

**SUR AMERICAN GOLD  
CORPORATION**

**Consolidated Financial Statements  
December 31, 2005 and 2004**

<b><u>Index</u></b>	<b><u>Page</u></b>
<b>Auditors' Report to the Shareholders</b>	1
<b>Consolidated Financial Statements</b>	
Consolidated Balance Sheets	2
Consolidated Statements of Operations and Deficit	3
Consolidated Statements of Cash Flows	4
Notes to Consolidated Financial Statements	5 - 20

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## AUDITORS' REPORT

### TO THE SHAREHOLDERS OF SUR AMERICAN GOLD CORPORATION

We have audited the consolidated balance sheets of Sur American Gold Corporation as at December 31, 2005 and 2004 and the consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*"Smythe Ratcliffe" (signed)*

Chartered Accountants

Vancouver, British Columbia  
April 27, 2006

**SUR AMERICAN GOLD CORPORATION**  
**Consolidated Balance Sheets (note 1)**  
**December 31**

	<b>2005</b>	<b>2004</b>
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 2,871,629	\$ 2,171,284
Amounts receivable and advances	129,492	16,123
Prepaid expenses	5,391	6,766
	3,006,512	2,194,173
<b>Investments in and Expenditures on Resource</b>		
<b>Properties</b> (notes 4 and 5)	6,463,562	0
<b>Investments in and Advances to Affiliates</b> (note 4)	0	3,496,793
<b>Capital</b> (note 6)	529,507	49,393
	\$ 9,999,581	\$ 5,740,359
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 232,327	\$ 293,132
Loan (note 7)	0	43,936
	232,327	337,068
<b>Non-Controlling Interest in Subsidiaries</b>		
	120,988	211,326
	353,315	548,394
<b>Shareholders' Equity</b>		
<b>Share Capital</b> (note 8(b))	20,669,260	13,574,085
<b>Contributed Surplus</b> (note 8(g))	2,743,062	1,966,290
<b>Deficit</b>	(13,766,056)	(10,348,410)
	9,646,266	5,191,965
	\$ 9,999,581	\$ 5,740,359

Going-Concern and Nature of Operations (note 1)  
Subsequent Events (note 14)

Approved by the Board:

*"J. Rennie Blair"*  
..... Director  
J. Rennie Blair

*"Alicia Nicholson"*  
..... Director  
Alicia Nicholson

**SUR AMERICAN GOLD CORPORATION**  
**Consolidated Statements of Operations and Deficit**  
**Years Ended December 31**

	<b>2005</b>	<b>2004</b>
<b>Expenses</b>		
Stock-based compensation (note 8(f))	\$ 981,348	\$ 1,597,300
Capitalized exploration expense written off	887,059	0
Salaries and benefits	154,648	115,425
Legal and professional	146,362	62,430
Regulatory and shareholder costs	114,882	134,973
Foreign exchange loss	97,005	1,950
Office and miscellaneous	33,043	31,151
Rent	30,875	26,750
Travel and accommodation	16,711	19,984
Telephone and fax	9,083	8,249
Interest on loan payable	8,686	29,060
Bank charges and interest	7,980	2,181
Depreciation and amortization	17,193	23,851
<b>Loss Before Other Item</b>	<b>(2,504,875)</b>	<b>(2,053,304)</b>
<b>Other Item</b>		
Interest income	47,785	609,963
<b>Loss Before Non-Controlling Interest</b>	<b>(2,457,090)</b>	<b>(1,443,341)</b>
<b>Non-Controlling Interest</b>	<b>(181,131)</b>	<b>1,342</b>
<b>Net Loss for Year</b>	<b>(2,638,221)</b>	<b>(1,441,999)</b>
<b>Deficit, Beginning of Year</b>	<b>(10,348,410)</b>	<b>(8,906,411)</b>
<b>Cumulative Effect of Adoption of New Accounting Standard</b> (note 4)	<b>(779,425)</b>	<b>0</b>
<b>Deficit, End of Year</b>	<b>\$ (13,766,056)</b>	<b>\$ (10,348,410)</b>
<b>Loss Per Share – basic and diluted</b>	<b>\$ (0.04)</b>	<b>\$ (0.03)</b>
<b>Weighted Average Number of Common Shares Outstanding</b>	<b>69,462,507</b>	<b>57,352,180</b>

**SUR AMERICAN GOLD CORPORATION**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31**

	<b>2005</b>	<b>2004</b>
<b>Operating Activities</b>		
Net loss	\$ (2,638,221)	\$ (1,441,999)
Items not involving cash		
Depreciation and amortization	17,193	23,851
Stock-based compensation	981,348	1,597,300
Unpaid interest income	0	(581,226)
Non-controlling interest in subsidiary	(120,723)	(1,342)
<b>Operating Cash Flow</b>	<b>(1,760,403)</b>	<b>(403,416)</b>
<b>Changes in Non-Cash Working Capital</b>		
Amounts receivable and advances	(113,369)	3,940
Prepaid expenses	1,375	(1,933)
Accounts payable and accrued liabilities	(60,805)	20,006
	(172,799)	22,013
<b>Cash Provided by (Used in) Operating Activities</b>	<b>(1,933,202)</b>	<b>(381,403)</b>
<b>Investing Activities</b>		
Purchase of capital assets	(497,307)	(4,198)
Investment in affiliates	0	(31,728)
Advances to affiliates	0	(1,058,438)
Investment in affiliate	1,327,449	0
Expenditures on deferred exploration costs	(1,570,285)	0
Cash held in affiliates, beginning of year	127,027	0
<b>Cash Used in Investing Activities</b>	<b>(613,116)</b>	<b>(1,094,364)</b>
<b>Financing Activities</b>		
Proceeds from issuances of common shares	3,322,599	3,339,700
Share issue costs paid	(32,000)	(247,993)
Repayment of loans payable	(43,936)	(379,971)
<b>Cash Provided by Financing Activities</b>	<b>3,246,663</b>	<b>2,711,736</b>
<b>Inflow of Cash</b>	<b>700,345</b>	<b>1,235,969</b>
<b>Cash, Beginning of Year</b>	<b>2,171,284</b>	<b>935,315</b>
<b>Cash, End of Year</b>	<b>\$ 2,871,629</b>	<b>\$ 2,171,284</b>

Supplemental Cash Flow Information (note 13)

**SUR AMERICAN GOLD CORPORATION**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2005 and 2004**

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**1. GOING-CONCERN AND NATURE OF OPERATIONS**

Sur American Gold Corporation (the "Company") is incorporated under the laws of Alberta. Its principal business activity is natural resource exploration, presently focusing on unproven mineral interests located in the Philippines.

