

# ADRIANA RESOURCES INC.

**Interim Consolidated Financial Statements  
(Unaudited – Prepared by Management)**

**April 30, 2006**

The accompanying unaudited interim consolidated financial statements of Adriana Resources Inc. for the three and six months ended April 30, 2006 have been prepared by management and approved by the Board of Directors of the Company. These statements have not been reviewed by the Company's external auditor.

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**Adriana Resources Inc.****Interim Consolidated Balance Sheet  
(Unaudited – Prepared by Management)**

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	<b>April 30, 2006</b>	<b>October 31, 2005</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 391,983	\$ 203,921
Accounts receivable	33,761	19,014
Prepaid expenses and deposits	10,965	20,667
	436,709	243,602
<b>Equipment</b> (note 2)	46,159	34,731
<b>Mineral properties</b> (note 3)	548,725	195,673
<b>Deferred exploration expenses</b> (note 3)	949,838	469,043
	<b>\$ 1,981,431</b>	<b>\$ 943,049</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 329,323	\$ 59,154
Shareholder loan (note 6)	250,000	-
Advances from related parties (note 5)	-	15,500
	<b>579,323</b>	<b>74,654</b>
<b>Shareholders' Equity</b>		
<b>Share capital</b> (note 4(b))	<b>27,151,651</b>	26,131,794
<b>Contributed surplus</b> (note 4(b))	<b>207,677</b>	48,977
<b>Deficit</b>	<b>(25,957,220)</b>	(25,312,376)
	<b>1,402,108</b>	<b>868,395</b>
	<b>\$ 1,981,431</b>	<b>\$ 943,049</b>

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

**Approved by the Directors:**

“Michael Beley” Director

“Richard Barclay” Director

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**Adriana Resources Inc.****Interim Consolidated Statement of Operations and Deficit  
(Unaudited – Prepared by Management)**

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	Three Months Ended April 30,		Six Months Ended April 30,	
	2006	2005	2006	2005
<b>Administrative expenses</b>				
Amortization	\$ 2,774	\$ -	\$ 5,549	\$ -
Bank charges and interest	5,573	114	6,314	344
Consulting fees	49,160	3,500	89,282	3,500
Investor relations	26,740	-	61,719	-
Professional fees	27,950	25,742	49,384	35,647
Property investigation	28,884	-	28,884	-
Rent and office expenses	47,089	8	100,349	1,728
Shareholder relations	34,910	2,428	63,649	2,428
Stock based compensation	103,085	-	149,383	-
Transfer agent and filing fees	17,781	11,482	39,636	14,323
Travel	29,009	1,940	53,846	1,940
	<b>(372,955)</b>	<b>(45,214)</b>	<b>(647,995)</b>	<b>(59,910)</b>
<b>Other income</b>				
Interest income	<b>2,636</b>	-	<b>3,151</b>	-
<b>Loss for the period</b>	<b>(370,319)</b>	<b>(45,214)</b>	<b>(644,844)</b>	<b>(59,910)</b>
<b>Deficit, beginning of period</b>	<b>(25,586,901)</b>	<b>(25,038,511)</b>	<b>(25,312,376)</b>	<b>(25,023,815)</b>
<b>Deficit, end of period</b>	<b>\$ (25,957,220)</b>	<b>\$ (25,083,725)</b>	<b>\$ (25,957,220)</b>	<b>\$ (25,083,725)</b>
<b>Loss per share</b>	<b>\$ (0.02)</b>	<b>\$ (0.00)</b>	<b>\$ (0.03)</b>	<b>\$ (0.01)</b>
<b>Weighted average number of shares outstanding</b>	<b>19,933,928</b>	<b>11,432,424</b>	<b>19,385,194</b>	<b>9,763,363</b>

