

PRIZE MINING CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2006

AUDITORS' REPORT

To the Shareholders of
Prize Mining Corporation

We have audited the consolidated balance sheets of Prize Mining Corporation as at August 31, 2006 and 2005 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, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

“DAVIDSON AND COMPANY LLP”

Vancouver, Canada

Chartered Accountants

December 8, 2006

A Member of *SC INTERNATIONAL*

PRIZE MINING CORPORATION
CONSOLIDATED BALANCE SHEETS
AS AT AUGUST 31

	2006	2005
ASSETS		
Current		
Cash	\$ 675,416	\$ 238,554
Short-term investment (Note 3)	-	155,394
Receivables	185,226	286,269
Prepaid expenses and deposits	<u>32,538</u>	<u>114,196</u>
	893,180	794,413
Exploration advances receivable (Note 4)	-	492,566
Equipment (Note 5)	21,045	22,121
Resource properties (Note 6)	19,068,210	16,697,790
Deferred financing costs (Note 7)	60,762	78,662
Security deposit and reclamation bond	<u>80,425</u>	<u>-</u>
	<u>\$ 20,123,622</u>	<u>\$ 18,085,552</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 71,674	\$ 99,969
Accounts payable to related parties	<u>76,526</u>	<u>-</u>
	<u>148,200</u>	<u>99,969</u>
Convertible debenture (Note 8)	1,019,877	981,543
Future income taxes (Note 9)	<u>774,960</u>	<u>1,149,566</u>
	<u>1,794,837</u>	<u>2,131,109</u>
Shareholders' equity		
Capital stock (Note 10)	25,224,744	22,071,575
Equity component of convertible debenture (Note 8)	191,667	191,667
Contributed surplus (Note 10)	835,587	670,166
Deficit	<u>(8,071,413)</u>	<u>(7,078,934)</u>
	<u>18,180,585</u>	<u>15,854,474</u>
	<u>\$ 20,123,622</u>	<u>\$ 18,085,552</u>

Nature and continuance of operations (Note 1)

Subsequent events (Note 15)

On behalf of the Board:

"Harry McGucken"

Director

"Feisal Somji"

Director

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

PRIZE MINING CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
YEAR ENDED AUGUST 31

	2006	2005
EXPENSES		
Administrative	\$ 75,425	\$ 90,041
Amortization of deferred financing costs	17,900	10,838
Amortization of equipment	9,348	2,666
Consulting fees	3,979	43,544
Interest and bank charges	40,109	24,075
Management fees	185,000	215,000
Office and miscellaneous	104,386	98,144
Professional fees	149,959	79,713
Rent	21,897	35,437
Shareholder communications	65,730	134,873
Stock-based compensation (Note 10)	129,242	216,202
Transfer agent and regulatory fees	37,871	36,695
Travel and related costs	<u>70,924</u>	<u>75,242</u>
Loss before other items	<u>(911,770)</u>	<u>(1,062,470)</u>
OTHER ITEMS		
Interest income	19,954	16,712
Write-down of receivable	(2,305)	-
Write-down of exploration advances (Note 4)	(494,714)	-
Write-off of resource properties (Note 6)	<u>-</u>	<u>(3,609,193)</u>
	<u>(477,065)</u>	<u>(3,592,481)</u>
Loss before income taxes	(1,388,835)	(4,654,951)
Future income tax recovery (Note 9)	<u>396,356</u>	<u>927,186</u>
Loss for the year	(992,479)	(3,727,765)
Deficit, beginning of year	<u>(7,078,934)</u>	<u>(3,351,169)</u>
Deficit, end of year	<u>\$ (8,071,413)</u>	<u>\$ (7,078,934)</u>
Basic and diluted loss per common share	<u>\$ (0.04)</u>	<u>\$ (0.22)</u>
Weighted average number of common shares outstanding	<u>23,762,051</u>	<u>17,059,826</u>

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

PRIZE MINING CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEAR ENDED AUGUST 31

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	\$ (992,479)	\$ (3,727,765)
Items not affecting cash:		
Amortization	9,348	2,666
Amortization of deferred financing costs	17,900	10,838
Stock-based compensation	129,242	216,202
Future income tax recovery	(396,356)	(927,186)
Write-down of exploration advances	494,714	-
Write-off of resource properties	-	3,609,193
Accretion of liability component of convertible debt	38,334	23,210
Write-down of receivable	2,305	-
Changes in non-cash working capital items:		
(Increase) decrease in receivables	(127,758)	(7,162)
(Increase) decrease in prepaid expenses and deposits	5,105	(37,457)
Increase (decrease) in accounts payable and accrued liabilities	(48,275)	14,157
Increase in accounts payable to related parties	49,586	-
Net cash used in operating activities	<u>(818,334)</u>	<u>(823,304)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Convertible debenture	-	1,150,000
Deferred financing costs	-	(89,500)
Proceeds from issuance of capital stock	2,926,700	447,485
Capital stock issuance costs	<u>(115,602)</u>	<u>(72,467)</u>
Net cash provided by financing activities	<u>2,811,098</u>	<u>1,435,518</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Resource property payments	(450,000)	(700,000)
Acquisition of equipment	(8,272)	(7,175)
Deferred exploration costs	(1,823,500)	(1,458,995)
Recovery of costs	576,496	-
Short-term investment	155,394	1,865,849
Exploration advances receivable	(2,148)	(124,799)
Increase in security deposit and reclamation bond	<u>(3,872)</u>	<u>-</u>
Net cash used in investing activities	<u>(1,555,902)</u>	<u>(425,120)</u>
Increase in cash during the year	436,862	187,094
Cash, beginning of year	<u>238,554</u>	<u>51,460</u>
Cash, end of year	<u>\$ 675,416</u>	<u>\$ 238,554</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
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2006

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 fiscal year 2005, 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 were 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.

