

**PRIZE MINING CORPORATION**  
(formerly MuskoX Minerals Corp.)

**CONSOLIDATED FINANCIAL STATEMENTS**

**AUGUST 31, 2005**

## AUDITORS' REPORT

To the Shareholders of  
Prize Mining Corporation  
(formerly MuskoX Minerals Corp.)

We have audited the consolidated balance sheets of Prize Mining Corporation (formerly MuskoX Minerals Corp.) as at August 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 August 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.

**"DAVIDSON & COMPANY LLP"**

Vancouver, Canada

Chartered Accountants

November 10, 2005

A Member of SC INTERNATIONAL

**PRIZE MINING CORPORATION**  
(formerly MuskoX Minerals Corp.)  
**CONSOLIDATED BALANCE SHEETS**  
AS AT AUGUST 31

	2005	2004
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 238,554	\$ 51,460
Short-term investment (Note 3)	155,394	2,015,849
Receivables	286,269	58,005
Exploration advances	-	367,767
Prepaid expenses and deposits	<u>114,196</u>	<u>76,739</u>
	794,413	2,569,820
<b>Exploration advances receivable</b> (Note 4)	492,566	-
<b>Equipment</b> (Note 5)	22,121	17,612
<b>Resource properties</b> (Note 6)	16,697,790	18,374,484
<b>Deferred financing costs</b> (Note 7)	<u>78,662</u>	<u>-</u>
	<u>\$ 18,085,552</u>	<u>\$ 20,961,916</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 99,969	\$ 85,812
<b>Convertible debenture</b> (Note 8)	981,543	-
<b>Future income taxes</b> (Note 9)	<u>1,149,566</u>	<u>2,076,752</u>
	<u>2,231,078</u>	<u>2,162,564</u>
<b>Shareholders' equity</b>		
Capital stock (Note 10)	22,071,575	21,696,557
Equity component of convertible debenture (Note 8)	191,667	-
Contributed surplus (Note 10)	670,166	453,964
Deficit	<u>(7,078,934)</u>	<u>(3,351,169)</u>
	<u>15,854,474</u>	<u>18,799,352</u>
	<u>\$ 18,085,552</u>	<u>\$ 20,961,916</u>

**Nature and continuance of operations** (Note 1)

**Subsequent events** (Note 15)

**On behalf of the Board:**

"A.J.H. McGucken"

Director

"Feisal Somji"

Director

The accompanying notes are an integral part of these consolidated financial statements.

**PRIZE MINING CORPORATION**  
(formerly MuskoX Minerals Corp.)  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
**YEAR ENDED AUGUST 31**

	2005	2004
<b>EXPENSES</b>		
Administrative	\$ 90,041	\$ 58,413
Amortization of deferred financing costs	10,838	-
Amortization of equipment	2,666	3,534
Consulting fees	43,544	59,500
Interest and bank charges	24,075	29,193
Management fees	215,000	179,000
Office and miscellaneous	98,144	93,644
Professional fees	79,713	77,965
Rent	35,437	42,701
Shareholder communications	134,873	230,563
Stock-based compensation (Note 10)	216,202	91,088
Transfer agent and regulatory fees	36,695	59,684
Travel and related costs	<u>75,242</u>	<u>167,413</u>
<b>Loss before other items</b>	<u>(1,062,470)</u>	<u>(1,092,698)</u>
<b>OTHER ITEMS</b>		
Interest income	16,712	33,484
Write-off of resource properties (Note 6)	<u>(3,609,193)</u>	<u>(469,674)</u>
	<u>(3,592,481)</u>	<u>(436,190)</u>
<b>Loss before income taxes</b>	(4,654,951)	(1,528,888)
<b>Future income tax recovery (Note 9)</b>	<u>927,186</u>	<u>719,092</u>
<b>Loss for the year</b>	(3,727,765)	(809,796)
<b>Deficit, beginning of year</b>	<u>(3,351,169)</u>	<u>(2,541,373)</u>
<b>Deficit, end of year</b>	<u>\$ (7,078,934)</u>	<u>\$ (3,351,169)</u>
<b>Basic and diluted loss per common share</b>	<u>\$ (0.22)</u>	<u>\$ (0.06)</u>
<b>Weighted average number of common shares outstanding</b>	<u>17,059,826</u>	<u>13,806,211</u>

The accompanying notes are an integral part of these consolidated financial statements.

**PRIZE MINING CORPORATION**  
(formerly Musko Minerals Corp.)  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEAR ENDED AUGUST 31**

	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the year	\$ (3,727,765)	\$ (809,796)
Items not affecting cash:		
Amortization	2,666	3,534
Amortization of deferred financing costs	10,838	-
Stock-based compensation	216,202	91,088
Future income tax recovery	(927,186)	(719,092)
Write-off of resource properties	3,609,193	469,674
Accrued interest income	(5,394)	(15,849)
Accretion of liability component of convertible debt	23,210	-
Changes in non-cash working capital items:		
Increase in receivables	(1,768)	(25,865)
Increase in exploration advances	-	(335,267)
(Increase) decrease in prepaid expenses and deposits	(37,457)	87,110
Increase (decrease) in accounts payable and accrued liabilities	14,157	(20,384)
Net cash used in operating activities	<u>(823,304)</u>	<u>(1,274,847)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayments of loans payable	-	(672,539)
Convertible debenture	1,150,000	-
Deferred financing costs	(89,500)	-
Proceeds from issuance of capital stock	447,485	5,499,500
Capital stock issuance costs	<u>(72,467)</u>	<u>(527,213)</u>
Net cash provided by financing activities	<u>1,435,518</u>	<u>4,299,748</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Mineral property payments	(700,000)	(280,000)
Acquisition of equipment	(7,175)	(18,591)
Deferred exploration costs	(1,458,995)	(1,570,505)
Short-term investment	1,865,849	(2,000,000)
Exploration advances receivable	<u>(124,799)</u>	<u>-</u>
Net cash used in investing activities	<u>(425,120)</u>	<u>(3,869,096)</u>
<b>Change in cash during the year</b>	187,094	(844,195)
<b>Cash, beginning of year</b>	<u>51,460</u>	<u>895,655</u>
<b>Cash, end of year</b>	<u>\$ 238,554</u>	<u>\$ 51,460</u>

**Supplemental disclosure with respect to cash flows** (Note 12)

The accompanying notes are an integral part of these consolidated financial statements.

**PRIZE MINING CORPORATION**  
(formerly Muskox Minerals Corp.)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AUGUST 31, 2005

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

The Company was incorporated under the Business Corporations Act (Alberta) on August 16, 1996 and is in the process of exploring its resource properties in Canada.

During the current fiscal year, the Company changed its name from Muskox Minerals Corp. to Prize Mining Corporation and consolidated its outstanding common shares on the basis of five old shares for one new share. All references to number of common shares and per common share amounts have been retroactively restated to reflect consolidation, unless otherwise noted.

The Company is in the process of exploring and developing its resource properties and has not yet determined whether the properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for resource properties and related deferred exploration costs are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production.

These 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. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. The financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

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	2005	2004
Working capital	\$ 694,444	\$ 2,484,008
Deficit	(7,078,934)	(3,351,169)

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**2. SIGNIFICANT ACCOUNTING POLICIES**

**Principles of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant inter-company balances and transactions have been eliminated upon consolidation.

**Estimates**

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

**PRIZE MINING CORPORATION**  
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AUGUST 31, 2005

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**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Short-term investments**

Short-term investments include Canadian guaranteed investment certificates with a major Canadian banking institution. These investments are stated at cost plus accrued interest and their carrying value approximates their fair value.

**Equipment**

Equipment, being computer equipment, is recorded at cost. Amortization is calculated over the estimated useful life using the declining balance method at 30% per annum.

**Resource properties**

All costs related to the acquisition, exploration and development of resource properties are capitalized by property. If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a resource property is impaired, that property is written down to its estimated net realizable value. A resource property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

The amounts shown for resource properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

**Asset retirement obligations**

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease in the carrying amount of the liability for an asset retirement obligation and the related asset retirement cost capitalized as part of the carrying amount of the related long-lived asset.

