capitalized and the other costs are expensed as incurred.

When estimating the costs that are expected to be incurred, there are many factors to be considered such as the extended period over which the costs are to be incurred, the discount factors, and significant judgments and estimates. As such the fair value of the retirement obligations could change materially from year to year. In addition, changes in laws and regulations could cause significant changes in the expected costs and the related fair value.

During the year, management determined that there was no change to the estimates for asset retirement.

m) Foreign currency translation

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

n) Variable Interest Entities

The Accounting Standards Board (AcSB) issued Accounting Guideline AcG 15 "Consolidation of Variable Interest Entities", to harmonize the Guideline with the equivalent FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities" ("VIE"). The Guideline provides criteria for identifying VIEs and further criteria for determining what entity, if any, should consolidate them. The Guideline is effective for annual and interim periods beginning on or after April 1, 2005, and upon adoption, will not materially impact the Company's results of operations and financial position.

o) Risk management

The Company is engaged primarily in mineral exploration and manages related industry risk issues directly. The Company is at risk for environmental issues and fluctuations in commodity pricing. Management is not aware of and does not anticipate significant environmental remediation costs or liabilities in respect of its current operations.

The Company is not exposed to significant credit concentration risk. The Company is not exposed to significant interest rate risk.

The Company's functional currency is the Canadian dollar. The Company operates in foreign jurisdictions, giving rise to significant exposure to market risks from changes in foreign currency rates. The financial risk is the risk to the Company's operations that arises from fluctuations in foreign exchange rates and the degree of volatility of these rates. Currently, the Company does not use derivative instruments to reduce its exposure to foreign currency risk.

3. Fair Value of Financial Instruments

The Company's financial instruments consist of cash, term deposits, short term investments, accounts receivable, and accounts payable. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from the financial instruments. The carrying value of these financial instruments approximates their fair value due to their short-term maturity or capacity of prompt liquidation.

4. Property and Equipment

	Mar 31, 2006			Mar 31, 2005		
	Cost	Accumulated Amortization	**Net Book Value**	Cost	Accumulated Amortization	Net Book Value
Furniture and equipment	$ 36,723	4,756	$ **31,967**	$ 4,525	1,189	$ 3,336
Computer equipment	25,135	5,596	**19,539**	4,211	1,705	2,506
Software	33,848	5,077	**28,771**	-	-	-
	$ 95,706	15,429	$ **80,277**	$ 8,736	2,894	$ 5,842

5. Resource Properties

	2006	2005
Red Bird – Kootenay Land District, B.C.		
Acquisition	$ 90,151	$ 90,151
Exploration and development	2,103,568	2,061,603
Recoveries	(223,151)	(223,151)
	1,970,568	1,928,603
Red Bird Extension – Kootenay Land District, B.C.		
Acquisition	58,476	58,476
Reeves – Kootenay Land District, B.C.		
Acquisition	323,851	266,356
Exploration and development	333,923	329,991
Recoveries	(257,690)	(257,690)
	400,084	338,657
Ramona – Nevada, USA		
Acquisition	45,221	20,606
Exploration and development	65,853	40,316
	111,074	60,922
Alien - Nevada, USA		
Acquisition	60,605	35,005
Exploration and development	570,495	532,470
	631,100	567,475
Copper Creek – Arizona, USA		
Acquisition	1,821,061	-
Exploration and development	554,202	-
	2,375,263	-
Other Properties		
Exploration and development	269,378	269,378
Write-off of resource properties	(223,614)	(223,614)
Recoveries	(45,764)	(45,764)
	-	-
Total	$ 5,546,565	$ 2,954,133

5. Resource Properties - *continued*

a) Red Bird - Kootenay Land District

The May 25, 1985 mineral lease granting the rights to explore and develop the Diem claims has been superseded by a purchase and sales agreement dated April 22, 1993. Under this Agreement, the Company purchased 100% of the Diem claims for US$30,000 (paid) subject only to a 2 1/2% net smelter return royalty with a cumulative maximum of US$1,000,000.

b) Red Bird Extension - Kootenay Land District

On January 31, 1996, the Company acquired a 100% interest in a 32-unit property, adjacent to its Red Bird property, from G. Klein for the payment of $15,000 cash, the issuance of 100,000 shares at fair value of $65,000 and the granting of a 2% net smelter return royalty to the vendor. The Company, at any time, can purchase 75% of that net smelter royalty for $1,500,000, which would result in a remaining net smelter royalty of 0.5%.