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

## Adriana Resources Inc.

### Interim Consolidated Statement of Cash Flows (Unaudited – Prepared by Management)

	Three Months Ended April 30,		Six Months Ended April 30,	
	2006	2005	2006	2005
<b>Cash provided by (used for)</b>				
<b>Operating activities</b>				
Loss for the period	\$ (370,319)	\$ (45,214)	\$ (644,844)	\$ (59,910)
Items not involving cash				
Amortization	2,774	-	5,549	-
Stock based compensation	103,085	-	149,383	-
Net change in non-cash working capital				
Accounts receivable	(24,570)	(2,964)	(14,747)	(3,065)
Accounts payable	286,345	21,513	264,837	18,010
Prepays	-	-	9,702	-
	<b>(2,685)</b>	<b>(26,665)</b>	<b>(230,120)</b>	<b>(44,965)</b>
<b>Investing activities</b>				
Deferred charges	(427,070)	-	(480,795)	-
Expenditures on mineral properties	-	-	(80,052)	-
Acquisition of capital assets	-	-	(16,977)	-
	<b>(427,070)</b>	<b>-</b>	<b>(577,824)</b>	<b>-</b>
<b>Financing activities</b>				
Shares issued	80,236	-	756,174	285,000
Proceeds from shareholder loan	250,000	-	250,000	-
Due to related party	(507)	-	5,332	-
Repayment of advances from related party	-	-	(15,500)	(6,500)
	<b>329,729</b>	<b>-</b>	<b>996,006</b>	<b>278,500</b>
<b>Net (decrease) increase in cash</b>	<b>(100,026)</b>	<b>(26,665)</b>	<b>188,062</b>	<b>233,535</b>
<b>Cash, beginning of period</b>	<b>492,009</b>	<b>261,116</b>	<b>203,921</b>	<b>916</b>
<b>Cash, end of period</b>	<b>\$ 391,983</b>	<b>\$ 234,451</b>	<b>\$ 391,983</b>	<b>\$ 234,451</b>
<b>Supplementary cash flow information</b>				
Interest paid	\$ 5,000	\$ -	\$ 5,000	\$ 277
Interest received	2,636	-	3,151	-
Shares issued for financing	-	-	33,920	-
Shares issued for mineral property	-	-	273,000	-

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

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**Adriana Resources Inc.****Schedule of Mineral Property Costs  
(Unaudited – Prepared by Management)**

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	<b>Six months ended April 30, 2006</b>	Year ended October 31, 2005
<b>Mineral properties</b>		
<b>Property acquisition costs</b>		
All Night Lake property	\$ -	\$ 144,125
McGregor Lake property	-	15,186
Otelnuke Lake property	338,450	36,362
Labrador Trough property	14,602	-
	<b>353,052</b>	195,673
<b>Deferred exploration expenses</b>		
All Night Lake property		
Geological and survey	31,417	262,954
Camp and expediting	-	150,078
Permits	-	1,513
Travel	2,863	-
	34,280	414,545
Otelnuke Lake property		
Geological and survey	181,055	54,498
Camp and expediting	238,920	-
Permits	1,000	-
Travel	25,540	-
	446,515	54,498
	<b>480,795</b>	469,043
<b>Total mineral property expenditures during period</b>	<b>833,847</b>	664,716
<b>Balance, beginning of period</b>	<b>664,716</b>	-
<b>Balance, end of period</b>	<b>\$ 1,498,563</b>	<b>\$ 664,716</b>

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

**Adriana Resources Inc.**  
**Notes to the Interim Consolidated Financial Statements**  
**April 30, 2006**  
**(Unaudited – Prepared by Management)**

**1. Basis of Presentation**

These consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada for interim financial statements. The consolidated financial information herein is unaudited. These interim consolidated financial statements follow the same accounting policies and methods of application as the most recent annual consolidated financial statements dated October 31, 2005. These interim consolidated financial statements should be read in conjunction with the company's October 31, 2005 audited annual consolidated financial statements.

Adriana Resources Inc. (the "Company") was incorporated under the laws of the Province of British Columbia and continued under the Canada Business Corporation Act. On July 22, 2005, the Company's name was changed from Adriana Ventures Inc. to Adriana Resources Inc.

