

# **Gitennes** Exploration Inc.

## **INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2006**

**(Unaudited)**

### **MANAGEMENT COMMENT**

These interim consolidated financial statements for the six months ended June 30, 2006 of Gitennes Exploration Inc. have been prepared by management and have not been subject to review by the Company's auditors.

**Interim Consolidated Balance Sheets****(Unaudited)**

Canadian Funds

<b>ASSETS</b>	<b>As at June 30 2006</b>	<b>As at December 31 2005</b>
<b>Current</b>		
Cash and cash equivalents	\$ 56,895	\$ 938,735
Accounts receivable	15,102	18,795
Prepaid expenses	18,687	29,056
	<u>90,684</u>	986,586
<b>Mineral Properties</b> (Note 4)	<b>3,428,046</b>	3,287,346
<b>Plant and Equipment</b> (Note 5)	<b>69,454</b>	60,231
	<u>\$ 3,588,184</u>	\$ 4,334,163
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 8)	\$ 145,291	\$ 142,814
Due to related parties (Note 8)	94,000	-
	<u>239,291</u>	142,814
<b>Continued Operations</b> (Note 1)		
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share Capital</b> (Note 6)	<b>28,272,076</b>	28,272,076
<b>Contributed Surplus</b> (Note 6b)	<b>657,283</b>	657,283
<b>Deficit</b> - Statement 2	<b>(25,580,466)</b>	(24,738,010)
	<u>3,348,893</u>	4,191,349
	<u>\$ 3,588,184</u>	\$ 4,334,163

ON BEHALF OF THE BOARD:

"Jerry D. Blackwell", Director  
JERRY D. BLACKWELL

"Ken Booth", Director  
KEN BOOTH

**Interim Consolidated Statements of Loss and Deficit****(Unaudited)**

Canadian Funds

	Three Months Ended		Six Months Ended	
	June 30 2006	June 30 2005	June 30 2006	June 30 2005
<b>Expenses</b>				
Audit, accounting, legal and professional fees	\$ 36,769	\$ 38,958	\$ 63,171	\$ 72,761
Amortization	3,542	2,687	6,567	5,360
Filing, transfer fees and investor relations	54,398	99,911	134,327	176,055
Insurance	3,750	5,332	8,750	10,442
Interest and bank charges	841	890	1,548	1,725
Office rent, utilities and miscellaneous	28,705	43,709	63,629	66,902
Salaries and benefits	60,217	59,322	121,089	111,209
Stock-based compensation (Note 6d)	-	-	-	305,929
Travel	7,192	2,588	15,100	6,334
<b>Loss before the Undernoted</b>	<b>(195,414)</b>	<b>(253,397)</b>	<b>(414,181)</b>	<b>(756,717)</b>
<b>Other Income (Loss)</b>				
Foreign exchange loss	(3,245)	(7,113)	(1,183)	(3,837)
General exploration	(14,610)	(1,684)	(21,114)	(16,134)
Interest and other income	5,119	7,983	7,680	8,528
Write-down of mineral properties	(413,658)	-	(413,658)	-
<b>Loss for the Period</b>	<b>(621,808)</b>	<b>(254,211)</b>	<b>(842,456)</b>	<b>(768,160)</b>
Deficit, beginning of period	(24,958,658)	(23,802,461)	(24,738,010)	(23,288,512)
<b>Deficit, End of Period</b>	<b>\$ (25,580,466)</b>	<b>\$ (24,056,672)</b>	<b>\$ (25,580,466)</b>	<b>\$ (24,056,672)</b>
<b>Loss Per Share - Basic and Diluted</b>	<b>\$ (0.02)</b>	<b>\$ (0.01)</b>	<b>\$ (0.02)</b>	<b>\$ (0.02)</b>
<b>Weighted Average Number of Shares Outstanding</b>	<b>37,329,231</b>	<b>32,355,249</b>	<b>37,329,231</b>	<b>31,667,859</b>