c) Redhawk-Reeves Agreement

Under the Reeves agreement, as amended February 27, 2002, the Company has an option to purchase the Reeves property, on or before February 15, 2009, by paying US$2,300,000 on or before February 15, 2007, increasing by US$300,00o each subsequent year. The Company has the option to extend the exercise date annually by paying US$50,000 (paid February 2006) on or before February 15th. To date, the Company has paid a total of US $295,000 to keep the option in good standing. As part of this agreement Reeves subscribed for a $100,000 private placement of 250,000 common shares of the Company at $0.40 per share.

d) Alien Agreement

On October 3, 2003, the Company optioned to acquire a 100% interest, subject to a net smelter royalty of up to 3%, in a long-term mineral lease in 16 unpatented mining claims located in Nye County, Nevada, known as the Alien Gold project. In consideration, over an initial six-year period, the Company will make advance royalty payments of US$100,000 (US$38,500 paid), incur exploration expenditures of US$725,000 (US$436,600 completed) and issue 500,000 shares (150,000 shares issued). Thereafter, the Company shall make a series of minimum advance royalty payments on an annual basis.

e) Ramona Agreement

In May 2004, the Company optioned to purchase the Ramona Gold project in Nevada from a third party. The Company can acquire 100% interest in the property by spending US$32,000 over two years (US$54,100 spent), by paying US$770,000 in advance royalty payments over 16 years (US$30,000 paid), by issuing to the third party a total of 100,000 (25,000 issued) shares of the Company in years two to five, and by paying up to a 4% net smelter royalty from commercial production. The Company has the right to reduce the 4% net smelter royalty to 2% at any time by paying the third party US$1,200,000.

f) Copper Creek Agreement

In November 2005, the Company closed the acquisition of the Copper Creek property in Arizona by signing a letter agreement with AMT International Mining Corporation, to purchase the property for a total purchase price of $1.6 million (paid) and annual advance royalty payments of $125,000 per year while the Company retains interest in the property, the first of which has been paid during the year. Upon commercial production, the Company will have to pay a 2.25% royalty payment until a total of $25,000,000, in combined advance royalty and royalty payments have been made to AMT.

5. Resource Properties - *continued*

g) D & G Mining Agreement

In November 2005, the Company also entered into a lease to purchase agreement with a third party for an additional property within the Copper Creek boundaries. The Company has paid US$80,000 and will pay a further US$80,000 for years one and two and US$100,000 for years three to fifteen. The Company has the option to purchase the property prior to the first anniversary for US$1,200,000. The purchase price increases by US$200,000 per year each subsequent anniversary until year 15. All yearly lease payments made prior to exercising the option to purchase will be applied as credits toward the purchase price in the year the Company exercises its property purchase option.

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6. Share Capital

a) Details are as follows:

Authorized:
Unlimited common shares without par value

	Number		Amount
Balance, March 31, 2004	16,189,820		6,000,480
Share purchase warrants exercised	2,819,000		287,150
Private placement	2,000,00		600,000
Shares issued for resource properties	50,000		6,750
Share issue costs	-		(38,400)
	21,058,820		6,855,980
Balance, March 31, 2005			
Shares issued for resource properties	75,000		20,000
Share purchase warrants exercised	1,725,000		727,500
Private placements	23,167,000		5,275,050
Finder's fee	1,140,000		243,000
Share issue costs	-		(379,509)
Balance, March 31, 2006	47,165,820	$	12,742,021

i. On June 7, 2005, the Company issued a total of 25,000 common shares at a value of $0.24 under the terms of the Ramona agreement (Note 5) as follows; 12,500 shares to an officer of Redhawk Copper, Inc. and 12,500 common shares to an unrelated party.

ii. On September 26, 2005 the Company closed a private placement issuing 17,167,000 units at a price of $0.15 per unit, to raise proceeds of $2,575,050. Each unit is composed of one common share and one share purchase warrant, each warrant entitling the holder to purchase an additional common share of Redhawk at a price of $0.30 per share up to September 26, 2007.

