Consolidated Financial Statements
(Expressed in Canadian dollars)

Mountain Province Diamonds Inc.

Years ended March 31, 2006, 2005 and 2004

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders
Mountain Province Diamonds Inc.

We have audited the accompanying consolidated balance sheets of Mountain Province Diamonds Inc. as at March 31, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for each of the years in the three-year period ended March 31, 2006. 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 have conducted our audits in accordance with Canadian generally accepted auditing standards and with the standards of the Public Company Accounting Oversight Board (United States). 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as at March 31, 2006 and 2005 and the results of its operations and its cash flows for each of the years in the three-year period ended March 31, 2006 in accordance with Canadian generally accepted accounting principles.

As discussed in note 2(i) to the consolidated financial statements, the Company changed its method of accounting for stock-based compensation in 2005.

Canadian generally accepted accounting principles vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such measurement differences is presented in note 10 to the consolidated financial statements.

KPMG LLP (signed)

Chartered Accountants

Vancouver, Canada

May 19, 2006

KPMG LLP, a Canadian limited liability partnership is the Canadian
member firm of KPMG International, a Swiss cooperative.

MOUNTAIN PROVINCE DIAMONDS INC.
Consolidated Balance Sheets
(Expressed in Canadian dollars)
March 31, 2006 and 2005

	2006	2005
Assets		
Current assets		
Cash and cash equivalents	$ 845,452	$ 1,001,104
Marketable securities (Note 3)	71,392	71,392
Accounts receivable	66,637	26,324
Advances and prepaid expenses	6,052	36,879
	989,533	1,135,699
Long-term investment (Note 4)	1,400,000	2,480,000
Mineral properties (Note 6)	1,552,553	1,552,553
Deferred exploration costs (Note 6)	30,929,049	30,865,670
Equipment (Note 5)	3,153	4,235
Total assets	$ 34,874,288	$ 36,038,157
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities (Note 8)	$ 181,266	$ 94,976
Shareholders' equity:		
Share capital (Note 7(b))	58,253,663	57,607,786
Contributed surplus (Note 7(e))	561,777	257,925
Deficit	(24,122,418)	(21,922,530)
Total shareholders' equity	34,693,022	35,943,181
Total liabilities and shareholders' equity	$ 34,874,288	$ 36,038,157

Nature of operations (Note 1)
Subsequent event (Note 7(f))

See accompanying notes to consolidated financial statements

Approved on behalf of the Board:

"Jonathan Comerford" Director

"Patrick Evans" Director

MOUNTAIN PROVINCE DIAMONDS INC.
Consolidated Statements of Operations and Deficit
(Expressed in Canadian dollars)
Years ended March 31, 2006, 2005, and 2004

	2006	2005	2004
Expenses:			
Amortization	$ 1,082	$ 2,136	$ 2,853
Consulting fees (Note 8)	309,217	141,586	182,846
Directors' fees and honourarium	37,500	2,700	33,350
Interest and bank charges	1,231	983	1,137
Office and miscellaneous	43,647	89,941	78,619
Professional fees (Note 8)	166,150	235,680	307,441
Promotion and investor relations	108,184	30,503	94,803
Rent	10,396	18,466	23,600
Salaries and benefits	-	-	78,805
Severance and contract termination	-	-	368,668
Stock-based compensation (Note 7(c))	314,879	189,400	-
Transfer agent and regulatory fees	99,794	114,459	37,890
Travel	39,981	22,648	21,479
	1,132,061	848,502	1,231,491
Other earnings (expenses):			
Gain on sale of mineral properties	-	4,226,634	-
Write-down of long-term investments (Note 4)	(1,080,000)	(1,860,000)	-
Interest	12,173	13,112	12,127
Loss on disposal of equipment	-	-	(3,972)
Write-down of mineral properties and deferred exploration	-	-	(589,669)
	(1,067,827)	2,379,746	(581,514)
Net (loss) earnings for the year	(2,199,888)	1,531,244	(1,813,005)
Deficit, beginning of year	(21,922,530)	(23,378,874)	(21,565,869)
Adjustment on adoption of new accounting standard for stock based compensation (Note 2(i))	-	(74,900)	-
Deficit, end of year	$ (24,122,418)	$ (21,922,530)	$ (23,378,874)
Basic and diluted (loss) earnings per share	$ (0.04)	$ 0.03	$ (0.04)
Weighted average number of shares outstanding	52,783,833	51,781,905	50,759,430

See accompanying notes to consolidated financial statements

MOUNTAIN PROVINCE DIAMONDS INC.
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)
Years ended March 31, 2006, 2005, and 2004