For the year ended December 31, 2005, the Company incurred a net loss of \$2,638,221 (2004 - \$1,441,999) and as at December 31, 2005 had a deficit of \$13,766,056 (2004 - \$10,348,410). The Company's ability to continue in operation is dependent on its ability to secure additional financing to fund ongoing administrative, planned exploration and expenditures, and while it has been successful in doing so in the past, there can be no assurance that it will be able to do so in the future.

These consolidated financial statements are prepared on a going-concern basis, which contemplates that the Company will continue to realize its assets and discharge its liabilities in the normal course of business. Accordingly, these consolidated financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going-concern, and therefore, be required to realize its assets and settle its liabilities in other than the normal course of business, possibly at amounts different from those presented in these consolidated financial statements.

**2. SIGNIFICANT ACCOUNTING POLICIES**

(a) Principles of consolidation

These financial statements include the accounts of the Company, its wholly-owned subsidiaries, Exploradora La Esperanza S.A. (a Colombian company), and Sabena Limited (an Australian company) and the accounts of partially-owned affiliates, Philco Mining Corporation ("Philco"), Batoto Resources Corporation ("Batoto") and TMC Tribal Mining Corporation ("TMC"), referred throughout the financial statements as ("the Philippine companies"). The Company owns 40 percent of each of the Philippine companies and these companies have been consolidated in accordance with Accounting Guideline 15 ("AcG-15") as they meet the criteria of variable interest entities (notes 2(l) and 4). All significant intercompany balances and transactions have been eliminated.

(b) Use of 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 disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and would impact future results of operations and cash flows.

(c) Cash and cash equivalents

The Company considers cash and cash equivalents to be cash and short-term investments with original maturities of one year or less from date of acquisition.

**SUR AMERICAN GOLD CORPORATION**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2005 and 2004**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(d) Amortization

Amortization of capital assets is calculated on a straight-line basis at the following annual rates:

Transportation and plant equipment	- 20 to 30%
Office furniture and equipment	- 10%
Vehicles	- 20%

The half-year rule is not used in the calculation of amortization on all additions and disposals made in the year.

(e) Foreign currency translation

Amounts recorded in foreign currency are translated into Canadian dollars as follows:

- (i) Monetary assets and liabilities, at the rate of exchange in effect as at the balance sheet dates;
- (ii) Non-monetary assets and liabilities, at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities; and
- (iii) Revenues and expenses (excluding amortization, which is translated at the same rate as the related asset), at the average rate of exchange for the year.

Gains and losses arising from the translation of foreign currency are included in net income (loss) for the year.

(f) Revenue recognition

Interest income on cash is recognized on an as-earned basis.

(g) Stock-based compensation

The Company follows the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870, "*Stock-Based Compensation and Other Stock-Based Payments*", to account for stock-based compensation expense using the fair value based method with respect to all stock-based payments to directors, employees and non-employees, including awards that are direct awards of stock and call for settlement in cash or other assets, or stock appreciation rights that call for settlement by the issuance of equity instruments, granted on or after January 1, 2004. Under this standard, stock-based payments are recorded as an expense over the vesting period or when the awards or rights are granted, by a corresponding increase to contributed surplus under shareholders' equity on the balance sheet. When stock options are exercised, the corresponding fair value is transferred to share capital.

**SUR AMERICAN GOLD CORPORATION**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2005 and 2004**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(h) Loss per share

Loss per share is calculated using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method for calculating diluted earnings per share. However, diluted loss per share has not been presented, as the effects of potential issuances of shares under options would be anti-dilutive.

(i) Impairment of long-lived assets

The Company has adopted the CICA Section 3063, "*Impairment of Long-Lived Assets*". This statement establishes standards for the recognition, measurement and disclosure of the impairment of non-monetary long-lived assets, including property, plant and equipment, intangible assets with finite useful lives, deferred pre-operating costs and long-term prepaid assets. The adoption of this standard did not have an impact on the Company's financial position or results of operations.

(j) Income taxes

Future income tax expense is determined using the asset and liability method. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantially assured. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

(k) Deferred exploration costs

The Company records deferred exploration costs, which consist of costs attributable to the exploration of mineral property interests, at cost. All direct and indirect costs relating to the acquisition and exploration of the resource interests are capitalized on the basis of specific claim blocks until the resource interests to which they relate are placed into production, the resource interests are disposed of through sale or where management has determined there to be an impairment. If a resource interest is abandoned, the resource interests and deferred exploration costs will be written off to operations in the period of abandonment.

On an ongoing basis, the capitalized costs are reviewed on a property-by-property basis to consider if there is any impairment on the subject property. Management's determination for impairment is based on: 1) whether the Company's exploration programs on the resource interests have significantly changed, such that previously identified resource targets are no longer being pursued; 2) whether exploration results to date are promising and whether additional exploration work is being planned in the foreseeable future; or 3) whether remaining lease terms are insufficient to conduct necessary studies or exploration work.

**SUR AMERICAN GOLD CORPORATION**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2005 and 2004**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(k) Deferred exploration costs (Continued)

The recorded cost of resource interests is based on cash paid and the assigned value of share consideration issued (where shares are issued) for resource interest acquisitions and exploration costs incurred. The recorded amount may not reflect recoverable value, as this will be dependent on future development programs, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to bring its projects into production.

(l) Variable interest entities

On January 1, 2005 the Company adopted the CICA AcG-15 "*Consolidation of Variable Interest Entities*". The adoption of AcG-15 required the Company to consider whether it held interests in other entities that expose the Company to the majority of the financial risk of those entities. In cases where the Company determines it is the "primary beneficiary" of another entity, consolidation of that entity is required (see note 4).

