

Société d'Exploration Minière Vior Inc.

Financial Statements
June 30, 2006 and 2005

Auditors' Report

**To the Shareholders of
Société d'Exploration Minière Vior Inc.**

We have audited the balance sheets of **Société d'Exploration Minière Vior Inc.** (an exploration company) as at June 30, 2006 and 2005 and the statements of earnings, 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 June 30, 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.

PricewaterhouseCoopers LLP

Chartered Accountants

Quebec, Quebec, Canada
October 11, 2006

Société d'Exploration Minière Vior Inc.

(an exploration company)

Balance Sheets

As at June 30, 2006 and 2005

| | 2006 \$ | 2005 \$ |
|---|---------------------|---------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents (note 3) | 339,084 | 190,574 |
| Short-term investments (quoted market value: \$21,072; \$237,876 in 2005) | 8,648 | 179,462 |
| Amounts receivable (note 4) | 129,441 | 192,808 |
| | <u>477,173</u> | <u>562,844</u> |
| Long-term investment (note 5) | 153,276 | 149,234 |
| Mining properties (note 6) | 2,774,090 | 1,625,017 |
| Property, plant and equipment , at cost less accumulated depreciation of \$6,655 (\$4,722 in 2005) | 7,246 | 6,841 |
| Intangible asset , at cost less accumulated amortization of \$5,376 (\$1,991 in 2005) | 7,899 | 11,284 |
| | <u>3,419,684</u> | <u>2,355,220</u> |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | | |
| Related companies | 11,199 | 401 |
| Others | 84,842 | 170,103 |
| | <u>96,041</u> | <u>170,504</u> |
| Future income tax liabilities (note 11) | 325,376 | 110,937 |
| | <u>421,417</u> | <u>281,441</u> |
| Shareholders' Equity | | |
| Share capital (note 7) | 25,262,077 | 24,188,207 |
| Warrants (note 7) | 223,882 | 128,132 |
| Stock options (note 8) | 198,996 | 146,644 |
| Contributed surplus (note 8) | 21,383 | 1,250 |
| Deficit | <u>(22,708,071)</u> | <u>(22,390,454)</u> |
| | <u>2,998,267</u> | <u>2,073,779</u> |
| | <u>3,419,684</u> | <u>2,355,220</u> |
| Nature of activities and going concern (note 1) | | |

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

(2)

Approved by the Board of Directors

Claude St-Jacques _____ Director

Patrick Bradley _____ Director

Société d'Exploration Minière Vior Inc.

(an exploration company)

Statements of Deficit

For the years ended June 30, 2006 and 2005

| | 2006 | 2005 |
|------------------------------------|-------------------|-------------------|
| | \$ | \$ |
| Balance – Beginning of year | 22,390,454 | 20,525,537 |
| Net loss for the year | 317,617 | 1,864,917 |
| Balance – End of year | <u>22,708,071</u> | <u>22,390,454</u> |

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

Société d'Exploration Minière Vior Inc.

(an exploration company)

Statements of Earnings

For the years ended June 30, 2006 and 2005

| | 2006 \$ | 2005 \$ |
|--|---------------|-----------------|
| Revenues | | |
| Royalties | 76,534 | 33,123 |
| Interest | 7,439 | 8,223 |
| Gain on sale of short-term investments | 62,217 | 29,510 |
| | <hr/> 146,190 | <hr/> 70,856 |
| Expenses | | |
| Salaries and fringe benefits | 188,741 | 214,834 |
| Professional and maintenance fees | 78,626 | 61,798 |
| Management fees | 50,000 | 51,250 |
| Rent and office expenses | 96,967 | 99,744 |
| Travelling | 35,630 | 34,600 |
| Search for mining properties | 7,235 | 12,586 |
| Part XII.6 tax | 4,645 | 6,266 |
| Interest and bank charges | 687 | 536 |
| Depreciation of property, plant and equipment | 1,933 | 1,180 |
| Amortization of intangible asset | 3,385 | 1,991 |
| Loss on writeoff of mining properties | - | 1,715,048 |
| | <hr/> 467,849 | <hr/> 2,199,833 |
| Loss before income taxes and share in the significantly-influenced company's net earnings | (321,659) | (2,128,977) |
| Future income taxes (note 11) | - | 233,000 |
| | <hr/> | <hr/> |
| Loss before share in the significantly-influenced company's net earnings | (321,659) | (1,895,977) |
| Share in the significantly-influenced company's net earnings (note 5) | 4,042 | 31,060 |
| | <hr/> | <hr/> |
| Net loss for the year | (317,617) | (1,864,917) |
| | <hr/> | <hr/> |
| Basic and diluted net loss per share (note 12) | (0.006) | (0.038) |

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

Société d'Exploration Minière Vior Inc.