		2006		2005		2004
Cash provided by (used in):						
Cash flows provided by (used in) operating activities:						
Net (loss) earnings for the year	$	(2,199,888)	$	1,531,244	$	(1,813,005)
Items not involving cash:						
Amortization		1,082		2,136		2,853
Stock-based compensation expense		314,879		189,400		156,000
Gain on sale of mineral properties		-		(4,226,634)		-
Write-down of long-term investments		1,080,000		1,860,000		-
Loss on disposal of equipment		-		-		3,972
Write-down of mineral properties and deferred exploration		-		-		589,669
Changes in non-cash operating working capital						
Accounts receivable		(40,313)		(7,891)		6,508
Advances and prepaid expenses		30,827		(28,499)		1,816
Accounts payable and accrued liabilities		86,290		(177,770)		32,651
Due to related party		-		-		(50)
		(727,123)		(858,014)		(1,019,586)
Cash flows provided by (used in) investing activities:						
Mineral properties		(63,379)		(37,106)		-
Proceeds on sale of equipment		-		-		4,002
		(63,379)		(37,106)		4,002
Cash flows provided by financing activities:						
Issuance of shares, net of share issue costs		634,850		981,730		720,002
Increase (decrease) in cash and cash equivalents		(155,652)		86,610		(295,582)
Cash and cash equivalents, beginning of year		1,001,104		914,494		1,210,076
Cash and cash equivalents, end of year	$	845,452	$	1,001,104	$	914,494
Supplementary information:						
Income taxes paid	$	-	$	-	$	8,307
Non-cash transactions						
Shares issued in exchange for sale of Haveri property (Note 6(b))		-		4,340,000		-
Shares issued in exchange for sale of Baffin Island claim (Note 6(c))		-		39,000		-
Shares issued pursuant to consulting agreement (Note 8)		-		-		156,000

See accompanying notes to consolidated financial statements

1. Nature of operations:

During the year ended March 31, 2006, the Company amended its articles and continued incorporation under the Ontario Business Corporation Act, transferring from the Company Act (British Columbia).

The Company is in the process of exploring its mineral properties primarily in conjunction with third parties (Note 6) and has not yet determined whether these properties contain mineral reserves that are economically recoverable. The underlying value and recoverability of the amounts shown for mineral properties and deferred exploration costs is dependent upon the ability of the Company and/or its mineral property partners to complete exploration and development and discover economically recoverable reserves and upon future profitable production or proceeds from disposition of the Company's mineral properties. Failure to discover economically recoverable reserves will require the Company to write-off costs capitalized to date.

2. Significant accounting policies:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. A reconciliation of material measurement differences between Canadian generally accepted accounting principles and United States generally accepted accounting principles and practices prescribed by the Securities and Exchange Commission, is included in Note 10.

(a) Basis of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany amounts and transactions have been eliminated on consolidation.

(b) Cash and cash equivalents:

Cash and cash equivalents consist of highly liquid short-term investments that are readily convertible to known amounts of cash and generally have maturities of three months or less when acquired.

(c) Marketable securities:

Marketable securities are carried at the lower of cost and quoted fair market value.

(d) Long-term investments:

The long-term investment has arisen on the sale of mineral property interests in exchange for shares of the purchaser and is accounted for by the cost method. Earnings from long-term investment are recognized only to the extent received. The investment is written down when there has been a loss in value that is other than a temporary decline.

2. Significant accounting policies (continued):

(e) Mineral properties and deferred exploration costs:

The Company accounts for its mineral properties whereby all direct costs related to the acquisition, exploration and development of these properties are capitalized. All sales and option proceeds received are first credited against the costs of the related property, with any excess credited to earnings. Once commercial production has commenced, the net costs of the applicable property will be charged to operations using the unit-of-production method based on estimated recoverable reserves. On an ongoing basis, the Company evaluates each property based on results to date to determine the nature of exploration work that is warranted in the future. If there is little prospect of future work on a property being carried out, the deferred costs related to that property are written down to the estimated amount recoverable.

The amounts reported as mineral properties and deferred exploration costs represent unamortized costs to date, less write-downs, and do not necessarily reflect present or future values.

All general and administrative expenses are expensed as incurred.

(f) Equipment:

Equipment is initially recorded at cost and amortized over their estimated useful lives on the declining balance basis at the following annual rates:

Asset	Rate
Furniture and equipment	20%
Computers	30%

(g) Impairment of long-lived assets:

The Company assesses the impairment of long-lived assets, which consist of mineral property interests (including deferred exploration costs) and equipment, whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of a long-lived asset is then determined by a comparison of the carrying value of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the amount of the impairment is measured by the amount by which the carrying amount of the asset exceeds its fair value.

2. Significant accounting policies (continued):

(h) Asset retirement obligations:

The fair value of a liability for an asset retirement obligation, such as site reclamation costs, is recognized in the period in which it is incurred if a reasonable estimate of the fair value of the costs to be incurred can be made. The Company is required to record the estimated present value of future cash flows associated with site reclamation as a liability when the liability is incurred and increase the carrying value of the related assets for that amount. Subsequently, these capitalized asset retirement costs will be amortized to expense over the life of the related assets using the unit-of production method. At the end of each period, the liability is increased to reflect the passage of time (accretion expense) and changes in the estimated future cash flows underlying any initial fair value measurements (additional asset retirement costs).