(m) Recent accounting pronouncements

In June 2005, the CICA issued a recommendation on the measurement of non-monetary transactions. Non-monetary transactions are to be measured at their fair value. This recommendation will apply to fiscal years beginning on or after January 1, 2006. This recommendation will not have a material impact on the consolidated financial statements of the Company.

**3. FINANCIAL INSTRUMENTS**

(a) Fair value

The carrying values of cash, amounts receivable and advances, and accounts payable approximate their fair values because of the short maturity of these financial instruments.

(b) Credit risk

Financial assets exposed to credit risk consist primarily of cash and cash equivalents and amounts receivable and advances. Cash of \$2,319,765 is placed with several major Canadian financial institutions, \$526,334 is placed with several major Philippine financial institutions, \$25,513 is placed with an Australian financial institution. Amounts receivable of \$108,418 is held in Philippine pesos.

(c) Interest rate risk

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary current assets and current liabilities.

**SUR AMERICAN GOLD CORPORATION**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2005 and 2004**

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**3. FINANCIAL INSTRUMENTS (Continued)**

(d) Currency risk

The Company is exposed to foreign currency fluctuations to the extent expenditures incurred are not denominated in Canadian dollars. As at December 31, 2005, cash included approximately \$526,334 (2004 - \$127,027) denominated in Philippine pesos and \$25,513 (2004 - \$3,676) denominated in Australian dollars.

**4. ADOPTION OF NEW ACCOUNTING STANDARD**

The Company has determined that its investments in and advances to its Philippine affiliates meet the consolidation criteria of AcG-15, though the Company continues to hold a 40% voting interest in these entities. The Company has not otherwise changed its legal relationship with these entities, as Philippine law prohibits foreign corporations from holding a greater than 40% equity interest in natural resource exploration ventures.

The Company has adopted AcG-15 effective on January 1, 2005 and, as permitted by the standard, did so on a retroactive basis without restatement of the comparative periods.

As a consequence of adopting AcG-15, the Company has eliminated, on consolidation, certain previously recognized financial statement line items, in particular the investments in and advances to the Philippine affiliates, and has recognized certain new line items, in particular the deferred exploration costs (investments in and expenditures on resource properties). In addition, the Company has eliminated the previously recognized interest income accrued on the advances, which represents a charge to retained earnings of \$779,425 as at January 1, 2005.

**SUR AMERICAN GOLD CORPORATION**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2005 and 2004**

**4. ADOPTION OF NEW ACCOUNTING STANDARD (Continued)**

The Company holds equity interests in three Philippine entities engaged in the exploration of unproven mineral interests located in the Philippines. Prior to the adoption of AcG-15 in 2005 the Company accounted for its investments and advances to affiliates as follows:

	<b>2004</b>
<b>Philco Mining Corporation</b>	
Equity interest	
Acquisition cost of option to acquire 40% equity interest	\$ 385,245
Payment to exercise option to acquire 40% equity interest	145,500
	530,745
Allocation of 50% of acquisition cost to cost of 40% equity interest in Batoto Resources Corporation	(265,372)
	265,373
Additional investment made during 2004	29,365
	294,738
Mineral exploration advances	1,398,069
Interest receivable	653,408
	2,346,215
<b>Batoto Resources Corporation</b>	
Equity interest	
Acquisition cost of option to acquire 40% equity interest in Philco Mining Corporation	265,372
Additional investment in 2004	2,363
	267,735
Mineral exploration advances	5,578
	273,313
<b>Tribal Mining Corporation</b>	
Equity interest	
Exchange of 50% interest in joint venture for a 40% equity interest	385,244
Mineral exploration advances	396,389
Interest receivable	95,632
	877,265
	\$ 3,496,793

**SUR AMERICAN GOLD CORPORATION**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2005 and 2004**

**5. INVESTMENTS IN AND EXPENDITURES ON RESOURCE PROPERTIES**

Through its subsidiaries and the Philippine affiliates, the Company has interests in certain permits and licenses to explore and develop mineral properties located in the Philippines described below.

	Panag, Suriganon and Tagpura	Batoto	T'Boli	Total
Acquisition costs	\$ 1,037,981	\$ 1,038,101	\$ 1,017,159	\$ 3,093,241
Deferred exploration costs				
Balance, beginning of of year	703,282	445,811	477,100	1,626,193
Incurred during year				
Assaying	14,253	17,871	3,062	35,186
Community development	14,467	8,235	13,593	36,295
Consultants	126,159	258,436	78,911	463,506
Depreciation and amortization	42,772	1,069	6,162	50,003
Drilling costs	104,497	60,119	0	164,616
Exploration and mineral processing	20,985	107,945	24,031	152,961
Field supplies and miscellaneous	123,293	162,493	76,015	361,801
Geological	65,302	171,212	63,138	299,652
Taxes, licenses and fees	7,030	4,460	9,371	20,861
Transportation and travel	48,171	85,621	25,455	159,247
	566,929	877,461	299,738	1,744,128
Balance, end of year	1,270,211	1,323,272	776,838	3,370,321
	\$ 2,308,192	\$ 2,361,373	\$ 1,793,997	\$ 6,463,562

**SUR AMERICAN GOLD CORPORATION**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2005 and 2004**

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**5. INVESTMENT IN AND EXPENDITURES ON RESOURCE PROPERTIES (Continued)**

- (a) Panag, Suriganon and Tagpura, Barangay Camanlangan, Municipality of New Bataan, Compostela Valley Province, Philippines

Panag and Suriganon are located within Exploration Permit ("EP") No. 000001-00-X1 covering an area of 2,170.82 hectares, which was granted on March 1, 2000 and Tagpura is located within Exploration Permit Application ("EPA) EPA X1-063 covering an area of 3,402 hectares, which was filed in July 1997. Both are owned 100% by Philco. Philco has recently applied for the conversion of EPA X1-063 into an EP.