- See Accompanying Notes -

**Interim Consolidated Statements of Cash Flows****(Unaudited)**

Canadian Funds

	Three Months Ended		Six Months Ended	
	June 30 2006	June 30 2005	June 30 2006	June 30 2005
<b>Cash Flows From Operating Activities</b>				
Loss for the period	\$ (621,808)	\$ (254,211)	\$ (842,456)	\$ (768,160)
Items not affecting cash				
Amortization	3,542	2,687	6,567	5,360
Stock-based compensation	-	-	-	305,929
Write-down of mineral properties	413,658	-	413,658	-
	(204,608)	(251,524)	(422,231)	(456,871)
Changes in non-cash working capital items				
Accounts receivable	(1,162)	4,248	3,693	10,487
Prepaid expenses	2,878	(135)	10,369	(4,001)
Due from joint venture partner	-	20,661	-	20,559
Accounts payable and accrued liabilities	47,061	(52,301)	41,163	(28,828)
Due to related parties	94,000	-	94,000	-
	(61,831)	(279,051)	(273,006)	(458,654)
<b>Cash Flows from Financing Activities</b>				
Net proceeds from issuance of common shares	-	1,440,007	-	1,440,007
<b>Cash Flows From Investing Activities</b>				
Mineral properties – net of recoveries	(186,347)	(330,473)	(593,044)	(516,128)
Purchase of plant and equipment	(15,509)	(1,149)	(15,790)	(2,811)
	(201,856)	(331,622)	(608,834)	(518,939)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(263,687)</b>	<b>829,334</b>	<b>(881,840)</b>	<b>462,414</b>
Cash and cash equivalents – beginning of period	320,582	196,729	938,735	563,649
<b>Cash and Cash Equivalents - End of Period</b>	<b>\$ 56,895</b>	<b>\$ 1,026,063</b>	<b>\$ 56,895</b>	<b>\$ 1,026,063</b>

**Supplemental Schedule of Non-Cash Investing and Financing Transactions**

Increase (decrease) in mineral property accounts payable.	\$ 17,280	\$ 11,200	\$ (38,686)	\$ 20,240
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- See Accompanying Notes -

## Notes to Interim Consolidated Financial Statements

June 30, 2006

(Unaudited)

Canadian Funds

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### 1. Continued Operations

The Company, considered to be in the exploration stage, is in the process of exploring several mineral properties in Peru and Canada. The Company has not yet determined whether these properties contain economic reserves.

The business of mining and exploration involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The Company has no source of revenue, and has significant cash requirements to meet its administrative overhead and maintain its mineral interests. The recoverability of amounts shown for resource properties is dependent upon several factors. These include the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development of these properties, and future profitable production or proceeds from disposition of mineral properties. Also, the Company will have to raise additional funds for future corporate and administrative expenses and to undertake further exploration and development of its mineral properties. While the Company has been successful in the past at raising funds, there can be no assurance that it will be able to do so in the future.

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. These consolidated financial statements do not include adjustments that would be necessary should the Company be unable to continue as a going concern.

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### 2. Accounting Policies

#### a) Basis of Consolidation

The accompanying unaudited interim consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada and include the accounts of the Company and its significant wholly-owned subsidiaries, Castle Keep Ltd., Torre International Holdings Ltd., Gitennes Exploraciones Peru S.A., Oromalqui Gold Corp., Minera Corimalqui S.A. and Compania Minera Seis Rios S.A. All of the Company's wholly-owned subsidiaries are accounted for under the purchase method.

#### b) Basis of Presentation

The accompanying unaudited interim consolidated financial statements are prepared in accordance with generally accepted accounting principles ("GAAP") in Canada. They do not include all of the information and disclosures required by Canadian GAAP for annual financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included in these financial statements. These interim consolidated financial statements follow the same accounting policies and methods of their application as the most recent annual financial statements and should be read in conjunction with the Company's consolidated financial statements including the notes thereto for the year ended December 31, 2005.

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### 3. Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and due to related parties. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted. At June 30, 2006, the Company held currency totalling US\$25,800 which is exposed to currency risk given fluctuations in the prevailing exchange rates between the Canadian and United States dollar.