(an exploration company)

Notes to Financial Statements

June 30, 2006 and 2005

| | 2006 \$ | 2005 \$ |
|---|------------------|------------------|
| Cash flows from operating activities | | |
| Net loss for the year | (317,617) | (1,864,917) |
| Items not affecting cash and cash equivalents | | |
| Depreciation of property, plant and equipment | 1,933 | 1,180 |
| Amortization of intangible asset | 3,385 | 1,991 |
| Gain on sale of short-term investments | (62,217) | (29,510) |
| Loss on writeoff of mining properties | - | 1,715,048 |
| Future income taxes | - | (233,000) |
| Share in the significantly-influenced company's net earnings | (4,042) | (31,060) |
| Stock options (note 9) | 52,352 | 96,894 |
| | <u>(326,206)</u> | <u>(343,374)</u> |
| Net change in non-cash working capital items | | |
| Amounts receivable (note 9) | 11,303 | (99,457) |
| Accounts payable and accrued liabilities (note 9) | (2,542) | 24,068 |
| | <u>8,761</u> | <u>(75,389)</u> |
| | <u>(317,445)</u> | <u>(418,763)</u> |
| Cash flows from financing activities | | |
| Increase in share capital issued for cash, net of share issue expenses (note 9) | <u>1,386,567</u> | <u>878,009</u> |
| Cash flows from investing activities | | |
| Variation in credit on duties refundable for loss and refundable tax credit receivable related to exploration costs applied against mining properties | 56,856 | 6,493 |
| Purchase of short-term investments | - | (208,000) |
| Proceeds from sale of marketable investments | 233,031 | 131,355 |
| Purchase of mining properties (note 9) | (1,208,161) | (529,471) |
| Additions to property, plant and equipment | (2,338) | (5,603) |
| Variation in intangible asset | - | (13,275) |
| | <u>(920,612)</u> | <u>(618,501)</u> |
| Net change in cash and cash equivalents | 148,510 | (159,255) |
| Cash and cash equivalents – Beginning of year | <u>190,574</u> | <u>349,829</u> |
| Cash and cash equivalents – End of year | <u>339,084</u> | <u>190,574</u> |
| Additional information | | |
| Interest paid | 55 | 75 |
| Interest cashed | (7,439) | (8,438) |

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

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Notes to Financial Statements

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1 Incorporation, nature of activities and going concern concept

The company, incorporated under Part 1A of the Québec Companies Act, is in the business of acquiring and exploring mining properties. It has not yet determined whether its properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for mining properties is dependent upon the existence of economically recoverable reserves, the ability of the company to obtain necessary financing to complete the exploration and development of its properties, and upon future profitable production or proceeds from the disposal of properties.

For the year ended June 30, 2006, the company recorded a net loss of \$317,617. In addition to ongoing working capital requirements, the company must secure sufficient funding for meeting its existing commitments for exploration and development programs and general and administration costs.

Management is periodically seeking additional forms of financing through the issuance of new equity instruments, the exercise of outstanding common share warrants and stock options to continue its operations, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future. Without new funding being available, the company may be unable to continue its operations, and amounts realized for assets may be less than amounts reflected in these financial statements.

Although management has taken steps to verify title to mining properties in which the company has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the company's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

These consolidated financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern, and do not reflect the adjustments to the carrying values of assets and liabilities, the reported revenues and expenses and balance sheet classifications that would be necessary were the going concern assumption appropriate. These adjustments could be material.

2 Summary of significant accounting policies

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 amounts of assets and liabilities reported in the financial statements. Those estimates and assumptions also affect the disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the years. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, exploration funds, balances with banks and highly liquid short-term investments with original maturities of three months or less at the acquisition date.

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Exploration funds consist of cash, term deposits and short-term investments and represent the unexpended proceeds of financings under the terms of which the company must spend these amounts on the exploration of mining properties.

Short-term investments

Short-term investments consist of shares in public companies. They are valued at the lower of cost and market value.

