



Financial Statements of

**YORBEAU RESOURCES INC.**

Years ended December 31, 2005 and 2004



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## AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheets of Yorbeau Resources Inc. as at December 31, 2005 and 2004 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Montréal, Canada

March 3, 2006

# YORBEAU RESOURCES INC.

## Balance Sheets

December 31, 2005 and 2004

	2005	2004
<b>Assets</b>		
Current assets:		
Cash and short-term deposits	\$ 1,827,176	\$ 259,326
Taxes receivable (note 3)	292,160	491,627
Prepaid expenses	20,758	13,425
	<u>2,140,094</u>	<u>764,378</u>
Mining and exploration assets (note 4)	7,453,955	7,170,989
	<u>\$ 9,594,049</u>	<u>\$ 7,935,367</u>

## Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 217,020	\$ 84,029
Shareholders' equity:		
Capital stock (note 5)	24,445,295	22,270,295
Contributed surplus	483,534	259,399
Deficit	(15,551,800)	(14,678,356)
	<u>9,377,029</u>	<u>7,851,338</u>
	<u>\$ 9,594,049</u>	<u>\$ 7,935,367</u>

See accompanying notes to financial statements.

On behalf of the Board:

(s) David Crevier  
Director

(s) G Bodnar Jr.  
Director

# YORBEAU RESOURCES INC.

## Statements of Operations and Deficit

Years ended December 31, 2005 and 2004

	2005	2004
Interest revenue	\$ 4,134	\$ 16,437
Expenses:		
Administrative charges	436,649	452,729
Stock-based compensation (note 6)	224,135	165,899
Tax on capital	62,921	55,155
Exploration charges	—	12,164
Property maintenance	21,818	9,803
Financial expenses	1,005	298
	746,528	696,048
Net loss	(742,394)	(679,611)
Deficit, beginning of year:		
As previously reported	(14,678,356)	(13,998,745)
Share issue expenses	(131,050)	—
Deficit, end of year	\$ (15,551,800)	\$ (14,678,356)
Net loss per share, basic and diluted	\$ (0.01)	\$ (0.01)

See accompanying notes to financial statements.

# YORBEAU RESOURCES INC.

## Statements of Cash Flows

Years ended December 31, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Net loss	\$ (742,394)	\$ (679,611)
Stock-based compensation	224,135	165,899
Changes in non-cash operating working capital:		
Taxes receivable	199,467	56,758
Prepaid expenses	(7,333)	(574)
Accounts payable and accrued liabilities	132,991	(509,971)
	(193,134)	(967,499)
Cash flows from financing activities:		
Issuance of capital stock	2,175,000	6,166
Share issue expenses	(131,050)	—
	2,043,950	6,166
Cash flows from investing activities:		
Mining and exploration assets (net from mining duties and resource tax credits of \$250,344 (\$432,806 in 2004))	(282,966)	(345,488)
Net increase (decrease) in cash and cash equivalents	1,567,850	(1,306,821)
Cash and cash equivalents, beginning of year	259,326	1,566,147
Cash and cash equivalents, end of year	\$ 1,827,176	\$ 259,326
Cash and cash equivalents are composed of cash and short-term investments maturing within 90 days and are detailed as follows:		
Cash and deposits - 2.93% to 3.52% (2004 - 2.153%)	\$ 1,827,176	\$ 259,326

See accompanying notes to financial statements.

# YORBEAU RESOURCES INC.

Notes to Financial Statements

Years ended December 31, 2005 and 2004

Yorbeau Resources Inc. ("Yorbeau" or the "Company") is incorporated under the laws of the Province of Québec. The Company owns mining and exploration properties in the Province of Québec.

## 1. Basis of presentation:

These financial statements have been prepared on the going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of business. The application of the going concern concept is dependent on the Company's ability to generate future profitable operations and to issue capital stock.

## 2. Significant accounting policies:

### (a) Cash and cash equivalents:

Cash and cash equivalents include temporary investments with a maturity date of three months or less from the date of purchase, and are stated at cost, which approximates market value. The major components of cash and cash equivalents are as follows:

	2005	2004
Cash and short-term deposits	\$ 461,040	\$ 259,326
Exploration fund	1,366,136	–
	<u>\$ 1,827,176</u>	<u>\$ 259,326</u>

Exploration fund is restrictive for the purpose of exploration expenses.

### (b) Mining and exploration assets:

Mining assets consist of deferred expenditures and development cost related to property for which economically recoverable reserves exist. Mining assets are, upon commencement of production, depleted over the estimated life of the ore reserve to which they relate or are written off if the property is abandoned or when the fair value exceeds its carrying value.