**PRIZE MINING CORPORATION**  
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AUGUST 31, 2005

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**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Deferred financing costs**

Deferred financing costs consist of direct costs incurred to obtain the convertible debenture financing and are amortized over the life of this instrument.

**Future income taxes**

Future income taxes are calculated using the asset and liability method whereby 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 when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it to be more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

**Flow-through common shares**

The Company has adopted the new accounting pronouncement EIC-146, relating to flow through shares, for all flow through share agreements dated after March 19, 2004. Under the terms of Canadian flow through share legislation, the tax attributes of qualifying expenditures are renounced to subscribers. To recognize the foregone tax benefits, share capital is reduced and a future income tax liability is recognized as the related expenditures are renounced. This future income tax liability is then reduced by the recognition of previously unrecorded future income tax assets on unused losses and deductions.

**Investment tax credits**

Investment tax credits are recorded as either a reduction of the cost of applicable assets or credited in the statement of operations depending on the nature of the expenditures which gave rise to the credits. Claims for tax credits are accrued upon the Company attaining reasonable assurance of collections from the Canada Revenue Agency.

**Stock-based compensation**

The Company uses fair value-based methodology for measuring compensation costs whereby all awards to employees and non-employees will be recorded at fair value on the date of grant and the associated expenses is amortized to operations over the vesting period.

**Loss per share**

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. For the years presented, this calculation proved to be anti-dilutive.

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year.

**PRIZE MINING CORPORATION**  
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**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Comparative figures**

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

**3. SHORT-TERM INVESTMENT**

	2005	2004
Canadian dollar guaranteed investment certificates	\$ 155,394	\$ 2,015,849

**4. EXPLORATION ADVANCES RECEIVABLE**

	2005	2004
Canamera Geoscience Corp.	\$ 387,566	\$ -
Titan Drilling Ltd.	<u>105,000</u>	<u>-</u>
	\$ 492,566	\$ -

In 2004, the amounts advanced to the above companies for exploration advances were included in current assets. During fiscal 2005, these companies failed to account for exploration costs associated with the above advances nor did they return the advanced amounts as requested by the Company. In September 2005, the Company commenced legal action against these two companies for full repayment of its advances. Management of the Company is of the opinion that these exploration advances will be collected from the above companies and therefore, no provision for impairment or collectability is required.

**5. EQUIPMENT**

	2005			2004		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 32,705	\$ 10,584	\$ 22,121	\$ 25,530	\$ 7,918	\$ 17,612

## **6. RESOURCE PROPERTIES**

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to its mineral properties and to the best of its knowledge, title to its properties are in good standing.

### **Nunavut Claims**

The Company has a 100% interest in certain mineral claims in Nunavut, Canada. The claims are subject to a 2.5% gross overriding royalty. In 1998, the Company granted an option to acquire a 10% interest in the mineral claims to a former related party as consideration to postpone payment of a loan then outstanding and the advance of additional funds. The option is exercisable upon the optionee paying \$300,000 to the Company at the earlier of the claims being put into commercial production or December 31, 2020. If the option is exercised, the 10% interest will be converted into a 3% net smelter returns royalty in favour of the optionee upon the claims being put into commercial production.

The Company obtained call agreements with the holders of the royalties in certain mineral claims to purchase the royalties in consideration for a payment of \$2,000,000, to be paid by December 31, 2008.

During fiscal 2003, the Company entered into an option agreement with Anglo American (Canada) Ltd. ("AAEC") whereby AAEC could acquire an initial 51% interest in certain mineral claims of the Company by incurring exploration expenditures of \$11,500,000 before August 31, 2008 and a further 19% interest through additional funding of exploration and development work as well as a feasibility study. During fiscal 2004 AAEC terminated its option with the Company. The Company will retain all rights to the tenure of the mineral claims.

During fiscal 2005, the Company abandoned certain mineral claims and consequently, costs related to these claims, totalling \$3,609,193 (2004 - \$469,674), were written off to operations.

### **Atlin Claims**

On October 16, 2003, the Company agreed to an option agreement to purchase a 100% interest in certain mineral claims in the Atlin District of British Columbia. To date, the Company has made option payments totaling \$940,000 and the remaining terms of the option agreement are as follows:

- a) \$250,000 by April 1, 2006;
- b) \$200,000 by October 1, 2006;
- c) \$400,000 by January 15, 2007; and
- d) \$200,000 by January 15, 2008, and each year to January 15, 2011 for total cash payments of \$2,590,000.

**PRIZE MINING CORPORATION**  
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**6. RESOURCE PROPERTIES (cont'd...)**

**Atlin Claims (cont'd...)**

The optionor will retain a 1.5% net smelter returns royalty. The Company paid a finder's fee consisting of 200,000 common shares at a value of \$30,000 and cash of \$30,000. In addition, the Company paid other associated acquisition costs of \$10,000.

2005	Nunavut Claims	Atlin Claims	Total
Acquisition costs, beginning balance	\$ 5,837,554	\$ 310,000	\$ 6,147,554
Additions during the year	-	700,000	700,000
Written-off during the year	(3,021,396)	-	(3,021,396)
Acquisition costs, ending balance	<u>2,816,158</u>	<u>1,010,000</u>	<u>3,826,158</u>
Deferred exploration costs, beginning balance	<u>11,087,389</u>	<u>1,139,541</u>	<u>12,226,930</u>
Additions during the year			
Camp maintenance	-	166,782	166,782
Drilling	-	426,524	426,524
Equipment rental	-	94,852	94,852
Expediting and freight	-	12,318	12,318
Geological and geochemical	-	484,134	484,134
Geophysics	14,014	169,779	183,793
Tenure and licenses	3,727	500	4,227
Travel and accommodation	-	64,834	64,834
Legal fees	-	6,369	6,369
Report writing	-	15,162	15,162
	<u>17,741</u>	<u>1,441,254</u>	<u>1,458,995</u>
Investment tax credits	-	(226,496)	(226,496)
Written-off during the year	(587,797)	-	(587,797)
	<u>(587,797)</u>	<u>(226,496)</u>	<u>(814,293)</u>
Deferred exploration costs, ending balance	<u>10,517,333</u>	<u>2,354,299</u>	<u>12,871,632</u>
Total resource properties	<u>\$ 13,333,491</u>	<u>\$ 3,364,299</u>	<u>\$ 16,697,790</u>

**PRIZE MINING CORPORATION**  
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**6. RESOURCE PROPERTIES (cont'd...)**

2004	Nunavut Claims	Atlin Claims	Total
Acquisition costs, beginning balance	\$ 5,837,554	\$ -	\$ 5,837,554
Additions during the year	<u>-</u>	<u>310,000</u>	<u>310,000</u>
Acquisition costs, ending balance	<u>5,837,554</u>	<u>310,000</u>	<u>6,147,554</u>
Deferred exploration costs, beginning balance	<u>11,126,099</u>	<u>-</u>	<u>11,126,099</u>
Additions during the year			
Camp maintenance	18,542	95,735	114,277
Drilling	327,750	474,518	802,268
Equipment rental	-	94,337	94,337
Expediting and freight	18,538	14,284	32,822
Geological and geochemical	80,104	336,058	416,162
Geophysics	-	48,199	48,199
Tenure and licenses	(18,867)	4,490	(14,377)
Travel and accommodation	-	61,568	61,568
Legal fees	-	7,059	7,059
Report writing	<u>4,897</u>	<u>3,293</u>	<u>8,190</u>
	<u>430,964</u>	<u>1,139,541</u>	<u>1,570,505</u>
Written-off during the year	<u>(469,674)</u>	<u>-</u>	<u>(469,674)</u>
Deferred exploration costs, ending balance	<u>11,087,389</u>	<u>1,139,541</u>	<u>12,226,930</u>
Total resource properties	<u>\$ 16,924,943</u>	<u>\$ 1,449,541</u>	<u>\$ 18,374,484</u>

**7. DEFERRED FINANCING COSTS**

Deferred financing costs consist of the finders' fees of \$89,500 paid to obtain the convertible debenture financing.

