

Financial Statements

Stroud Resources Ltd.

December 31, 2005 and 2004

AUDITORS' REPORT

To the Shareholders of
Stroud Resources Ltd.

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

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

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

Ernst & Young LLP

Toronto, Canada,
March 31, 2006.

Chartered Accountants

Stroud Resources Ltd.
 Incorporated under the laws of Ontario

BALANCE SHEETS
 [In Canadian dollars]

As at December 31

	2005	2004
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	9,296	644,687
Short-term investments	757,123	1,723,278
Royalty tax recoverable	14,442	588
Amounts due from related parties <i>[note 6]</i>	4,959	109,668
Accounts receivable	75,522	4,791
Prepaid expenses and other assets <i>[note 4]</i>	316,556	4,638
Total current assets	1,177,898	2,487,650
Capital assets, net <i>[note 3]</i>	85,672	51,482
Mineral properties and deferred costs <i>[note 4]</i>	3,887,350	2,547,126
Oil and gas interests, net of accumulated depletion of \$286,569 [2004 - \$262,569] <i>[note 5]</i>	83,501	82,612
	5,234,421	5,168,870
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	300,193	134,597
Total current liabilities	300,193	134,597
Commitments <i>[notes 4, 10 and 12]</i>		
Shareholders' equity <i>[note 7]</i>		
Share capital	10,871,293	10,770,293
Contributed surplus	333,752	316,086
Deficit	(6,270,817)	(6,052,106)
Total shareholders' equity	4,934,228	5,034,273
	5,234,421	5,168,870

See accompanying notes

On behalf of the Board:

"George E. Coburn"
 Director

"Lonnie Kirsh"
 Director

Stroud Resources Ltd.**STATEMENTS OF LOSS AND DEFICIT**

[In Canadian dollars, unless otherwise noted]

Years ended December 31

	2005	2004
	\$	\$
OIL AND GAS OPERATIONS		
Revenue, net of royalties	228,524	125,419
Operating expenses	21,818	13,614
Depletion of oil and gas interests	24,000	16,000
	45,818	29,614
Income from oil and gas operations	182,706	95,805
MINERAL OPERATIONS		
Mineral exploration costs	2,601	1,837
ADMINISTRATIVE EXPENSES		
Administrative fees	21,250	25,200
Business promotion	96,803	90,617
Licences and fees	28,688	44,943
Stock-based compensation [note 7[b]]	59,666	172,275
Office and general	56,726	31,833
Professional fees	126,396	109,016
Rent	25,067	25,275
	414,596	499,159
Loss before the following	(234,491)	(405,191)
Interest income	15,780	23,770
Net loss for the year	(218,711)	(381,421)
Deficit, beginning of year	(6,052,106)	(5,670,685)
Deficit, end of year	(6,270,817)	(6,052,106)
Basic and fully diluted loss per share	\$(0.002)	\$(0.005)
Basic and diluted weighted average number of common shares outstanding [000's]	89,971	79,889

See accompanying notes

Stroud Resources Ltd.**STATEMENTS OF CASH FLOWS**

[In Canadian dollars]

Years ended December 31

	2005	2004
	\$	\$
OPERATING ACTIVITIES		
Net loss for the year	(218,711)	(381,421)
Add items not involving cash		
Depletion and amortization	55,486	22,564
Stock-based compensation	59,666	172,275
	(103,559)	(186,582)
Net change in non-cash working capital balances related to operations <i>[note 8]</i>	(126,198)	(189,736)
Cash used in operating activities	(229,757)	(376,318)
INVESTING ACTIVITIES		
Redemption (purchase) of short-term investments	966,155	(1,723,278)
Mineral properties and deferred costs	(1,340,224)	(226,746)
Capital assets	(65,676)	(50,537)
Oil and gas interests	(24,889)	(75,474)
Cash used in investing activities	(464,634)	(2,076,035)
FINANCING ACTIVITIES		
Issuance of common shares under private placement <i>[note 7]</i>	—	1,955,635
Issuance of common shares on the exercise of warrants <i>[note 7]</i>	—	960,000
Issuance of common shares on the exercise of stock options	59,000	—
Loan payable	—	(75,000)
Cash provided by financing activities	59,000	2,840,635
Net increase (decrease) in cash during the year	(635,391)	388,282
Cash, beginning of year	644,687	256,405
Cash, end of year	9,296	644,687

See accompanying notes

Stroud Resources Ltd.

NOTES TO FINANCIAL STATEMENTS

[In Canadian dollars, unless otherwise noted]

December 31, 2005 and 2004

1. NATURE OF OPERATIONS AND GOING CONCERN

Stroud Resources Ltd. [the "Company"] was incorporated on March 18, 1983. The Company, directly and through working interests, is in the process of exploring its mineral properties and has not yet determined whether these properties contain ore reserves that are economically recoverable.

