

**LA QUINTA RESOURCES CORPORATION**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2005 AND 2004**



## AUDITORS' REPORT

To the Shareholders of  
La Quinta Resources Corporation

We have audited the balance sheets of La Quinta Resources Corporation as at December 31, 2005 and 2004 and the related statements of operations and deficit, and cash flows for the year ended December 31, 2005 and for the period from August 17, 2004 (date of inception) to December 31, 2004. 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 year ended December 31, 2005, and for the period from August 17, 2004 (date of inception) to December 31, 2004 in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada

February 17, 2006

"Morgan & Company"

Chartered Accountants

**LA QUINTA RESOURCES CORPORATION**  
**BALANCE SHEETS**

	<b>DECEMBER 31</b>	
	<b>2005</b>	<b>2004</b>
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 783,518	\$ 173,786
GST recoverable	11,625	-
Prepaid expenses	7,169	1,539
	<b>802,312</b>	<b>175,325</b>
<b>Capital Assets (Note 3)</b>	<b>2,071</b>	<b>-</b>
<b>Mineral Properties And Deferred Exploration Expenditures (Note 4)</b>	<b>169,815</b>	<b>127,133</b>
	<b>\$ 974,198</b>	<b>\$ 302,458</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable	\$ 61,781	\$ 40,557
<b>SHAREHOLDERS' EQUITY</b>		
<b>Capital Stock (Note 5)</b>	1,140,229	304,500
<b>Contributed Surplus</b>	44,300	-
<b>Deficit</b>	<b>(272,112)</b>	<b>(42,599)</b>
	<b>912,417</b>	<b>261,901</b>
	<b>\$ 974,198</b>	<b>\$ 302,458</b>

Approved by the Directors:

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"Glen Watson"  
Director

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"Dustin Henderson"  
Director

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

**LA QUINTA RESOURCES CORPORATION**  
**STATEMENTS OF OPERATIONS AND DEFICIT**

	YEAR ENDED DECEMBER 31 2005	PERIOD FROM INCEPTION AUGUST 17 2004 TO DECEMBER 31 2004
<b>Expenses</b>		
Amortization	\$ 365	\$ -
Bank charges and interest	335	144
Management fees	45,000	20,000
Office and miscellaneous	3,970	4,178
Professional fees	119,708	16,064
Rent	9,182	2,213
Shareholder communications	13,682	-
Stock based compensation	44,300	-
Transfer, regulatory and sponsorship fees	54,798	-
Travel	2,155	-
<b>Loss Before Income Taxes</b>	<b>(293,495)</b>	<b>(42,599)</b>
<b>Future Income Tax Recovery</b>	<b>63,982</b>	<b>-</b>
<b>Loss For The Period</b>	<b>(229,513)</b>	<b>(42,599)</b>
<b>Deficit, Beginning Of Period</b>	<b>(42,599)</b>	<b>-</b>
<b>Deficit, End Of Period</b>	<b>\$ (272,112)</b>	<b>\$ (42,599)</b>
<b>Basic And Diluted Loss Per Share</b>	<b>\$ (0.05)</b>	<b>\$ (0.01)</b>
<b>Weighted Average Number Of Shares Outstanding</b>	<b>5,531,033</b>	<b>2,567,500</b>

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

# LA QUINTA RESOURCES CORPORATION

## STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31 2005	PERIOD FROM INCEPTION AUGUST 17 2004 TO DECEMBER 31 2004
<b>Cash Flows Used By Operating Activities</b>		
Loss for the period	\$ (229,513)	\$ (42,599)
Add (Deduct): Items not involving cash:		
Amortization	365	-
Stock based compensation	44,300	-
Shares issued for services	-	21,000
Future income tax recovery	(63,982)	-
	(248,830)	(21,599)
Changes in non-cash working capital items:		
GST recoverable	(11,625)	-
Prepaid expenses	(5,630)	(1,539)
Accounts payable	21,224	40,557
	(244,861)	17,419
<b>Cash Flows From Financing Activity</b>		
Issuance of capital stock, net	889,711	274,500
<b>Cash Flows From Investing Activities</b>		
Purchase of capital assets	(2,436)	-
Mineral properties and deferred expenditures	(32,682)	(118,133)
	(35,118)	(118,133)
<b>Change In Cash And Cash Equivalents</b>	<b>609,732</b>	<b>173,786</b>
<b>Cash And Cash Equivalents, Beginning Of Period</b>	<b>173,786</b>	<b>-</b>
<b>Cash And Cash Equivalents, End Of Period</b>	<b>\$ 783,518</b>	<b>\$ 173,786</b>
<b>Supplementary Cash Flow Information</b>		
Shares issued for mineral property	\$ 10,000	\$ 4,000
Shares issued for reimbursement of mineral property payment	-	5,000

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

# **LA QUINTA RESOURCES CORPORATION**

## **NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2005 AND 2004**

### **1. NATURE OF OPERATIONS**

The Company was incorporated on August 17, 2004 in British Columbia and began active operations on that date. The Company holds mineral interests in Canada.