	2006	2005
Working capital	\$ 744,980	\$ 694,444
Deficit	(8,071,413)	(7,078,934)

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.

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 and geological equipment, is recorded at cost. Amortization is calculated over the estimated useful life using the declining balance method at 30% for computer equipment and 20% for geological equipment 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. The Company does not have any significant asset retirement obligations.

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 recorded 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 the 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 more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Flow-through common shares

Canadian tax legislation permits a company to issue flow-through shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company. Recording these expenditures for accounting purposes gives rise to taxable temporary differences. When flow-through expenditures are renounced, a portion of the future income tax assets that were not recognized in previous years, due to the recording of a valuation allowance, be recognized as a recovery of income taxes in the statement of operations.

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
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2006

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

	2006	2005
Canadian dollar guaranteed investment certificates	\$ -	\$ 155,394

4. EXPLORATION ADVANCES RECEIVABLE

	2006	2005
Canamera Geoscience Corp.	\$ 387,566	\$ 387,566
Titan Drilling Ltd.	<u>107,148</u>	<u>105,000</u>
	494,714	492,566
Allowance for doubtful recovery	<u>(494,714)</u>	<u>-</u>
	\$ -	\$ 492,566

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. The Company is continuing in its legal action for full repayment of its advances. However, management has provided for a 100% allowance on recovery of the advances.

5. EQUIPMENT

	2006			2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer and geological equipment	\$ 40,977	\$ 19,932	\$ 21,045	\$ 32,705	\$ 10,584	\$ 22,121

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 holds 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 the fiscal year 2006, the Company entered into an Earn-In Agreement with Silvermet Corporation ("Silvermet") on its mineral claims in Nunavut. Silvermet may earn up to 70% interest in the mineral claims by funding and incurring exploration expenditures on the mineral claims of not less than \$10,000,000 by December 7, 2010. Of this amount \$4,000,000 must be expended by June 30, 2008. Within 30 days of Silvermet acquiring the 70% interest in the mineral claims, the Company will have the option, to transfer its remaining 30% interest to Silvermet in consideration for a 10% net profits interest ("NPI"). Silvermet will have the option to acquire 50% of the NPI from the Company for \$5,000,000. Silvermet also paid \$350,000 toward costs incurred on the mineral claims.

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

Atlin Claims

During fiscal 2004, the Company obtained an option to acquire a 100% interest in certain mineral claims in the Atlin District of British Columbia. To date, the Company has made option payments totaling \$1,390,000 and the remaining terms of the option agreement are as follows:

- a) \$200,000 by January 15, 2007
- b) \$200,000 by June 15, 2007 and
- c) \$200,000 by January 15, 2008, and each year thereafter to January 15, 2011 until total cash payments of \$2,590,000 have been paid.

PRIZE MINING CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2006

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.

The Company acquired an option to purchase a 100% interest in several additional mineral claims located in the Atlin mining district of British Columbia. To acquire this interest, the Company 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. To earn its option, the Company is required to make option payments as follows:

- a) \$110,000 by October 31, 2007.
- b) \$160,000 by October 31, 2008.
- c) \$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.

2006	Nunavut Claims	Atlin Claims	Total
Acquisition costs, beginning balance	\$ 2,816,158	\$ 1,010,000	\$ 3,826,158
Additions during the year	-	850,000	850,000
Acquisition costs, ending balance	<u>2,816,158</u>	<u>1,860,000</u>	<u>4,676,158</u>
Deferred exploration costs, beginning balance	<u>10,517,333</u>	<u>2,354,299</u>	<u>12,871,632</u>
Additions during the year			
Administration	-	1,366	1,366
Camp maintenance	-	76,462	76,462
Drilling	-	610,776	610,776
Equipment rental	-	114,885	114,885
Expediting and freight	-	1,775	1,775
Geological and geochemical	287,447	283,807	571,254
Geophysics	-	437,028	437,028
Telecommunications	-	1,285	1,285
Tenure and licenses	33,217	3,727	36,944
Travel and accommodation	-	18,730	18,730
Legal fees	-	(85)	(85)
	<u>320,664</u>	<u>1,549,756</u>	<u>1,870,420</u>
Costs recovered	<u>(350,000)</u>	<u>-</u>	<u>(350,000)</u>
Deferred exploration costs, ending balance	<u>10,487,997</u>	<u>3,904,055</u>	<u>14,392,052</u>
Total resource properties	<u>\$ 13,304,155</u>	<u>\$ 5,764,055</u>	<u>\$ 19,068,210</u>

PRIZE MINING CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2006

6. RESOURCE PROPERTIES (cont'd...)

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	<u>(3,021,396)</u>	<u>-</u>	<u>(3,021,396)</u>
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	<u>-</u>	<u>15,162</u>	<u>15,162</u>
	<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	<u>(587,797)</u>	<u>-</u>	<u>(587,797)</u>
	<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>