The Company has a wholly owned subsidiary, 5050 Nunavut Limited ("5050 Nunavut"), incorporated under the laws of Nunavut, Canada. These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. All material intercompany balances and transactions have been eliminated.

**2. Equipment**

	Cost \$	Accumulated Amortization \$	April 30, 2006 Net Book Value \$	October 31, 2005 Net Book Value \$
Computer equipment	25,369	3,365	22,004	21,251
Office furniture and equipment	31,587	7,432	24,155	13,480
	56,956	10,797	46,159	34,731

**3. Mineral Properties**

**All Night Lake Property (MIE Property), Nunavut**

In August 2005, through its acquisition of 5050 Nunavut Limited, the Company acquired 37 contiguous staked claims on Crown lands and two adjacent properties covered by Inuit Owned Lands Mineral Exploration Agreements.

**McGregor Lake Property, Nunavut**

In August 2005, the Company staked eleven claims on the Muskox Intrusion.

**Otelnuk Lake Property, Northern Quebec**

In September 2005, the Company entered into a Memorandum of Understanding (the "MOU") with Bedford Resource Partners Inc. ("Bedford") to earn a 100% interest in the Otelnuk Lake iron deposit located in northeastern Quebec. On signing the MOU, the Company paid \$10,000 to Bedford, an arms length party, as a non-refundable deposit. In November 2005, the Company entered into a definitive option agreement with Bedford and received all regulatory approvals. The property consists of 129 mining claims. Consideration for the option agreement includes a 2.5 % net smelter royalty from the sale of any minerals mined, subject to minimum royalty advances, and a combination of cash, shares and work commitments as follows:

**Adriana Resources Inc.**  
**Notes to the Interim Consolidated Financial Statements**  
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**3. Mineral Properties** (continued)

	Option payments	Work commitments	Advance Royalties	Common shares issued
On execution of the MOU (paid)	\$ 10,000	\$ –	\$ –	–
On exchange approval (paid and issued)	30,000	–	–	650,000
November 30, 2006	–	–	150,000	650,000
December 31, 2006	–	1,000,000	–	–
November 30, 2007	–	–	175,000	700,000
December 31, 2007	–	1,000,000	–	–
November 30, 2008	–	–	200,000	–
November 30, 2009	–	–	300,000	–
December 31, 2009	–	2,000,000	–	–
November 30, 2010	–	–	400,000	–
November 30, 2011	–	–	625,000	–
November 30, 2012	–	–	675,000	–
November 30, 2013	–	–	700,000	–
November 30, 2014	–	–	750,000	–
November 30, 2015	–	–	800,000	–
Per year thereafter	–	–	1,000,000	–
	\$ 40,000	\$ 4,000,000		2,000,000

The Company staked an additional 509 claims in and around Otelnuke Lake.

**Labrador Trough Property, Northern Quebec**

The Company staked 149 claims for this property.

**4. Share Capital**

a) Authorized

Unlimited Class A common shares, without par value

b) Issued

	Six months ended April 30, 2006		Year ended October 31, 2005	
	Shares	Amount	Shares	Amount
Balance, beginning of period	17,958,614	\$26,131,794	5,732,424	\$25,001,607
Private placements	926,730	602,375	8,476,190	1,085,000
Cost of financing	52,184	(30,256)	–	(36,478)
Shares issued on warrant exercises	425,535	148,938	–	–
Shares issued on option exercises	60,000	25,800	–	–
Shares issued for mineral property	650,000	273,000	–	–
Acquisition of 5050 Nunavut Limited	–	–	3,750,000	81,665
Balance, end of period	20,073,063	\$27,151,651	17,958,614	\$26,131,794

**Adriana Resources Inc.**  
**Notes to the Interim Consolidated Financial Statements**  
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**4. Share Capital (continued)**

b) Issued (continued)

Private Placements

In December 2005, the Company closed a private placement for 926,730 units at \$0.65 per unit for gross proceeds of \$602,375. Each unit consists of one share and one-half warrant. Each whole warrant is exercisable for a period of one year to acquire one share at \$0.80 per share. The Company paid a commission of 8% in units, or 52,184 units, and issued 52,184 broker warrants exercisable at \$0.80 for a period of one year on funds sourced to eligible finders in respect of certain units placed under the financing.