### **2. SIGNIFICANT ACCOUNTING POLICIES**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant policies:

a) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from these estimates.

b) Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, GST recoverable and accounts payable. Unless otherwise noted, it is management's opinion that 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 value, unless otherwise noted.

c) Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid investments with maturities of three months or less.

d) Capital Assets and Amortization

Capital assets are recorded at cost and consist of computer equipment, amortized over the estimated life of the equipment on a straight line basis at 30% per annum.

# LA QUINTA RESOURCES CORPORATION

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### e) Mineral Properties

The Company records its interests in mineral properties and areas of geological interest at cost. All direct and indirect costs relating to the acquisition of these interests are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold or management has determined there to be an impairment. These costs will be amortized on the basis of units produced in relation to the proven reserves available on the related property following commencement of production. Mineral properties that are sold before that property reaches the production stage will have all revenues from the sale of the property credited against the cost of the property. Properties that have reached the production stage will have a gain or loss calculated based on the portion of that property sold.

The recorded cost of mineral exploration interests is based on cash paid, the assigned value of share consideration and exploration and development costs incurred. The recorded amount may not reflect recoverable value, as this will be dependent on the development program, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to bring its projects into production.

The amounts shown for mineral properties and deferred exploration costs represent costs to date, and do not necessarily represent present or future values, as they are entirely dependent upon the economic recovery of current and future reserves.

#### f) Deferred Exploration Costs

The Company defers all exploration expenses relating to mineral properties and areas of geological interest until the properties to which they relate are placed into production, sold or abandoned. These costs will be amortized over the proven reserves available on the related property following commencement of production.

#### g) Asset Retirement Obligations

The Company has adopted CICA Handbook Section 3110. As at December 31, 2005, the Company has no future liabilities for mineral property reclamation costs.

# LA QUINTA RESOURCES CORPORATION

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### h) Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, future income taxes are recognized for the future income tax consequences attributable to differences between the financial statement carrying values and their respective income tax bases (temporary differences). Future income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period in which the change 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.

#### i) Flow-Through Shares

The Company has financed a portion of its exploration activities through the issuance of flow-through shares. Under the terms of the flow-through share agreements, the tax attributes of the related expenditures are renounced to the subscribers. To recognize the foregone tax benefits to the Corporation, the carrying value of the shares is reduced by the tax effect of the tax benefits renounced to the subscribers.

#### j) Stock Based Compensation

The Company records stock compensation to directors, employees and consultants based upon the fair value of the options granted as determined by the Black-Scholes option pricing model. The expense is recognized in the period the options are granted, or over the vesting period for options that vest over a specified period, with a corresponding offset to contributed surplus. The contributed surplus account is reduced as the options are exercised and the amount initially recorded is credited to share capital.

#### k) Earnings Per Share

Earnings per share are calculated using the weighted-average number of shares outstanding during the reporting period.

The Company calculates earnings per share using the treasury stock method. Under the treasury stock method, only instruments with exercise amounts less than market prices impact the diluted calculations. In computing diluted earnings per share, no shares were added to the weighted average number of common shares outstanding during the periods ended December 31, 2005 and 2004 as the effect of potentially issuable common shares is anti-dilutive.

# LA QUINTA RESOURCES CORPORATION

## NOTES TO FINANCIAL STATEMENTS

**DECEMBER 31, 2005 AND 2004**

### 3. CAPITAL ASSETS

	2005			2004
	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE	NET BOOK VALUE
Computer equipment	\$ 2,436	\$ 365	<b>\$ 2,071</b>	\$ -

### 4. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES

	2005	2004
Howell Property, British Columbia	<b>\$ 122,686</b>	\$ 106,792
Crowsnest Property, British Columbia	<b>47,129</b>	20,341
	<b><u>\$ 169,815</u></b>	<b><u>\$ 127,133</u></b>