7. DEFERRED FINANCING COSTS

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

	2006	2005
Finders' fees	\$ 89,500	\$ 89,500
Amortization	<u>(28,738)</u>	<u>(10,838)</u>
	<u>\$ 60,762</u>	<u>\$ 78,662</u>

PRIZE MINING CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2006

8. CONVERTIBLE DEBENTURE

	2006	2005
<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	\$ 1,150,000
Balance to be accreted	<u>(130,123)</u>	<u>(168,457)</u>
	<u>\$ 1,019,877</u>	<u>\$ 981,543</u>

9. INCOME TAXES

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

	2006	2005
Loss before income taxes	\$ (1,388,835)	\$ (4,654,951)
Expected income tax (recovery)	\$ (466,649)	\$ (1,564,995)
Non-deductible expenses	426,457	1,044,183
Deductible expenses	(60,468)	(69,286)
Recognized benefits of non-capital losses	<u>(295,696)</u>	<u>(337,088)</u>
Total future income tax (recovery)	<u>\$ (396,356)</u>	<u>\$ (927,186)</u>

PRIZE MINING CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2006

9. INCOME TAXES (cont'd...)

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

	2006	2005
Future income tax assets		
Equipment	\$ 5,748	\$ 3,558
Share issue costs	117,931	136,751
Non-capital losses carried forward	1,259,957	1,370,772
Capital losses	<u>71,734</u>	<u>-</u>
Future income tax assets	1,455,370	1,511,081
Future income tax liabilities		
Resource properties	<u>(2,230,330)</u>	<u>(2,660,647)</u>
Net future income tax liability	<u>\$ (774,960)</u>	<u>\$ (1,149,566)</u>

The Company has non-capital losses of approximately \$4,395,000 which may be applied to reduce taxable income in future years. If not utilized, these losses expire through to 2026. The tax benefits of these non-capital losses and other tax assets 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, 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	17,765,995	22,071,575	670,166
Private placements	8,405,443	2,901,200	-
Share issuance re: property option	2,000,000	400,000	-
Share issuance costs	-	(115,602)	-
Issuance costs for agents' options and brokers' warrants	-	(44,383)	44,383
Future income taxes on exploration expenditures renounced to shareholders	-	(21,750)	-
Warrants exercised	30,000	10,500	-
Options exercised	60,000	23,204	(8,204)
Stock-based compensation	<u>-</u>	<u>-</u>	<u>129,242</u>
Balance at August 31, 2006	<u>28,261,438</u>	<u>\$ 25,224,744</u>	<u>\$ 835,587</u>

PRIZE MINING CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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10. CAPITAL STOCK (cont'd...)

Private placement of 1,789,940 shares

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 share issue costs of \$72,467 relating to the private placement.

Property Acquisition

On November 4, 2005, the Company issued 2,000,000 common shares for a value of \$400,000 as part of the Atlin property option agreement. (See Note 6)

Private placement of 300,000 flow-through shares

On November 28, 2005, the Company issued 300,000 flow-through common shares at a price of \$0.25 per share for gross proceeds of \$75,000.

The Company paid associated share issue costs of \$6,877.

Private placement of 3,285,000 units

On December 12, 2005, the Company issued 3,285,000 units at a price of \$0.20 per unit for gross proceeds of \$657,000. Each unit consisted of one common share and one half of one half share purchase warrant. Each whole share purchase warrant entitles the holder to purchase an additional common share at a price of \$0.35 on or before December 12, 2006.

The Company paid finders' fees of \$6,790 and issued 33,950 finders' options which entitles the holder to purchase additional common shares at a price of \$0.20 per share on or before December 12, 2006. The fair value of finders' options of \$2,170 was allocated to capital stock and contributed surplus.

Private placement of 4,820,443 units

On March 30, 2006, the Company issued 1,743,333 units at a price of \$0.45 per unit for gross proceeds of \$784,500. 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 \$0.65 on or before March 30, 2008.

The Company paid finders' fees of \$53,775 and issued 126,167 finders' warrants which entitles the holder to purchase additional common shares at a price of \$0.45 per share on or before March 30, 2008. The fair value of these warrants of \$27,442 was allocated to capital stock and contributed surplus.

PRIZE MINING CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2006

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

Private placement of 4,820,443 units (cont'd...)

On May 4, 2006, the Company issued 2,849,110 units at a price of \$0.45 per unit for gross proceeds of \$1,282,100. 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 \$0.65 on or before May 4, 2008.

The Company paid finders' fees of \$20,993 and issued 51,094 finders' warrants which entitles the holder to purchase additional common shares at a price of \$0.45 per share on or before May 4, 2008. The fair value of these warrants of \$14,771 was allocated to capital stock and contributed surplus.

On May 12, 2006, the Company issued 228,000 units at a price of \$0.45 per unit for gross proceeds of \$102,600. 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 \$0.65 on or before May 12, 2008. The Company incurred \$27,167 in legal fees related to this private placement which have been recorded as share issuance costs.

If, during the warrant term, the common shares trade at or above \$0.85 per share for a period of 20 consecutive trading days, the Company will notify the warrant holder to exercise the warrants at a date no later than 30 calendar days after the notification date.

Warrants

Warrant transactions are summarized as follows:

	2006	2005
Balance, beginning of year	5,004,667	8,920,468
Issued	8,640,204	-
Exercised	(30,000)	-
Expired	(5,004,667)	(3,915,801)
Balance, end of year	8,610,204	5,004,667

PRIZE MINING CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2006

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

Warrants (cont'd...)