The success of the Company will be influenced by a number of factors including environmental risks, political risks, precious metals prices and the ability of the Company to discover economically recoverable reserves and to bring such reserves into future profitable production.

The recoverability of amounts shown as mineral properties and deferred costs is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof. It is reasonably possible that economically recoverable reserves may not be discovered and accordingly, a material portion of the carrying value of mineral claims and options could be written off.

The Company has an accumulated deficit of \$6,270,817 of which \$218,711 in losses were incurred during the current year. Therefore, the Company's ability to continue to meet its obligations and carry out its planned exploration activities is uncertain and dependent upon the continued financial support of its shareholders and its ability to obtain third party financing. The accompanying financial statements have been prepared on the assumption that the Company will be able to continue to realize its assets and discharge its liabilities in the normal course of business and do not reflect any adjustments that may be required if this assumption proves to be incorrect.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. These financial statements have been prepared within the framework of the significant accounting policies summarized below:

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions, particularly with respect to the valuation of mineral properties and deferred costs, that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Stroud Resources Ltd.

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[In Canadian dollars, unless otherwise noted]

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Cash and cash equivalents

Cash and cash equivalents consist of commercial accounts, trust accounts and interest-bearing bank deposits with remaining maturities of 90 days or less at the time of purchase. As at December 31, 2005, the Company cash and cash equivalents consist of cash on account of \$9,296.

Short-term investments

Short-term investments are carried at the lower of cost and market and are comprised of highly liquid investments with maturity periods greater than 90 days but less than one year when purchased.

Mineral properties and deferred costs

An impairment may occur in the carrying value of mineral interests when one of the following conditions exists:

- [i] the Company work program on a property has significantly changed, so that previously identified resource targets or work programs are no longer being pursued;
- [ii] exploration results are not promising and no more work is being planned in the foreseeable future; or
- [iii] remaining lease terms are insufficient to conduct necessary studies or exploration work.

Once an impairment has been determined then the carrying value will be written down to net realizable value.

Acquisition costs of mining claims, together with direct exploration and development expenditures thereon, are capitalized in the accounts by specific project and are written off if the project area is abandoned. When the carrying value of a property exceeds its net recoverable amount, the excess is charged to income.

Upon sale of an entire property, the capitalized costs of the property are removed from the accounts and any gain or loss thereon is recorded in income. Upon partial sale of a property, the proceeds are netted against the capitalized costs of the property and no gain or loss is recognized thereon.

Stroud Resources Ltd.

NOTES TO FINANCIAL STATEMENTS

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Oil and gas interests

The Company follows the full cost method of accounting for oil and gas properties, whereby all the costs associated with the exploration for, and the development of, petroleum and natural gas reserves, whether productive or unproductive are capitalized in cost centres on a country by country basis. Costs capitalized include land acquisition costs, geological and geophysical expenditures, rentals on undeveloped properties and drilling and overhead expenses related to exploration and development activities. The Company currently has one Canadian cost centre.

Revenue, net of royalties from oil and gas operations is recognized when title passes from the Company to the customer, generally at the time of shipment.

The costs related to each cost centre are depleted and amortized on a unit-of-production basis. The recoverability of a cost centre is tested by comparing the carrying value of the cost centre to the sum of the undiscounted cash flows expected from the cost centre's use and eventual disposition. If the carrying value is unrecoverable, the cost centre is written down to its fair value estimated at the present value of expected future cash flows from proved and probable reserves and the value of unproved properties. This approach incorporates risks and uncertainties in the expected future cash flows which are discounted using a risk-free rate. The cash flows are estimated using expected future product prices and costs.

Capital assets

Capital assets are recorded at acquisition cost less accumulated amortization. Amortization is provided on a declining balance basis from the month of purchase at the following annualized rates, which are expected to charge operations with the total cost of the assets over their estimated useful lives as follows:

Motor vehicle	30%
Furniture and fixtures	20%
Leasehold improvements	30%
Other equipment	30%

Loss per share

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

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NOTES TO FINANCIAL STATEMENTS

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Stock-based compensation plan

The fair value of stock options granted is recognized on a straight-line basis over the applicable vesting period as an expense in the statements of loss and deficit and as contributed surplus on the balance sheets. On the exercise of stock options, consideration received and the respective accumulated contributed surplus amount are credited to share capital.

Stock options and warrants awarded to non-employees are accounted for using the fair value method and expensed as the service or product is received.