	2005	2004
Finders' fees	\$ 89,500	\$ -
Amortization	<u>(10,838)</u>	<u>-</u>
	<u>\$ 78,662</u>	<u>\$ -</u>

**PRIZE MINING CORPORATION**  
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**8. CONVERTIBLE DEBENTURE**

	2005	2004
<p>The Company issued an unsecured, non-interest bearing convertible debenture in the amount of \$1,150,000. The principal amount of the debenture is due and payable on January 22, 2010. At any time prior to the maturity date, the holder may convert the principal amount, in whole or in part, into units of the Company. Each unit consists of one common share of the Company and one common share purchase warrant. The units are convertible at \$0.60 of principal outstanding until January 22, 2007, at \$0.66 of principal outstanding until January 22, 2008, at \$0.715 of principal outstanding until January 22, 2009, and \$0.786 of principal outstanding until January 22, 2010. Each warrant will entitle the holder to purchase one common share at an exercise price equal to the conversion price of the convertible debenture. The warrants will expire on the earlier of one year from the date of issue of the warrants or January 22, 2010. On issuance, the relative fair value of \$191,667 attributed to the equity component of the debenture was classified as shareholders' equity on the balance sheet. The debt component will be accreted to its face value over the term of the debenture by recording interest expense.</p>	\$ 1,150,000	-
<p>Balance to be accreted</p>	(168,457)	-
	\$ 981,543	\$ -

**9. INCOME TAXES**

a) A reconciliation of income taxes at statutory rates is as follows:

	2005	2004
Loss before income taxes	\$ (4,654,951)	\$ (1,528,888)
Expected income tax (recovery)	\$ (1,564,995)	\$ (544,590)
Non-deductible expenses	1,044,183	201,002
Deductible expenses	(69,286)	(87,674)
Recognized benefits of non-capital losses	(337,088)	(287,830)
Total income tax (recovery)	\$ (927,186)	\$ (719,092)

**PRIZE MINING CORPORATION**  
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**9. INCOME TAXES (cont'd...)**

b) Details of future income tax assets and liabilities are as follows:

	2005	2004
Future income tax assets		
Equipment	\$ 3,558	\$ 2,821
Share issue costs	136,751	188,656
Non-capital losses carried forward	<u>1,370,772</u>	<u>1,745,733</u>
Future income tax assets	1,511,081	1,937,210
Future income tax liabilities		
Resource properties	<u>(3,279,555)</u>	<u>(4,013,962)</u>
Net future income tax liability	<u>\$ (1,149,566)</u>	<u>\$ (2,076,752)</u>

The Company has non-capital losses of approximately \$4,100,000 which may be applied to reduce taxable income in future years. If not utilized, these losses expire through to 2015. The tax benefits of these non-capital losses have not been recognized in these consolidated financial statements except to the extent that they can be used to offset future income tax liabilities that existed at the fiscal year end.

**10. CAPITAL STOCK**

	Number of Shares	Amount	Contributed Surplus
Authorized			
Unlimited number of voting common shares without par value			
Unlimited number of preferred shares, issuable in series			
Common shares issued			
Balance at August 31, 2003	9,956,721	\$ 16,707,575	\$ 349,571
Private placements	5,639,334	5,247,000	-
Finder's fee on resource property	40,000	30,000	-
Warrants exercised	330,000	252,500	-
Finders' fee on private placement	10,000	7,500	-
Finders' fee on private placement	-	(7,500)	-
Finders' fee warrants issued	-	(13,305)	13,305
Share issuance costs	-	(527,213)	-
Stock-based compensation	<u>-</u>	<u>-</u>	<u>91,088</u>
Balance at August 31, 2004	15,976,055	21,696,557	453,964
Private placement	1,789,940	447,485	-
Share issuance costs	-	(72,467)	-
Stock-based compensation	<u>-</u>	<u>-</u>	<u>216,202</u>
Balance at August 31, 2005	<u>17,765,995</u>	<u>\$ 22,071,575</u>	<u>\$ 670,166</u>

**PRIZE MINING CORPORATION**  
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**10. CAPITAL STOCK (cont'd...)**

On December 12, 2003, the Company issued 4,282,667 units at a price of \$0.75 per unit for gross proceeds of \$3,212,000. Each unit consisted of one common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase an additional common share at a price of \$0.90 on or before December 12, 2005. The Company paid fees of \$219,100 in cash, issued 10,000 units with the same terms as the private placement and issued 30,667 share purchase warrants with the same terms as the private placement as share issuance costs. The fair value of the share purchase warrants of \$11,239 was allocated to capital stock and contributed surplus.

On March 23, 2004, the Company issued 1,356,667 units at a price of \$1.50 per unit for gross proceeds of \$2,035,000. Each unit consisted of one common share and one half share purchase warrant. Each whole share purchase warrant will entitle the holder to purchase an additional common share at a price of \$2.00 on or before March 23, 2006. The Company paid fees of \$168,043 in cash and issued 3,000 finder's fee share purchase warrants which entitle the holder to purchase additional common shares at a price of \$2.00 per share on or before March 23, 2006 as share issuance costs. The fair value of the share purchase warrants of \$2,066 was allocated to capital stock and contributed surplus.

The fair value of the finder's fee share purchase warrants was calculated using the Black-Scholes Option Pricing Model. The weighted average assumptions used were 2.27% to 3.11% for risk free interest rates, 2 years for the life of the warrants, 99.40% for annualized volatility and \$Nil for a dividend rate.

In addition, the Company paid other associated costs of \$140,070 relating to the private placements.

On July 26, 2005, the Company issued 1,789,940 common shares at a price of \$0.25 per share for gross proceeds of \$447,485. The Company paid associated costs of \$72,467 relating to the private placement.

**Warrants**

Warrant transactions are summarized as follows:

	2005	2004
Balance, beginning of year	8,920,468	4,245,801
Issued	-	5,004,667
Exercised	-	(330,000)
Expired	(3,915,801)	-
Balance, end of year	5,004,667	8,920,468

The following warrants to acquire common shares were outstanding at August 31, 2005:

Number of Shares	Exercise Price	Expiry Date
4,323,334	\$ 0.90	December 12, 2005
681,333	2.00	March 23, 2006

**PRIZE MINING CORPORATION**  
(formerly Musko Minerals Corp.)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**10. CAPITAL STOCK (cont'd...)**

**Stock options**

The Company has an incentive stock option plan in place under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common shares of the Company. The options can be granted for a maximum term of 5 years.

	Number of Shares		Weighted Average Exercise Price
Outstanding and exercisable at August 31, 2003	990,000	\$	1.40
Granted	140,000		1.25
Cancelled	<u>(70,000)</u>		1.40
Outstanding and exercisable at August 31, 2004	1,060,000		1.30
Granted	140,000		1.20
Repriced	(945,000)		1.20
Repriced	945,000		0.70
Granted	316,000		0.70
Expired/cancelled	<u>(525,000)</u>		0.70
Outstanding and exercisable at August 31, 2005	991,000	\$	0.70
Weighted average fair value of options granted during fiscal 2004 and 2005	\$ 0.15	\$	0.65

The following stock options were outstanding at August 31, 2005:

Number of Shares	Exercise Price	Expiry Date
87,500	\$ 0.70	October 20, 2005, expired unexercised
8,500	0.70	January 25, 2007
130,000	0.70	July 24, 2008
329,000	0.70	August 17, 2008
70,000	0.70	February 12, 2009
70,000	0.70	September 24, 2009
70,000	0.70	October 15, 2009
226,000	0.70	January 17, 2010

**Stock-based compensation**

The total stock-based compensation recognized for stock options granted and repriced under the fair value method was \$216,202 (2004 - \$91,088) using the Black-Scholes Option Pricing Model.

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**10. CAPITAL STOCK (cont'd...)**

**Stock-based compensation (cont'd...)**

The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted:

	2005	2004
Risk-free interest rate	3.80%	3.33%
Expected life of options	2.96 years	2.7 years
Annualized volatility	45.08%	99.40%
Dividend rate	0.00%	0.00%

**11. RELATED PARTY TRANSACTIONS**

The Company entered into the following transactions with related parties:

- a) Paid or accrued \$Nil (2004 - \$26,038) in interest expense to a trust associated with a former director of the Company.
- b) Paid or accrued \$215,000 (2004 - \$179,000) in management fees to directors.
- c) Paid or accrued legal fees of \$43,378 (2004 - \$Nil) to a firm in which a director of the Company is a partner. As at August 31, 2005, the accounts payable to this firm were \$10,707 (2004 - \$Nil).