There are no royalties payable to the government of the Philippines as the properties are located in an Indigenous area. The Indigenous peoples will, upon commercial production, be given a royalty equivalent to 1% of the operating cost of any operation. There are no annual work commitments.

- (b) Batoto, Barangay Camanlangan, Municipality of New Bataan, Compostela Valley Province, Philippines

Batoto is located within the Mineral Production Sharing Agreement Application (APSA No. 000246-X1 (formerly MLC 292) covering an area of 648 hectares and also within Exploration Permit Application EPA-109-X1, which covers an area of 3,569 hectares. The property was transferred in 2004 from the Philco EP No 000001-00-X1 to Batoto.

There are no royalties payable to the government of the Philippines as the properties are located in an Indigenous area. The Indigenous peoples will, upon commercial production, be given a royalty equivalent to 1% of the operating cost of any operation. There are no annual work commitments.

- (c) T'boli, Barangay Kematu, Municipality of T'boli, South Cotabato Province, Philippines

T'boli is located within approved Mineral Production Sharing Agreement ("MPSA") 090-97-X1 84 covering an area of 98.2 hectares, which was granted in November 1997 and Mineral Production Sharing Agreement Application ("APSA No. 51-X1 Holon Block") covering 2,790.86 hectares. TMC is the legal owner of these licenses. There is a 2% mineral royalty payable to the government of the Philippines in respect of any future mineral production.

**SUR AMERICAN GOLD CORPORATION**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2005 and 2004**

**6. CAPITAL ASSETS**

	<b>2005</b>		
	Cost	Accumulated Amortization	Net
Transportation and plant equipment	\$ 410,217	\$ 76,565	\$ 333,652
Construction in progress	126,672	0	126,672
Office furniture and equipment	92,462	56,410	36,052
Vehicles	45,646	27,375	18,271
Land	14,860	0	14,860
	<b>\$ 689,857</b>	<b>\$ 160,350</b>	<b>\$ 529,507</b>

	<b>2004</b>		
	Cost	Accumulated Amortization	Net
Vehicles	\$ 45,646	\$ 18,245	\$ 27,401
Office furniture and equipment	97,339	86,717	10,622
Land	11,370	0	11,370
	<b>\$ 154,355</b>	<b>\$ 104,962</b>	<b>\$ 49,393</b>

**7. LOAN PAYABLE**

	<b>2005</b>	<b>2004</b>
Loan payable bearing interest at 14% per annum unsecured and due on demand	\$ 0	\$ 43,936

The loan was fully repaid during the 2005 year.

**SUR AMERICAN GOLD CORPORATION**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2005 and 2004**

**8. SHARE CAPITAL**

- (a) Authorized  
 Unlimited common shares without par value
- (b) Issued

	Number of Shares	Amount
Balance, December 31, 2003	50,379,348	\$ 9,900,824
Issued pursuant to		
Private placement (note 8(c)(i))	1,074,766	1,150,000
Exercise of warrants	7,702,000	1,728,700
Exercise of stock options	3,350,000	994,334
Settlement of debt	130,000	74,970
Share issue costs	0	(274,743)
Balance, December 31, 2004	62,636,114	13,574,085
Issued pursuant to		
Private placement (note 8(c)(ii))	6,250,000	2,500,000
Exercise of warrants	1,508,000	616,600
Exercise of stock options	862,500	410,575
Acquisition of subsidiary	10,000,000	3,600,000
Share issue costs (notes 8(c)(ii) and 9)	0	(32,000)
Balance, December 31, 2005	81,256,614	\$ 20,669,260

(c) Private placements

- (i) During the year ended December 31, 2004, the Company completed a private placement of 1,074,766 units at \$1.07 per unit for gross proceeds of \$1,150,000. Each unit consisted of one common share and one-half share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one additional common share, for a period of two years, for \$1.55 on or before April 30, 2005 and \$2.10 on or before April 30, 2006. A commission of \$80,500 in cash and 32,243 share purchase warrants exercisable at \$1.07 per share was paid. The warrants are exercisable on the same terms as noted above.
- (ii) On August 2, 2005, the Company completed a non-brokered private placement of 6,250,000 units at \$0.40 per unit, for gross proceeds of \$ 2,500,000. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share, for a period of two years, for \$0.55 until August 16, 2006 and \$0.75 until August 16, 2007. No commissions were paid in connection with the private placement. Directors purchased 251,425 units of the private placement. Share issuance and certain closing costs of \$13,000 were incurred by the Company through the private placement.

**SUR AMERICAN GOLD CORPORATION**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2005 and 2004**

**8. SHARE CAPITAL (Continued)**

(d) Stock options

The Company has a stock option plan whereby the board of directors is authorized to grant options to a rolling ceiling of 10% of the issued and outstanding common shares of the Company.

Options to purchase common shares have been granted to directors, employees and consultants at exercise prices determined by reference to the market value on the date of the grant. The terms of the option and the option price are fixed by the directors at the time of grant subject to price restrictions imposed by the TSX Venture Exchange. Stock options awarded have a maximum term of five years and vest on the date of award.

As at December 31, 2005 and 2004, the following incentive stock options were outstanding and exercisable:

Expiry Date	Exercise Price	2005	2004
December 11, 2007	\$ 0.25	50,000	50,000
September 5, 2008	\$ 0.11	115,000	465,000
September 23, 2008	\$ 0.11	0	150,000
December 11, 2008	\$ 0.45	740,000	740,000
September 30, 2009	\$ 0.40	4,137,500	4,500,000
August 17, 2010	\$ 0.60	2,150,000	0
		7,192,500	5,905,000

Stock option transactions and the number of stock options outstanding and exercisable are summarized as follows:

	2005		2004	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	5,905,000	\$ 0.38	4,950,000	\$ 0.19
Awarded	2,150,000	\$ 0.60	5,900,000	\$ 0.61
Exercised	(862,500)	\$ 0.24	(3,350,000)	\$ 0.14
Cancelled	0	\$ 0.00	(85,000)	\$ 0.24
Expired	0	\$ 0.00	(1,510,000)	\$ 1.00
Outstanding and exercisable, end of year	7,192,500	\$ 0.46	5,905,000	\$ 0.38