Howell Property, British Columbia

On August 17, 2004, the Company accepted assignment of an option on the Howell property under which the Company can earn a 60% interest in the mineral property by paying cash acquisition costs of \$220,000 over 4 years, issuing 150,000 common shares and incurring exploration expenditures of \$900,000 over 4 years. The property is subject to a 3.0% net smelter returns royalty, 1% of which may be purchased for \$2,000,000. In addition, if the property goes into commercial production, the Company is required to pay a bonus to the royalty holders equal to \$1,000,000 if the mineral reserve is greater than 750,000 ounces, and \$200,000 if the mineral reserve is less than 750,000 ounces. The expenditure commitments under the option agreement are as follows:

DATE	CASH PAYMENT	SHARES TO BE ISSUED	EXPENDITURE COMMITMENT
On Signing	\$ 2,500 (paid)	20,000 (issued)	\$ -
By August 4, 2005	\$ 5,000 (paid)	20,000 (issued)	\$ 100,000 (incurred)
By August 4, 2006	\$ 12,500	20,000	\$ 100,000
By August 4, 2007	\$ 20,000	20,000	\$ 100,000
By August 4, 2008	\$ 180,000	70,000	\$ -
By December 31, 2008	\$ -	-	\$ 600,000
	<b><u>\$ 220,000</u></b>	<b><u>150,000</u></b>	<b><u>\$ 900,000</u></b>

# LA QUINTA RESOURCES CORPORATION

## NOTES TO FINANCIAL STATEMENTS

**DECEMBER 31, 2005 AND 2004**

### 4. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (Continued)

Howell Property, British Columbia (Continued)

	2005	2004
Acquisition Costs		
Option payments	<b>\$ 14,598</b>	\$ 4,500
Exploration Costs		
Geophysical costs	76,216	76,216
Reports, maps, fees and licenses	28,675	22,879
Travel	3,197	3,197
	<b>108,088</b>	102,292
	<b>\$ 122,686</b>	\$ 106,792

Crowsnest Property, British Columbia

On August 17, 2004, the Company entered into an assignment of an option agreement with respect to the Crowsnest claims under which the Company can earn up to a 60% interest in the claims by paying cash acquisition costs of \$100,000 over 4 years, issuing 150,000 common shares and incurring \$800,000 of exploration expenditures on the claims. The property is subject to a 2% net smelter returns royalty, 1% of which may be purchased for \$1,000,000. The expenditure commitments under the option agreement are as follows:

DATE	CASH PAYMENT	SHARES TO BE ISSUED	EXPENDITURE COMMITMENT
On Signing	\$ 10,000 (paid)	20,000 (issued)	\$ -
By July 31, 2005	\$ 7,500 (paid)	-	\$ -
By August 4, 2005	\$ 5,000 (paid)	20,000 (issued)	\$ 10,000 (incurred)
By July 31, 2006	\$ 12,500	-	\$ -
By August 4, 2006	\$ 5,000	20,000	\$ 100,000
By August 4, 2007	\$ 20,000	20,000	\$ 100,000
By August 4, 2008	\$ 40,000	70,000	\$ -
By December 31, 2008	\$ -	-	\$ 590,000
	<b>\$ 100,000</b>	<b>150,000</b>	<b>\$ 800,000</b>

# LA QUINTA RESOURCES CORPORATION

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

### 4. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (Continued)

Crowsnest Property, British Columbia (Continued)

	<u>2005</u>	<u>2004</u>
Acquisition Costs		
Option payments	<u>\$ 29,540</u>	<u>\$ 12,000</u>
Exploration Costs		
Assay costs	909	-
Field and camp costs	6,957	-
Claim maintenance fees	1,101	941
Reports, maps, fees and licenses	<u>8,622</u>	<u>7,400</u>
	<u>17,589</u>	<u>8,341</u>
	<u>\$ 47,129</u>	<u>\$ 20,341</u>

### 5. CAPITAL STOCK

a) Authorized

Unlimited common shares without par value

b) Issued

	<u>NUMBER OF SHARES</u>	<u>AMOUNT</u>
Shares issued for cash	2,133,750	\$ 94,875
Flow-through shares issued for cash	2,671,250	179,625
Shares issued for services	360,000	21,000
Shares issued for debt	50,000	5,000
Shares issued for mineral properties	<u>40,000</u>	<u>4,000</u>
Balance, December 31, 2004	5,255,000	304,500
Shares issued for cash	2,564,000	641,000
Flow-through shares issued for cash	1,379,000	344,750
Shares issued for mineral properties	40,000	10,000
Income tax benefit renounced	-	(63,982)
Share issue costs	<u>-</u>	<u>(96,039)</u>
Balance, December 31, 2005	<u>9,238,000</u>	<u>\$ 1,140,229</u>

# LA QUINTA RESOURCES CORPORATION

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

### 5. CAPITAL STOCK (Continued)

#### b) Issued (Continued)

Of the issued and outstanding shares, 3,258,000 are held in escrow.