These transactions with related parties were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the parties.

**12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

	2005	2004
Cash paid during the year for interest	\$ -	\$ 175,884
Cash paid during the year for income taxes	-	-

The significant non-cash transactions for the year ended August 31, 2005 were as follows:

- a) The Company reclassified exploration advances of \$367,767 from current assets to exploration advances receivable, a long-term asset, as per Note 4.
- b) The Company accrued the investment tax credit of \$226,496 as a receivable that was applied as a credit in deferred exploration costs as outlined in Note 6.

**PRIZE MINING CORPORATION**  
(formerly Muskox Minerals Corp.)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (cont'd...)**

The significant non-cash transactions for the year ended August 31, 2004 were as follows:

- a) The issuance of 200,000 common shares at a value for \$30,000 for a finder's fee relating to the Atlin claims option agreement (Note 6).
- b) The issuance of 33,667 warrants at a fair value of \$13,305 for finders' fees in connection with private placements (Note 10). This amount is reflected in capital stock and contributed surplus.
- c) The issuance of 10,000 units at a value of \$7,500 as fees in connection with a private placement (Note 10).

**13. SEGMENTED INFORMATION**

The Company currently conducts substantially all of its operations in Canada in one business segment being the exploration and development of resource properties.

**14. FINANCIAL INSTRUMENTS**

The Company does not believe it is subject to any significant credit risk although cash and short-term investments are held in excess of federally insured limits, with a major financial institution.

The Company's other financial instruments consist of receivables, exploration advances, exploration advances receivable, accounts payable and accrued liabilities and convertible debenture. In management's opinion, 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.

**15. SUBSEQUENT EVENTS**

The following events occurred subsequent to August 31, 2005:

- a) The Company granted 860,000 stock options to directors, officers and consultants of the Company exercisable at \$0.25 per share until October 25, 2010.
- b) The Company acquired an option to purchase a 100% interest in several mineral claims located in the Atlin mining district of British Columbia. To acquire this interest, the Company paid \$10,000 and issued 2,000,000 common shares with a value of \$400,000 and 2,000,000 share purchase warrants. Each warrant will entitle the holder to purchase one common share of the Company at a price of \$0.35 until May 3, 2007. In addition, the Company has agreed to option payments as follows:
  - i) \$110,000 by October 31, 2007.
  - ii) \$160,000 by October 31, 2008.
  - iii) \$250,000 by October 31, 2009.

The optionors will retain a 3% net smelter returns royalty. The Company has the option to purchase 2% of the royalty at any time for \$2,000,000.

**PRIZE MINING CORPORATION**  
FORM 51-102F1  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED AUGUST 31<sup>ST</sup>, 2005

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The following discussion and analysis of the operations, results and financial position of Prize Mining Corporation. (the "Company" or "Prize ") for the year ended August 31st, 2005 should be read in conjunction with the August 31st, 2005 Audited Financial Statements and related notes.

### **Forward-Looking Statements**

Except for historical information, the Management Discussion and Analysis may contain forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause the Company's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

### **Current Operations**

The Company is a natural resources company involved in the acquisition and exploration of precious-metal mineral properties. The present focus of its operations is gold exploration in the Atlin District of northern British Columbia. The company has the option to acquire 100% of a claims block (the "Atlin Gold Property") in the Pine Creek area where bedrock gold-silver deposits occur below gold-rich placer gravels. The option agreement, as described below, allows for the Company to be the operator for the project. Developing the property is capital intensive and the Company will need to raise additional funding in order to define a mineral resource within the Yellow Jacket Zone.

In Nunavut, northern Canada the Company's wholly-owned subsidiary MuskoX Holdings Ltd., holds mineral claims comprising the mineral tenure to the MuskoX Intrusion. The Intrusion is a layered mafic/ultramafic igneous complex of similar composition and geological environment to other intrusions which host large nickel + copper + platinum +palladium deposits.

The Company has been actively exploring the property since 1996. Work to date has included extensive geophysical surveys, geological mapping, geochemical sampling, and diamond drilling. Results to date are encouraging and further exploration work is warranted.

The Company is currently listed as a Tier 1 company of the TSX-V and is in good standing.

### **Results of Operations**

#### ***1) The Atlin Gold Project***

Under the Option Agreement dated October 16, 2003, Prize may earn a 100% interest in the Atlin Property by making cash payments totaling \$2,590,000 over the 7 years ending January 15, 2011, and expending a minimum of \$250,000 in exploration work per year for the first three years, for a total of \$750,000. Prize has paid the initial \$140,000 upon the signing of the Option Agreement and has made four subsequent property payments totaling \$800,000 for a grand total of \$940,000. The payment of \$250,000 which was due on October 1, 2005 was paid early on July 20, 2005. The next payment due is \$250,000 by April 1, 2006. Prize can choose to accelerate the cash payments to exercise the Option early, without penalty. Once the Option is exercised, the Property will be subject to a 1.5% NSR Royalty.

As of the date of this report, the Company has met all obligations for the exploration work requirements for the full three years (\$750,000).

The Atlin Gold Project is within a geologic environment similar to those hosting rich gold deposits such as those in the Motherlode district of California and in the prolific Bralorne Mine area of Southern British Columbia. Gold in these areas is associated with the listwanitic (carbonate-quartz-mariposite) alteration of ultramafic ophiolitic rocks. The association of listwanitic rocks with the placer gold deposits of the Atlin area resulted in exploration of the area from 1987 to 1989 by Homestake Minerals Corporation.

## Exploration Progress

In December 2003 a drill was mobilized on site and a 2 hole short program commenced on the Atlin Gold Property prior to the Christmas break. The primary objective of these holes was to verify information which was gathered by Homestake Mining during the period 1986-88.

In February 2004, Prize initiated a drill program on the Pine Creek Property. The program first continued the objective of the December drilling program being designed to verify information gathered by Homestake Mining during the period 1986-88. The second phase of this drill program was based upon the results of Prize's initial exploration programs, combined with pre-existing data which the Company has translated into digital format.

At the end of the second Phase, Prize had drilled a total of 1059.3 metres in holes YJ-03-01 to YJ-04-12 in 12 holes on the Atlin Gold Property. These holes were drilled using NQ drill rods. Some exceptional grades of gold mineralization were encountered in several drill holes (see following table).

<b>HOLE #</b>	<b>LOCATION</b>	<b>FROM (m)</b>	<b>TO (m)</b>	<b>WIDTH (m)</b>	<b>GOLD (g/t)</b>
<b>YJ03-01</b>	West Zone	19.51	13.95	5.56	<b>513.5</b>
		22.87	21.96	0.91	<b>21.06</b>
		26.52	25.00	1.52	<b>40.42</b>
		39.02	35.97	3.05	<b>34.81</b>
		44.21	42.99	1.22	<b>57.88</b>
<b>YJ03-02</b>	Main Zone	50.30	50.91	0.61	<b>16.28</b>
<b>YJ04-01</b>	Main Zone	49.30	50.20	0.90	<b>4.72</b>
And		92.50	93.00	0.50	<b>128.15</b>
<b>YJ04-02</b>	Main Zone	63.10	63.70	0.60	<b>7.08</b>
<b>YJ04-03</b>	Main Zone	36.40	36.90	0.50	<b>4.22</b>
And		44.15	44.35	0.20	<b>14.79</b>
And		45.02	45.70	0.68	<b>11.66</b>
<b>YJ04-07</b>	West Zone	24.47	24.97	0.50	<b>6.75</b>
And		38.66	39.16	0.50	<b>24.61</b>
And		48.85	54.45	6.10	<b>40.10</b>
Including		48.35	49.35	1.00	<b>6.96</b>
And		50.35	50.90	0.55	<b>5.38</b>
And		53.40	53.71	0.31	<b>588.87</b>
And		53.95	54.45	0.50	<b>98.85</b>

The third Phase of the diamond drill program on the Atlin Gold Property was designed to test along-strike and down-dip continuity of the mineralized structures identified in the earlier phases. A larger drill was brought on site to increase recovery rates from the drilling. The Company drilled HQ core. Data from the old Homestake drill holes were combined with the initial Prize drill results and the mineralized zones have been re-modeled.