Income taxes

The Company follows the liability method of tax allocation accounting. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured by using the substantively enacted tax rates that will be in effect when the differences are expected to reverse. Valuation allowances are provided if it is more likely than not that some or all of the future tax assets will not be realized.

Fair value of financial instruments

The carrying values represented in the balance sheets for short-term investments, accounts receivable, prepaid expenses and other assets, accounts payable and accrued liabilities and royalty tax recoverable approximate their fair values due to the short-term nature of these instruments.

Long-lived assets

A loss is recognized on a long-lived asset held for use when its carrying value exceeds the undiscounted cash flows from its use and disposition. The amount of the loss is determined by deducting the asset's fair value [based on discounted cash flows] from its carrying value.

Variable interest entities

Effective January 1, 2005, the Company adopted the Canadian Institute of Chartered Accountants Accounting Guideline 15, Consolidation of Variable Interest Entities ["AcG-15"]. The new guideline establishes when a company should consolidate a variable interest entity in its financial statements. AcG-15 provides the definition of a variable interest entity and requires a variable interest entity to be consolidated if a company is at risk of absorbing the majority of the variable interest entity's expected losses, or is entitled to receive a majority of the variable interest entity's residual returns, or both. Management has determined that the Company holds interest in one variable interest entity, Minera San Diego y La Espanola S.A de C.V. ["Compañía Minera"], a private Mexican company. It has been determined that the Company is not the primary

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beneficiary and therefore the Company continues to account for Compañía Minera on a proportionate consolidation basis.

3. CAPITAL ASSETS

Capital assets consist of the following:

	2005			2004		
	Cost \$	Accumulated amortization \$	Net book value \$	Cost \$	Accumulated amortization \$	Net book value \$
Motor vehicle	44,253	13,276	30,977	—	—	—
Furniture and fixtures	34,934	31,352	3,582	34,934	30,456	4,478
Leasehold improvements	—	—	—	2,475	2,475	—
Other equipment	77,794	26,681	51,113	56,371	9,367	47,004
	156,981	71,309	85,672	93,780	42,298	51,482

During the year ended December 31, 2005, the Company wrote off fully amortized leasehold improvements of \$2,475.

4. MINERAL PROPERTIES AND DEFERRED COSTS

The mineral properties to which the Company has exploration rights are as follows:

Hislop projects

The Company has a 100% interest in properties located in Hislop, Ontario. To date, there has been no revenue earned from this project, as production has not commenced.

During the year, the Company developed an exploration program in the Hislop region in order to further advance the properties. As at December 31, 2005, this site is considered to be in the pre-production stage and total costs of \$274,773 [2004 - \$203,878] incurred to further develop this site have been capitalized and included in mineral properties and deferred costs.

Leckie/Penrose project

The Company has a 100% interest in the Leckie/Penrose project. The interests in this property are 100% owned and not subject to any outstanding obligations or commitments. To date, there has been no revenue earned on this project as production has not commenced.

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Compañía Minera project

On April 18, 2002 and as amended September 27, 2002, the Company entered into an agreement with APM [formerly called New Bullet Group], a related party, whereby the two companies agreed in principle to form a joint venture relationship, subject to APM meeting certain funding requirements, for the purpose of acquiring and operating mineral concessions in Mexico owned by Compañía Minera. The Company had previously spent in excess of U.S. \$1,000,000 on the acquisition of Compañía Minera and the exploration of its concessions under option and exploration agreements with its owners.

APM was required to invest U.S. \$1,000,000 in eligible expenditures, including the purchase or subscription for shares in the capital of Compañía Minera. To date, APM has funded U.S. \$946,717 as follows:

- Acquired 200,000 outstanding common shares in trust for cash consideration of U.S. \$100,000. At the time of the transaction the 200,000 common shares represented 24% of the outstanding shares of Compañía Minera;
- Acquired the option to purchase the remaining 75% or 600,000 outstanding common shares in trust for cash consideration of U.S. \$150,000;
- Acquired 6,094,500 common shares of Compañía Minera in trust from treasury for cash consideration of U.S. \$600,000; and
- The balance of \$96,717 relates to professional fees.

One-half of all shares acquired to date by APM are held in trust for the Company. As at June 30, 2004, the shares held by APM represented approximately 91.3% of the common shares of Compañía Minera.

On January 19, 2005, the Company and APM acquired the remaining 8.7% minority interest in Compañía Minera. The cost of acquiring the remaining 8.7% was U.S. \$400,000 of which the Company and APM each paid U.S. \$200,000. An additional amount of U.S. \$2,450,000 is to be paid, if and when revenue is generated from mineral extracted by Compañía Minera equally by the Company and APM in quarterly installments, commencing three months after the start of commercial production of Compañía Minera. Each quarterly installment will be equal to 0.5% of the net smelter return (defined as revenue actually received by Compañía Minera from the sale of smelter mineral).