As of March 31, 2006 and 2005, the Company has determined that it does not have material obligations for asset retirement obligations.

(i) Stock-based compensation:

The Company expenses the fair value of all stock options, calculated using the Black-Scholes option pricing model, over the vesting period commencing April 1, 2004.

For the period from April 1, 2002 to March 31, 2004, the Company applied the fair value method of accounting for stock options granted to consultants and the settlement method for stock options granted to employees and directors. Under the settlement method, no stock-based compensation expense was recognized for options granted and proceeds received on the issuance of share capital pursuant to the exercise of stock options is credited to share capital. The pro forma effect of applying the fair value method for options granted to employees and directors to loss and loss per share for the years ended March 31, 2004 is disclosed in Note 7(c) to these consolidated financial statements. Prior to April 1, 2002, the Company applied the settlement method to all stock options granted.

As permitted, effective April 1, 2004, the Company has adopted the fair value based method for employee and director stock options granted on or after April 1, 2002, on a retroactive basis without restatement of prior periods.

The retroactive adoption of the changes discussed above resulted in an increase to opening deficit as at April 1, 2004 of $74,900 with respect to employee and director stock options granted in 2004 and 2003, an increase to the contributed surplus as at April 1, 2004 of $54,586 and an increase to share capital as at April 1, 2004 of $20,314 with respect to employee and director stock options granted and exercised in 2004 and 2003.

Direct awards of stock are expensed based on the market price of the shares at the time of the granting of the award.

2. Significant accounting policies (continued):

(j) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability 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. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

(k) Earnings (loss) per share:

Basic earnings (loss) per share is calculated by dividing the earnings (loss) attributable to common shareholders by the weighted average number of common shares outstanding during the year. For all periods presented, earnings (loss) available to the common shareholders equals the reported earnings or loss. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Diluted earnings per share is similar to basic earnings per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential dilutive common shares had been issued. The treasury stock method assumes that the proceeds received on exercise of stock options is used to repurchase common shares at the average market value for the period.

(l) Foreign currency translation:

Monetary assets and liabilities denominated in a currency other than the Canadian dollar are translated at rates of exchange in effect at the balance sheet date. Revenue and expense items are translated at the average rates for the months in which such items are recognized during the year. Exchange gains and losses arising from the translation are included in the statement of operations.

(m) Financial instruments:

The fair values of the Company's cash and cash equivalents, accounts receivable, advances and prepaid expenses, accounts payable and accrued liabilities approximate their carrying values because of the immediate or short term to maturity of these financial instruments. The fair value of marketable securities and long-term investments are disclosed in Notes 3 and 4, respectively.

(n) Use of estimates:

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of the assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of impairment of mineral properties, deferred exploration, and long-term investment, as well as the assumptions used in determining the fair value of stock-based compensation. Actual results could differ from these estimates.

2. Significant accounting policies (continued):

(o) Comparative figures:

Certain of the prior year's comparative figures have been reclassified to conform with the current year's presentation.

3. Marketable securities:

The quoted market value of marketable securities at March 31, 2006 was $217,512 (2005 - $134,772).

4. Long-term investment:

The long-term investment consists of 4,000,000 common shares of Northern Lion Gold Corp. ("Northern Lion"), acquired upon disposal of the Company's remaining interest in the Haveri property (Note 6(b)). The common shares are subject to a hold period expiring February 24, 2007, following which the Company is contractually obligated to sell not fewer than 250,000 common shares at a time and must first offer Northern Lion the right to place the number of shares that the Company wishes to sell. The Company has also agreed to provide Northern Lion's management a proxy for the purpose of voting the common shares for a period of three years. On acquisition, the Company recorded a gain on the sale in the amount of $4,187,634. During the year ended March 31, 2006 and 2005, the Company recorded $1,080,000 and $1,860,000 respectively, as other than a temporary write-down of investments.

The quoted market value of the long-term investments at March 31, 2006 was $2,280,000 (2005 - $2,480,000).

5. Equipment:

2006:

	Cost	Accumulated Amortization	Net Book Value
Furniture	$ 11,088	$ (9,481)	$ 1,607
Equipment	4,065	(4,065)	-
Computers	14,584	(13,038)	1,546
	$ 29,737	$ (26,584)	$ 3,153

2005:

	Cost	Accumulated Amortization	Net Book Value
Furniture	$ 11,088	$ (9,079)	$ 2,009
Equipment	4,065	(4,048)	17
Computers	14,584	(12,375)	2,209
	$ 29,737	$ (25,502)	$ 4,235

6. Mineral properties and deferred exploration:

Acquisition costs:

	2006	2005
Gahcho Kue Project	$ 1,552,553	$ 1,552,553

Deferred exploration:

	Gahcho Kue Project	Baffin Island Project	Total
Balance, March 31, 2003	$ 30,861,544	$ 559,949	$ 31,421,493
Write-down of deferred exploration costs	-	(559,949)	(559,949)
Balance, March 31, 2004	30,861,544	-	30,861,544
Exploration expenditures:			
Consulting and other professional services	4,126	-	4,126
Balance, March 31, 2005	30,865,670	-	30,865,670
Geophysical	3,220	-	3,220
Due Diligence	60,159	-	60,159
Balance, March 31, 2006	$ 30,929,049	$ -	$ 30,929,049

(a) Gahcho Kue Project:

The Company currently holds a 44.1% interest in the Gahcho Kue project located in the District of Mackenzie, Northwest Territories, Canada. Other interests are held by De Beers Canada Exploration Inc. (“De Beers Canada”) (51%) and Camphor Ventures Inc. (“Camphor”) (4.9%). De Beers Canada has been granted the right to earn up to a 60% interest in the Gahcho Kue project.