Long-term investment

The interest in the significantly-influenced company is accounted for using the equity method.

Property, plant and equipment and depreciation

Property, plant and equipment are recorded at cost less accumulated depreciation and are depreciated using the declining balance method at a rate of 20% for office equipment and at a rate of 30% for computer equipment.

Intangible asset and depreciation

The intangible asset, which consists of Web site development expenses, is recorded at cost and is amortized using the declining balance method at a rate of 30%.

Mining properties

The company records its interests in mining properties and areas of geological interest at cost less option payments received and other recoveries. Exploration costs relating to these interests and projects are capitalized on the basis of specific claim blocks or areas of geological interest until the mining properties to which they relate are placed into production, sold or allowed to lapse. Management reviews the carrying values of mining properties on a regular basis to determine whether any writedowns are necessary. These costs will be amortized over the estimated useful life of the mining properties following commencement of production or written off if the mining properties or projects are sold or allowed to lapse. General exploration expenditures not related to specific mining properties are expensed as incurred.

Credit on duties refundable for loss and refundable tax credit for resources

The company is entitled to a credit on duties refundable for loss under the Mining Duties Act. This credit on duties refundable for loss on mining exploration expenses incurred in the province of Quebec, at a rate of 12%, has been applied against the costs incurred.

Furthermore, the company is entitled to the refundable tax credit for resources for mining exploration companies on qualified expenditures incurred. The refundable tax credit for resources may reach 38.75% of qualified expenditures incurred. This tax credit has been applied against the costs incurred.

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Share capital

Share capital issued for non-monetary consideration is generally recorded at the quoted market price of the shares over a reasonable period of time before and after the agreement to issue the shares is announced.

Flow-through shares are issued in consideration of the proceeds received, which represent their fair value. Upon the acquisition of mining properties, the carrying value may exceed the tax basis since the company renounces the deductions in favour of the investors concerned.

Share issue expenses and future income taxes arising from the difference between the carrying amount and the tax basis of exploration costs are applied against share capital.

Stock-based compensation plan

The company offers certain key employees, managers, directors, consultants and investor relations service providers a stock-based compensation plan, which is described in note 8. In accordance with Canadian generally accepted auditing standards, the company uses the fair value-based method of accounting for stock options granted to employees. Accordingly, all stock-based compensation awards are expensed in the financial statements. Any consideration received from plan participants upon the exercise of options is credited to share capital.

Income taxes

The company provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between financial statement values and tax values of assets and liabilities using enacted or substantively enacted income tax rates expected to be in effect for the year in which the differences are expected to reverse.

The company establishes a valuation allowance against future income tax assets if, based on available information, it is more likely than not that some or all of the future income tax assets will not be realized.

Revenue recognition

Revenues from royalties are recognized when they are earned, provided the company has reasonable assurance that these amounts will be recovered. These royalties correspond to 0.2% of the value of gold recovered on the Mouska mining property.

Basic and diluted earnings per share

Basic earnings per share are determined using the weighted average number of participating shares outstanding during the year.

Diluted earnings per share are determined using the weighted average number of participating shares outstanding during the year, plus the effects of dilutive potential participating shares outstanding during the

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year. The calculation of diluted earnings per share is made using the treasury stock method, as if all dilutive potential participating shares had been exercised at the later of the beginning of the year or the date of issuance, as the case may be, and that the funds obtained thereby be used to purchase participating shares of the company at the average market value of the participating shares during the year.

New accounting standards

In January 2005, the CICA issued four new accounting standards in relation with financial instruments: Section 3855, "Financial Instruments — Recognition and Measurement", Section 3865, "Hedges", Section 1530, "Comprehensive Income", and Section 3251, "Equity".

Section 3855 expands on Section 3860, "Financial Instruments — Disclosure and Presentation", by prescribing when a financial instrument is to be recognized on the balance sheet and at what amount. It also specifies how financial instrument gains and losses are to be presented in the financial statements.

Section 3865 provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline AcG 13, "Hedging Relationships", and the hedging guidance in Section 1650, "Foreign Currency Translation", by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

Section 1530, "Comprehensive Income", introduces a new requirement to temporarily present certain gains and losses outside net income.

Consequently, Section 3250, "Surplus" has been revised as Section 3251, "Equity".