c) Warrants

The continuity of warrants is as follows:

	Number of common shares	Weighted average exercise price
Balance, October 31, 2004	–	\$ –
Issued	1,388,093	0.38
Balance, October 31, 2005	1,388,093	\$ 0.38
Issued	541,639	0.80
Exercised	(425,535)	0.35
Balance, April 30, 2006	1,504,197	\$0.54

As at April 30, 2006, the following warrants were outstanding:

Number of Warrants	Exercise Price	Expiry Date
795,892	\$0.35	July 29, 2006
166,666	\$0.60	July 29, 2006
541,639	\$0.80	December 20, 2006
1,504,197		

During the six months ended April 30, 2006, under the fair-value-based method, \$14,118 (2005 – \$Nil) in compensation expense was recorded for the issuance of broker warrants in connection with a private placement.

The fair value of broker warrants has been estimated using the Black-Scholes option pricing model with the following assumptions:

Six months ended April 30,	2006	2005
Risk free interest rate	3.50%	-%
Expected dividend yield	-%	-%
Stock price volatility	64%	-%
Expected life of options	1 year	- year

**Adriana Resources Inc.**  
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**4. Share Capital (continued)**

d) Options

The continuity of options is as follows:

	Number of common shares	Weighted Average exercise price
Balance, October 31, 2004	–	\$ –
Granted	1,675,000	0.36
Balance, October 31, 2005	1,675,000	\$0.36
Granted	300,000	1.33
Exercised	(60,000)	0.35
Balance, April 30, 2006	1,915,000	\$0.52

As at April 30, 2006, the following options were outstanding:

Number of Options	Exercise Price	Expiry Date
1,200,000	\$0.35	August 11, 2010
140,000	\$0.35	August 29, 2010
50,000	\$0.41	August 11, 2010
150,000	\$0.40	October 24, 2006
50,000	\$0.50	October 24, 2006
25,000	\$0.60	October 24, 2006
200,000	\$1.25	February 28, 2008
100,000	\$1.50	March 1, 2008
1,915,000		

During the six months ended April 30, 2006, under the fair-value-based method, \$149,383 (2005 – \$Nil) in compensation expense was recorded for options vested to directors, officers, and consultants.

The fair value of share options used has been estimated using the Black-Scholes option pricing model with the following assumptions:

Six months ended April 30,	2006	2005
Risk free interest rate	3.50% -4.00%	-%
Expected dividend yield	-%	-%
Stock price volatility	19% - 73%	-%
Expected life of options	1 - 3 years	- years

e) Contributed surplus

	Amount
Balance, October 31, 2005	\$ 48,977
Stock based compensation for stock options	149,383
Stock based compensation for broker warrants	14,118
Exercise of stock options	(4,801)
Balance, April 30, 2006	\$ 207,677

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**Adriana Resources Inc.**  
**Notes to the Interim Consolidated Financial Statements**  
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**4. Share Capital** (continued)

f) Shares held in escrow

At April 30, 2006, 4,556,750 (October 31, 2005 – 5,518,875) shares were subject to escrow agreements dated July 27, 2005 and may not be transferred, assigned or otherwise dealt with without the consent of the regulatory body having jurisdiction thereon. Escrowed shares are released every six months and the length of the agreements range from eighteen months to three years.

**5. Related Party Transactions**

a) Included in the period at their exchange amounts are the following items paid or accrued to directors and companies controlled by directors of the Company for services provided:

<b>Six months ended April 30,</b>	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
Geological consulting fees	36,857	–
Consulting fees	–	1,500

b) Included in accounts payable at April 30, 2006, was \$10,800 (October 31, 2005 - \$5,148) payable to related parties without interest.

c) During the year ended October 31, 2005, the Company received advances of \$15,500 from related parties without interest or fixed terms of repayment. During the first quarter of 2006, the advances were repaid in full.