In consideration of arranging the private placement, WestPoint Merchant Ventures Inc. of Vancouver, B.C. received a finder's fee by the issuance of 900,000 units of Redhawk. Each finder's unit has the same terms and conditions as the units issued to the placees. This has been valued at $135,000 as a finders fee.

iii. On November 15, 2005, the Company issued, to an unrelated party, a total of 50,000 common shares at a value of $0.28 under the terms of the Alien Agreement (Note 5)

6. Share Capital - *Continued*

iv. In February 2006, 1,625,000 shares were issued on the exercise of warrants as follows: 1,400,000 common shares were issued at $0.45 on exercise of warrants for proceeds of $630,000 and 225,000 common shares were issued at $0.30 on exercise of warrants for proceeds of $67,500

v. In March 2006, 100,000 common shares were issued at $0.30 on exercise of warrants for proceeds of $30,000

vi. On March 30, 2006 the Company closed a private placement issuing 6 million units at $0.45 per unit to raise $2.7 million. Each unit consists of one common share and one share purchase warrant. Each warrant may be exchanged for one common share at $0.65 if exercised within the first 12 months from the date of issue and at $0.85 thereafter up to 24 months from the date of issue. In addition, a finder's fee of $108,000 and 240,000 shares at $0.45 per share was paid for arranging this financing. The 240,000 shares have been valued at $108,000 as finders' fees.

vii. On April 15, 2004, the Company closed a private placement issuing 2 million units at $0.30 per unit to raise $600,000. Each unit consists of one common share and one share purchase warrant. Each warrant may be exchanged for one common share at $0.35 until April 14, 2005 and thereafter at a price of $0.45 per share until October 14, 2005. The company paid $38,400 and issued 160,000 non-transferable warrants as a finder's fee.

viii. From May 2004 to October 2004, 2,669,000 common shares were issued at $0.10 per share on the exercise of warrants for proceeds of $266,900

ix. In September 27, 2004, 150,000 common shares were issued at $0.135 per share on the exercise of warrants for proceeds of $20,250

x. In November 2004, 50,000 common shares were issued at a deemed price of $0.135 for option payment under the Alien Agreement (Note 5)

b) Contributed Surplus

Balance, March 31, 2004	$	137,742
Fair value of stock options issued		233,634
Balance, March 31, 2005	$	371,376
Fair value of stock options issued		297,561
Balance, March 31, 2006	$	668,937

6. Share Capital - *continued*

c) Share Purchase Warrants

i. Under an agreement dated July 8, 2002, ZincOx Resources plc, in consideration of technical and metallurgical support, was granted an option to purchase an additional 600,000 shares in the Company at any time during the next four years, at a price of $0.35 per share for the first two years and $0.50 for the following two years. Subsequent to the year end these options to purchase shares expired without being exercised.

ii. On December 30, 2003, 4,762,665 warrants were issued with respect to a non-brokered private placement. Each warrant entitled the holder to purchase an additional share of the Company until December 30, 2004 at a price of $0.35 per share. In December 2004, the Company extended the warrants until June 15, 2005, and the warrants expired without exercise.

iii. On April 15, 2004, 2,000,000 warrants were issued with respect to a non-brokered private placement. Each warrant entitles the holder to acquire one common share at a price of $0.35 per share until April 14, 2005 and thereafter at a price of $0.45 per share until October 14, 2005. The Company paid $38,400 and issued 160,000 non-transferable warrants as a finder's fee. The finders fee warrants expired during the year. In October 2005, the Company extended the April private placement warrants until April 14, 2006. During the current year a total of 1,400,000 warrants were exercised for consideration of $630,000. Subsequent to year-end, the remaining 600,000 warrants were exercised for total proceeds of $270,000.

iv. On September 26, 2005, as part of a private placement, the Company issued 17,167,000 warrants. Each warrant entitles the holder to purchase one common share of the Company at a price of $0.30 per share until September 26, 2007. The Company paid a finder's fee of 900,000 shares at a price of $0.15 per share, and issued 900,000 warrants exercisable at $0.30 per share until September 26, 2007. During the year a total of 325,000 warrants were exercised for consideration of $97,500. Subsequent to year-end, 525,000 warrants were exercised for total proceeds of $157,500.

v. On March 30, 2006 the Company closed a private placement issuing 6 million units at $0.45 per unit to raise $2.7 million. Each unit consists of one common share and one share purchase warrant. Each warrant may be exchanged for one common share at $0.65 if exercised within the first 12 months from the date of issue and at $0.85 thereafter up to 24 months from the date of issue.

vi. During the year, 1,400,000 warrants of a price of $0.45 and 325,000 warrants at a price of $0.30 were exercised.