Sections 1530, 3251, 3855 and 3865 apply to fiscal years beginning on or after October 1, 2006. The company will adopt these new standards on July 1, 2007, and has not yet determined their impact on its financial statements.

3 Cash and cash equivalents

| | 2006 \$ | 2005 \$ |
|---------------------------|---------------|---------------|
| Cash and cash equivalents | 115,182 | - |
| Exploration funds | 223,902 | 190,574 |
| | <hr/> 339,084 | <hr/> 190,574 |

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Notes to Financial Statements

June 30, 2006 and 2005

4 Other amounts receivable

| | 2006 | 2005 |
|---|-------------|-------------|
| | \$ | \$ |
| Royalties receivable | 38,542 | 22,000 |
| Commodity taxes receivable | 41,967 | 87,574 |
| Tax credit and mining rights receivable | 24,475 | 76,538 |
| Others | 24,457 | 6,696 |
| | <hr/> | <hr/> |
| | 129,441 | 192,808 |
| | <hr/> | <hr/> |

5 Long-term investment

| | Interest | 2006 | 2005 |
|---|-----------------|-------------|-------------|
| | % | \$ | \$ |
| Société Minière Orcapital Inc., equity method | | | |
| Balance – Beginning of year | | 149,234 | 118,174 |
| Share in net earnings for the year | | <hr/> | <hr/> |
| | | 4,042 | 31,060 |
| Balance – End of year | 40.98 | <hr/> | <hr/> |
| | | 153,276 | 149,234 |
| | | <hr/> | <hr/> |

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Notes to Financial Statements

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6 Mining properties

| | Undivided interest % | Balance as at July 1, 2005 \$ | Costs incurred \$ | Mining properties written off, credit on duties refundable for loss and refundable tax credit for resources \$ | Balance as at June 30, 2006 \$ |
|--|----------------------------|--|-------------------------|--|---|
| Douay (71 claims in Douay Township) | | | | | |
| Mining property | 100 | 15,932 | 960 | - | 16,892 |
| Exploration costs | | 185,857 | 661,201 | (3,259) | 843,799 |
| | | <u>201,789</u> | <u>662,161</u> | <u>(3,259)</u> | <u>860,691</u> |
| Douay Ouest (9 claims in Douay Township) | | | | | |
| Mining property | 100 | 492,043 | - | - | 492,043 |
| Exploration costs | | 849,270 | 332,574 | (1,505) | 1,180,339 |
| | | <u>1,341,313</u> | <u>332,574</u> | <u>(1,505)</u> | <u>1,672,382</u> |
| Douay Est (71 claims in Douay Township) | | | | | |
| Mining property | 100 | 1,513 | - | - | 1,513 |
| Exploration costs | | 1,210 | 109 | 88 | 1,407 |
| | | <u>2,723</u> | <u>109</u> | <u>88</u> | <u>2,920</u> |
| Domergue (49 claims in Clairiy Township) | | | | | |
| Mining property | 50 | 1,768 | 111 | - | 1,879 |
| Exploration costs | | 8,676 | 34,644 | 848 | 44,168 |
| | | <u>10,444</u> | <u>34,755</u> | <u>848</u> | <u>46,047</u> |
| Others | | | | | |
| Mining property | - | 14,600 | 41,229 | - | 55,829 |
| Exploration costs | | 54,148 | 83,037 | (964) | 136,221 |
| | | <u>68,748</u> | <u>124,266</u> | <u>(964)</u> | <u>192,050</u> |
| | | <u>1,625,017</u> | <u>1,153,865</u> | <u>(4,792)</u> | <u>2,774,090</u> |

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Notes to Financial Statements