De Beers Canada has agreed to carry all costs incurred and has committed to certain minimum expenditures and activities per year. Decisions are to be made jointly (via a management committee consisting of two members each from De Beers Canada and the Company) as to the further progress of the project, and specifically the timing of possible full feasibility study. Once a desktop study shows that an internal rate of return of 15% can be achieved, De Beers Canada is to proceed with a bankable feasibility study. If they do not proceed with the feasibility study, De Beers Canada’s interest will be diluted down to 30%.

Upon completion of a bankable feasibility study, De Beers Canada’s interest in the claims shall increase to 55% and upon development, construction and commencement of production of a commercial mine, De Beers Canada’s interest shall increase to 60%.

6. Mineral properties and deferred exploration (continued):

(a) Gahcho Kue Project (continued):

All costs paid with respect to the expenses incurred by the venturers shall be repaid first to De Beers Canada for all exploration and development costs incurred by them outside of the Kennady Lake area since March 8, 2000 out of 100% of annual available cash flow (i.e. cash flow after provision for ongoing operating and non-operating costs including third party debt repayments) from any mine constructed on the property with interest at a rate equal to LIBOR plus 5% compounded annually; then to all venturers for all other exploration, development and mine construction costs out of 90% of annual available cash flow from any mine constructed on the property with interest at a rate equal to LIBOR plus 4% compounded annually; and the remaining 10% of such available cash flow shall be distributed to the participants in proportion to their respective participating interests.

On November 26, 2003, the Board of Directors of De Beers Canada approved the commencement of a pre-feasibility study on the Gahcho Kue Project. The estimated $25 million cost was borne entirely by De Beers Canada. The in-depth pre-feasibility project was completed in mid-2005 showing that an internal rate of return of 15% can be achieved and the project is proceeding with permitting and advanced exploration.

(b) Haveri Project:

The Company had a 100% interest in the Haveri Project, a mineral property located 175 kilometres north of Helsinki, Finland. On October 10, 2002, Northern Lion was granted an option to acquire a 70% undivided interest in the Haveri property, in exchange for expending a total of $1,650,000 in exploration and development expenditures by October 10, 2005. Northern Lion completed the necessary expenditures during the year ended March 31, 2005 and exercised its option to acquire a 70% interest in the Haveri property.

During the year ended March 31, 2005, the Company sold its remaining 30% interest in the Haveri property in exchange for 4,000,000 common shares of Northern Lion (Note 4).

(c) Baffin Island Project:

Pursuant to an agreement dated July 13, 1999, the Company was granted an option to acquire a 50% interest in four mineral claims located in the Northwest Territories and Nunavut Territory. In order to exercise the option and earn the 50% interest in the property, the Company had to incur expenditures on or in respect of the property of not less than $300,000 on or before July 13, 2000. The Company incurred the minimum required expenditure and exercised its option. Subsequent to entering into the agreement, the Company staked another claim that was subject to the option agreement.

During the year ended March 31, 2004, the property and related deferred exploration was written down to a nil value as the Company would not be proceeding with further exploration and would not be renewing the claims.

6. Mineral properties and deferred exploration (continued):

(c) Baffin Island Project: (continued)

On September 27, 2004, the Company sold its interest in the one remaining Baffin Island mining claim to Patrician Diamonds Inc. ("Patrician") in exchange for 325,000 common shares of Patrician, the reservation of a 1% Net Smelter Royalty and the agreement to honour a 1% Net Smelter Royalty in favour of two stakeholders, which the Company has the unrestricted right and option to acquire upon payment of $1,000,000. The Company recorded a gain on the sale in the amount of $39,000, during the year ended March 31, 2005.

7. Share capital:

(a) Authorized

Unlimited number of common shares without par value

(b) Issued and fully paid:

	Number of Shares	Amount
Balance, March 31, 2003	50,582,071	$ 55,719,260
Issued pursuant to consulting agreement (Note 8)	60,000	156,000
Exercise of stock options	560,040	720,002
Balance, March 31, 2004	51,202,111	56,595,262
Adjustment on adoption of new accounting standard for stock-based compensation (Note 2(i))	-	20,314
Exercise of stock options	202,858	282,321
Exercise of warrants	1,205,878	699,409
Value on stock options exercised	-	10,480
Balance, March 31, 2005	52,610,847	57,607,786
Exercise of stock options	465,000	634,850
Value on stock options exercised	-	11,027
Balance, March 31, 2006	53,075,847	$ 58,253,663

On March 30, 2004, the Company cancelled 16,015,996 shares previously owned by its wholly-owned subsidiary Mountain Glen Mining Inc. ("Mountain Glen") that were received by the Company on the wind up of Mountain Glen. The cancelled shares have been excluded from the above table for all periods presented.