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Gitennes Exploration Inc.  
**Notes to Interim Consolidated Financial Statements**  
June 30, 2006  
(Unaudited)  
Canadian Funds

**4. Mineral Properties**

a) Details of mineral property activities are as follows:

	Peru				Canada			Total
	Tucumachay	Urupalqui	La Chivona	Titimina	Red	Fox	Other	
December 31, 2005	\$ 1,826,335	\$ 788,755	\$ 171,338	\$ 27,767	\$ 411,052	\$ -	\$ 62,099	\$ 3,287,346
Acquisition costs	-	-	-	-	-	-	-	-
Deferred expenditures								
Administration	4,973	-	-	-	-	-	41	5,014
Assays	30,646	177	-	3,795	-	-	-	34,618
Consulting geology	97,592	4,219	1,790	20,169	2,606	-	-	126,376
Domicile	128,001	938	-	8,365	-	-	-	137,304
Drilling	118,130	-	-	-	-	-	-	118,130
Environmental and social license	4,622	-	-	-	-	-	-	4,622
Geophysics	10,621	-	-	-	-	-	-	10,621
Government taxes	75,368	512	340	2,872	-	-	450	79,542
Tenure	3,553	-	9,428	8,634	-	-	16,516	38,131
Total additions during the period	473,506	5,846	11,558	43,835	2,606	-	17,007	554,358
Write-down of mineral properties	-	-	-	-	(413,658)	-	-	(413,658)
June 30, 2006	\$ 2,299,841	\$ 794,601	\$ 182,896	\$ 71,602	\$ -	\$ -	\$ 79,106	\$ 3,428,046

Gitennes Exploration Inc.  
**Notes to Interim Consolidated Financial Statements**  
June 30, 2006  
(Unaudited)  
Canadian Funds

**4. Mineral Properties**

a) Details of mineral property activities are as follows: - *Continued*

	Peru				Canada			Total
	Tucumachay	Urumalqui	La Chivona	Rio Seco	Red	Fox	Other	
December 31, 2004	\$ 503,805	\$ 733,038	\$ 160,774	\$ 258,205	\$ 384,022	\$ 55,354	\$ 61,168	\$ 2,156,366
Acquisition costs			-	-	-	-	-	-
Deferred expenditures								
Administration	14,054	2,184	-	-	405	-	239	16,882
Assays	36,360	-	-	-	-	-	275	36,635
Consulting geology	170,752	18,948	-	2,576	11,459	-	-	203,735
Domicile	139,310	-	-	-	-	-	-	139,310
Drilling	-	-	-	-	-	-	-	-
Environmental and social license	10,647	-	-	-	-	-	-	10,647
Geophysics	248	19,766	-	-	-	-	-	20,014
Government taxes	39,842	736	-	353	-	-	-	40,931
Tenure	21,355	3,530	10,527	6,173	41	-	11,386	53,012
Topographic survey	-	-	-	-	-	-	15,202	15,202
Total additions during the period	432,568	45,164	10,527	9,102	11,905	-	27,102	536,368
June 30, 2005	\$ 936,373	\$ 778,202	\$ 171,301	\$ 267,307	\$ 395,927	\$ 55,354	\$ 88,270	\$ 2,692,734

**Gitennes Exploration Inc.**  
**Notes to Interim Consolidated Financial Statements**  
**June 30, 2006**  
(Unaudited)  
Canadian Funds

**4. Mineral Properties - Continued**

**b) Cumulative mineral costs are as follows:**

	Acquisition	Exploration	June 30 2006	December 31 2005
Peru				
Tucumachay	\$ 400,000	\$ 1,899,841	\$ 2,299,841	\$ 1,826,335
Urupalqui	87,329	707,272	794,601	788,755
La Chivona	35,563	147,333	182,896	171,338
Titimina	9,456	62,146	71,602	27,767
Canada				
Red, B.C.	-	-	-	411,052
Other	-	79,106	79,106	62,099
	<u>\$ 532,348</u>	<u>\$ 2,895,698</u>	<u>\$ 3,428,046</u>	<u>\$ 3,287,346</u>

**c) Tucumachay, Peru**

Under a letter of intent dated June 30, 2004 with Inmet Mining Corp. ("Inmet") the Company may acquire a 100% interest in the 3,500-hectare Tucumachay property by:

- i) Issuing 1,000,000 shares to Inmet (issued - 2004);
- ii) Committing to a first year expenditure of US\$600,000, to be incurred on the property before December 31, 2005 (incurred); and
- iii) At the Company's option, making total exploration expenditures of US\$1,600,000 by December 31, 2008 (incurred).

Subsequent to vesting, Inmet may, at its option, regain a 60% interest in the property by spending three times the amount of the Company's investment once the Company has drilled 12,000 metres (Note 11).