Results from the Phase III drilling program showed that the main drill target remains the steeply dipping fault zone trending along the Pine Creek valley, thought to be the source of the very rich placer gold channel. The fault structure, with its associated listwanite alteration and quartz veining, returned very high gold values in previous drilling. New computer modeling revealed 3 sub-parallel mineralized bands located within the fault zone and new diamond-drill holes were planned to test these features.

November 15, 2004, the Company released additional assay results from its summer and fall 2004 diamond drill program on the company's property. In this phase of drilling, 21 holes (YJ04-13 to YJ04-33) was completed, with 2,874 metres of HQ core.

Previously, the company reported bonanza grade gold intersections of 513.5 grams per tonne (g/t) over 5.56 metres in drill hole YJ03-01 and 128.15 g/t over 0.5 metre in drill hole YJ04-01. The phase III drill program tested 310 metres of the two-kilometre-plus strike length. Drill holes YJ04-20 and YJ04-22 were step-outs to the east from the initial bonanza grade holes and have returned 142.4 g/t gold over 1.0 metres and 156.9 g/t gold over 0.5 metre, respectively. Drill hole YJ04-29 has a westerly step-out from the prior drilling and returned 119.6 g/t gold over 0.5 metre.

The following table summarizes the high-grade gold intersections from the third phase of the 2004 drill program. For holes YJ04-17 to YJ04-26, the total gold assay values are listed as well as the gold assay of the coarse fraction (+150 mesh). The total gold value is obtained by weighted averaging of the coarse and fine fractions. The coarser fraction is reported here in order to illustrate the coarse nature of the gold mineralization at the Atlin Gold Property.

#### HIGH-GRADE GOLD INTERSECTIONS FROM PHASE III DRILLING

Hole No.	From (m)	To (m)	Gold (g/t)	Coarse Total fraction gold (g/t)
YJ04-16	110.20	111.20	2.03	
YJ04-17	32.60	33.60	9.99	
incl.	33.10	33.60	19.41	138.37
	49.70	50.54	4.02	
incl.	50.11	50.54	5.96	26.11
YJ04-18	93.00	97.00	3.28	
incl.	95.00	96.00	5.56	17.93
YJ04-20	80.00	81.00	4.49	17.26
	89.00	91.00	4.83	
incl.	90.00	91.00	7.57	48.97
YJ04-20	105.00	114.00	1.48	
incl.	107.00	108.00	7.12	129.16
	137.00	141.00	36.16	
incl.	140.00	141.00	142.40	938.95
YJ04-21	41.75	42.75	14.30	
	73.50	74.00	4.42	19.69
	79.00	79.50	5.49	69.18
	102.90	103.40	3.89	12.77
YJ04-22	29.57	32.00	8.01	
incl.	31.50	32.00	16.19	135.06
	73.76	74.25	5.12	5.26
	106.80	108.30	52.94	
incl.	106.80	107.30	156.95	1,525.04
YJ04-24	109.00	118.50	1.75	
incl.	118.00	118.50	6.93	37.30
YJ04-26	59.00	61.25	3.27	
incl.	59.00	59.50	6.02	44.80
YJ04-27	57.65	58.15	4.13	
	64.15	70.50	4.20	
incl.	68.85	69.35	22.43	
	115.64	116.15	3.84	
YJ04-29	68.50	69.	119.62	
	137.00	137.50	3.92	
	179.00	185.00	2.64	
	196.00	197.00	5.18	

The drill program continued throughout the remainder of 2004, with the intention of further developing the Yellowjacket zone and also completing step-out drilling along strike to test for new zones and the continuity of the main zone. Hole layout consists of fences of drill holes along the length of the main zone, these being set up at average 30 metre spacings. These holes were angled in a northerly direction in order to best cut the main southerly dipping fault zone.

The Company also completed 820 kilometres of airborne geophysical surveying on the Atlin Gold Property. Plots of resistivity and magnetics outline the main fault zone, which hosts the Yellowjacket mineralization and reveals numerous subparallel and cross-cutting features related to this mineralized structure. Several of these geophysical features will be diamond drill tested in order to understand their relationship to the high-grade gold values encountered along the main fault feature.

As follow up to the September 2004 airborne geophysical survey conducted on the Atlin Gold Project, magnetic susceptibility readings were taken at approximately 30 centimeter intervals along drill core from 42 diamond drill holes. In the Atlin area, it is generally understood that the lowest magnetic susceptibility readings are related to the most intense alteration in bedrock, which causes destruction of primary magnetite. Known gold mineralization is associated with the gradients between the highest and lowest zones of magnetic susceptibility. The airborne geophysical survey identified a strong magnetic susceptibility gradient, which is coincident with the extremely high grade gold mineralization at the Yellowjacket Zone. Magnetic susceptibility readings on the drill core show that the best gold intercepts from drilling to date occur where the magnetic susceptibility readings drop from high to low. For example in drill hole YJ04-20, the 1.0 metre interval that assayed 142.40 g/t gold had magnetic susceptibility readings of 2.5 on one side and 0.6 on the other side of the intercept. Similarly, for drill hole YJ04-29, the 0.50 metre interval that assayed 119.62 g/t gold had magnetic susceptibility readings of 20.0 on one side and 0.5 on the other side of the mineralized intercept. Drill hole YJ03-01, which had a drill intercept of 5.56 metres averaging 513.5 g/t gold was in a zone with magnetic susceptibilities of 0.8, while an adjacent hole (8 metres away) YJ04-11 had no gold intervals and had high magnetic susceptibility values of greater than 20.0. Distinct magnetic trends have been identified by the combination of airborne and drill core magnetic susceptibility readings. Two sub-parallel magnetic susceptibility features, associated with the gold mineralization at the Yellowjacket Zone, are currently untested over their combined 1,400 metre strike extent.

The airborne geophysical survey also identified two additional, large, strong magnetic susceptibility targets located on either side of the Yellowjacket Zone. These are called the Rock of Ages and Gold Run Zones and both of these zones have associated historic placer gold production. As of the period ending August 31, 2005, neither of these two additional zones have been drill tested. The strong correlation between the magnetic susceptibility and the gold results to date has provided the Company the ability to better define our on-going exploration program. A ground magnetic survey was planned to better delineate the magnetic gradients on the ground prior to diamond drill testing.

### **On-Going Exploration and Development**

Over 350 metres of strike length in the mineralized zone has been drill tested along the favourable Pine Creek fault structure. Visible gold is now being intersected on a regular basis as the orientations of several distinct gold bearing zones within the Yellowjacket zone have been identified and are becoming better understood. The data from continued drill testing have enlarged the Yellowjacket zone and are being used to generate a preliminary resource model, the results of which will be released once sufficient assay data are returned. The mineralized zones are open at depth and laterally in both directions along strike; to date each new step-out has resulted in additional gold intersections. The process of permitting for bulk sampling and identifying the zones for bulk testing has been initiated; the progress will be reported over the coming months.

In addition to gold, a number of geochemical pathfinder elements have been detected in key lithological units within the Yellowjacket structure. The importance of these pathfinders is key in mapping out the zones that are gold bearing. As a result of the "nugget effect", gold is unevenly distributed within the mineralized zone, but the pathfinders directly associated with gold have the characteristic of being normally distributed. Vulcan mine modelling software package was used by the Company to create a model that maps these pathfinder zones to better delineate the true size and extent of the gold bearing horizons.

With the data collected to date, along with the geophysical survey results and the new pathfinder models, management is further advancing its study of the economic viability of the Yellowjacket zone.

The objective of the continuing diamond drill program through 2004 was to further develop and add to the continuity of structures and lithologies hosting alteration, quartz veining and high-grade gold mineralization within the Yellowjacket property. Exploration along strike in both directions will now be undertaken, in an effort to expand the volume of gold mineralization along the two-kilometre fault zone.

On August 18, 2005 the company announced that it had completed the ground magnetometer geophysical survey on its Atlin Gold Property. The geophysical survey was completed with tighter line spacing than originally proposed on both the Yellowjacket and Rock of Ages Zones resulting in additional line kilometers and more detailed survey results. In addition, a small geophysical survey on the Gold Run Zone was completed that was not originally planned, as was a survey of all the remaining existing drill collar locations. The final completed cost of the entire program was less than the budget.