The following warrants to acquire common shares were outstanding at August 31, 2006:

Number of Shares	Exercise Price	Expiry Date
1,612,500	\$0.35	December 12, 2006
2,000,000	0.35	May 3, 2007
126,167	0.45	March 30, 2008
1,743,333	0.65	March 30, 2008
51,094	0.45	May 4, 2008
2,849,110	0.65	May 4, 2008
<u>228,000</u>	<u>0.65</u>	<u>May 12, 2008</u>
8,610,204		

At August 31, 2006, the following unexercised finders' options were outstanding:

Number of Options	Exercise Price	Expiry Date
33,950	\$0.20	December 12, 2006

The following weighted average assumptions were used for the Black-Scholes valuation of finders' options and warrants granted:

	2006	2005
Risk-free interest rate	4.01	-
Expected life	2 years	-
Annualized volatility	87.77%	-
Dividend rate	0.00%	-

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. Under the plan, the exercise price of each option shall not be less than the market price of the Company's stock as calculated immediately preceding the day of the grant. The options can be granted for a maximum term of 5 years and are subject to vesting provisions determined by the board of directors.

PRIZE MINING CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2006

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

Stock options (cont'd...)

	Number of Shares		Weighted Average Exercise Price
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
Granted	1,110,000		0.32
Exercised	(60,000)		0.25
Expired/cancelled	<u>(337,500)</u>		0.70
Outstanding at August 31, 2006	<u>1,703,500</u>		0.47
Options exercisable as of August 31, 2006	<u>1,453,500</u>		0.47
Weighted average fair value of options granted during fiscal 2006 and 2005	\$ 0.16	\$	0.15

The following stock options were outstanding at August 31, 2006:

Number of Shares	Exercise Price	Expiry Date
8,500	\$0.70	January 25, 2007
130,000	0.70	July 24, 2008
149,000	0.70	August 17, 2008
70,000	0.70	September 24, 2009
70,000	0.70	October 15, 2009
226,000	0.70	January 17, 2010
770,000	0.25	October 24, 2010
30,000	0.25	October 27, 2010
<u>250,000</u>	0.55	June 16, 2011
<u>1,703,500</u>		

PRIZE MINING CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2006

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

Stock-based compensation

The total stock-based compensation calculated under the fair value method was \$173,690 (2005 - \$216,202). The Company expensed \$129,242 (2005 - \$216,202) leaving an unamortized balance of \$44,448 (2005- \$Nil).

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

	2006	2005
Risk-free interest rate	3.87%	3.80%
Expected life of options	5 years	3 years
Annualized volatility	84.73%	45.08%
Dividend rate	0.00%	0.00%

11. RELATED PARTY TRANSACTIONS

Accounts payable to related parties at August 31, 2006, are to directors and a company controlled by a director.

The Company entered into the following transactions with related parties:

- a) Paid or accrued \$185,000 (2005 - \$215,000) in management fees to directors who are the officers of the Company.
- b) Paid or accrued legal fees of \$61,093 (2005 - \$43,378) to a firm in which a director of the Company is a partner.
- c) Paid or accrued \$144,896 (2005 - \$Nil) in geophysics fees to a company controlled by a director which are allocated to deferred exploration costs.

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

	2006	2005
Cash paid during the year for interest	\$ -	\$ -
Cash paid during the year for income taxes	-	-

The significant non-cash transactions for the year ended August 31, 2006 were as follows:

- a) Included in deferred exploration costs is \$19,980 which relates to accounts payable and accrued liabilities and \$26,940 which relates to accounts payable to a related party.
- b) The Company reclassified \$76,553 from prepaid expenses and deposits to security deposit and reclamation bond.

PRIZE MINING CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2006

12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (cont'd...)

- c) The Company issued 2,000,000 common shares for value of \$400,000 as part of the Atlin property option agreement.
- d) In connection with private placements, the Company recorded the fair value of finders' options of \$2,170 and the fair value of finders' warrants of \$42,213. These amounts are reflected in capital stock and contributed surplus.
- e) The Company recorded \$8,204 for stock options exercised during the year in capital stock and contributed surplus.

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.

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, security deposit and reclamation bond, exploration advances receivable, accounts payable and accrued liabilities, accounts payable to related parties 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, 2006:

- a) On September 1, 2006, the Company granted 286,500 stock options exercisable at \$0.40 per share until September 1, 2011.
- b) On September 29, 2006, the Company issued 200,000 common shares and paid \$25,000 to Kotcho Lake Logging Ltd. ("Kotcho") to acquire an option to purchase a 100% interest in the placer claims and leases located in Atlin, British Columbia. To exercise the option, the Company is required to pay an additional \$425,000 and issue an additional 1,000,000 common shares to Kotcho on or before December 15, 2006. Kotcho maintains right of first refusal in respect of the Atlin Placer property.

PRIZE MINING CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2006

15. SUBSEQUENT EVENTS (cont'd...)

- c) On December 7, 2006, the Company completed a private placement comprised of 1,229,000 units issued at a price of \$0.22 per unit for gross proceeds of \$270,380. Each unit is comprised of one common share and one half share purchase warrant. Each full warrant is exercisable at \$0.35 per common share until December 7, 2007.

An additional 4,762,374 flow-through common shares were issued at a price of \$0.27 per flow-through share for gross proceeds of \$1,285,841.

The Company issued 485,361 finders' fees options which entitles the holders to purchase additional common shares at \$0.22 per share until December 7, 2007.