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| | Undivided interest % | Balance as at July 1, 2004 \$ | Costs incurred \$ | Mining properties written off, credit on duties refundable for loss and refundable tax credit for resources \$ | Balance as at June 30, 2005 \$ |
|--|----------------------------|--|-------------------------|--|---|
| Douay (205 claims in Douay Township) | | | | | |
| Mining property | 100 | 2,668 | 13,264 | - | 15,932 |
| Exploration costs | | 15,193 | 230,777 | (60,113) | 185,857 |
| | | 17,861 | 244,041 | (60,113) | 201,789 |
| Douay Ouest (9 claims in Douay Township) | | | | | |
| Mining property | 100 | 492,019 | 24 | - | 492,043 |
| Exploration costs | | 2,270,873 | 289,030 | (1,710,633) | 849,270 |
| | | 2,762,892 | 289,054 | (1,710,633) | 1,341,313 |
| Douay Est (178 claims in Douay Township) | | | | | |
| Mining property | 100 | 851 | 713 | (51) | 1,513 |
| Exploration costs | | 84 | 2,045 | (919) | 1,210 |
| | | 935 | 2,758 | (970) | 2,723 |
| Domergue (49 claims in Clairiy Township) | | | | | |
| Mining property | 50 | - | 1,768 | - | 1,768 |
| Exploration costs | | - | 17,158 | (8,482) | 8,676 |
| | | - | 18,926 | (8,482) | 10,444 |
| Others | | | | | |
| Mining property | - | 6,627 | 8,589 | (616) | 14,600 |
| Exploration costs | | 2,447 | 59,858 | (8,157) | 54,148 |
| | | 9,074 | 68,447 | (8,773) | 68,748 |
| | | 2,790,762 | 623,226 | (1,788,971) | 1,625,017 |

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Notes to Financial Statements

June 30, 2006 and 2005

Change in mining properties

| | Years Ended June 30, | |
|--|----------------------|------------------|
| | 2006 \$ | 2005 \$ |
| Balance – Beginning of year | 1,625,017 | 2,790,762 |
| Expenses incurred during the year | | |
| Claims and permits | 42,300 | 24,358 |
| Geophysics | 3,955 | 13,817 |
| Geology | 93,595 | 106,689 |
| Geochemistry | - | 72 |
| Transport | 18,686 | 18,194 |
| Salaries | 284,082 | 152,509 |
| Analyses | 60,282 | 32,535 |
| Drilling | 642,958 | 270,609 |
| Accommodation | 8,007 | 4,443 |
| | 1,153,865 | 623,226 |
| Mining properties written off | - | (1,715,048) |
| Credit on duties refundable for loss and refundable tax credit for resources | (4,792) | (73,923) |
| | (4,792) | (1,788,971) |
| Balance – End of year | 2,774,090 | 1,625,017 |

7 Share capital

Authorized

Unlimited number of common shares, without par value

Issued and fully paid

| | 2006 \$ | 2005 \$ |
|--|------------|------------|
| 57,779,556 shares * (50,842,622 in 2005) | 25,262,077 | 24,188,207 |

* 425,000 shares are held in escrow and cannot be released without the consent of regulatory authorities.

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Notes to Financial Statements

June 30, 2006 and 2005

a) Variation of issued and fully paid share capital

| | 2006 | | 2005 | |
|---|------------|--------------|------------|--------------|
| | Number | Amount \$ | Number | Amount \$ |
| Balance – Beginning of year | 50,842,622 | 24,188,207 | 46,862,622 | 23,611,267 |
| Flow-through share financing agreements* | 4,265,572 | 884,313 | 2,230,000 | 537,368 |
| Private placements** | 2,188,029 | 362,227 | 1,750,000 | 242,000 |
| Acquisition of a mining property | 75,000 | 17,625 | - | - |
| Stock options exercised | 75,000 | 11,250 | - | - |
| Warrants exercised*** | 333,333 | 80,494 | - | - |
| | 57,779,556 | 25,544,116 | 50,842,622 | 24,390,635 |
| Share issue expenses for the year | - | (282,039) | - | (202,428) |
| Balance – End of year | 57,779,556 | 25,262,077 | 50,842,622 | 24,188,207 |

* Flow-through share financing agreements have been presented net of the fair value of warrants amounting to \$80,337 (\$20,132 in 2005).

** Private placements have been presented net of the fair value of warrants amounting to \$49,373 (\$108,000 in 2005).

*** The warrants exercised include their fair value of \$13,827.

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b) Variation of warrants

| | 2006 | | 2005 | |
|---|-----------|------------------------------------|-----------|------------------------------------|
| | Number | Weighted average exercise price \$ | Number | Weighted average exercise price \$ |
| Outstanding and exercisable – | | | | |
| Beginning of year | 2,457,500 | 0.28 | - | - |
| Granted * | 3,034,301 | 0.27 | 2,457,500 | 0.28 |
| Matured** | (707,500) | 0.30 | - | - |
| Exercised | (333,333) | 0.20 | - | - |
| Outstanding and exercisable – End of year | 4,450,968 | 0.29 | 2,457,500 | 0.28 |

* These warrants were granted to common shareholders under flow-through share financing agreements and private placements. They have been recorded at their fair value of \$129,710 (\$128,132 in 2005), which was determined using the Black-Scholes option valuation model.