This combination has been recorded under the purchase method of accounting with the Company's proportionate share of results of operations of the acquired business being included in the financial statements since the date of acquisition.

As at December 31, 2005, this site is considered to be in the pre-production stage. The carrying value of \$3,612,577 [2004 - \$2,343,248] relates to cost incurred by the Company to acquire and to

Stroud Resources Ltd.

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further develop this site and has been capitalized and included in mineral properties and deferred costs. Excluded from this amount is \$300,000 the Company paid on behalf of APM. This amount is included within prepaid expenses and other assets.

Subsequent to the year end, the Company entered into an agreement to acquire APM's 50% interest in Compañía Minera [note 12].

5. OIL AND GAS INTERESTS

The Company holds interests [approximately 3.75%] in three oil and gas producing properties in Alberta. The properties are currently operated by Talisman Energy Inc. The Company's proportionate share of the revenue from these properties, net of operating expenses, is received from the operator on a monthly basis.

During the year, the Company spent \$24,889 [2004 - \$75,474] in developing additional wells.

6. RELATED PARTY TRANSACTIONS

Due from related parties consists of the following:

	2005	2004
	\$	\$
Compañía Minera	—	108,858
Amount due from employee	4,959	810
	4,959	109,668

[i] The amount due from Compañía Minera relates to the pre-production costs as described in note 4.

[ii] The amount due from employee relates to miscellaneous Company expense.

During the year ended December 31, 2005, the Company entered into the following related party transactions:

- The Company paid to the President of the Company \$85,000 [2004 - \$84,000] in consulting fees. Of this amount \$63,750 [2004 - \$58,800] has been deferred and capitalized within mineral properties as they relate to the further development of the sites.
- The Company paid legal fees of \$29,811 [2004 - \$46,641] to a law firm in which a director of the Company is a partner. The legal services, which are in the normal course of operations, have been measured at the exchange amount.

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All related party transactions have been accounted for at their exchange amount which represents fair value.

7. SHAREHOLDERS' EQUITY

[a] Share capital

Authorized share capital consists of unlimited common shares.

The continuity of share capital is as follows:

	Number #	Amount \$
Balance, December 31, 2003	67,745,562	7,854,658
Issuance of common shares [i]	12,233,411	1,955,635
Exercise of warrants [ii]	5,000,000	500,000
Exercise of warrants [ii]	4,600,000	460,000
Balance, December 31, 2004	89,578,973	10,770,293
Exercise of stock options [iii]	550,000	101,000
Balance, December 31, 2005	90,128,973	10,871,293

[i] On April 27, 2004, the Company completed a private placement for 12,233,411 units, raising proceeds of \$1,955,638, net of issuance costs of \$124,045. Each unit consisted of one common share and one-half common share purchase warrant. Management determined the warrants to have a minimal value and accordingly, the proceeds from the issuance were allocated in their entirety to common shares and the fair value of extending the maturity date was determined to be nil. Each full warrant entitled the holder to acquire one common share at an exercise price of \$0.25. The Company extended the maturity of these warrants from January 29, 2005 to December 20, 2005 and all warrants expired on this extended expiry date unexercised.

[ii] On October 23, 2003 the Company completed a private placement for 5,000,000 units, raising gross proceeds of \$250,000. Each unit consisted of one common share and one common share purchase warrant. Each full warrant entitled the holder to acquire one common share at an exercise price of \$0.10 per share until October 1, 2004.

During 2004, 4,600,000 share purchase warrants were exercised at a price of \$0.10 per share for total proceeds of \$460,000, and 400,000 of the warrants expired unexercised.

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[iii] During 2004, 5,000,000 of the share purchase warrants issued in prior financing transactions were exercised at a price of \$0.10 per share for total proceeds of \$500,000, and 2,000,000 of the share purchase warrants expired unexercised.

[b] Stock options

As at December 31, 2005, the Company had available for issuance 1,883,500 stock options under this plan.

A summary of the status of the plan as at December 31 and changes during the years ended is presented below:

	<u>2005</u>		<u>2004</u>	
	Number	Weighted average exercise price	Number	Weighted average exercise price
	#	\$	#	\$
Outstanding, beginning of year	4,975,000	0.13	3,250,000	0.10
Forfeited	(50,000)		—	—
Exercised	(550,000)	.0107	—	—
Granted	—	—	1,725,000	0.18
Outstanding, end of year	4,375,000	0.13	4,975,000	0.13
Options exercisable, end of year	4,375,000		3,841,667	0.11

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The following table summarizes information about stock options outstanding at December 31, 2005:

Exercise price \$	Options outstanding		Options exercisable #
	Options outstanding #	Weighted average remaining contractual life [years]	
0.10	2,750,000	1.80	2,750,000
0.18	1,625,000	2.76	1,625,000
	4,375,000	2.15	4,375,000

The above outstanding options have a weighted average exercise price of \$0.13.