The ground magnetometer geophysical survey was designed to follow up strong magnetic anomalies outlined on the Atlin Gold Property by the prior airborne magnetic survey. Exploration work to date by Prize has discovered a positive correlation between low magnetic susceptibility zones and high grade gold mineralization in the Yellowjacket Zone.

The detailed ground magnetometer geophysical survey was completed over the Yellowjacket and Rock of Ages Zones with grid lines spaced 25 or 50 metres apart and readings taken at 5 metre intervals along the grid lines. The magnetometer geophysical survey showed nearly identical magnetic responses on the Yellowjacket Zone and the undrilled Rock of Ages Zone as seen from the previous airborne magnetic survey and the magnetic susceptibility survey on the drill core.

A detailed ground magnetometer geophysical survey was also completed over the Gold Run Zone located at the head of the historic Pine Creek placer gold channel, 3 kilometres upstream from the Yellowjacket Zone. Seven grid lines were surveyed at 50 metre spacings with readings at 5 metre intervals in order to test the magnetic response. A larger and sharper magnetic response was found on the Gold Run Zone as compared to the Yellowjacket and Rock of Ages Zones. The Gold Run Zone remains untested by drilling.

In all three grid areas, the preliminary total field ground magnetometer geophysical survey results define the target areas very well. 3D modeling and inversion of the magnetic data was being completed by Peter E. Walcott and Associates and is being employed to assist in targeting the next phase of the diamond drill program on the Yellowjacket Zone.

Subsequent to the period ending August 31, 2005, diamond drilling commenced on the Yellowjacket Zone in the second week of October, 2005.

In addition to the ground geophysical survey, Prize also completed a magnetic susceptibility survey on drill core from the previous Homestake drilling. This data will be integrated with the existing susceptibility data from Prize's drill core to determine if further testing should be done on the Homestake core still on site.

Once the current drill program is completed, the size and orientation of the mineralized zone(s) will be better defined, allowing for preliminary resource calculations to be conducted in order to ascertain the economic viability of the project. These studies will also assist in directing future programs toward increasing economically viable tonnages.

## **2) The Muskox Intrusion**

### **Exploration Progress**

A 1987 line-kilometer Spectrem airborne survey was completed by AAEC over the main outcropping body of the Muskox Intrusion. Spectrem is a high-powered electromagnetic (EM) geophysical system proprietary to AAEC which is employed to detect electrically conductive sulphide bodies. Spectrem's lower frequency and higher signal strength, compared to conventional EM systems, give it the capability of probing deeper into the Intrusion to depths greater than 300m and with a high degree of precision than the previously utilized ground geophysical methods.

On-site geological and geophysical surveys of the Muskox Intrusion were performed by the AAEC crews and interpretation of data from the Spectrem airborne geophysical survey was completed.

AAEC completed their field program which included the Spectrum airborne geophysical survey, geological, ground geophysical surveys, geochemical soil sampling and drilling programs. The focus of the latter programs was on areas of interest defined by positive data acquired during the Spectrem airborne geophysical survey. The geochemical soil survey collected 965 samples for analysis with a view to better target definition.

Results of the initial phase of Spectrem geophysical data interpretation resulted in the rapid identification of 21 conductive targets of interest which resulted in a total of 1,501.14 m of NQ core drilled in 6 diamond drill holes.

In November, 2003, AAEC released preliminary results and final assays on their Muskox Intrusion field exploration program conducted during August and September, 2003.

During the last week of March 2004, AAEC mobilized field personnel to its camp on the Muskox Layered Intrusion to complete a pulse EM (electromagnetic) ground geophysical survey over a target which has been identified in the area of the Canoe Lake Fault in the northwestern part of Muskox Intrusion.

During the first week of April 2004, a drill crew was mobilized to the intrusion for the purposes of drilling 2 diamond-drill holes in order to immediately test the aforementioned Canoe Lake target. The short drill program consisting of testing two specific targets (approximately 600m of drilling) in the Canoe Lake Fault Block area on the western side of the Muskox Intrusion. The first drill target tested a geophysical anomaly located approximately 400 metres north of the MX03-001 drill hole, where assay results were returned from sulphidic veins within footwall paragneisses (1.22% Ni, 0.76% Cu, 1,782.9 ppb Pt+Pd+Au in an intersect of 0.61m containing approximately 6% S).

The conductive anomaly, which is interpreted to occur within a magnetically modeled/defined trough-like structure at the base of this part of the Muskox Intrusion, has been well delineated at surface by a recently completed pulse EM geophysical survey.

The second drill target is located approximately 600m north of MX04-001 along the same geophysical conductive trend. As with the first target, this geophysical anomaly is interpreted to occur at the base of this portion of the Muskox Intrusion and was detected by the 2003 Spectrem survey and by a surface geophysical survey. This target is also overlain by a Ni, Cu, Co, PGE soil geochemical anomaly.

On May 26, 2004 the Company announced that the Option/Joint Venture Agreement with AAEC has been terminated in its entirety. As per the Agreement, Prize will retain all rights to the tenure of the Muskox Intrusion Project. Exploration expenditures by AAEC exceeded \$ 2.5 million. The exploration program conducted over two years included integration of existing data sets from previous programs conducted by Prize, a regional Spectrem airborne survey, soil geochemistry, ground UTEM and PEM surveys over specific targets on the western and eastern margins of the Intrusion.

The collection and compilation of data resulted in the identification of numerous drill targets throughout the Intrusion, of these targets, AAEC tested eight, with priority given to those strongly associated with high nickel values in soils and/or conductors from the Spectrem survey. Three of the eight holes drilled were located in the Canoe Lake fault region on the western margin. The drilling of the 6 holes in 2003 and 2 in April/May 2004 totaled 2,030.58 meters. Downhole geophysics was conducted on all drill holes.

Preliminary data from AAEC's 2003-2004 programs compiled with the Prize's dataset suggests that a large portion of the Muskox Intrusion requires further exploration. Magnetic and EM modeling indicates that the MacGregor Lake Area is the most prospective for a Norilsk type PGE-Ni-Cu magmatic sulphide deposit. As a result of this rigorous review of the data, Prize completed a gravity survey in September 2004, over certain areas of the Muskox Intrusion. The gravity survey tested the Keel region of the Intrusion from Valley Lake to MacGregor Lake and also tested an area between MacGregor Lake and Speers Lake. The survey was conducted in a part of the Intrusion where Prize has received values as high as 74.6 gm/T Pd, 7.4 g/T Pt, 5.3 g/T Au, 7.7 % Cu, and 0.3 % Cu from the corresponding margins of the Intrusion.

### **Acquisition or Abandonment of Resources Properties Material to the Issuer**

During fiscal 2005, the Company abandoned certain mineral claims and consequently, costs related to these claims, totalling \$3,609,193 (2004 - \$469,674), were written off to operations.

### **Selected Annual Information**

	<b>Aug. 31, 2005</b>	<b>Aug. 31, 2004</b>	<b>Aug. 31, 2003</b>
Loss before extraordinary items	(\$1,062,470)	(\$1,092,698)	(\$928,767)
Net Loss	(\$3,727,765)	(\$819,796)	(\$616,382)
Loss Per Share	(\$0.22)	(\$0.01)	(\$0.02)
Total Current Assets	\$794,413	\$2,569,820	\$1,124,444
Total Current Liabilities	\$99,969	\$85,812	\$ 778,735
Working Capital (Deficiency)	694,444	\$2,484,008	\$345,409

### **Summary of Quarterly Results**

Period Ended	<b>2005 Aug 31 Q4</b>	<b>2005 May 31 Q3</b>	<b>2005 Feb 29 Q2</b>	<b>2004 Nov 30 Q1</b>	<b>2004 Aug 31 Q4</b>	<b>2004 May 31 Q3</b>	<b>2004 Feb 29 Q2</b>	<b>2003 Nov 30 Q1</b>
Total Revenue								
Income (loss)	(\$1,062,470)	(\$229,595)	(\$330,395)	(\$179,814)	(\$218,191)	(\$381,538)	(\$268,407)	(\$224,562)
Diluted Loss Per Share	(\$0.22)	\$0.25	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)
Net Income (loss)	(\$3,727,765)	(\$226,532)	(\$318,696)	(\$184,415)	\$51,637	(\$369,147)	(\$267,716)	(\$224,562)
Diluted per share	(\$0.22)	\$0.25	(\$0.01)	(\$0.01)	\$0.01	(\$0.01)	(\$0.01)	(\$0.01)

### **Liquidity and Capital Resources**

The Company has \$794,413 in Current Assets as of August 31, 2005, and \$99,969 in Current Liabilities, yielding a positive working capital of \$694,444. The Company is in a healthy position regarding its working capital position, and also has warrants outstanding that could bring in additional funding. The exercise of these warrants are dependant on the Company's stock price. The Company will continue to look at equity private placement opportunities for sufficient proceeds to fund ongoing exploration work on its' properties and to provide sufficient working capital to otherwise maintain operations and satisfy its general and administrative expenses over the medium term.