7. Share capital (continued):

(c) Stock options:

The Company, through its Board of Directors and shareholders, adopted a November 26, 1998 Stock Option Plan (the "Plan") which was amended on February 1, 1999.

The following presents the continuity of stock options outstanding:

	Number of Options	Weighted Average Exercise Price
Balance, March 31, 2003	2,399,100	$ 1.46
Granted (i)	12,858	$ 1.40
Exercised	(560,040)	$ 1.29
Expired	(324,060)	$ 2.19
Cancelled	(200,000)	$ 1.32
Balance, March 31, 2004	1,327,858	$ 1.37
Granted (ii)	200,000	$ 1.96
Exercised	(202,858)	$ 1.39
Balance, March 31, 2005	1,325,000	$ 1.48
Granted (iii)	200,000	$ 3.57
Exercised	(465,000)	$ 1.37
Balance, March 31, 2006	1,060,000	$ 1.90

The following are the stock options outstanding and exercisable at March 31, 2006.

Expiry Date	Black Scholes Value	Number of Options	Weighted Average Remaining Life	Exercise Price
May 11, 2006	$ -	215,000	0.11 years	$ 1.25
May 11, 2006	-	340,000	0.11 years	$ 1.50
December 21, 2006	-	50,000	0.73 years	$ 0.67
October 21, 2007	33,079	30,000	1.56 years	$ 1.36
March 21, 2008	24,419	25,000	1.98 years	$ 2.06
October 1, 2009	189,400	200,000	3.51 years	$ 1.96
November 1, 2010	127,571	100,000	4.59 years	$ 2.63
January 30, 2011	187,308	100,000	4.84 years	$ 4.50
	$ 561,777	1,060,000	1.74 years	$ 1.90

7. Share capital (continued):

(c) Stock options (continued):

(i) During the year ended March 31, 2004, the Company granted 12,858 options to an employee at an exercise price of $1.40 per share. The Black-Scholes value of the options granted was $0.38 per option or $4,943 in aggregate. In accordance with the Company's accounting policy (Note 2(i)), no compensation expense was recorded for share options granted to directors and employees during the year ended March 31, 2004.

(ii) During the year ended March 31, 2005, the Company granted 200,000 options to directors of the Company at an exercise price of $1.96 per share, vesting immediately and expire on October 1, 2009. The Black-Scholes value of the options granted was $0.95 per option or $189,400 in aggregate.

(iii) During the year ended March 31, 2006, the Company granted 200,000 options to an officer of the Company of which 100,000 are at an exercise price of $2.63 and 100,000 are at an exercise price of $4.50 per share. These options vested 50% immediately and 50% vest 1 year after grant. The Black-Scholes value of the options granted was $1.80 per option or $180,000 in the aggregate and $3.211 or $321,100 in the aggregate, respectively. These options expire November 1, 2010 and January 30, 2011 respectively. During the year ended March 31, 2006, the Company recorded compensation expense of $127,571 for the first grant and $187,308 for the second grant.

The table below presents the net loss and net loss per share if the Black-Scholes fair value method of accounting was used for stock options granted to employees and directors for the year ended March 31, 2004. The pro forma adjustments presented below pertain to the new options granted to employees since adoption of the stock-based compensation standards on April 1, 2002. As discussed in Note 2(i), the pro forma adjustment amounts below were recorded as a cumulative adjustment to deficit as at April 1, 2004.

	2006	2005	2004
Net loss as reported	$ (2,199,888)	$ 1,531,244	$ (1,813,005)
Pro forma adjustment	-	-	(4,943)
Pro forma net loss	$ (2,199,888)	$ 1,531,244	$ (1,817,948)
Pro forma basic and diluted loss per share	$ (0.04)	$ 0.03	$ (0.04)

The fair value of the options granted has been estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions

	2006	2005	2004
Dividend yield	0%	0%	0%
Expected volatility	84%-89.78%	50%	93%
Risk-free interest rate	3.9%	4.1%	3.0%
Expected lives	5 years	5 years	5 to 8 months

7. Share capital (continued):

(d) Warrants:

The following presents the continuity of share purchase warrants outstanding:

	Number of Warrants		Weighted Average Exercise Price
Balance, March 31, 2003 and March 31, 2004	1,205,878	$	0.58
Exercised	(1,205,878)	$	0.58
Balance, March 31, 2005 and March 31, 2006	-	$	-

(e) Contributed surplus:

		Amount
Balance, March 31, 2003 and March 31, 2004	$	24,419
Adjustment on adoption of new accounting standard for stock-based compensation (Note 2(i))		74,900
Less: value of options exercised prior to adoption of new standard and value transferred to share capital		(20,314)
Grant of stock options		189,400
Value on exercise of stock options transferred to share capital		(10,480)
Balance, March 31, 2005		257,925
Issuance of stock options		314,879
Value on exercise of stock options transferred to share capital		(11,027)
Balance, March 31, 2006	$	561,777

(f) Subsequent event:

Subsequent to March 31, 2006, 555,000 options were exercised for proceeds of $776,250.