Number Outstanding March 31, 2005	Granted	Exercised	Cancelled	Expired	Number Outstanding March 31, 2006	Exercise Price Per Share	Expiry Date
600,000	-	-	-		600,000	$ 0.50	July 8, 2006
4,762,665	-	-	-	(4,762,665)	-	$ 0.35	June 15, 2005
2,000,000	-	(1,400,000)	-	-	600,000	$ 0.45	April 14, 2006
160,000	-	-	-	(160,000)	-	$ 0.45	April 14, 2006
-	17,167,000	(325,000)	-	-	16,842,000	$0.30	Sept 26, 2007
-	900,000	-	-	-	900,000	$0.30	Sept 26, 2007
-	6,000,000	-	-	-	6,000,000	$ 0.65 to Mar 24, 07 $0.85 From Mar 24, 08	Mar 30, 2008
7,522,665	24,067,000	(1,725,000)	-	(4, 922,665)	24,942,000	$ 0.30-$0.85	April 9, 2005 – March 30, 2008

7. Share Purchase Options

The Company has established a share purchase option plan whereby the board of directors may, from time to time, grant options to directors, officers, employees or consultants. Options granted must be exercised no later than five years from date of grant or such lesser period as determined by the Company's board of directors. The exercise price of an option is not less than the closing price on the Exchange on the last trading day preceding the grant. Options shall be exercisable ("vested") as to 25% on the date of grant of the Option and 12.5% every quarter thereafter.

a) A summary of the Company's options at March 31, 2006 and the changes for the period are as follows:

Number Outstanding March 31, 2005	Granted	Exercised	Cancelled	Expired	Number Outstanding March 31, 2006	Exercise Price Per Share	Expiry Date
1,225,000	-	-	(5,000)	-	1,220,000	$ 0.25	March 5, 2008
1,240,000	-	-	-	-	1,240,000	$ 0.30	January 19, 2009-*(i)*
100,000	-	-	-	-	100,000	$ 0.20	May 12, 2009
50,000	-	-	-	-	50,000	$ 0.25	June 28, 2009
150,000	-	-	-	-	150,000	$ 0.35	March 17, 2010
-	50,000	-	-	-	50,000	$ 0.30	April 13, 2010
-	420,000	-	-	-	420,000	$ 0.16	July 8, 2010
	425,000	-	-	-	425,000	$ 0.22	July 21, 2010
-	1,250,000	-	-	-	1,250,000	$ 0.60	February 27,2011
2,765,000	2,145,000	-	(5,000)	-	4,905,000	$ 0.16-$0.60	March 5, 2008 – February 27, 2011

i. In March 2003, the Company granted additional stock options under its Stock Option Plan to directors and employees exercisable for up to 1,220,000 shares of the Company. The options are exercisable on or before March 5, 2008. During the March of 2004 year-end, 5,000 of these options were cancelled.

ii. In January 2004, the Company granted additional stock options under its Stock Option Plan to directors and employees exercisable for up to 1,240,000 shares of the Company. The options are exercisable on or before January 19, 2009. In October 2004, the Company re-priced these options to $0.30 per share from $0.40 per share. The estimated value of these stock options is $409,447 on the grant date.

iii. In May 2004, the Company granted additional stock options under its Stock Option Plan to a consultant exercisable for up to 100,000 shares of the Company, with an estimated value of $14,828 on the grant date. The options are exercisable on or before May 12, 2009, at a price of $0.20 per share.

iv. In June 2004, the Company granted additional stock options under its Stock Option Plan to a consultant exercisable for up to 50,000 shares of the Company, with an estimated value of $9,561 on the grant date. The options are exercisable on or before June 28, 2009, at a price of $0.25 per share.

v. In March 2005, the Company granted additional stock options under its Stock Option Plan to consultants exercisable for up to 150,000 shares of the Company, with an estimated value of $31,971 on the grant date. The options are exercisable on or before March 17, 2010, at a price of $0.35 per share.

vi. In April 2005, the Company granted additional stock options under its Stock Option Plan to consultants exercisable for up to 50,000 shares of the Company, with an estimated value of $6,864 on the grant date. The options are exercisable on or before April 13, 2010, at a price of $0.30 per share.

vii. In July 2005, the Company granted additional stock options under its Stock Option Plan to consultants exercisable for up to 420,000 shares of the Company, with an estimated value of $64,662 on the grant date. The options are exercisable on or before July 8, 2010, at a price of $0.16 per share.

viii. In July 2005, the Company granted incentive stock options under its Stock Option Plan to directors and a consultant exercisable for up to 425,000 shares of the Company, with an estimated value of $74,087 on the grant date. The options are exercisable on or before July 21, 2010, at a price of $0.22 per share.