During the year ended August 31, 2005, the Company completed an unsecured, non-interest bearing convertible debenture in the amount of \$1,150,000 to RAB Special Situations LP. The principal amount of the debenture is due and payable on January 22, 2010. At any time prior to the maturity date, the holder may convert the principal amount, in whole or in part, into units of Prize. In consideration of service provided to the Corporation in connection to the convertible debenture, the Company made two cash payment equalling \$89,500 for finder's fees.

On July 26, 2005, the company completed a private placement of its securities for gross proceeds of \$447,485. Under the private placement, Prize sold 1,789,940 common shares issued at a price of \$0.25 per common share. All of the securities issued in connection with the private placement are subject to a four month hold period.

The Company's financial commitments for fiscal 2005 are the property payments under the joint venture agreement on the Atlin Gold Property in Atlin, BC. This commitment is \$450,000. At the time of this report, the Company, has fulfilled its full commitment for this fiscal year.

### **Off-Balance Sheet Arrangements**

There are no off-balance sheet arrangements made by the Company.

### **Transactions with Related Parties**

The Company has paid management fees due to Officers of the Company for work related to the Company in the amount of \$215,000 and \$43,378 to a firm in which a director of the Company is a partner.

### **Significant Transactions**

#### **Stock Options**

On March 30, 2005 Prize completed the consolidation of its common shares on the basis of one (1) new common share for up to every existing five (5) common shares. Therefore resulting in the consolidation of all options. The total amount of options outstanding at May 31, 2005 is 1,191,000 at a price of \$0.70 per share.

Subsequent to this period, on October 25, 2005 an additional 860,000 options were granted to officers, directors and consultants of the company at \$0.25 and are valid for five years. Existing prior options remained at \$0.70 exercise price.

### **Officers and Directors**

On March 16, 2005, Mr. Feisal Somji, B.Sc., MBA, was appointed by the Board to be the President and Chief Executive Officer of the Company. Mr. Somji has served as the Chief Financial Officer and a director of the Company since February 2003.

At this time Mr. Harry McGucken was appointed by the Board to be the Chief Operating Officer of the Company. Mr. McGucken has served as a director of Prize since 1997.

On April 22, 2005, Dr. Roger Morton, resigned as a Director of the Company.

On October 25, 2005, Mr. Feisal Somji was appointed as Chairman of the Board and left his position of President and CEO. Mr. Somji will continue to act as the Chief Financial Officer. Mr. A.J.H. (Harry) McGucken was appointed as President and Chief Executive Officer. The Company also welcomed new board members, Mr. Brian Farrell B.Comm, CA and Mr. Tim Bergen.

## **Name Change and Consolidation**

On March 30, 2005 the Company completed a consolidation of its share capital on the basis of one (1) new common share for every existing five (5) common shares (the "Consolidation"). After given effect to the Consolidation there were 15,976,051 common shares issued and outstanding. In connection with the Consolidation, the name of the Company was changed from Muskox Minerals Corp. to Prize Mining Corporation (the "Name Change"). Trading on the TSX Venture Exchange began on March 30, 2005 under the new symbol PRZ. The Consolidation and the Name Change were approved by the shareholders of Muskox at the Annual General and Special Meeting of the shareholders of Muskox held on February 17, 2005.

## **Changes in Accounting Policies**

Effective for fiscal years commencing on or after January 1, 2004, Canadian generally accepted accounting principles require the fair value of all share purchase options granted after fiscal years commencing on or after January 1, 2002 to be expensed over their vesting period with a corresponding increase to contributed surplus. Upon exercise of share purchase options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital. Previously only share purchase options granted to non-employees followed this method and options granted to employees were not expensed.

The Company has adopted the new policy on a retroactive basis, however no share purchase options have been granted subsequent to April 1, 2002 and accordingly there is no effect on the financial statements presented. The Company uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate and, therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's share purchase options.

## **Financial Instruments**

The Company's financial instruments consist of cash and equivalents, restricted cash, short-term investment, receivables, accounts payable and accrued liabilities and loans payable. In management's opinion, 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.

## **Additional Disclosure for Venture Issuers without Significant Revenue**

	<b>Aug. 31, 2005</b>	<b>Aug. 31, 2004</b>	<b>Aug. 31, 2003</b>
Capitalized exploration and development cost	\$1,458,995	\$1,570,505	\$233,617
Expensed research and development cost	nil	nil	nil
Deferred development cost	nil	nil	nil
General and administration cost	\$1,062,470	\$1,092,698	\$ 928,767
Material cost (gain) not referred to above	\$2,665,295	(\$282,902)	\$312,385

## Disclosure of Share Data

	Number of Shares	Amount	Contributed Surplus
Authorized			
Unlimited number of voting common shares without par value			
Unlimited number of preferred shares, issuable in series			
Common shares issued			
Balance at August 31, 2003	9,956,721	\$ 16,707,575	\$ 349,571
Private placements	5,639,334	5,247,000	-
Finder's fee on resource property	40,000	30,000	-
Warrants exercised	330,000	252,500	-
Finders' fee on private placement	10,000	7,500	-
Finders' fee on private placement	-	(7,500)	-
Fair value of warrants issued	-	(13,305)	13,305
Share issuance costs	-	(527,213)	-
Stock-based compensation	-	-	91,088
Balance at August 31, 2004	15,976,055	21,696,557	453,964
Private placements	1,789,940	447,485	-
Share issuance costs	-	(72,467)	-
Stock-based compensation	-	-	216,202
Balance at August 31, 2005	17,765,995	\$ 22,071,575	\$ 670,166

## Warrants

	2005	2004
Balance, beginning of year	8,920,468	4,245,801
Issued	-	5,004,667
Exercised	-	(330,000)
Expired	(3,915,801)	-
Balance, end of year	5,004,667	8,920,468

The following warrants to acquire common shares were outstanding at August 31, 2005:

Number of Shares	Exercise Price	Expiry Date
4,323,334	\$ 0.90	December 12, 2005 unexercised
681,333	2.00	March 23, 2006

## Stock Options

The Company has an incentive stock option plan in place under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common shares of the Company. The options can be granted for a maximum term of 5 years. All prices shown here are post consolidation.

	Number of Shares	Weighted Average Exercise Price
Outstanding and exercisable at August 31, 2003	990,000	\$ 1.40
Granted	140,000	1.25
Cancelled	<u>(70,000)</u>	1.40
Outstanding and exercisable at August 31, 2004	1,060,000	1.30
Granted	140,000	1.20
Repriced	(945,000)	1.20
Repriced	945,000	0.70
Granted	316,000	0.70
Expired/cancelled	<u>(525,000)</u>	0.70
Outstanding and exercisable at August 31, 2005	991,000	\$ 0.70
Weighted average fair value of options granted during fiscal 2004 and 2005	\$ 0.15	\$ 0.65

The following stock options were outstanding at August 31, 2005:

Number of Shares	Exercise Price	Expiry Date
87,500	\$ 0.70	October 20, 2005, expired unexercised
8,500	0.70	January 25, 2007
130,000	0.70	July 24, 2008
329,000	0.70	August 17, 2008
70,000	0.70	February 12, 2009
70,000	0.70	September 24, 2009
70,000	0.70	October 15, 2009
226,000	0.70	January 17, 2010

On March 30, 2005, the outstanding amount of 4,725,000 options was re-priced to \$0.70. The remaining terms of the options remain the same. The re-pricing was approved at shareholder at Prize AGM on February 17, 2005.