8. Related party transactions:

As at March 31, 2006, $40,500 (2005 - $6,210; 2004 - $3,000) was owed to directors or companies controlled by directors of the Company, primarily for unpaid directors' fees. Amounts are payable on demand, unsecured and non-interest bearing.

During the year ended March 31, 2006, the Company paid $24,000 (2005 - $40,050; 2004 - $197,896) for consulting, professional, management, property evaluation and administration services to directors and to companies in which directors have an interest.

8. Related party transactions (continued):

During the year ended March 31, 2004, the Company entered into a new consulting agreement with the former President of the Company. As compensation for terminating his old consulting agreement, the director received US$120,000 paid in 12 equal monthly instalments commencing January 1, 2004. As at March 31, 2004, the remaining US$90,000 was included in accounts payable and accrued liabilities. No amounts are unpaid at March 31, 2005. As further compensation, 60,000 shares were issued to the President on February 20, 2004 with 55,000 shares held in escrow to be released in 11 equal monthly portions commencing February 27, 2004. The value of the shares based on quoted market prices on the date of issuance, was $156,000 and this amount along with the US$120,000 cash payment, was charged to contract termination expense during the year ended March 31, 2004. During the year ended March 31, 2006, the former President was paid $102,127 (2005 - $131,905) (US$7,500 per month plus benefits) pursuant to a former consulting agreement.

During the year ended March 31, 2006, the Company entered into a consulting agreement with the new President and Director of the Company. Compensation per the agreement is $12,500 per month. During the year ended March 31, 2006, the new President was paid $56,074 pursuant to this consulting agreement.

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

9. Income taxes

Income tax recovery differs from the amounts computed by applying the combined federal and provincial tax rates of 36.1% for the years ended March 31, 2006 and 2004, respectively, primarily as a result of tax benefits which have not been recognized.

Income tax expense differs from the amounts computed by applying the combined federal and provincial tax rate of 36.1% to pre-tax income for the year ended March 31, 2005 primarily as a result of income which has been offset by unrecognized mineral property tax pools.

The tax effect of the significant components within the Company's future tax asset (liability) are as follows:

	2006	2005	2004
Mineral properties and deferred exploration	$ 682,300	$ 579,000	$ 1,756,000
Loss carry forwards	1,962,200	2,168,000	2,095,000
Equipment	155,300	172,000	172,000
Long-term investment	503,100	308,200	-
Other	-	6,000	3,000
	3,302,900	3,233,200	4,026,000
Valuation allowance	(3,302,900)	(3,233,200)	(4,026,000)
Net future income tax asset (liability)	$ -	$ -	$ -

9. Income taxes (continued)

At March 31, 2006, the Company has available losses for income tax purposes totaling approximately $6.0 million, expiring at various times from 2006 to 2016. Of the available losses, $1.7 million are subject to acquisition of control rules which may restrict their future deductibility. The Company also has available resource tax pools of approximately $34.6 million, which may be carried forward and utilized to reduce future taxable income. Included in the $34.6 million of tax pools is $24.9 million that is successored, which can only be utilized against taxable income from specific mineral properties.

10. Reconciliation to United States generally accepted accounting principles ("US GAAP"):

As disclosed in Note 2, these financial statements have been prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). A description and reconciliation of material measurement differences to US GAAP and practices prescribed by the US Securities and Exchange Commission ("SEC") follows:

(a) Mineral properties and deferred exploration costs:

US GAAP requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing the review for recoverability, the Company is to estimate the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized. SEC staff have indicated that their interpretation of US GAAP requires mineral property exploration and land use costs to be expensed as incurred until commercially minable deposits are determined to exist within a particular property as cash flows cannot be reasonably estimated prior to such determination. Accordingly, for all periods presented, the Company has expensed all mineral property exploration and land use costs for US GAAP purposes. The Company also expenses mineral property acquisition costs for US GAAP purposes.

For Canadian GAAP, cash flows relating to mineral property costs are reported as investing activities. For US GAAP, these costs would be characterized as operating activities.

(b) Stock-based compensation

The Financial Accounting Standards Board in the U.S. has issued Statement of Financial Accounting Standards No.123, "Accounting for Stock-Based Compensation" ("FAS 123"). FAS 123 encourages entities to adopt a fair value methodology of accounting for employee stock-based compensation.