PRIZE MINING CORPORATION.

FORM 51-102F1 MANAGEMENT DISCUSSION AND ANALYSIS YEAR ENDED AUGUST 31, 2006

The following discussion and analysis, prepared as of December 8, 2006, should be read together with the audited financial statements for the year ended August 31, 2006 and related notes attached thereto, which are prepared in accordance with Canadian generally accepted accounting principles. All amounts are stated in Canadian dollars unless otherwise indicated.

The reader should also refer to the annual audited financial statements for the years ended August 31, 2005 and 2004, and the Management Discussion and Analysis for those years.

Statements in this report that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties, which could cause actual results to vary considerably from these statements. Readers are cautioned not to put undue reliance on forward-looking statements.

Additional information related to the Company is available for view on the Company's website at www.prizemining.com and SEDAR at www.sedar.com.

Description of Business

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

During the fiscal year 2005, 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 were 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.

During the fiscal year 2006, the Company focused its attention on the development of the Atlin Gold Project in Northwestern BC. The Atlin Project has been extensively drilled by the Company since late 2003 and a resource model has been built. The Company is testing this model thru a 10,000 tonne bulk sample project on the Yellowjacket zone of the Atlin Property. The bulk sample consists of 4 phases: diversion of Pine Creek to move the water away from the area of the bulk sample, the stripping of the placer material overlying the target zone, the bulk sample itself by means of an open pit extraction and the processing of the bulk sample for testing of the resource model and recovery of gold for revenue. All engineering and permitting for the project was completed in the fiscal year 2006 as well as Phase 1 and seventy percent of phase 2. The remainder of the project will be completed in 2007.

Performance Summary

The following is a summary of significant events and transactions that occurred during the year ended August 31, 2006:

1. On September 12, 2005, the Company announced that it 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.

2. On September 19, 2005, the Company announced its plan for exploration work to be conducted on the Atlin Gold Property.
3. On October 25, 2005, the Company announced the appointment of Mr. Brian Farrell as Director and a member of the Audit Committee.
4. On October 25, 2005, the Company announced the appointment of Mr. Tim Bergen as Director and a member of the Audit Committee.
5. On October 25, 2005, the Company announced that Mr. Feisal Somji was appointed Chairman of the Board of Directors and resigned as President and Chief Executive Officer. Mr. Somji will continue to act as the Chief Financial Officer.
6. On October 25, 2005, the Company announced that Harry McGucken was appointed President and Chief Executive Officer.
7. On October 25, 2005, the Company announced that a drill program commenced on the Atlin Gold Property.
8. On November 4, 2005, the Company announced the amalgamation of 1201125 Alberta Ltd. and 913169 Alberta Ltd., a wholly-owned subsidiary of MuskoX Holdings., which in turn is a wholly-owned subsidiary of the Company, to form 1202877 Alberta Ltd.
9. On November 16, 2005, the Company announced that 3 drill holes were completed on the Atlin Gold Property. Core samples from these holes were sent to ACME Laboratories in Vancouver, BC to be assayed.
10. On November 24, 2005, the Company announced that it intended to complete a private placement of up to 3,750,000 units priced at \$0.20 per unit for gross proceeds of up to \$750,000 and up to 300,000 common shares ("Flow-Through Share") issued on a flow-through basis at \$0.25 per Flow-Through Share for gross proceeds of up to \$75,000. Each unit would consist of one common share and one half of one common share purchase warrant. Each full warrant would be exercisable at \$0.35 per common share for 1 year from the closing date. The Company would also issue up to an additional 1,000,000 Units priced at \$0.20 per Unit for proceeds of an additional \$200,000 should market demand outstrip expectations.
11. On November 29, 2005, the Company announced that it completed the first tranche of the private placement previously announced on November 24, 2005. An aggregate of 300,000 flow-through common shares priced at \$0.25 per share were issued for gross proceeds of \$75,000.
12. On December 8, 2005, the Company announced that it entered into an Earn-In Agreement with Silvermet Corporation ("Silvermet") with respect to the exploration and development of its MuskoX Intrusion Property located in Nunavut Territory.
13. On December 13, 2005, the Company announced that it completed the second and final tranche of its private placement previously announced on November 24, 2005. An aggregate of 3,285,000 units priced at \$0.20 per unit were issued for gross proceeds of \$657,000. 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 finders' fee of \$6,790 and finders' options to acquire a total of 33,950 units priced at \$0.20 per unit for a period of 1 year from the closing date.
14. On December 16, 2005, the Company announced that it completed approximately 895 metres of diamond drilling in 9 holes on the Atlin Gold Property.
15. On January 23, 2006, the Company announced assay results from 8 of the 9 holes drilled on the Atlin Gold Property.