7. Share Purchase Options - *continued*

ix. In February 2006, the company granted additional stock options under its Stock Option Plan to directors and a consultant exercisable for up to 1,250,000 shares of the Company, with an estimated value of $750,000 on the grant date. The options are exercisable on or before February 11, 2011, at a price of $0.60 per share.

b) The fair value of stock options used to calculate compensation for employees is estimated using the Black-Scholes Option Pricing Model. Since the options were granted under a graded vesting schedule, $297,561(2005 - $233,634) of the fair value has been recorded in the accounts of the Company during the period. The offsetting entry is to contributed surplus *(Note 6(b))*. This value is estimated at the date of the grant with the following weighted average assumptions:

Number of options granted	1,240,000	100,000	50,000	150,000	50,000	420,000	425,000	1,250,000
Risk-free interest rate	3.71%	4.14%	4.45%	4.19%	3.30%	3.35%	3.35%	4.07%
Expected dividend yield	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL
Expected stock price volatility	108.912%	118.486%	119.745%	113.308%	90.120%	90.279%	91.50%	92.98%
Expected option life in years	5	5	5	5	5	5	5	5

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input 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 stock options.

8. Income Taxes

a) The Company has accumulated non-capital losses for income tax purposes of approximately $2,204,863 that may be used to reduce future taxable income. These losses expire as follows:

2009	$	199,618
2010		180,183
2014		430,523
2015		286,762
2016		1,033,073
2026		74,704
	$	2,204,863

Significant components of the Company's future tax assets and liabilities, after applying enacted corporate income tax rates are as follows:

		2006		2005
Future income tax assets				
Statutory tax rate *(* Weighted Average - 2006)*		**36.06%**		34.12%
Non-capital losses	**$**	**755,198**	$	374,326
Equipment		**(18,555)**		2,902
Exploration and development expenditures		**156,905**		51,636
		893,548		428,864
Less: Valuation allowances		**(893,548)**		(428,864)
	$	**-**	$	-

** Weighted average is based upon British Columbia combined tax rate of 34.12% and Arizona combined tax rate of 38%*

8. Income Taxes - *Continued*

b) The Company has incurred approximately $5,787,900 of resource related expenditures that may be carried forward indefinitely and used to reduce prescribed taxable income in future years.

The potential future tax benefits of these income tax losses, net capital losses and resource related expenditures have not been recognized in the accounts of the Company due to uncertainty surrounding realization of such benefits.

9. Related Party Transactions

Except as disclosed elsewhere in these financial statements related party transactions are as follows:

a) During the year ended March 31, 2006, fees in the amount of $126,000 (2005 - $115,750) were paid to two directors of the Company, which is shown as management fees on the income statement.

a) In April 2004, the Company issued a private placement of 2.0 million units at a price of $0.30 per unit, of which 400,000 units were issued to a director of the Company. Each unit consists of one common share and one share purchase warrant.

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

10. Commitments

b) The Company has entered into management and consulting agreements with two directors for fees of $10,500 (one at $7,500 and one at $3,000) per month on a month-to-month basis.

c) On June 1, 2005, the Company entered into a finance consulting and advisory services agreement with a third party for fees of $10,000 per month for a period of one year.

d) On Sept 1, 2005, the Company entered into a property lease agreement with a third party for US$1,688 per month for a period of two years.

11. Segmented Information

The Company has one operating segment, which is the exploration and development of mineral properties. The Company's principal operations were primarily carried out in Canada and USA. All of the investment income is earned in Canada. Details are as follows:

		2006		2005
Assets by geographic area				
USA	**$**	**591,690**	$	628,397
Canada		**8,646,934**		3,268,666
	$	**9,238,624**	$	3,897,063
Net loss by geographic area				
USA	**$**	**74,704**	$	74,956
Canada		**1,029,706**		610,511
	$	**1,104,410**	$	685,467

12. Subsequent Events

Effective June 21, 2006, the Company's shares became listed on the Frankfurt Stock Exchange under the symbol "QF7".

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13. Comparative Periods

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