**6. Shareholder Loan**

In April 2006, the Company into a loan agreement for \$250,000 with a shareholder of the Company. The loan was due on or before April 27, 2007, beared interest at 9.5% per annum and was subject to an administrative fee of \$5,000. Subsequent to the quarter end, the loan and accrued interest were repaid in full.

**7. Contingencies**

The Company is subject to various regulatory and statutory requirements relating to the protection of the environment. These requirements, in addition to contractual agreements and management decisions, result in the accrual of estimated future removal and site restoration costs. Any changes in these estimates will affect future earnings.

Costs attributable to these commitments and contingencies are expected to be incurred over an extended period of time and are to be funded mainly from the Company's cash provided by operating activities. Although the ultimate impact of these matters on net earnings cannot be determined at this time, it could be material for any one quarter or year.

**8. Commitments**

a) Pursuant to the flow-through common shares issued, the Company is committed to spending \$412,500 on qualified expenditures by December 31, 2006. As of April 30, 2006, the Company has expended \$319,994 and is committed to expend a further \$92,506 by December 31, 2006.

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**Adriana Resources Inc.**  
**Notes to the Interim Consolidated Financial Statements**  
**April 30, 2006**  
**(Unaudited – Prepared by Management)**

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**8. Commitments** (continued)

b) The Company is committed to rental agreements and equipment leases as follows:

	Office rentals	Equipment leases
2006	\$ 101,464	\$ 3,324
2007	160,716	6,165
2008	160,716	5,719
2009	66,965	816
2010	-	612

c) In the ordinary course of business, the Company enters into contracts which contain indemnification provisions, such as loan agreements, purchase contracts, service agreements, licensing agreements, asset purchase and sale agreements, joint venture agreements, operating agreements, leasing agreements, land use agreements, etc. In such contracts, the Company may indemnify counterparties to the contracts if certain events occur. These indemnification provisions vary on an agreement by agreement basis. In some cases, there are no pre-determined amounts or limits included in the indemnification provisions and the occurrence of contingent events that will trigger payment under them is difficult to predict. Therefore, the maximum potential future amount that the Company could be required to pay cannot be estimated.

**9. Subsequent events**

Subsequent to the quarter end, the Company closed a non-brokered private placement for gross proceeds of \$2,686,905. The private placement consisted of 2,066,850 units priced at \$1.30 per unit. Each unit consists of one common share and one-half warrant. Each whole warrant is exercisable for a period of two years from closing to acquire one common share at a price of \$1.75 per share. The Company paid a cash commission of 7%, or \$134,680, on funds sourced to eligible finders in respect of certain units placed under the financing and issued 51,800 broker warrants exercisable at \$1.75 for a period of two years from closing.

This discussion and analysis of financial position and results of operations is prepared as at June 26, 2006 and should be read in conjunction with the unaudited consolidated financial statements for the six months ended April 30, 2006 and the audited consolidated financial statements for the years ended October 31, 2005 and 2004 of Adriana Resources Inc. (the "Company") where necessary. Those financial statements have been prepared in accordance with Canadian generally accepted accounting principles. All dollar figures included therein and in the following management discussion and analysis ("MD&A") are quoted in Canadian dollars. Additional information relevant to the Company's activities can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## **Overview**

The Company is engaged in the acquisition and exploration of mineral properties in Northern Canada and is currently listed on the TSX Ventures Exchange under the symbol "ADI".

## **Mineral Property Interests**

### **MIE Project, Nunavut**

Through the Company's wholly-owned subsidiary, 5050 Nunavut Limited ("5050 Nunavut"), the Company holds approximately 157,100 acres in the area of the Muskox Intrusion in two non-contiguous groups. The properties are located 60 to 90 kilometers south of Kugluktuk, Nunavut and are known as the All Night Lake Property and the McGregor Lake Property. Together they comprise the Mackenzie Igneous Event Project (the "MIE Project") targeting Nickel, Copper, Platinum Group Element (PGE) mineralization as well as recently announced Uranium mineralization.