During the year 1.58 million new options were granted on January 17, 2005 at a price of \$0.70 for a term of 5 years.

## Subsequent Events

On September 12, 2005, the Company advises that it has filed in the Court of Queen's Bench of Alberta, Judicial District of Calgary, a statement of Claim naming Canamera Geoscience Corp., John Dupuis, John Dupuis carrying on business under the firm name and style of Canamera Geoscience Ltd., Meridian Geoscience Ltd., and Titan Drilling Ltd. as Defendants.

The Statement of Claim arises out of monies advanced to Canamera and Titan, in the amount of \$512,144.67, for the purposes of exploration services on the Company's Atlin Gold Project. The funds were to be used to off-set exploration services that Canamera would perform on behalf of the Company.

A review and audit of services rendered identified that Canamera and Titan, have failed to account for these advances and that Canamera had not performed services to match these advances. Despite demand, Canamera and Titan, have failed to account for their use of funds and have also failed to pay back funds held on behalf of Prize.

Management felt they had no alternative in taking this action when considering the best interests of the Company, the Atlin Gold Project and the shareholders.

On October 25, 2005, drilling commenced on its Atlin Gold Property, located in northwestern British Columbia. On November 16, 2005, the drill intersected what is believed to be the "historically documented" Rock of Ages mineralized zone. A strong silicified breccia zone with abundant pyrite was intersected in two drill holes at the depth where the historic Rock of Ages mineralized zone was expected.

Drill core samples have been logged and split and have been sent off to ACME Laboratories in Vancouver, BC with selected samples being assayed for gold by the metallics technique. Assay results from the Rock of Ages Zone are expected in January 2006.

Management is very pleased with the results of the Rock of Ages drilling as it appears to have confirmed both the historic geological reports and the Company previous geophysical interpretations. Management wants to caution readers that until assay results from this drill program are returned by the laboratory, they will not know if the Rock of Ages silicified breccia zone contains gold mineralization.

On October 25, 2005, Mr. Feisal Somji was appointed as Chairman of the Board and left his position of President and CEO. Mr. Somji will continue to act as the Chief Financial Officer. Mr. A.J.H. (Harry) McGucken was appointed as President and Chief Executive Officer. the Company also welcomes new board members, Mr. Brian Farrell B.Comm, CA and Mr. Tim Bergen.

Mr. Farrell and Mr. Bergen have each been granted 200,000 Incentive Stock Options with an exercise price of \$0.25 per share. These Options are valid for five (5) years.

As part of the strengthening and re-structuring of the Company, Prize has elected to ensure that all Directors, Officers and Consultants are properly incentivized on a go forward basis and are treated equally on a pre-determined sliding scale based on their involvement in the Company. Directors/Officers received a total of 300,000 options, Directors received 200,000 options and consultants received 100,000 options. As part of this sliding scale program, 400,000 additional options have been granted as follows: Feisal Somji received 100,000 new options for a total of 300,000, Harry McGucken received 200,000 new options for a total of 300,000, Bill Dynes received 50,000 new options for a total of 200,000 and Daniel Kenney received 50,000 new options for a total of 200,000. A consultant to the Company has also been granted 30,000 options. All new options are priced at \$0.25 cents and are valid for five (5) years. Existing options currently outstanding are still priced at \$0.70.

On November 4, 2005, the Company announced amalgamation of 1201125 Alberta Ltd. and 913169 Alberta Ltd., a wholly-owned subsidiary of MuskoX Holdings Ltd., which in turn is a wholly-owned subsidiary of Prize, to form 1202877 Alberta Ltd. Under the Amalgamation, the outstanding common shares of 1201125 Alberta Ltd were exchanged for a total of two million units ("Units") of Prize and the common shares of 913169 Alberta Ltd. were exchanged for common shares of the 1202877 Alberta Ltd. on a one for one basis. Each Unit consists of one common share in the capital of Prize (a "Common Share") and one common share purchase warrant of Prize (a "Warrant"). Each Warrant entitles the holder thereof to purchase one additional Common Share for a price of \$0.35 per share until 4:30 p.m. on May 3, 2007.

The assets of 1201125 Alberta Ltd. consisted of rights under an option agreement (the "Option Agreement") pursuant to which it had the right to acquire an undivided 100% right, title and interest in and to certain mining claims (collectively, the "LD Claims") situated in the Atlin Mining District, British Columbia in consideration of making total payments of \$520,000 over a four year period ending October, 2009. The payments totalling \$50,000 due during the period ending May 2006 are the obligation of a third party with 120877 Alberta Ltd. being obliged to make the payments required under the Option Agreement thereafter.

The LD Claims, located 15 kilometres southwest of Prize's Atlin Gold Property, straddle the headwaters of McKee and Dominion Creeks. McKee Creek is one of the major placer gold producing creeks in the Atlin area and is renowned for the large size of its coarse gold nuggets. Dominion Creek is one of the main tributaries to the very prolific placer gold producer, Spruce Creek. The main placer gold deposits on Spruce Creek lie immediately below its confluence with Dominion Creek at the site of the historic Nolan Mine.

On November 29, 2005, the Company closed the first tranche of its previously announced private placement. An aggregate of 300,000 common shares ("Flow-Through Share") issued on a flow-through basis at the price of \$0.25 per Flow-Through Share were issued for gross proceeds of \$75,000. The securities issued pursuant to this tranche of the private placement are subject to a statutory resale restriction period of four months, which expires on March 29, 2006.

On December 8, 2005, the Company entered into an Earn-in Agreement with Silvermet Corporation with respect to the exploration and development of its Muskox Intrusion Property located in the Nunavut Territory. Pursuant to the Agreement, Silvermet may earn up to a 70% interest in the Property by funding and incurring expenditures on the Property of not less than \$10 million by December 7, 2010. Of this amount, \$4 million must be funded and expended on the Property by June 30, 2008. Within thirty days of Silvermet acquiring the 70% interest in the Property, Prize will have the option, to transfer its remaining 30% interest in the Property to Silvermet in consideration for a 10% net profits interest in the Property. Silvermet will have the option to acquire 50% of Prize's 10% net profits interest in the Property for \$5 million.

Pursuant to the Agreement, Silvermet has agreed, to fund the costs of, or related to, taking the claims which comprise the Property lease to a maximum amount of \$350,000. Of this amount, Prize received \$50,000 upon the execution of the Agreement and will receive the remaining \$300,000 in two \$150,000 tranches prior to June 15, 2006. Management looks forward to its new relationship with Silvermet and the opportunity to further explore and develop the potential of the Muskox Intrusion Property.

On December 12, 2005, the Company closed the second and final tranche of its private placement. An aggregate of 3,285,000 units at a price of \$0.20 per unit ("Unit") were issued for gross proceeds of \$657,000. Each Unit consists of one common share and one half of one common share purchase warrant. Each full warrant is exercisable at \$0.35 per common share for a period of one year from closing. The securities issued pursuant to this final tranche of the private placement are subject to a statutory resale restriction period of four months, which expires on April 13, 2006.

Wolverton Securities Ltd. and Union Securities Ltd. each acted as a finder in connection with the second tranche of the private placement and received a finder's fee in the total amount of \$6,790 and brokers warrants to acquire a total of 33,950 Units at a price of \$0.20 per Unit for a period of twelve months from the date of closing.

With this closing, the total gross proceeds received by the Company from the private placement was \$732,000. Proceeds of the private placement will be used for development of Prize's Atlin Gold Property and for general working capital.

On December 12, 2005, 4,323,334 warrants at \$0.90 expired unexercised.

### **Qualified Person**

Mr. William Dynes, B.Sc., P.Geol, Director of the Company, is the qualified person as defined in National Instrument 43-101 who has reviewed and verified the scientific and technical mining disclosure contained in this Management Discussion and Analysis.

### **SEDAR**

Additional information relating to the Company is on SEDAR at [www.sedar.com](http://www.sedar.com).