16. On March 6, 2006, the Company announced that it retained the services of BGC Engineering Inc., to complete a scoping study on the Yellowjacket Zone of its Atlin Gold Property in order to identify and evaluate the full range of development options.
17. On March 6, 2006, the Company announced that it intended to conduct a brokered private placement of up to 6,700,000 units priced at \$0.45 per unit. An additional 2,222,222 unit non-brokered private placement also priced at \$0.45 per unit was announced. Total proceeds from the proposed private placements would be up to \$4,015,000. Each unit was to be comprised of one common share and one common share purchase warrant. Each warrant would be exercisable at \$0.65 per common share for 2 years from the closing date. If during the warrant term, the common shares trade at or above \$0.85 per share for 20 consecutive trading days, the Company has the right to force, on notice, the warrant holder to exercise the warrants at a date no later than 30 calendar days after the notification date.
18. On March 23, 2006, the Company's shareholders elected Dr. Wayne Savigny as a Director of the Company.
19. On March 30, 2006, the Company completed the first tranche of the private placement previously announced on March 6, 2006. An aggregate of 1,743,333 units priced at \$0.45 per unit were issued for gross proceeds of \$784,500.
20. On May 2, 2006, the Company announced that it commenced the Spring/Summer 2006 exploration and development programs on the Atlin Gold Property.
21. On May 4, 2006, the Company closed the second and final tranche of the private placement previously announced on March 6, 2006. The Company received \$1,282,100 from the issuance of 2,849,110 units priced at \$0.45 per unit.
22. On May 12, 2006, the Company received an additional \$102,600 for a late private placement subscription priced at \$0.45 per unit.
23. On June 6, 2006, the Company announced drill results from six twinned diamond drill holes in the Yellowjacket Zone of the Atlin Gold Property.
24. On June 27, 2006, the Company announced a progress report of its Spring/Summer 2006 Scoping Study and Bulk Sampling Program on the Atlin Gold Property.
25. On August 3, 2006, the Company made an early \$200,000 payment to the optionor of the Atlin Gold Property. In consideration of the early payment the optionor agreed to split the next option payment of \$400,000 due January 15, 2007 into two equal instalments of \$200,000 each, the first to be paid by January 15, 2007 and the second to be paid by June 15, 2007.

Selected Annual Information

The following table provides a brief summary of the Company's financial operations. For more detailed information, refer to the Financial Statements.

	For The Year Ended August 31, 2006	For The Year Ended August 31, 2005	For The Year Ended August 31, 2004
Total interest income	\$ 19,954	\$ 16,712	\$ 33,484
Net income (loss) before extraordinary items	(992,479)	(3,727,765)	(809,796)
Net income (loss)	(992,479)	(3,727,765)	(809,796)
Basic and diluted earnings (loss) per share	(0.04)	(0.22)	(0.06)
Total assets	20,123,622	18,085,552	20,961,916
Total long-term liabilities	1,794,837	2,231,078	2,162,564
Cash dividends	-	-	-

The Company received \$19,954 (2005 - \$16,712) interest income from cash held in term deposits. During the current year the Company completed several private placements for gross proceeds of \$2,901,200. The Company's management decided to record a \$494,714 allowance for doubtful recovery of exploration advances in the 2006 fiscal year.

The Company incurred a \$992,479 (2005 - \$3,727,765) net loss. The net loss in 2005 was significantly higher due to the abandonment of certain Nunavut mineral claims and consequently, costs related to these claims, totalling \$3,609,193 were written off to operations.

The increase in total assets during the 2006 fiscal year is primarily attributed to the completion of several private placements, proceeds of which were spent on exploration activities.

The Company has not paid any dividends on its common shares. The Company has no present intention of paying dividends on its common shares, as it anticipates that all available funds will be invested to finance the growth of its business.

Results of Operations

The Company had a net loss of \$992,479 (2005 - \$3,727,765) during the year. Some of the significant expenses are as follows:

Administrative \$75,425 (2005 - \$90,041)
Consulting fees \$3,979 (2005 - \$43,544)
Interest and bank charges \$40,109 (2005 - \$24,075)
Management fees \$185,000 (2005 - \$215,000)
Office and miscellaneous \$104,386 (2005 - \$98,144)
Professional fees \$149,959 (2005 - \$79,713)
Rent \$21,897 (2005 - \$35,437)
Shareholder communications \$65,730 (2005 - \$134,873)
Stock-based compensation \$129,242 (2005 - \$216,202)
Transfer agent and regulatory fees \$37,871 (2005 - \$36,695)
Travel and related costs \$70,924 (2005 - \$75,242)

Administrative expenses in the comparative year were higher primarily as a result of the Company incurring moving costs and initial set up fees in the new office.

Consulting fees in the comparative year were significantly higher than those in the current year due to the engagement of consultants by the Company in connection with its financing activities.

Interest and bank charges in the current year are significantly higher as a result of expensing the full year of discount on the convertible debenture instead of 7 months of discount last year.

The decrease in management fees during the current year is primarily attributed to a couple of directors resigning and no longer providing management services to the Company.

The significant increase in professional fees during the 2006 fiscal year is primarily attributed to legal work with respect to the lawsuit against John Dupuis.

Rent expense is significantly lower than the comparative year due to the Company moving to a smaller office.

Shareholder communications in the prior year were significantly higher as the Company paid more consultants to promote the Company.

The Company is currently testing its resource model of the Atlin Gold Project thru a 10,000 tonne bulk sample project on the Yellowjacket zone of the Atlin Property. The bulk sample consists of 4 phases: diversion of Pine Creek to move the water away from the area of the bulk sample, the stripping of the placer material overlying the target zone, the bulk sample itself by means of an open pit extraction and the processing of the bulk sample for testing of the resource model and recovery of gold for revenue. All engineering and permitting for the project was completed in the fiscal year 2006 as well as Phase 1 and seventy percent of phase 2.

The Company has spent approximately \$1,000,000 to date on the bulk sample of the Yellowjacket zone of the estimated budget of \$3,000,000. It is anticipated that phase 2 will be completed by the end of April 2007 with the completion of phase 3 and 4 by the end of the third quarter of 2007. The funds for the project will come from the latest round of flow thru financing completed by the Company as described in subsequent events.