** During fiscal 2006, 707,500 warrants matured. The fair value of warrants amounting to \$20,133 has been reflected in the contributed surplus.

The following table summarizes the maturity date of outstanding and exercisable warrants:

- 1,750,000 warrants at \$0.30 mature in November 2006;
- 1,761,000 warrants at \$0.25 mature in December 2006;
- 371,786 warrants at \$0.40 mature in October 2007;
- 568,182 warrants at \$0.30 mature in June 2008.

8 Stock option plan

The company maintains a stock option plan under which certain key employees, managers, directors, consultants and investor relations service providers may be granted stock options for shares of the company. A maximum of 4,686,262 stock options (4,686,262 in 2005) may be granted (maximum of 5% of the number of common shares outstanding in favour of key employees, managers, directors and consultants, and maximum of 2% of the number of common shares outstanding in favour of investor relations service providers).

Options granted expire after a maximum of five years following the date of grant, ten years following this date for options granted before July 1, 2003. There is no vesting period, except for 100,000 options granted to a manager during the year ended June 30, 2005, which vest after two years of service (being in September 2006).

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These options will generate aggregate stock-based compensation costs of \$12,500 over their vesting period. These costs will be amortized on a straight-line basis over their vesting period.

The following tables present the stock option activity since July 1, 2004 and summarize information about fixed stock options outstanding and exercisable as at June 30:

| | 2006 | | 2005 | |
|---------------------------------|-----------|--|-----------|--|
| | Number | Weighted average exercise price \$ | Number | Weighted average exercise price \$ |
| Outstanding – Beginning of year | 3,830,000 | 0.15 | 3,420,000 | 0.15 |
| Granted | 50,000 | 0.20 | 580,000 | 0.15 |
| Cancelled * | (50,000) | 0.15 | (170,000) | 0.15 |
| Exercised | (75,000) | 0.15 | - | - |
| | 3,755,000 | 0.15 | 3,830,000 | 0.15 |
| Outstanding – End of year | | | | |
| Exercisable – End of year | 3,655,000 | 0.15 | 3,280,000 | 0.15 |

* During fiscal 2005, of the 170,000 stock options cancelled, 10,000 stock options had a fair value of \$1,250, which has been reflected in the contributed surplus.

| Exercise prices | Options outstanding | | Options currently exercisable |
|-------------------------------|---------------------|--|-------------------------------------|
| | Number | Weighted average remaining contractual life (years) | Number |
| Ranging from \$0.15 to \$0.20 | 3,755,000 | 2.48 | 3,655,000 |

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The fair value of options granted was estimated using the Black-Scholes options pricing model with the following assumptions:

| | <u>2006</u> | <u>2005</u> |
|--------------------------------|-------------|-------------|
| Risk-free interest rate | 3.93% | 3.86% |
| Expected volatility | 108% | 125% |
| Dividend yield | Nil | Nil |
| Weighted average expected life | 5 years | 5 years |

The weighted average fair value of each option granted amounts to \$0.159 (\$0.125 in 2005).

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions, and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the stock options granted to key employees, officers and directors have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide an accurate single measure of the fair value of stock options granted to key employees, officers and directors.

The fair value of stock options granted and acquired during the year has been reflected in earnings under the item "Salaries and fringe benefits" and " Professional and maintenance fees" and in Shareholders' Equity under the item "Stock options".

9 Statement of cash flows

Items not affecting cash and cash equivalents related to financing and investing activities:

| | <u>2006</u> | <u>2005</u> |
|---|-------------|-------------|
| | \$ | \$ |
| Credit on duties refundable for loss and refundable tax credits for resources receivable related to exploration costs applied against mining properties | 4,792 | 73,923 |
| Acquisition of mining properties included in accounts payable and accrued liabilities | 21,834 | 93,755 |
| Stock options cancelled and included in contributed surplus | - | 1,250 |
| Warrants matured and included in contributed surplus | 20,133 | - |
| Warrants granted and included in share capital | 129,710 | 128,132 |
| Warrants exercised and included in share capital | 13,827 | - |
| Share issue expenses resulting from the renunciation of tax deductions included in share capital | 214,439 | 172,937 |
| Acquisition of a mining property in consideration of the issuance of shares. | 17,625 | - |