As permitted by FAS 123, the Company has elected to continue measuring compensation costs using the intrinsic value method of accounting for stock-based compensation as prescribed by APB Opinion No. 25. Under the intrinsic value method, compensation is the excess, if any, of the quoted market value of the stock at the date of the granting of options to employees and directors to purchase stock over the amount an optionee must pay to acquire the stock at that date. This excess is recognized by a charge to operations over the vesting period. As the exercise price of options granted by the Company to employees and directors approximates, or is greater than, the market value at the grant date, the Company has determined that the adoption of this accounting policy for stock options granted to employees and directors results in no material expense for US GAAP purposes.

10. Reconciliation to United States generally accepted accounting principles ("US GAAP") (Continued):

(b) Stock-based compensation (continued):

Under FAS 123, stock options granted to non-employees for services rendered to the Company are required to be accounted for as compensation cost and charged to operations as the services are performed and the options earned. The compensation cost is to be measured based on the fair value of the stock options granted. This method is similar to the Canadian standard adopted April 1, 2002, and the application of this accounting policy for US GAAP purposes does not result in a measurement difference for grants made in the years ended March 31, 2003 and 2004. The stock-based compensation expense in respect of stock options granted to non-employees, under US GAAP, based upon the fair value of the options granted, determined using an option pricing model, would cumulatively be $1,704,000 from the date of adoption of FAS 123 to March 31, 2002.

Effective April 1, 2004, the Company adopted the revised provisions of the CICA Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments". As a result, the Company now expenses the fair value of all stock options, calculated by using the Black-Scholes option pricing model commencing April 1, 2004.

For Canadian GAAP purposes, as permitted, the Company has adopted the fair value based method to all employee and director stock options granted on or after April 1, 2002, without restatement of prior periods. An adjustment has been made to contributed surplus and deficit as at April 1, 2004 in the amount of $74,900 to reflect the cumulative effect of the change in accounting policy, consistent with that permitted under the retroactive restatement method. An amount of $20,314 has also been transferred from contributed surplus to share capital as at April 1, 2004 in respect of employee and director options exercised during the years ended March 31, 2004 and 2003. In addition, the Company has booked stock-based compensation during the year ended March 31, 2006 of $314,879 (2005 - $189,400) for employee and director stock options. Under US GAAP, these adjustments and stock-based compensation amounts would not be recorded.

(c) Unrealized holding gains and losses on marketable securities and long-term investments:

Statement of Financial Accounting Standards Board No. 115, "Accounting for Investments in Debt and Equity Securities" ("FAS 115") requires that the Company's marketable securities be classified as available-for-sale securities and that they be recorded at market value with unrealized gains or losses recorded outside of income as a component of shareholders' equity unless a decline in value is considered to be other then temporary. The Company's marketable securities are presented at the lower of cost or market value under Canadian GAAP. At March 31, 2006, there is a cumulative unrealized gain of $146,120 (2005 - $63,380; 2004 - $49,930) between the carrying value and fair value of marketable securities which has been recorded through comprehensive income for US GAAP purposes in the amounts of $82,740, $13,450 and $(17,856) for each of the years ended March 31, 2006, 2005 and 2004, respectively.

10. Reconciliation to United States generally accepted accounting principles ("US GAAP") (Continued):

(c) Unrealized holding gains and losses on marketable securities and long-term investments (Continued):

The Company's long-term investments are presented at the lower of cost or market value under Canadian GAAP and would also be accounted for as available-for-sale securities under US GAAP. At March 31, 2006, there is a cumulative unrealized gain of $880,000 (2005 - Nil) between the carrying value and fair value of long-term investments which has been recorded through comprehensive income for US GAAP purposes in the amounts of $880,000 (2005 - Nil) for each of the years ended March 31, 2006, and 2005 respectively.

(d) Reporting comprehensive income:

Statement of Financial Accounting Standards No. 130 (“FAS 130”) “Reporting Comprehensive Income”, establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Comprehensive income equals net income (loss) for the period as adjusted for all other non-owner changes in shareholders' equity. FAS 130 requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement. For the year ended March 31, 2006, the Company has recorded an unrealized holding gain (loss) of $82,740 (2005 – $13,450); 2004 - ($17,856)) on marketable securities classified as “available-for-sale”, and on long-term investments of $880,000 (2005 - Nil) as a component of comprehensive income under US GAAP.

(e) Recent accounting pronouncements:

In December 2004, the FASB issued SFAS No. 123 (revised 2004), “Share-Based Payment” (“SFAS No. 123R”), which replaces FASB's SFAS No. 123, “Accounting for Stock-Based Compensation”, and supercedes APB Opinion No. 25, “Accounting for Stock Issued to Employees”. SFAS No. 123R requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award - the requisite service period (usually the vesting period). No compensation cost is recognized for equity instruments for which employees do not render the requisite service. Employee share purchase plans will not result in recognition of compensation cost if certain conditions are met; those conditions are much the same as the related conditions in SFAS No. 123. SFAS No. 123R will be effective for the Company commencing April 1, 2006. The Company has not yet determined the effect the adoption of SFAS No. 123R will have on its consolidated financial statements.

