

KEEGAN RESOURCES INC.

(An Exploration Stage Company)

**Auditors' Report and
Consolidated Financial Statements**

Years ended March 31, 2006 and 2005

AUDITORS' REPORT

To the Shareholders of Keegan Resources Inc.
(An Exploration Stage Company)

We have audited the accompanying consolidated balance sheets of Keegan Resources Inc. (An Exploration Stage Company) as at March 31, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the years ended March 31, 2006 and 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2006 and 2005 and the results of its operations and its cash flows for the years ended March 31, 2006 and 2005 in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada
July 20, 2006

"AMISANO HANSON"
Chartered Accountants

KEEGAN RESOURCES INC.

(An Exploration Stage Company)

Consolidated Balance Sheets
March 31, 2006 and 2005

Expressed in Canadian Dollars

	2006	2005
Assets		
Current assets:		
Cash	\$ 838,809	\$ 674,917
Goods and services taxes recoverable	25,089	29,727
Prepaid expenses and deposits	21,837	8,500
	885,735	713,144
Furniture, equipment and leasehold improvements (note 3)	37,430	45,950
Resource properties (notes 4, 6 and 9)	1,449,047	529,236
	\$ 2,372,212	\$ 1,288,330

Liabilities

Current liabilities:		
Accounts payable and accrued liabilities (note 6)	\$ 260,509	\$ 48,913

Shareholders' Equity

Share capital (note 5)	4,981,915	1,674,328
Contributed surplus (note 5)	867,367	313,649
Deficit	(3,737,579)	(748,560)
	2,111,703	1,239,417
	\$ 2,372,212	\$ 1,288,330

Nature and continuance of operations (note 1)
Commitments (notes 4 and 7)
Subsequent events (notes 4 and 9)

Approved by the Directors:

"Dan McCoy"

Director

"Tony Ricci"

Director

KEEGAN RESOURCES INC.

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Consolidated Statements of Operations and Deficit
Years ended March 31, 2006 and 2005

Expressed in Canadian Dollars

	2006	2005
Expenses:		
Amortization	\$ 10,336	\$ 5,710
Bank charges and interest	2,894	674
Consulting fees, wages and benefits (note 6)	372,304	111,060
Office, rent and administration	99,718	79,293
Professional fees (note 6)	119,794	104,601
Regulatory	34,001	19,389
Stock based compensation (note 5)	557,202	194,961
Transfer agent and shareholder information	109,440	41,186
Travel, promotion and investor relations	492,366	44,263
	1,798,055	601,137
Other expenses (income):		
Interest	(10,779)	(3,721)
Foreign exchange	3,625	31,956
Write-off of interest in resource properties	1,198,118	—
	1,190,964	28,235
Net loss for the year	2,989,019	629,372
Deficit, beginning of year	748,560	119,188
Deficit, end of year	\$ 3,737,579	\$ 748,560
Loss per share – basic and diluted	\$ 0.31	\$ 0.09
Weighted average number of shares outstanding	9,601,522	6,648,223

KEEGAN RESOURCES INC.

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Consolidated Statements of Cash Flows
Years ended March 31, 2006 and 2005

Expressed in Canadian Dollars

	2006	2005
Cash provided by (used in):		
Operations:		
Net loss for the year	\$ (2,989,019)	\$ (629,372)
Items not involving cash:		
Amortization	10,336	5,710
Stock based compensation	557,202	194,961
Write-off of interest in resource properties	1,198,118	-
Changes in non-cash working capital:		
Goods and services taxes recoverable	4,638	(26,643)
Prepaid expenses and deposits	(13,337)	19,180
Accounts payable and accrued liabilities	211,596	8,157
	<u>(1,020,466)</u>	<u>(428,007)</u>
Investing:		
Purchase of furniture, equipment and leasehold improvements	(1,816)	(51,660)
Acquisition of interest in resource properties	(180,471)	(202,595)
Deferred exploration	(1,718,723)	(31,155)
	<u>(1,901,010)</u>	<u>(285,410)</u>
Financing:		
Shares issued for cash, net of share issue costs	3,085,368	964,675
Increase in cash and cash equivalents	163,892	251,258
Cash, beginning of year	674,917	423,659
Cash, end of year	<u>\$ 838,809</u>	<u>\$ 674,917</u>
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	\$ -	\$ -
Income taxes	\$ -	\$ -

Non-cash transactions (note 10)

KEEGAN RESOURCES INC.