**SUR AMERICAN GOLD CORPORATION**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2005 and 2004**

**8. SHARE CAPITAL (Continued)**

(e) Warrants

As at December 31, 2005 and 2004, the following share purchase warrants were outstanding and exercisable:

Expiry Date	Exercise Price	2005	2004
March 27, 2005	\$ 0.20	0	458,000
November 19, 2005	\$ 0.50	0	1,190,000
April 30, 2006	\$ 1.07	32,243	32,243
April 30, 2006	\$ 2.10	483,645	483,645
April 30, 2006	\$ 0.65	53,738	53,738
August 16, 2007	\$ 0.55 / \$0.75	6,250,000	0
		6,819,626	2,217,626

Share purchase warrant transactions and the number of share purchase warrants outstanding and exercisable are summarized as follows:

	2005		2004	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	2,217,626	\$ 0.80	9,350,000	\$ 0.28
Granted	6,250,000	\$ 0.40	569,626	\$ 1.84
Exercised	(1,508,000)	\$ 0.41	(7,702,000)	\$ 0.28
Expired/forfeited	(140,000)	\$ 0.50	0	\$ 0.00
Outstanding and exercisable, end of year	6,819,626	\$ 0.53	2,217,626	\$ 0.80

(f) Stock-based compensation

During the year ended December 31, 2005, the Company granted 2,150,000 (2004 - 5,900,000) stock options to directors and consultants. Stock-based compensation of \$981,348 (2004 - 1,597,300), calculated using the Black-Scholes option pricing model, was recorded as an expense.

**SUR AMERICAN GOLD CORPORATION**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2005 and 2004**

**8. SHARE CAPITAL (Continued)**

(f) Stock-based compensation (Continued)

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

	2005	2004
Risk-free interest rate	2.48%	3.0%
Expected life of options	5 years	5 years
Stock price volatility	113%	116%
Dividend rate	0.00%	0.00%

(g) Contributed surplus

On December 31, 2005 and 2004, the contributed surplus was as follows:

	2005	2004
Balance, beginning of year	\$ 1,966,290	\$ 902,334
Stock-based compensation expense for the year	981,348	1,597,300
Conversion to share capital	(204,576)	(533,344)
Balance, end of year	\$ 2,743,062	\$ 1,966,290

**9. ACQUISITION OF SUBSIDIARY**

On June 30, 2005, the Company acquired the remaining 30% of the issued and outstanding shares of Sabena Limited, an Australian company, which owns or has rights to acquire various resource properties, concessions and prospects in the Philippines.

In consideration of the acquisition, the Company issued 10,000,000 common shares to vendors, including two directors, at a price of \$0.36 per share for a total deemed value of \$3,600,000 pursuant to an acceptance letter to the TSX Venture Exchange dated April 12, 2005. Share issuance costs of \$19,000 were incurred by the Company through the share exchange.

**SUR AMERICAN GOLD CORPORATION**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2005 and 2004**

**10. INCOME TAXES**

	<b>2005</b>	<b>2004</b>
	35.62%	35.62%
Income tax benefit computed at Canadian statutory rates	\$ (940,000)	\$ (513,000)
Temporary differences not recognized in year		
Non-deductible stock-based compensation	350,000	569,000
Depreciation and amortization	6,000	9,000
Share issuance and financing costs	(11,000)	78,000
Recognized (unrecognized) tax losses	595,000	(143,000)
Income tax benefit per financial statements	\$ 0	\$ 0

The significant components of the Company's future income tax assets and liabilities as at December 31, 2005 and 2004 are as follows:

	<b>2005</b>	<b>2004</b>
Future income tax assets		
Non-capital losses carried forward	\$ 1,850,000	\$ 2,600,000
Future income tax liabilities		
Equipment	(23,045)	(38,023)
	1,826,955	2,561,977
Approximate tax rate	35.62%	35.62%
	650,761	912,576
Valuation allowance	(650,761)	(912,576)
Future income taxes, net	\$ 0	\$ 0

**11. RELATED PARTY TRANSACTIONS**

Included in amounts receivable and advances is \$1,519 (2004 - \$1,519) due from directors.

Included in accounts payable and accrued liabilities is \$139,614 (2004 - \$185,672) payable to directors and a corporation controlled by a director.

During the year, gross rent of \$24,000 (2004 - \$24,000) was paid to directors.

**SUR AMERICAN GOLD CORPORATION**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2005 and 2004**

**12. SEGMENTED INFORMATION**

The Company's corporate assets are located in Canada and the Company has investments in and advances to corporations located in the Philippines and Australia and natural resource exploration activities have occurred in Colombia in past years.

	<b>2005</b>				
	Canada	Australia	Philippines	Colombia	Consolidated
Current assets	\$ 2,338,755	\$ 26,078	\$ 634,752	\$ 6,927	\$ 3,006,512
Deferred exploration costs	0	0	6,463,562	0	6,463,562
Capital assets	23,045	0	495,092	11,370	529,507
	<b>\$ 2,361,800</b>	<b>\$ 26,078</b>	<b>\$ 7,593,406</b>	<b>\$ 18,297</b>	<b>\$ 9,999,581</b>

	<b>2004</b>				
	Canada	Australia	Philippines	Colombia	Consolidated
Current assets	\$ 2,181,794	\$ 5,451	\$ 0	\$ 6,928	\$ 2,194,173
Investments in and advances to affiliates	0	0	3,496,793	0	3,496,793
Capital assets	38,023	0	0	11,370	49,393
	<b>\$ 2,219,817</b>	<b>\$ 5,451</b>	<b>\$ 3,496,793</b>	<b>\$ 18,298</b>	<b>\$ 5,740,359</b>

**13. SUPPLEMENTAL CASH FLOW INFORMATION**

The Company has conducted non-cash activities as follows:

	<b>2005</b>	<b>2004</b>
Investing Activities		
Acquisition of subsidiary	\$ 3,600,000	\$ 0
Financing Activities		
Debt settled for common shares	0	74,970
Shares issued to settle debt	0	(74,970)
	<b>\$ 3,600,000</b>	<b>\$ 0</b>

The Company has paid interest of \$8,685 (2004 - \$24,060).