During the period ended December 31, 2004, the Company issued 2,671,250 common shares on a flow-through basis for gross proceeds of \$179,625 to finance certain exploration expenditures to be incurred.

In February 2005, the Company renounced exploration expenditures of \$179,625 to flow-through shareholders and reduced share capital by \$63,982 representing the tax benefit of the tax deduction renounced to these shareholders.

Pursuant to a public offering, on December 6, 2005, the Company issued 2,564,000 units at a price of \$0.25 per unit for total consideration of \$641,000. Each unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.40 per share until December 6, 2006. In addition, a total of 256,400 agent options were issued as commission. Each option ("Series A") entitles the holder to purchase one common share at a price of \$0.25 per share up to December 6, 2006, and one share purchase warrant. Each warrant entitles the agent to purchase one additional common share at a price of \$0.40 per share up to December 6, 2006.

Under the same offering, the Company issued 1,379,000 flow-through shares of a price of \$0.25 per share for total consideration of \$344,750. In addition, the Company issued a total of 137,900 agent's options as commission. Each option ("Series B") entitles the holder to purchase one common share at a price of \$0.25 per share up to December 6, 2006.

The Company paid an aggregate commission of \$78,860 on the public offering plus expenses of \$17,179.

#### c) Stock Options

On October 15, 2004, the Company adopted a stock option plan under which it is authorized to grant options to directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company at prices to be determined and for a term not in excess of five years. The weighted average tax value.

On March 31, 2005, the Company granted options to purchase up to 775,000 common shares at a price of \$0.25 per share exercisable for a period of five years. As at December 31, 2005, no options had been exercised.

# LA QUINTA RESOURCES CORPORATION

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

### 5. CAPITAL STOCK (Continued)

#### c) Stock Options (Continued)

The fair value of the stock options granted was estimated on the grant date using the Black-Scholes option pricing model with the following assumptions: no dividend yield, expected volatility of 119%, risk free interest rate of 2.75%, and an expected life of five years. The fair value of options granted was calculated at \$0.06 per share. An amount of \$44,300 was credited to contributed surplus, representing the aggregate fair value of the stock options granted.

#### d) Share Purchase Warrants and Options

As at December 31, 2005, the following share purchase warrants were outstanding:

<u>NUMBER OUTSTANDIN G</u>	<u>EXERCISE PRICE</u>	<u>EXPIRY DATE</u>
2,564,000	\$ 0.40	December 2006

As at December 31, 2005, the following broker agent options (Note 5(b)) were outstanding:

	<u>NUMBER OUTSTANDIN G</u>	<u>EXERCISE PRICE</u>	<u>EXPIRY DATE</u>
Series A	256,400	\$ 0.25	December 6, 2006
Series B	137,940	\$ 0.25	December 6, 2006

### 6. RELATED PARTY TRANSACTIONS

During the period ended December 31, 2005, the Company paid or accrued management fees of \$45,000 to a director of the Company (December 31, 2004 - \$25,000). Of the amount paid in 2004, \$15,000 was paid by the issuance of 300,000 common shares of the Company at a price of \$0.05 per share.

# LA QUINTA RESOURCES CORPORATION

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

### 7. INCOME TAXES

The recovery of income taxes shown in the statements of operations and deficit differs from the amounts obtained by applying statutory rates due to the following:

	<u>2005</u>	<u>2004</u>
Statutory rate	34%	36%
Income tax recovery based upon reported loss	\$ (99,788)	\$ (15,174)
Non-deductible items	15,062	-
Share issue costs	(6,531)	-
Tax effect of flow-through renunciation	(63,982)	-
Unrecognized tax losses	<u>91,257</u>	<u>15,174</u>
Future income tax recovery	<u>\$ (63,982)</u>	<u>\$ -</u>

The significant components of the Company's future tax asset and liabilities are as follows:

	<u>2005</u>	<u>2004</u>
Operating losses	\$ 105,603	\$ 15,174
Resources deductions	(42,356)	-
Share issue costs	<u>26,123</u>	<u>-</u>
	89,370	15,174
Less: Valuation allowance	<u>(89,370)</u>	<u>(15,174)</u>
Future income tax liability	<u>\$ -</u>	<u>\$ -</u>

As at December 31, 2005, the Company had non-capital losses of \$310,637 which may be carried forward for tax purposes to reduce future taxable income. These losses expire as follows:

2014	\$ 42,599
2015	<u>268,038</u>
	<u>\$ 310,637</u>