Summary of Quarterly Results

For the Quarters Ended

	August 31, 2006	May 31, 2006	February 28, 2006	November 30, 2005
Total assets	\$ 20,123,622	\$ 20,997,239	\$ 18,863,741	\$ 18,464,163
Working capital (deficiency)	744,980	1,644,964	568,288	362,985
Shareholders' equity (deficiency)	18,180,585	18,516,243	16,525,476	16,123,567
Income	15,548	1,346	1,457	1,603
Net income (loss)	(263,095)	(154,166)	(198,804)	(376,414)
Earnings (loss) per share	(0.01)	(0.01)	(0.01)	(0.02)

For the Quarters Ended

	August 31, 2005	May 31, 2005	February 28, 2005	November 30, 2004
Total assets	\$ 18,085,552	\$ 21,343,467	\$ 21,657,118	\$ 20,787,700
Working capital (deficiency)	694,444	1,030,978	1,740,669	1,337,425
Shareholders' equity (deficiency)	15,854,474	18,069,709	18,296,241	18,614,937
Income	6,758	2,856	11,699	(4,601)
Net Income (loss)	(2,998,122)	(226,532)	(318,696)	(184,415)
Earnings (loss) per share	(0.16)	(0.04)	(0.01)	(0.01)

The Company received \$19,954 (2005 - \$16,712) interest income from cash held in term deposits. During the current year the Company completed several private placements for gross proceeds of \$2,901,200. The Company's management decided to record a \$494,714 allowance for doubtful recovery of exploration advances in the 2006 fiscal year.

On November 4, 2005, the Company announced the amalgamation of 1201125 Alberta Ltd. and 913169 Alberta Ltd., a wholly-owned subsidiary of Musko Holdings., which in turn is a wholly-owned subsidiary of the Company, to form 1202877 Alberta Ltd. Under the Amalgamation, the outstanding common shares of 1201125 Alberta Ltd. were exchanged for 2,000,000 units of the Company 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 consisted of one common share in the capital of the Company and one common share purchase warrant of the Company. Each warrant entitles the holder to purchase one additional common share for a price of \$0.35 per share until May 3, 2007.

On August 3, 2006, the Company made an early \$200,000 payment to the optionor of the Atlin Gold Property. In consideration of the early payment the optionor agreed to split the next option payment of \$400,000 due January 15, 2007 into two equal instalments of \$200,000 each, the first to be paid by January 15, 2007 and the second to be paid by June 15, 2007.

Liquidity

The financial statements have been prepared on a going concern basis which assumes that the Company will be able 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.

	August 31, 2006	August 31, 2005
Working capital	\$ 744,980	\$ 694,444
Deficit	(8,071,413)	(7,078,934)

Net cash used in operating activities during the year was \$818,334 (2005 – \$823,304). The cash used in operating activities consists primarily of operating costs and the change in non-cash working capital items.

Net cash provided by financing activities during the year was \$2,811,098 (2005 - \$1,435,518). The private placements completed during the current year provided gross proceeds of \$2,901,200 less \$115,602 in share issue costs.

Net cash used in investing activities during the year was \$1,555,902 (2005 - \$425,120). During the current year the Company redeemed \$155,394 (2005 - \$1,865,849) in guaranteed investment certificates. The funds received for redeemed guaranteed investment certificates in the prior year offset the net amount of cash used in investing activities last year. Resource property payments and exploration advances in the current year were significantly lower the comparative year.

During fiscal year 2007, the Company has two option payment obligations for the Yellowjacket Property of \$200,000 in January 2007 and June 2007 (for a total of 400,000) plus option payments relating to the LD Claims of \$110,000 due in October 2007. The Company has enough working capital to cover the upcoming option payment in January 2007 of \$200,000 for the Yellowjacket Property and will have to raise additional funds to cover the balance of the option payment obligations in 2007.

Capital Resources

Private placement of 300,000 flow-through shares

On November 28, 2005, the Company issued 300,000 flow-through common shares at a price of \$0.25 per share for gross proceeds of \$75,000.

The Company paid associated share issue costs of \$6,877.

Private placement of 3,285,000 units

On December 12, 2005, the Company issued 3,285,000 units at a price of \$0.20 per unit for gross proceeds of \$657,000. Each unit consisted of one common share and one half of one half share purchase warrant. Each whole share purchase warrant entitles the holder to purchase an additional common share at a price of \$0.35 on or before December 12, 2006.

The Company paid finders' fees of \$6,790 and issued 33,950 finders' options which entitles the holder to purchase additional common shares at a price of \$0.20 per share on or before December 12, 2006. The fair value of finders' options of \$2,170 was allocated to capital stock and contributed surplus.

Private placement of 4,820,443 units

On March 30, 2006, the Company issued 1,743,333 units at a price of \$0.45 per unit for gross proceeds of \$784,500. 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 \$0.65 on or before March 30, 2008.

The Company paid finders' fees of \$53,775 and issued 126,167 finders' warrants which entitles the holder to purchase additional common shares at a price of \$0.45 per share on or before March 30, 2008. The fair value of these warrants of \$27,442 was allocated to capital stock and contributed surplus.

On May 4, 2006, the Company issued 2,849,110 units at a price of \$0.45 per unit for gross proceeds of \$1,282,100. 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 \$0.65 on or before May 4, 2008.