**d) Urupalqui, Peru**

The Company owns a 100% interest in the Urupalqui project. Prior to June 17, 2005 the property was held under a joint venture with Meridian Gold. On June 17, 2005, the companies terminated the agreement and the Company assumed the remaining assets of the joint venture, which included the Urupalqui mineral claims. The Company intends to further explore the project.

**e) La Chivona, Peru**

The Company acquired, by staking, a 2,600 hectare property near the coastal city of Chiclayo.

**f) Titimina, Peru**

The Company has acquired, by staking, a 3,800 hectare property adjacent in part to the Tucumachay option. During the period ending June 30, 2006, exploration work at Titimina was continuing.

**g) Rio Seco, Peru**

The Company acquired, by staking, the Rio Seco property in 1999. It is located 300 kilometres north of Lima, near the Pan American Highway. As the company has no current plans to explore the property in the coming year, it has written its carrying value down to a nominal value. The Company intends to maintain the claims in good standing, and may in future return to further explore the property.

**Notes to Interim Consolidated Financial Statements**

June 30, 2006

(Unaudited)

Canadian Funds

**4. Mineral Properties - Continued****h) Red, B.C., Canada**

By an agreement dated September 3, 2004, the Company had an option to acquire a 100% interest in the Red property, located in north-central British Columbia. Under the terms of the option, the Company paid \$50,000 cash, issued 100,000 shares and incurred \$100,000 in exploration expenditures (minimum requirement). The Company could, at its option, make additional yearly cash and share payments before July 15, 2008 that total an additional \$150,000 and 150,000 shares. Prior to July 15, 2010, the Company must also have met a schedule of additional aggregate expenditures totalling a further \$2.0 million.

On April 15, 2005, the Company entered into an agreement with Buffalo Gold Ltd. ("Buffalo") whereby Buffalo could earn a 60% interest in the property by paying the Company \$30,000 cash (received) and committing to incur \$200,000 in exploration expenditures by April 15, 2006, with the option of incurring cumulative expenditures totalling \$600,000 before April 15, 2007. Thereafter, exploration at Red would be co-ordinated under a joint venture (Buffalo 60% / Gitennes 40%). Buffalo met their commitments in the first year. On June 6, 2006, Buffalo advised the Company that it was not going to proceed with its option. Subsequently, on July 12, 2006, the Company advised the owners that it did not intend to exercise its option and was returning the property. Accordingly, the Company wrote off all expenditures incurred on the property.

**i) Other Properties**

The Company has staked various claims in Peru, all of which are held 100% by the Company. Individual, segregated exploration expenses will be shown for these properties if and when significant costs are incurred exploring one or more of the claims.

**j) Virgen, Peru**

During the year ended December 31, 2001, the Company sold its interest in the Virgen property. Pursuant to the terms of the sale agreement, the Company retains a 2% net smelter return royalty, payable when aggregate gold production from the property exceeds 145,000 ounces (*Note 11*).

**5. Plant and Equipment**

			<b>June 30 2006</b>		December 31 2005
	Cost	Accumulated Amortization	<b>Net Book Value</b>		Net Book Value
Computer equipment	\$ 93,495	\$ 72,004	\$ 21,491	\$	23,878
Furniture and fixtures	81,682	57,631	24,051	\$	10,066
Equipment	44,642	20,730	23,912	\$	26,287
	<b>\$ 219,819</b>	<b>\$ 150,365</b>	<b>\$ 69,454</b>	<b>\$</b>	<b>60,231</b>

## Notes to Interim Consolidated Financial Statements

June 30, 2006

(Unaudited)

Canadian Funds

**6. Share Capital****a) Details are as follows:**

Authorized: An unlimited number of common shares without par value

Issued and outstanding:

	2006		2005	
	Shares	Amount	Shares	Amount
Balance - beginning of period	<b>37,329,231</b>	<b>\$ 28,272,076</b>	30,972,831	\$ 25,715,811
Private Placement	-	-	3,400,000	1,530,000
Issuance costs	-	-	-	(89,993)
Balance - end of period	<b>37,329,231</b>	<b>\$ 28,272,076</b>	34,372,831	\$ 27,155,818

**b) Contributed Surplus**

Details are as follows:

	2006	2005
Balance - beginning of period	<b>\$ 657,283</b>	\$ 357,454
Stock-based compensation (Note 6d)	-	305,929
Balance - end of period	<b>\$ 657,283</b>	\$ 663,383

**c) Stock Options**

The Company has a fixed stock option plan. Under the terms of the plan, the Company may grant options to its directors, employees, and other service providers up to 4,500,000 shares. The Board of Directors determines the exercise price per share and the vesting period under the plan.