10. Reconciliation to United States generally accepted accounting principles ("US GAAP") (Continued):

(f) Reconciliation:

The effect of the differences between Canadian GAAP and US GAAP (including practices prescribed by the SEC) on the consolidated balance sheets, statements of loss and cash flows is summarized as follows:

As at March 31,	**2006**	**2005**
(i) Total assets:		
Total assets, under Canadian GAAP	$ 34,874,288	$ 36,038,157
Adjustment for mineral property acquisition and deferred exploration costs (Note 10(a))	(32,481,602)	(32,418,223)
Adjustment for change in fair value of available-for-sale marketable securities (Note 10(c) and (d))	146,120	63,380
Adjustment for change in fair value of long-term investments (Note 10(c) and (d))	880,000	-
Total assets, under US GAAP	$ 3,418,806	$ 3,683,314
(ii) Share capital:		
Share capital, under Canadian GAAP	$ 58,253,663	$ 57,607,786
Adjustment for fair value of employee and director options exercised prior to adoption of new accounting standard and transferred to share capital (Note 10(b))	(20,314)	(20,314)
Share capital, under US GAAP	$ 58,233,349	$ 57,587,472
(iii) Contributed surplus		
Contributed surplus, under Canadian GAAP	$ 561,777	$ 257,925
Adjustment for grant of employee stock options (Note 10(b))	(504,279)	(189,400)
Adjustment on adoptions of new accounting standard for stock-based compensation (Note 10(b))	(74,900)	(74,900)
Adjustment for fair value of employee and director options exercised prior to adoption of new accounting standard and transferred to share capital (Note 10(b))	20,314	20,314
Adjustment for stock-based compensation (Note 10(b))	1,704,000	1,704,000
Contributed surplus, under US GAAP	$ 1,706,912	$ 1,717,939

10. Reconciliation to United States generally accepted accounting principles ("US GAAP") (Continued):

(f) Reconciliation (continued):

As at March 31,	2006	2005
(iv) Accumulated other comprehensive income:		
Adjustment for fair value of available for sale marketable securities (Note 10(c) and (d))	$ 146,120	$ 63,380
Adjustment for fair value of long-term investments (Note 10(c) and (d))	880,000	-
Accumulated other comprehensive income, under US GAAP	$ 1,026,120	$ 63,380
(v) Deficit:		
Deficit, under Canadian GAAP	$ (24,122,418)	$ (21,922,530)
Adjustment for mineral property acquisition costs and deferred exploration (Note (10(a))	(32,481,602)	(32,418,223)
Grant of stock options (Note 10(b))	504,279	189,400
Adjustment on adoption of new accounting standard for stock-based compensation (Note 10(b))	74,900	74,900
Adjustments for stock-based compensation (Note 10(b))	(1,704,000)	(1,704,000)
Deficit, under US GAAP	$ (57,728,841)	$ (55,780,453)

10. Reconciliation to United States generally accepted accounting principles ("US GAAP") (Continued):

(f) Reconciliation (continued):

Years ended March 31,	**2006**	**2005**	**2004**
(vi) (Loss) earnings and (loss) earnings per share for the year:			
(Loss) earnings for the year, under Canadian GAAP	$ (2,199,888)	$ 1,531,244	$ (1,813,005)
Adjustment for deferred exploration expenditures (Note 10(a))	(63,379)	(4,126)	-
Adjustment for write-down of mineral property acquisition and deferred exploration costs (Note 10(a))	-	-	589,669
Adjustment to gain on sale of mineral property previously written-off (Note 10(a))	-	119,386	-
Adjustment for stock-based compensation Note (10(b))	314,879	189,400	-
Loss (earnings) for the year, under US GAAP	(1,948,388)	1,835,904	(1,223,336)
Other Comprehensive income:			
Change in fair value of available for sale marketable securities (Note 10(c) and (d))	82,740	13,450	(17,856)
Change in fair value of long-term investments (Note 10(c))	880,000	-	-
Comprehensive (loss) earnings, under US GAAP	$ (985,648)	$ 1,849,354	$ (1,241,192)
Basic and diluted (loss) earnings per share, under US GAAP	$ (0.04)	$ 0.04	$ (0.02)
(vii) Cash provided by (used in) operating activities:			
Cash provided by (used in) operating activities, under Canadian GAAP	$ (727,123)	$ (858,014)	$ (1,019,586)
Adjustment for deferred exploration (Note 10(a))	(63,379)	(37,106)	-
Cash provided by (used in) operating activities under US GAAP	$ (790,502)	$ (895,120)	$ (1,019,586)

10. Reconciliation to United States generally accepted accounting principles ("US GAAP") (Continued):

(f) Reconciliation (continued):

Years ended March 31,		**2006**		**2005**		**2004**
(viii) Cash provided by (used in) investing activities:						
Cash provided by (used in) investing activities, under Canadian GAAP	$	(63,379)	$	(37,106)	$	4,002
Adjustment for deferred exploration (Note 10(a))		63,379		37,106		-
Cash provided by (used in) investing activities under US GAAP	$	-	$	-	$	4,002