The fair value of stock options is calculated using the Black-Scholes option pricing model. The Black-Scholes option pricing model estimates the value of freely tradable, fully transferable options without vesting restriction, which significantly differs from the Company's stock option awards. This model also requires assumptions, including future stock price volatility and expected time until exercise, which greatly affect the calculated values. Accordingly, management believes that this model does not necessarily provide a reliable single measure of fair value of the Company's stock option awards.

During the year ended December 31, 2005, the Company issued nil [2004 - 1,725,000] stock options. The fair value of the stock options was estimated using the Black-Scholes option pricing model using the following assumptions:

	2005	2004
Volatility	—	58.5%
Risk-free interest rate	—	3.38%
Expected life [years]	—	3
Dividend yield	—	nil

The fair value of the options issued in 2004 was \$117,751. Total stock-based compensation expense recorded for the year was \$59,666 [2004 - \$172,275].

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[In Canadian dollars, unless otherwise noted]

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8. STATEMENTS OF CASH FLOWS

The net change in non-cash working capital balances related to operations consists of the following:

	2005	2004
	\$	\$
Amounts due from related parties	104,709	(108,668)
Accounts receivable	(70,731)	3,119
Prepaid expenses and other assets	(311,918)	(675)
Accounts payable and accrued liabilities	165,596	(79,153)
Royalty tax payable/recoverable	(13,854)	(4,359)
	(126,198)	(189,736)

The Company did not pay any interest or income taxes in 2005 and 2004.

9. INCOME TAXES

The Company has provided a full valuation allowance against its net future tax assets. The future tax assets and liabilities consist of the following temporary differences:

	2005	2004
	\$	\$
Future tax assets		
Mineral properties and deferred costs	—	356,000
Non-capital losses carried forward	865,000	463,000
Capital assets	57,000	65,000
Other	—	37,000
Gross future tax assets	922,000	921,000
Valuation allowance	(830,000)	(921,000)
	92,000	—
Future tax liabilities		
Mineral properties and deferred costs	(92,000)	—
Net future tax assets	—	—

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In addition, the Company also has non-capital losses totalling approximately \$1,516,390 that expire as follows:

	\$
2006	125,000
2007	85,000
2008	106,000
2009	125,000
2010	215,000
2011	416,000
2012	1,400,000
	<u>2,472,000</u>

For tax purposes, the Company has a Canadian Exploration Expense tax pool, a Canadian Development Expense tax pool and a Foreign Exploration and Development Expenses tax pool aggregating approximately \$3,600,000, the benefit of which has not been recognized for tax purposes.

The provision for income taxes differs from the expense that would be obtained by applying Canadian statutory rates to net loss before income taxes as a result of the following:

	2005	2004
	\$	\$
Net loss for the year	(218,711)	(381,421)
Income tax recovery expected at average statutory rate	(76,549)	(133,497)
Non-deductible amounts for income tax purposes	21,037	61,889
Income tax losses not recognized	55,512	71,608
	<u>—</u>	<u>—</u>

10. COMMITMENTS

The Company has an annual rent commitment of approximately \$32,850 over the next three and one-half years.

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11. SEGMENT INFORMATION

The Company operates in two segments: 1] oil and gas and 2] mineral. All required segment information is disclosed in the Company's statements of loss and deficit and notes 4 and 5.

12. SUBSEQUENT EVENTS

On March 21, 2006, the Company and APM entered into an agreement whereby the Company has agreed to purchase APM's 50% interest in Compañia Minera for \$1,800,000, of which the Company has already paid a non-refundable deposit of \$125,000. In addition to the purchase price, the Company is obligated to pay APM a royalty fee of 5% from any Compañia Minera's net proceeds of sale of minerals to a maximum of \$1,000,000. This transaction is conditional upon the Company raising a minimum of \$1,500,000 through an equity offering by no later than June 21, 2006.

On March 27, 2006, the Company entered into an agreement to settle an obligation for services received related to Compañia Minera by way of share issuance. The Company has agreed to issue 750,000 common shares of the Company at a negotiated value of \$0.235. The common shares are to be issued into escrow and will be released to the service provider pending the completion of certain agreed upon services.