#### **All Night Lake Property, Nunavut**

A National Instrument 43-101 ("NI 43-101") report was completed by Watts, Griffis, and McQuat Limited ("WGM"), a Toronto-based international consulting geological and engineering firm, in April of 2005. During August 2005, the Company flew an airborne VTEM time domain electromagnetic (TDEM) and magnetometer survey, covering the entire 540 square kilometer property. The survey consisted of 1,195 line-kilometers of which 554 line-kilometers were flown north-south on a line spacing of one kilometer. A further 641 line-kilometers of detailed east-west lines were flown over key areas at a line spacing of 200 meters; including a 23-kilometer wide east-west cross section over the Muskox Intrusion. These surveys maximize the opportunity to identify potential structural traps where sulphides could accumulate.

Phase one of the exploration program recommended by WGM is ongoing. In late June 2006, the Company commenced ground geophysical surveys, surface geological mapping and geochemical sampling.

Mineral tenure of the All Night Lake property consists of mineral claims and Inuit Owned Land (IOL) Exploration Agreements. Thirty-seven contiguous claims cover approximately 85,100 acres (34,450 hectares). These claims require \$340,000 (\$4/acre) in assessment work to be performed by October 5, 2006. The two IOL parcels cover 48,600 acres (19,711 hectares) and are in good standing until October 1, 2006.

### McGregor Lake Property, Nunavut

In August 2005, the Company's wholly owned subsidiary, 5050 Nunavut, staked eleven claims centered in the area of McGregor Lake on the southern portion of the Muskox Intrusion, Nunavut. The McGregor Lake Claims are included in the MIE project area. Preliminary surface sampling on the McGregor Lake Claims was carried out in August 2005 to confirm anomalous values along the East and West walls of the Muskox Intrusion (see press release November 18, 2005).

The exploration focus of the McGregor Lake Property is the base of the Muskox Intrusion (at depths from 400-800 meters) along structures believed to be important in trapping and concentrating mineralization. As with the All Night Lake Property, an exploration program consisting of ground geophysics, surface geological mapping and geochemical sampling commenced in late June 2006.

The McGregor Lake Property consists of 23,400 acres (9,470 hectares) of mineral claims recorded in August, 2005. The eleven contiguous claims will require \$93,600 (\$4/acre) in assessment work to be performed by October 31, 2007.

### Lac Otehluk Iron Project, Northeastern Quebec

In December 2005, the Company entered into an option agreement to earn a 100% interest in the Lac Otehluk iron deposit located in northeastern Quebec.

The Lac Otehluk property is located 170 kilometers north of the town of Schefferville, which once served as a centre for the iron ore mining and processing operations of the Iron Ore Company of Canada.

Watts, Griffis and McOuat Limited, was retained by the Company to carry out a site visit, gather and analyze independent samples and prepare a technical review of the property. The WGM NI 43-101 report concluded the following:

1. "The Lac Otehluk property hosts two Lake Superior-type taconite iron deposits, both part of the same mineralized system. The deposits have seen limited exploration but clearly demonstrate the potential to host hundreds of millions of tones of magnetic iron formation Mineral Resources grading approximately 25% Magnetic iron."
2. "The limited diamond drilling carried out to date has concentrated on partially-outcropping upper iron formation sub-units referred to as Cherty Magnetite Sub-unit 2a and Jasper Magnetite-Hematite Sub-unit 2b. There are additional iron formation sub-units underlying Sub-unit 2b that may host additional iron "resources" of economic interest. Despite the fact that publicly available data are limited and the 1973 drill holes (all drilled on the North Zone) were stopped before completely traversing Sub-unit 2b, it appears that both Sub-unit 2a alone and Sub-units 2a and 2b combined are thicker in the South Zone than the North Zone."
3. "Historic work on the property was of a high standard and can be used by Adriana as part of its studies going forward."
4. "Historic metallurgical testwork on drill core and bulk samples from the North Zone

indicates that an acceptable or "saleable" concentrate can be produced as can a premium pellet."