**SUR AMERICAN GOLD CORPORATION**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2005 and 2004**

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**14. SUBSEQUENT EVENTS**

On February 24, 2006, a director exercised 53,738 share purchase warrants for total proceeds of \$34,929.

On April 19, 2006, a director exercised 100,000 stock options for total proceeds of \$40,000.

# **SUR AMERICAN GOLD CORPORATION**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2005**

### **Background**

This discussion and analysis of financial position and results of operation is prepared as at April 27, 2006, and should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2005 and 2004, of Sur American Gold Corporation (the "Company"). Those financial statements have been prepared in accordance with Canadian generally accepted accounting policies ("GAAP"). Except as otherwise disclosed, all dollar figures included therein and in the following management and discussion and analysis ("MD&A") are quoted in Canadian dollars. Additional information relevant to the activities of the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Company Overview**

The Company is a junior mineral exploration company engaged in the exploration and development of precious and base metals in projects located in the Philippines and Colombia with the aim to developing them to a stage where they can be exploited economically. The Company is currently focusing its financial resources in conducting an exploration program for gold-silver and gold-copper-silver in its Comval and T'Boli Projects in the Philippines. As of the date of the MD&A, the Company has not earned any production revenue nor has found any proven reserves, but has successfully completed a long term trial mining and metallurgical test program. The program, which terminated in late October, 2005 confirmed that the gold mineralization at Batoto is likely to be able to be treated by a conventional CIP plant and/or by heap leaching.

The Company is a reporting issuer in British Columbia and Alberta and trades on the TSX Venture Exchange ("TSXV") under the symbol "SUR".

### **Forward Looking Statements**

Certain information included in this discussion may constitute forward-looking statements. Forward-looking statements are based on current expectations and entail various risks and uncertainties. These risks and uncertainties could cause or contribute to actual results that are materially different than those expressed or implied. The Company disclaims any obligation or intention to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

### **Exploration Projects Update**

#### ***T'boli Gold-Silver Project, South Cotabato, Philippines.***

During 2005 the Company's Philippine affiliate, Tribal Mining Corporation ("TMC") purchased and operated a small test CIP plant for the purpose of providing bulk metallurgical test data from various ore sources at the T'boli mine. Apart from geological mapping of several of the T'boli veins no exploration was undertaken. The testwork has shown that gold mineralization is amenable to simple CIP processing but silver still requires further work to increase recoveries to an acceptable level.

At T'boli TMC has an inferred resource of 2.6 million tonnes grading 5.5g/t gold and 21g/t silver which is National Policy 43-101 compliant.

Exploration is expected to resume at T'boli during 2006 with the focus being on expanding and upgrading the existing inferred resource and conducting further exploration surrounding the known resource particularly at the Lam Asam area where extremely high silver (and gold) values are known to exist.

### ***Comval Gold-Silver-Copper Project***

In January, 2005 an initial geophysical survey at Batoto revealed a major geophysical anomaly in the Santa Fe area. The anomaly is reflected at the surface by a 500 metre long zone of quartz stockworks with secondary iron minerals such as goethite and limonite.

In February, the Company commenced detailed plans for an in house 35-40 hole drilling program which was later expanded to 50 holes.

In April Mr. Wayne McCallum a drill manager with more than 25 years industry experience, including 10 years in the Philippines was appointed the Company's drilling consultant.

In May initial results from bulk channel sampling in the Santa Fe area revealed encouraging gold and copper values in fresh quartz diorite and a decision was taken to collect a larger, 50 tonne sample. This sample revealed grades of 3.17g/t gold, 47g/t silver and 0.1% copper taken from a 150 metre long channel.

Diamond drilling commenced in late September.

The Company through its Philippine affiliates Batoto Resources Corporation ("BRC") and Philco Mining Corporation ("PMC") has yet to establish any resources or reserves at its Comval project as an initial 12,000 metre, 50 hole program which as stated above commenced in late September, 2005 is still in its early stages. Upon completion of the initial drilling program the Company may be in a position to commence a resource estimate.

### **Exploration Trenching**

Substantial advances in the understanding of the geology of the area around the Clark adit where the current 12,000 metre drilling program is taking place has occurred as a result of the excavation of three long trenches spaced at 100 metre intervals over the initial drilling area.

Trenches 1 and 3 are still in progress as a result of thick overburden development, with trenches as much as 3 to 4 meters deep, requiring timber support. Trench 2, located 50m north of the central Clarke adit, is being extended 20m to the west where further moderate to strong stockwork quartz – sericite – goethite veining has been exposed in a strongly sheared, diorite intrusive body with from 10vol% to 20vol% veins and veinlets.

The bedrock exposed in the trenches comprises an intensely weathered limonite – goethite stained saprolite cross cut by a complex shear array of veins varying from 6vol% to 25vol% quartz.

Given the extent of weathering, there is very little doubt that strong surface leaching of gold has occurred in this topographic and climatic regime. This supposition is lent strong support by the substantially higher channel sample results obtained in the subjacent Clark adit, located some 30-40m below surface which returned slightly less than 2g/t gold over its entire 123 metre length.

The completed 62m of trench 2 has been mapped at a scale of 1:100 and channel sampled on the north wall at 2m intervals across the geologic strike. Assay results returned demonstrate remarkable

consistency, returning a total mineralized width of 62m at 0.384 g/t Au. The lowest assay value was 0.033 g/t Au and the highest 0.766 g/t with most values falling between 0.2 and 0.5 g/t Au.

These grades are very similar to surface channels samples taken earlier in the year at the Santa Fe area at West Batoto over long intervals.

Trench No 1 excavated 100m north of Trench No 1 (also E – W) has been excavated over a length of 40m. A further 40m is being excavated to the east. The initial 40m has been geologically mapped at a scale of 1: 100 and is currently being channel sampled on the north wall.