During the period ended June 30, the change in stock options outstanding was as follows:

	2006	2005
Options outstanding - beginning of period	<b>3,905,000</b>	3,200,000
Granted	-	750,000
Forfeited	-	-
Exercised	-	-
Options outstanding - end of period	<b>3,905,000</b>	3,950,000

Details of the stock options outstanding at June 30 are as follows:

2006	2005	Exercise Price	Expiry Date
<b>900,000</b>	900,000	\$0.15	October 1, 2007
<b>370,000</b>	370,000	\$2.80	March 30, 2008
<b>520,000</b>	520,000	\$0.13	May 4, 2008
<b>730,000</b>	750,000	\$0.355	April 21, 2009
<b>180,000</b>	180,000	\$0.40	July 21, 2009
<b>525,000</b>	550,000	\$0.47	April 1, 2010
<b>80,000</b>	80,000	\$0.30	November 10, 2010
<b>400,000</b>	400,000	\$0.40	March 9, 2011
<b>200,000</b>	200,000	\$0.47	March 18, 2015
<b>3,905,000</b>	3,950,000		

**Notes to Interim Consolidated Financial Statements**

June 30, 2006

(Unaudited)

Canadian Funds

**6. Share Capital - Continued****c) Stock Options - Continued**

All options outstanding at June 30, 2006 have vested.

The weighted average exercise price of the stock options outstanding at June 30, 2006 is \$0.54 and the weighted average remaining contract life of the options is 2.99 years.

**d) Stock-Based Compensation**

During the period, the Company issued stock options to its directors, officers and employees and recognized stock-based compensation as follows:

	<b>2006</b>	2005
Total options granted	-	750,000
Average exercise price	\$ -	\$ 0.47
Estimated fair value of compensation	\$ -	\$ 305,929
Estimated fair value per option	\$ -	\$ 0.41

The fair value of the stock-based compensation recognized in the accounts has been estimated using the Black-Scholes Option-Pricing Model with the following weighted-average assumptions:

	<b>2006</b>	2005
Risk-free interest rate	-	3.90%
Expected dividend yield	-	0.00%
Expected stock price volatility	-	92%
Expected option life in years	-	6.33

The Black-Scholes Option-Pricing Model was created for use in estimating the fair value of freely tradable, fully transferable options. The Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the highly subjective input assumptions can materially affect the calculated values, management believes that the accepted Black-Scholes model does not necessarily provide a reliable measure of the fair value of the Company's stock option awards.

**e) Warrants**

At June 30, the following warrants were outstanding:

<b>2006</b>	2005	Exercise Price	Expiry Date
-	351,000	\$0.46	August 19, 2005
-	1,700,000	\$0.55	May 18, 2006
-	171,610	\$0.55	May 18, 2006
<b>2,500,000</b>	-	\$0.50	June 4, 2007
<b>123,000</b>	-	\$0.50	June 4, 2007
<b>2,623,000</b>	2,222,610		

**7. Commitment**

The Company has an agreement to lease office space until October 31, 2010, with a net annual lease commitment of approximately \$24,408.

## Notes to Interim Consolidated Financial Statements

June 30, 2006

(Unaudited)

Canadian Funds

**8. Related Party Transactions**

During the period, the Company incurred \$8,302 (2005 - \$36,744) in legal fees paid to a law firm in which a director of the Company is a partner; accounts payable and accrued liabilities includes \$8,883 (December 31, 2005 - \$13,814) payable to this firm.

The above transactions were conducted in the normal course of operations and have been recorded at the exchange amount, which is based on the same rates that the law firm charges its other clients.

During the period, the Company received advances totalling \$94,000 from certain directors and officers. These advances are unsecured, bear interest at prime plus 2%, and have no fixed terms of repayment.