5. "WGM concludes that the Lac Otehluk iron property of Adriana is one of merit and should be the subject of renewed exploration. The initial program should include enough diamond drilling to enable the preparation of an NI 43-101-compliant Mineral Resource estimate."

WGM recommended a two phase work program totaling 12,500 meters of drilling to advance the project through a Preliminary Feasibility Study. Planning for the phase one portion of the drill program (8,500 meters) is currently underway with field mobilization and camp construction expected to begin in the third or fourth quarter of 2006. The Company awarded a contract to an independent engineering firm with extensive iron experience to complete a preliminary review of its Labrador Trough properties. The review will focus on the various proposed facilities, operational parameters and infrastructure required for the properties. The study will not evaluate any historical resource estimates nor make any economic analysis related to the historical resource estimates.

The Lac Otehluk Property initially consisted of 129 claims (6,219 hectares) acquired by an option agreement executed in December 2005. These mineral claims were recorded between July 5, 2005 and September 22, 2005. In November and December of 2005, the Company registered an additional 470 claims. An additional 39 claims were registered in February 2006. Two years after the recorded date, a fee of \$98 per claim and work in the amount of \$135 per claim must be recorded to hold the claims for a further two-year period. Claims in this area average 119 acres (48.2 hectares) in size. The property now consists of 638 recorded and pending claims covering approximately 30,745 hectares. This property's mineral tenure is in good standing until July-December 2007.

### **Regional Labrador Trough Project, Northeastern Quebec**

In March of 2006, the Company staked 149 claims covering 6,887 hectares. These new claims cover known iron occurrences and prospective areas located within the Labrador Trough, north of the Lac Otehluk project.

### **Results of Operations**

#### ***Results of Operations for the three months ended April 30, 2006 and 2005***

#### **Expenses**

Total operating expenses were \$372,955 for the three months ended April 30, 2006, compared to \$45,214 for the three months ended April 30, 2005, for an increase of \$327,741. The Company's expenses increased in all cost categories during the three months as a result of the general increased activity of the Company as a Tier 2 mineral exploration company as compared to its initial start-up phase in the comparative period. During the current period, the Company planned its summer exploration work programs and retained additional personnel relating to mineral exploration and general administration of the Company.

Rent and office expenses rose to \$47,089 during the three months as compared to virtually no such expenses in the comparative period. The rise is attributable to the increased activity of the Company and the expanding of its office. The Company continues to build out its office as it adds additional geological personnel and project management.

The Company recorded \$34,910 in shareholder relations expenses for the three months ended April 30, 2006 as compared to no such expense in the comparative period. The expenses relate to the Company's annual meeting of shareholders and advertising in resource publications. In addition, the Company recorded \$26,740 in investor relations expenses in the current period due to the hiring of an investor relations consultant and retaining the services of an external investor relations firm to provide shareholder awareness. The Company recorded stock based compensation charges of \$103,085 for the vesting of stock options granted to directors, officers and consultants of the Company. This compares with no such charges in the comparative period when no stock options were outstanding.

### Net Loss

The Company recorded a net loss of \$370,319 for the three months ended April 30, 2006, compared with a net loss of \$45,214.

## Results of Operations

### *Results of Operations for the six months ended April 30, 2006 and 2005*

#### Expenses

Total operating expenses were \$647,995 for the six months ended April 30, 2006, compared to \$59,910 for the six months ended April 30, 2005, for an increase of \$588,085. Consulting fees rose from \$3,500 during the six months ended April 30, 2005 to \$89,282 during the six months ended April 30, 2006. During the current period, consultants were retained to provide general and administrative services as well as financial consultants were retained to source possible financings for the Company's projects. Management of the Company were required to travel for corporate purposes and the Company incurred travel costs of \$53,846 during the six months ended April 30, 2006 as compared to \$1,940 in the comparative period.

### Net Loss

The Company recorded a net loss of \$644,844 for the six months ended April 30, 2006, compared with a net loss of \$59,910 in the comparative period.