Trench No 3 is now 30m long excavated east – west 100m south of Trench No 2 in the Clark area. It is being extended 50m to the east. Stockwork quartz – sericite – pyrite (goethite) veining has been exposed in bedrock similar or identical to that exposed in trenches number 1 and 2. As a result of the impressive quartz veining encountered to date a fourth trench is now underway 100 metres to the south of Trench number 3.

### **Sample Preparation and Analysis**

As the Company intensifies the exploration effort at the Batoto prospect heading into 2006, the need for an internationally recognized sample preparation facility at the exploration site has been recognized.

Accordingly the Company has approached GENALYSIS Laboratory Ltd whose headquarters are located in Perth, Western Australia to finalize an agreement to establish an on site sample preparation facility according to their specifications in respect of layout, establishment and equipment, with all samples being dispatched to the Perth facility for final analysis by fire assay with AAS finish.

It is hoped that this facility will be installed and commissioned at the site of field operations at Camanlangan by the second quarter of 2006.

In the meantime all sample preparation is being undertaken at the Laboratories of Intertek in Surigao, Northern Mindanao

### **Geophysical Program**

#### **West Batoto**

The large induced polarization/resistivity geophysical program being undertaken over the West Batoto Zone has now completed 70 line km and is about 70% complete. Following the completion of this program and the subsequent magnetic survey and a complete review of the modeled results planning of further drill sites will be undertaken. The geophysical program is being undertaken under the supervision of Elliot Geophysics International Ltd headed by Dr. Peter Elliot MSc. PhD. M.AusIMM.

The current geophysical survey which is very large by world standards commenced in August 2005 and followed another similar sized geophysical program undertaken by the Company in 2004 to the north of Batoto. The 2004 survey was also successful and was highlighted by the discovery of one large induced polarization anomaly and several smaller anomalies. These have yet to be drill tested.

The on-going IP and magnetic surveys which are particularly detailed are being undertaken on a line spacing of only 100 metres which will greatly assist in the accurate selection of drill targets.

### **Community, Environment and Feasibility Study**

In order to achieve one of its corporate goals, a feasibility study for an initial small scale CIP plant at Comval was completed during the March quarter, 2005 and submitted to the Philippines Government.

In addition during the same period a Memorandum of Agreement (“MOA”) granting “Free and Informed Prior Consent” (“FPIC”) for mineral exploration, development and production at Comval has been signed with local Indigenous Peoples under the auspices of the National Commission on Indigenous Peoples (“NCIP”). The granting of the FPIC is an essential prerequisite to being granted permission to proceed to mining in the Philippines.

A draft Environmental Impact Study (“EIS”) was completed in June, 2005 and submitted for comments to the Environmental Management Bureau (“EMB”). A field visit by the EMB and other Government agencies and local organizations was made in June. A revised EIS was undertaken in September-October, 2005 and a final inspection by the EMB team was undertaken in November, 2005.

Finally a Certificate of Precondition granted to the Company’s Philippine affiliates Philco Mining Corporation and Batoto Resources Corporation in March 2006.

Following a review of this final EIS it is expected that an ECC will be issued to Batoto Resources Corporation in April, 2006 and a few months later an MPSA (Mineral Production Sharing Agreement).

The source of the mineralization for the small operation will be the numerous high grade gold veins within the Comval project, many of which have returned local grades in excess of 100g/t gold. Timing for construction will depend on the ability to identify sufficient resources to justify construction. The estimated cost of each operation has been estimated at approximately \$Can 700,000, which will be provided by the treasury of the Company.

As stated above, whilst the high grade operation is an important objective and will assist the Company financially, the major corporate goal of the Company is to aggressively explore and delineate the ultimate extent of its gold-silver-copper.

### **SUMMARY**

Overall the Company’s geological objectives and corporate goals were being met although at a slower pace than originally planned for. The strategy now is to have the Company continue its methodical programs but add resources in order to accelerate the pace of work and therefore results. This entails placing the current drill rig on two shifts and adding further company owned rigs or bringing in a drill contractor.



## Results of Operations

During the period ended December 31, 2005, the Company recorded a loss of \$2,638,221 compared with a loss of \$1,441,999 for the comparable 2004 period.

The difference of \$1,196,222 was due to decreases in, depreciation and amortization of \$6,658, interest on loans payable of \$20,374, regulatory and shareholders costs of \$20,091, travel and accommodation \$3,273 and stock based compensation expense of \$615,952, interest income of \$562,178 and non-controlling interest of \$182,473. These decreases were offset by increases in bank charges and interest of \$5,799 capitalized exploration expenses written off 887,059, foreign exchange of \$95,055, legal and professional of \$ 83,932 office and miscellaneous of \$1,892, rent \$4,125, salaries and benefits of \$39,223, telephone and fax \$834,

The decrease in interest income is the result of the Company adopting Accounting Guideline 15, Consolidation of Variable Interest Entities (“ACG-15”), of the Canadian Institute of Chartered Accountants’ Handbook, on January 1, 2005. The Company charged interest to its Philippine affiliates; During 2004 these interest charges are shown as income in the consolidated financial statements, during 2005 these charges are eliminated as the Philippine affiliates are consolidated. The decrease in depreciation and amortization result from the fact that a few of the assets are now fully depreciated, Interest on loans payable is reduced as a result of the Company repaying the \$250,000 loan. The decrease in regulatory and shareholders’ costs is due to a reduction in investors relations expenditures. The decrease in travel and accommodation is the result of the CEO not travelling as much as in the prior year as we now have an Exploration Manager on site. The decrease in stock based compensation expense of \$615,952 is the direct result of not having as many stock options exercised in 2005, as opposed to 2004.

The increases in bank charges and interest, office and miscellaneous, and telephone and fax are the result of consolidating the Philippine Affiliates and therefore additional costs from the affiliates are included. Increases in foreign exchange result from translation of Philippine Pesos into Canadian dollars and consolidation. The increases in legal and professional fees are the result of fees paid to prepare certain reports on the Colombian properties. The increase in salaries and benefits is the result of an increase in salary of the CEO and CFO.