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10 Related party transactions

The company entered into the following transactions mainly with two companies owned by directors:

| | 2006 \$ | 2005 \$ |
|--------------------------|------------|------------|
| Management fees | 50,000 | 51,250 |
| Rent and office expenses | 49,930 | 59,214 |

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

11 Income taxes

The reconciliation of the income tax provision calculated using the combined federal and Quebec provincial statutory tax rate to the provision for income taxes per the financial statements is as follows:

| | 2006 \$ | 2005 \$ |
|---|------------|-------------|
| Loss before income taxes and share in the significantly-influenced company's net earnings | (321,659) | (2,128,977) |
| Combined federal and provincial tax rate of 34.52% (35.35% in 2005) | (111,000) | (753,000) |
| Expiry of operating losses carried forward | - | 100,000 |
| Expenses not deductible for income tax purposes | 18,000 | 34,000 |
| Losses related to resources taxable for income tax purposes | 17,000 | 23,000 |
| Change in valuation allowance | 111,000 | 272,000 |
| Difference between the current tax rate and the future tax rate | 13,000 | 104,000 |
| Change in future tax rates | (14,000) | - |
| Share issue expenses not affecting earnings | (23,000) | (2,000) |
| Others | (11,000) | (11,000) |
| Future income taxes | - | (233,000) |

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June 30, 2006 and 2005

Significant components of the company's future income tax liabilities and assets are as follows:

| | 2006 | 2005 |
|---|-------------|-------------|
| | \$ | \$ |
| Future income tax liabilities | | |
| Mining properties | (325,376) | (110,937) |
| Future income tax assets | | |
| Non-capital losses | 349,000 | 264,000 |
| Capital losses | 283,000 | 273,000 |
| Short-term investments | 4,000 | 7,000 |
| Property, plant and equipment and intangible assets | 13,000 | 11,000 |
| Issue expenses | 25,000 | 8,000 |
| Valuation allowance | (674,000) | (563,000) |
| | - | - |

As at June 30, 2006, non-capital losses are detailed as follows:

| Expiry date | Federal | Provincial |
|--------------------|----------------|-------------------|
| | \$ | \$ |
| 2008 | 214,000 | 196,000 |
| 2009 | 145,000 | 145,000 |
| 2010 | 117,000 | 117,000 |
| 2014 | 158,000 | 149,000 |
| 2015 | 264,000 | 238,000 |
| 2026 | 268,000 | 226,000 |
| | 1,166,000 | 1,071,000 |

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12 Loss per share

For the years ended June 30, 2006 and 2005, the diluted loss per share was the same as the basic loss per share since the dilutive effect of stock options and warrants was not included in the calculation; otherwise, the effect would have been anti-dilutive. Accordingly, the diluted loss per share for those years was calculated using the basic weighted average number of shares outstanding (53,522,665 in 2006 and 49,076,184 in 2005).

| | 2006 | 2005 |
|---|------------|------------|
| Basic weighted average number of shares outstanding | 53,522,665 | 49,076,184 |
| Stock options | 989,061 | 261,447 |
| | <hr/> | <hr/> |
| Diluted weighted average number of shares outstanding | 54,511,726 | 49,337,631 |
| | <hr/> | <hr/> |
| Items excluded from the calculation of diluted loss per share because the exercise price was greater than the average market price of the common shares | | |
| Warrants | 4,450,968 | 2,457,500 |

13 Financial instruments

Fair value

Cash and cash equivalents, amounts receivable as well as accounts payable and accrued liabilities are financial instruments whose fair value approximates their carrying value due to their short-term maturity or to current market rates.

The fair value of short-term investments, determined based on market value, amounts to \$21,072 and \$237,876 as at June 30, 2006 and 2005, respectively.

Interest rate risk

As at June 30, 2006 and 2005, the company's exposure to interest rate risk is summarized as follows:

| | |
|--|------------------------|
| Cash and cash equivalents | Variable interest rate |
| Amounts receivable | Non-interest bearing |
| Accounts payable and accrued liabilities | Non-interest bearing |

14 Comparative figures

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

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15 Subsequent event

On August 30, 2006, the company granted Inco Ltd. an option to acquire a 70% interest in the Lac-Édouard property in consideration of \$175,000 in cash and the carrying-out of exploration work totalling \$1,000,000 no later than August 30, 2010.