Exploration assets are carried at cost. Exploration and development expenses relating to a non-producing property are deferred until the property is brought into production or abandoned. If exploration work does not provide positive results or upon abandonment, these costs are charged to earnings. Management reviews the carrying values of assets on a regular basis to determine whether depreciation is required.

# YORBEAU RESOURCES INC.

Notes to Financial Statements, page 2

Years ended December 31, 2005 and 2004

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## 2. Significant accounting policies (continued):

### (b) Mining and exploration assets (continued):

Recovery of the cost of mining and exploration assets depends on the discovery of economically recoverable ore reserves (for the exploration assets), the Company's ability to obtain the necessary financing to complete the exploration and development of the properties and future profitable production or the disposal of the properties for proceeds in excess of their carrying value.

### (c) Stock option plan:

The Company adopted on January 1, 2002, the new accounting recommendations published by the Canadian Institute of Chartered Accountants ("CICA") relating to stock-based compensation and other stock-based payments made in exchange for goods and services. Effective January 1, 2004, the Company uses the fair value method for the options granted to all participants.

### (d) Income and mining taxes:

The Company uses the asset and liability method of accounting for income taxes.

Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

### (e) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Significant areas requiring the use of estimates relate to assessing the realizable values of mining and exploration assets. Consequently, actual results could differ from those estimates.

# YORBEAU RESOURCES INC.

Notes to Financial Statements, page 3

Years ended December 31, 2005 and 2004

### 3. Taxes receivable:

	2005	2004
Sales tax and other	\$ 43,272	\$ 66,564
Resource tax credits	158,389	233,488
Mining duties recovery	90,499	191,575
	\$ 292,160	\$ 491,627

### 4. Mining and exploration assets:

	Balance beginning of year	Additions	Mining and resource tax credits	Net book value	Net book value
Mining and exploration assets:					
Rouyn property (net of accumulated depletion of \$2,411,831)	\$ 6,390,415	\$ 533,310	\$ 210,403	\$ 6,713,322	\$ 6,390,415
Beschefer property	780,574	—	39,941	740,633	780,574
	\$ 7,170,989	\$ 533,310	\$ 250,344	\$ 7,453,955	\$ 7,170,989

#### (a) Rouyn property:

Yorbeau owns a 100% interest in the Rouyn property which is located in the Rouyn and Beauchastel Townships, Quebec. The Rouyn property is composed of two mining leases, one mining concession and a group of 81 mining claims. Twelve of these mining claims are subject to a \$50,000 per annum royalty payable to Société Minière Alta Inc., a company controlled by the President of Yorbeau.

#### (b) Beschefer property:

In 2002, Yorbeau entered into an agreement with Explorers Alliance Corporation ("Explorers"), pursuant to which Yorbeau acquired from Explorers an 80% interest in 149 mining claims in consideration of the issuance to Explorers of 350,000 Class A common shares of Yorbeau. The Company also has the option to acquire, at any time, the remaining 20% interest held by Explorers in the property in consideration of either a cash payment of \$500,000 or the issuance to Explorers of 1,800,000 additional Class A common shares of Yorbeau, as determined by Explorers.

# YORBEAU RESOURCES INC.

Notes to Financial Statements, page 4

Years ended December 31, 2005 and 2004

## 4. Mining and exploration assets (continued):

### (b) Beschefer property (continued):

The Beschefer property consists of 264 claims located in the Bapst and Beschefer Townships. Yorbeau owns a 100% interest in 127 of these claims and an 80% interest in the remaining claims.

### (c) Ellison property:

In 2002, Yorbeau entered into an agreement with Agnico-Eagle Mines Limited ("Agnico"), pursuant to which Yorbeau transferred to Agnico all of its interests in the Ellison property in consideration of a cash payment of \$1,000,000, of which \$500,000 was paid on closing and \$500,000 is payable upon commencement of commercial production. Yorbeau also retains a net smelter return royalty on the Ellison property ranging from 1.5% to 2.5%, based on the current gold price as established by the London Bullion Market Association.

### (d) Fairfax property:

Yorbeau owns a 100% interest in the Fairfax property which consists of 16 claims located in the Bapst Township.

## 5. Capital stock:

### Authorized:

An unlimited number of Class A common shares, without nominal value or par value

	2005	2004
Issued:		
98,575,501 common shares (2004 - 89,875,501)	\$ 24,445,295	\$ 22,270,295
Weighted average number of shares outstanding during the year	90,566,734	89,846,501
Issuance during the year:		
For cash:		
8,700,000 shares (2004 - nil) pursuant to a rights offering memorandum	\$ 2,175,000	\$ -
Nil shares (2004 - 33,333) pursuant to exercise of options	-	6,166
	\$ 2,175,000	\$ 6,166

# YORBEAU RESOURCES INC.

Notes to Financial Statements, page 5

Years ended December 31, 2005 and 2004

## 6. Stock option plan:

As at December 31, 2005, 9,214,498 Class A common shares were reserved for future issuances under the stock option plan for the benefit of the directors, employees and service providers of the Company.