## Summary of Quarterly Results

	<b>Apr 30</b>	<b>Jan 31</b>	<b>Oct 31</b>	<b>Jul 31</b>	<b>Apr 30</b>	<b>Jan 31</b>	<b>Oct 31</b>	<b>Jul 31</b>
	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2005</b>	<b>2005</b>	<b>2005</b>	<b>2004</b>	<b>2004</b>
	\$	\$	\$	\$	\$	\$	\$	\$
Total revenues	-	-	-	-	-	-	-	-
Net income (loss)	(370,319)	(274,525)	(160,163)	(68,489)	(45,214)	(14,696)	(22,962)	(79,015)
Net income (loss) per share								
- basic and diluted	(0.02)	(0.01)	(0.02)	(0.01)	(0.00)	(0.00)	(0.00)	(0.01)

The Company's expenses and net loss have increased for the past four quarters due to the Company's aggressive expansion plans as it reviewed and acquired its second significant project, the Otelnuke Lake project, in late 2005.

### **Liquidity**

The Company's cash on hand increased to \$391,983 as at April 30, 2006 from \$203,921 as at October 31, 2005. The Company's working capital deficit was \$142,614 as at April 30, 2006, compared to working capital of \$168,948 as at October 31, 2005. The improvement in working capital was a result of closing of a private placement during the current period for gross proceeds of \$602,375.

During the six months ended April 30, 2006, the Company used \$480,795 of its cash on exploration of its mineral properties and used \$80,052 for acquisition and staking of additional mineral properties. This compares with no such investments in the prior period when the Company did not have any mineral property interests.

### **Capital Resources**

As at the date of this MD&A, the Company has no other arrangement for sources of financing. Subsequent to the quarter end, the Company closed a non-brokered private placement for gross proceeds of \$2,686,905. The private placement consisted of 2,066,850 units priced at \$1.30 per unit. Each unit consists of one common share and one-half warrant. Each whole warrant is exercisable for a period of two years from closing to acquire one common share at a price of \$1.75 per share.

The Company is committed to spend \$412,500 in flow through eligible expenditures by December 31, 2006. At April 30, 2006, the Company had spent \$319,994 of this commitment and is committed to expend a further \$92,506 in qualified expenditures by December 31, 2006.

To keep the Company's mineral claims in good standing, the Company is required to make cash payments and fulfill work program expenditures. The Company believes it has adequate working capital to fund its minimum operations over the next twelve months. The Company has no long term debt but does have office lease and office equipment obligations as disclosed in its unaudited financial statements.

### **Transactions with Related Parties**

During the six months ended April 30, 2006, the Company paid or accrued \$36,857 (2005 - \$nil) in geological consulting fees to directors of the Company and to companies controlled by directors of the Company.

During the year ended October 31, 2005, the Company received advances of \$15,500 from related parties without interest or fixed terms of repayment. During the first quarter of 2006, the advances were repaid in full.

**Disclosure of Outstanding Share Data**

The following details the share capital structure as of the date of this MD&A.

	Expiry date	Exercise price	Number	Number
Common shares				22,238,055
Share purchase options	August 11, 2010	0.35	1,200,000	
	August 29, 2010	0.35	140,000	
	October 24, 2010	0.41	50,000	
	October 24, 2006	0.40	126,000	
	October 24, 2006	0.50	50,000	
	October 24, 2006	0.60	25,000	
	February 28, 2008	1.25	200,000	
	March 1, 2008	1.50	100,000	1,891,000
Warrants	July 29, 2006	0.35	740,893	
	July 29, 2006	0.60	166,666	
	December 20, 2006	0.80	522,497	
	May 24, 2008	1.75	1,085,225	2,515,281

This discussion includes certain statements that may be deemed "forward-looking statements". All statements in this discussion, other than statements of historical facts, that address future operations, acquisitions, exploration, financings, activities and events or developments that the Company expects are forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include future production reserve potentials or exploration drilling, market prices, continued availability of capital and financing and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and that actual results or developments may differ materially from those projected in the forward-looking statements. The Company's auditors have not reviewed this MD&A or the accompanying unaudited quarterly consolidated financial statements to which this MD&A relates.