**9. Income Taxes**

The Company operates in several tax jurisdictions and is subject to varying rates of taxation. In addition, the Company has various non-capital tax losses and deferred exploration expenditures that are available for carry forward to reduce taxable income of the current and future years. Details of income tax expense for the period is as follows:

	2006	2005
Loss before income taxes for accounting purposes	\$ (842,456)	\$ (768,160)
Adjustments for differences between accounting and taxable income:		
Amortization	6,567	5,360
Stock-based compensation	-	305,929
Resource property costs written off	413,658	-
Consolidated loss for tax purposes	(422,231)	(456,871)
Tax rate	34.1%	35.6%
Expected tax expense (recovery) for the period	(143,981)	(162,646)
Reductions in tax (recovery) due to:		
Foreign income at different tax rates	3,368	2,316
Valuation allowance	140,613	160,330
Tax expense (recovery) for the period	\$ -	\$ -

Future income taxes reflect the net effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of the Company's future income tax assets as at December 31, 2005 are as follows:

Non-capital loss carry-forwards	\$ 2,710,142
Mineral property expenditures	1,555,862
Property, plant and equipment	64,807
Other	28,047
	4,358,858
Valuation allowance	(4,358,858)
	\$ -

The Company's Canadian non-capital loss carry-forwards expire between 2006 and 2015 while the Canadian exploration expenditures may be carried forward indefinitely. The losses available to the Company in Peru expire four years after the attainment of profitable commercial operations in Peru.

## Notes to Interim Consolidated Financial Statements

June 30, 2006

(Unaudited)

Canadian Funds

**10. Segmented Information**

The Company's business consists of mineral exploration and development. Details on geographic segments are as follows:

June 30, 2006	Income (Loss)	Capital Expenditures	Capital Assets	Identifiable Assets
Canada	\$ (648,640)	\$ 18,115	\$ 45,542	\$ 99,989
British Virgin Islands	-	-	-	3,022
Peru	(193,816)	552,033	23,912	3,485,173
<b>Total</b>	<b>\$ (842,456)</b>	<b>\$ 570,148</b>	<b>\$ 69,454</b>	<b>\$ 3,588,184</b>

  

June 30, 2005	Income (Loss)	Capital Expenditures	Capital Assets	Identifiable Assets
Canada	\$ (668,196)	\$ 11,905	\$ 38,188	\$ 1,178,829
British Virgin Islands	(615)	-	-	19,192
Peru	(99,349)	527,274	28,368	2,614,692
<b>Total</b>	<b>\$ (768,160)</b>	<b>\$ 539,179</b>	<b>\$ 66,556</b>	<b>\$ 3,812,713</b>

**11. Subsequent Events**

**Red Property:** On July 12, 2006, the Company advised the owners that it did not intend to exercise its option and was returning the property.

**Private Placement:** On May 9, 2006, the Company announced that it intended to complete a private placement of up to 3,400,000 units at a price of \$0.40 per unit for gross proceeds of up to \$1,360,000. This private placement was not completed and has been cancelled.

On August 11, 2006, the Company announced that it intends to complete a private placement of up to 4,000,000 units at a price of \$0.25 per unit for gross proceeds of up to \$1,000,000. Each unit will be comprised of one common share and one common share purchase warrant. Each warrant will entitle the holder to purchase one common share at a price of \$0.30 for a period of 12 months after closing. The expiry date of the warrants may be accelerated if the closing price of the Company's shares exceeds \$0.55 for 15 consecutive business days. At the Company's discretion and subject to acceptance by the Toronto Stock Exchange, the Company may pay finder's fees in cash, securities, or a combination thereof.

**Tucumachay Earn-In:** On August 1, 2006, the Company served notice to Inmet that the Company had completed the terms of its earn-in on the Tucumachay property. The Company now holds a 100% interest in the property, subject to a second option agreement that permits Inmet to earn-back a 60% interest after the Company has completed 12,000 meters of drilling.

**Virgen Royalty:** Subsequent to June 30, 2006, the Company received notice from the operator of the Virgen Mine that gold production had exceeded the threshold of 145,000 ounces on May 16, 2006. Accordingly, the Company's 2% net smelter royalty became effective, with payments to be received every six months. The Company currently has no access to the mine production records and therefore no means of reasonably estimating the amount of the royalty payment due. Accordingly, no accrual of the amounts due to date under this royalty agreement has been made.