The number of stock options outstanding fluctuated as follows:

	2005	2004	Weighted average exercise price	
			2005	2004
Balance, beginning of year	3,750,000	2,550,000	\$ 0.20	\$ 0.16
Granted	1,300,000	1,300,000	0.28	0.28
Exercised	—	(33,333)	—	0.19
Expired	—	—	—	0.19
Cancelled	—	(66,667)	—	0.19
Balance, end of year	5,050,000	3,750,000	\$ 0.22	\$ 0.20

As at December 31, 2005, the following options were outstanding:

- 2,350,000 shares at \$0.155 per share until July 19, 2008
- 100,000 shares at \$0.185 per share until September 14, 2008
- 1,300,000 shares at \$0.275 per share until June 21, 2009
- 200,000 shares at \$0.45 per share until February 14, 2010
- 1,100,000 shares at \$0.25 per share until August 11, 2010

During the year ended December 31, 2005, the Company granted 1,300,000 stock options. These options may be exercised on a cumulative basis over a period of five years from the date they are granted, as to one-third after one year, an additional one-third after two years and the balance after the end of the third year.

The fair value of each option granted was determined using the Black-Scholes option pricing model. At the date of the grant, the fair value of stock options granted was between \$0.111 and \$0.259 per option. The following weighted average assumptions were used in these calculations:

Risk-free interest rate	4.25% - 4.50%
Expected life	3 years
Expected volatility	73% - 87%
Expected dividend yield	0%

# YORBEAU RESOURCES INC.

Notes to Financial Statements, page 6

Years ended December 31, 2005 and 2004

## 6. Stock option plan (continued):

The Company accounted for its stock options by measuring compensation cost for options determined under the fair value method.

## 7. Related party transactions:

Legal services were rendered to Yorbeau in the amount of \$224,145 (2004 - \$146,795) by a legal firm, in which a director and shareholder of Yorbeau is a partner. As at December 31, 2005, the accounts payable include \$74,670 (2004 - \$42,920) payable to this legal firm.

"Administrative charges" in the Statement of Operations and Deficit include an amount of \$50,000 (2004 - \$50,000) paid as a royalty to Société Minière Alta Inc. ("Alta"), of which the president of Yorbeau is the sole shareholder (note 4 (a)).

Additions of mining and exploration assets during the year include an amount of \$4,640 (2004 - \$32,170) charged by a director in connection with consulting services rendered.

In addition, consulting services were charged to Yorbeau in the amount of \$86,938 (2004 - \$32,986) by a company, in which a director and shareholder of Yorbeau is the president as well as controlling shareholder. This amount was charged to mining and exploration assets. As at December 31, 2005, the accounts payable include \$9,634 (2004 - \$2,181) payable to this company.

These transactions are recorded at their exchange value.

## 8. Income taxes:

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities are presented below:

	2005	2004
Future income tax assets:		
Loss carried forward	\$ 977,000	\$ 871,000
Mining properties	6,491,000	5,581,000
Financing costs	88,000	73,000
Fixed assets and other	111,000	101,000
Total gross future income tax assets	7,667,000	6,626,000
Less valuation allowance	(5,131,000)	(4,403,000)
Net future income tax assets	2,536,000	2,223,000
Future income tax liabilities:		
Deferred exploration expenditures	(2,536,000)	(2,223,000)
Net future income taxes	\$ -	\$ -

# YORBEAU RESOURCES INC.

Notes to Financial Statements, page 7

Years ended December 31, 2005 and 2004

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## 8. Income taxes (continued):

As at December 31, 2005, the Company has exploration expenditures and other costs of approximately \$19,000,000, which are being carried forward for income tax purposes and which may be deducted from future taxable income, and has the following tax losses available to reduce future years' income. Taxable losses, for which the tax effect has not been recorded in the financial statements, are as follows:

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2006	\$ 260,000
2007	433,000
2008	256,000
2009	470,000
2010	355,000
2014	575,000
2015	606,000
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	\$ 2,955,000

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## 9. Financial instruments:

The fair value of cash and short-term deposits, taxes receivable, accounts payable and accrued liabilities and advance from a shareholder is equivalent to the carrying amount given their short-term maturity.