The Company paid finders' fees of \$20,993 and issued 51,094 finders' warrants which entitles the holder to purchase additional common shares at a price of \$0.45 per share on or before May 4, 2008. The fair value of these warrants of \$14,771 was allocated to capital stock and contributed surplus.

On May 12, 2006, the Company issued 228,000 units at a price of \$0.45 per unit for gross proceeds of \$102,600. 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 \$0.65 on or before May 12, 2008. The Company incurred \$27,167 in legal fees related to this private placement which have been recorded as share issuance costs.

If, during the warrant term, the common shares trade at or above \$0.85 per share for a period of 20 consecutive trading days, the Company will notify the warrant holder to exercise the warrants at a date no later than 30 calendar days after the notification date.

Related Party Transactions

The Company entered into the following transactions with related parties:

- a) Paid or accrued \$185,000 (2005 - \$215,000) in management fees to directors.
- b) Paid or accrued legal fees of \$61,093 (2005 - \$43,378) to a firm in which a director of the Company is a partner.
- c) Paid or accrued \$144,896 (2005 - \$Nil) in geophysics fees to a company controlled by a director which are allocated to deferred exploration costs.

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.

Exploration Advances Receivable

	2006	2005
Canamera Geoscience Corp.	\$ 387,566	\$ 387,566
Titan Drilling Ltd.	<u>107,148</u>	<u>105,000</u>
	\$ 494,714	\$ 492,566
Allowance for doubtful recovery	<u>(494,714)</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ 492,566</u>

During fiscal 2005, these companies failed to account for exploration costs associated with the above advances nor did they return the advanced amounts requested by the Company. The Company is continuing in its legal action for full repayment of its advances. However, management has provided for a 100% allowance on recovery of the advances.

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 receivable, security deposit and reclamation bond, exploration advances receivable, accounts payable and accrued liabilities, accounts payable to related parties 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.

Outstanding 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, 2004	15,976,055	\$ 21,696,557	\$ 453,964
Private placement	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
Private placements	8,405,443	2,901,200	-
Share issuance re: property option	2,000,000	400,000	-
Share issuance costs	-	(115,602)	-
Issuance costs for agents' options and brokers' warrants	-	(44,383)	44,383
Future income taxes on exploration expenditures renounced to shareholders	-	(21,750)	-
Warrants exercised	30,000	10,500	-
Options exercised	60,000	23,204	(8,204)
Stock-based compensation	-	-	129,242
Balance at August 31, 2006	28,261,438	25,224,744	835,587

Mineral Property Obligations

The following are expenditures that the Company is required to make in order to maintain its mineral claims and agreements in good standing:

Nunavut Claims

The Company holds 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 the fiscal year 2006, the Company entered into an Earn-In Agreement with Silvermet Corporation ("Silvermet") on its mineral claims in Nunavut. Silvermet may earn up to 70% interest in the mineral claims by funding and incurring exploration expenditures on the mineral claims of not less than \$10,000,000 by December 7, 2010. Of this amount \$4,000,000 must be expended by June 30, 2008. Within 30 days of Silvermet acquiring the 70% interest in the mineral claims, the Company will have the option, to transfer its remaining 30% interest to Silvermet in consideration for a 10% net profits interest ("NPI"). Silvermet will have the option to acquire 50% of the NPI from the Company for \$5,000,000. Silvermet also paid \$350,000 toward costs incurred on the mineral claims.

Atlin Claims

During fiscal 2004, the Company obtained an option to acquire a 100% interest in certain mineral claims in the Atlin District of British Columbia. To date, the Company has made option payments totaling \$1,390,000 and the remaining terms of the option agreement are as follows:

- a) \$200,000 by January 15, 2007
- b) \$200,000 by June 15, 2007 and
- c) \$200,000 by January 15, 2008, and each year thereafter to January 15, 2011 until total cash payments of \$2,590,000 have been paid.

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.

The Company acquired an option to purchase a 100% interest in several additional mineral claims located in the Atlin mining district of British Columbia. To acquire this interest, the Company 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. To earn its option, the Company is required to make option payments as follows:

- a) \$110,000 by October 31, 2007.
- b) \$160,000 by October 31, 2008.
- c) \$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.

Subsequent events

The following events occurred subsequent to August 31, 2006:

- a) On September 1, 2006, the Company granted 286,500 stock options exercisable at \$0.40 per share until September 1, 2011.
- b) On September 29, 2006, the Company issued 200,000 common shares and paid \$25,000 to Kotcho Lake Logging Ltd. ("Kotcho") to acquire the right to an option to purchase a 100% interest in the placer claims and leases located in Atlin, British Columbia. Pursuant to the agreement, the Company must pay an additional \$425,000 cash and issue an additional 1,000,000 common shares to Kotcho on or before December 15, 2006. Kotcho maintains right of first refusal in respect of the Atlin Placer property.
- c) On December 7, 2006, the Company completed a private placement comprised of 1,229,000 units issued at a price of \$0.22 per unit for gross proceeds of \$270,380. Each unit is comprised of one common share and one half share purchase warrant. Each full warrant is exercisable at \$0.35 per common share until December 7, 2007.

An additional 4,762,374 flow-through common shares were issued at a price of \$0.27 per flow-through share for gross proceeds of \$1,285,841.

The Company issued 485,361 finders' fees options which entitles the holders to purchase additional common shares at \$0.22 per share until December 7, 2007.