## Share Capital Transactions

During the period ended December 31, 2005 the Company completed the following share capital transactions:

- 862,500 stock options were exercised by a director and an employee for total cash proceeds of \$206,000 plus a transfer of \$204,575 from contributed surplus related to the previously recorded value of stock options.
- Issued, 1,050,000 shares upon the exercise of warrants at \$0.50 for total proceeds of \$ 525,000 and 458,000 at \$0.20 for proceeds of \$91,600.

- Acquired the remaining 30% equity interest in Sabena Limited that was held by two directors, in exchange for the issue of 10,000,000 common shares from treasury. The shareholders approved the purchase at the Annual General Meeting held on June 17, 2005 and subsequent to that, it was approved by the TSX Venture Exchange. These shares are legended and are restricted for trading until July 15, 2006.
- Completed a non-brokered private placement of 6,250,000 units at \$ 0.40 per unit, for gross proceeds of \$ 2,500,000. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share, for a period of two years, for \$ 0.55 until August 16, 2006 and \$ 0.75 until August 16, 2007. No commissions were paid in connection with the private placement. Directors purchased 251,425 units of the private placement.
- The exercise price of 53,383 non-transferable share purchase warrants was reduced from \$2.10 to \$0.65 at the request of the Company to the TSX Venture Exchange in an effort to have the warrants exercised at a time when the stock price had dropped significantly below the exercise price. These warrants were issued pursuant to a private placement of 1,074,766 common shares with 537,383 non-transferable share purchase warrants attached which would expire on April 30, 2006. These warrants were held by a director of the Company and were exercised subsequent to December 31, 2005 for proceeds of \$34,698.95

### **Financial Condition and Capital Resources**

As at December 31, 2005, the company had a working capital of \$2,774,185, as compared to a working capital of \$ 1,857,105 at December 31, 2004.

The increase in working capital is mainly the result of share issuance by way of private placements, exercise of stock options and the exercise of warrants.

Anticipated capital and exploration expenditures as well as administration during the next 12 months are anticipated to total nearly \$ 2.5 million. The Company currently has sufficient working capital to fulfill its planned budgeted work programs. These expenditures would include drilling expenditures and field work on the Philippine Properties as well as normal administration costs of running the Companies.

### **Changes in Accounting Principles**

#### Stock-based Compensation

Effective January 1, 2003, the Company adopted the fair value method of accounting for all employee and non-employee stock-based compensation under the amended recommendations of the Canadian Institute of Chartered Accountants Handbook, Section 3870, Stock-based Compensation and Other Stock-based Payments.

Under the fair value method, stock-based compensation expense is recognized at the time of award with an offsetting increase in contributed surplus.

### **Consolidation of Variable Interest Entities**

In June 2003, the Canadian Institute of Chartered Accountants issued Accounting Guideline 15, *Consolidation of Variable Interest Entities*, which addresses the consolidation of interests in variable interest entities by the enterprise that is the primary beneficiary. A variable interest entity is an entity that does not have sufficient equity investment at risk to permit it to finance its activities without additional subordinated financial support, or whose equity investors lack the characteristics of a controlling financial

interest. The primary beneficiary of a variable interest entity is the enterprise that is obligated to absorb the majority of the expected losses, if any, the expected residual returns, or both.

Accounting Guideline 15 applies to interim periods beginning on or after November 1, 2004. The Company has adopted this guidance as of January 1, 2005, and as such, the Company's December 31, 2005, consolidated financial statements, include the financial position and operations of the Philippine corporations in which the Company holds a 40% equity interest, as the Company has determined that it holds variable interests in these corporations and is the primary beneficiary.

The effect on the Company's financial statements is material as the investments in and advances to affiliates, as well as any interest income on the advances, were eliminated upon consolidation. As of January 1, 2005, the assets and liabilities of the Philippine corporations are reflected in the Company's consolidated financial statements.

### **Transactions with Related Parties**

Included in amounts receivable and advances is \$ 1,519 (December 31, 2004 - \$1,519) due from a director.

Included in accounts payable and accrued liabilities is \$ 139,614 (December 31, 2004 - \$185,672) payable to directors and an employee and corporations controlled by directors. Of this amount \$122,482 is due to an employee for past loans made to the Company, and the remaining \$ 17,132 is due to several directors for expenditures and expenses incurred on behalf of the Company.

During the year ending December 31, 2005, gross rent of \$ 24,000 (2004 - \$24,000) was paid to directors of the Company.

### **Risks and Uncertainties**

The company is in compliance with all material regulations applicable to its exploration activities. Existing and possible future environmental legislation, regulations, and actions, could cause additional expense, capital expenditures, restrictions, and delays in the activities of the Company, the extent of which can not be predicted. Before production can commence on any properties, the Company must obtain regulatory and environmental approvals. There is no assurance that such approvals can be obtained on a timely basis. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations.

The Company's mineral properties are located in the Philippines, and consequently are subject to certain risks, including currency fluctuations and possible political and economic instability which may result in the impairment or loss of mining title or other mineral rights, and mineral exploration and mining activities may be affected in varying degrees by political stability and governmental regulations to the mining industry.

### **Investor Relations Activities**

During the year ended December 31, 2005, the Company's expenditures for investors' relations amounted to \$ 84,773. They are included in regulatory and shareholders costs and relate to updating the website, the payment of the Company's investors relations for professional fees and other costs to provide market awareness and more exposure in the retail market, the wire distribution of the Company's news releases and costs associated with designing and printing of Company brochures.

## **Outstanding Share Data**

The Company's authorized share capital is an unlimited number of shares without par value. As at December 31, 2005, there were 81,256,614 compared to 62,636,114 shares outstanding at December 31, 2004. The increase is the result of the exercise of stock options and warrants, the issuance of shares for the acquisition of the remaining 30% of Sabena Limited and the issuance of private placement shares. As at December 31, 2005, there were 7,192,500 stock options outstanding, which were outstanding and exercisable, with exercise prices ranging from \$0.11 to \$0.60 per share. In addition, there were 6,819,626 warrants outstanding and which expire between April 30, 2006 and August 16, 2007, with exercise prices between \$0.55 and \$2.10 per share.