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Consolidated Statements of Resource Property Costs
Year ended March 31, 2006

Expressed in Canadian Dollars

	United States				Ghana	Total
	Horse Mountain	Fri	Regent	Black Velvet	Asumura	
Balance, March 31, 2005	\$ 430,066	\$ -	\$ 55,553	\$ -	\$ 43,617	\$ 529,236
Acquisition costs						
Cash	109,029	25,246	43,316	2,880	-	180,471
Shares	-	21,250	162,506	15,400	19,580	218,736
	<u>109,029</u>	<u>46,496</u>	<u>205,822</u>	<u>18,280</u>	<u>19,580</u>	<u>399,207</u>
Deferred exploration costs						
Assays	3,925	9,184	2,818	-	129,441	145,368
Consulting	3,350	1,266	4,650	-	16,647	25,913
Drilling	374,160	59,818	198,867	-	176,340	809,185
Equipment rental	-	-	-	-	82,831	82,831
Field supplies	-	5,741	-	-	47,273	53,014
Geological fees and expenses	47,715	24,852	49,786	-	54,644	176,997
Miscellaneous	-	-	-	-	7,583	7,583
Property maintenance	50,342	32,174	68,493	-	24,563	175,572
Telephone	-	-	-	-	5,068	5,068
Travel and accomodation	-	-	-	-	48,288	48,288
Wages and salaries	-	-	-	-	188,903	188,903
	<u>479,492</u>	<u>133,035</u>	<u>324,614</u>	<u>-</u>	<u>781,581</u>	<u>1,718,722</u>
Less: write-off of resource property costs	<u>(1,018,587)</u>	<u>(179,531)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,198,118)</u>
Balance, March 31, 2006	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 585,989</u>	<u>\$ 18,280</u>	<u>\$ 844,778</u>	<u>\$1,449,047</u>

KEEGAN RESOURCES INC.

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Consolidated Statements of Resource Property Costs
Year ended March 31, 2005

Expressed in Canadian Dollars

	<u>United States</u>		<u>Ghana</u>	<u>Total</u>
	<u>Horse Mountain</u>	<u>Regent</u>	<u>Asumura</u>	
Balance, March 31, 2004	\$ -	\$ -	\$ -	\$ -
Acquisition costs				
Cash	142,430	55,553	12,462	210,445
Shares	<u>287,636</u>	<u>-</u>	<u>-</u>	<u>287,636</u>
	<u>430,066</u>	<u>-</u>	<u>12,462</u>	<u>498,081</u>
Deferred exploration costs				
Assays	-	-	1,309	1,309
Consulting	-	-	512	512
Equipment rental	-	-	2,991	2,991
Exploration advance	-	-	6,037	6,037
Field supplies	-	-	2,856	2,856
Geological fees and expenses	-	-	597	597
Property maintenance	-	-	205	205
Telephone	-	-	402	402
Travel and accomodation	-	-	3,691	3,691
Wages and salaries	<u>-</u>	<u>-</u>	<u>12,555</u>	<u>12,555</u>
	<u>-</u>	<u>-</u>	<u>31,155</u>	<u>31,155</u>
Balance, March 31, 2005	<u>\$ 430,066</u>	<u>\$ 55,553</u>	<u>\$ 43,617</u>	<u>\$ 529,236</u>

KEEGAN RESOURCES INC.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements, page 1
Years ended March 31, 2006 and 2005

Expressed in Canadian Dollars

1. Nature and continuance of operations

The Company was incorporated on September 23, 1999 under the laws of British Columbia. The Company was a capital pool company as defined in the TSX Venture Exchange (the "Exchange") Policy 2.4.

During the year ended March 31, 2004, the common shares of the Company commenced trading on the NEX. NEX is a separate board of the Exchange for companies which were previously listed on the Exchange which have failed to maintain compliance with the ongoing financial listing standards of the Exchange. NEX was created so publicly listed shell companies may still continue to trade their securities while they seek and undertake transactions to complete their reactivation.

During the year ended March 31, 2006, the Company completed its Qualifying Transaction through the acquisition of interests in resource properties (see note 4). As a result, the Company is no longer considered a capital pool company. The Company's listing has been transferred from NEX to TSX Venture under a Tier 2 issuer classification. In conjunction with the completion of the Qualifying Transaction, the Company changed its name from Quicksilver Ventures Inc. to Keegan Resources Inc.

The Company is in the exploration stage and its principal business activity is the sourcing and exploration of mineral properties. The Company has interest in mineral properties located in the United States and the Republic of Ghana.

The recoverability of amounts shown for resource properties and related deferred exploration costs is dependent upon the discovery of economically recoverable reserves, continuation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete their development and upon future profitable production or proceeds from the disposition thereof.

These financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Realization values may be substantially different from carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. At March 31, 2006, the Company had working capital of \$625,226 which may be insufficient to sustain operations over the next twelve months, had not yet achieved profitable operations and expects to incur further losses in the development of its business, all of which casts substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to generate future profitable operations and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due.

KEEGAN RESOURCES INC.

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Notes to Consolidated Financial Statements, page 2
Years ended March 31, 2006 and 2005

Expressed in Canadian Dollars

2. Significant accounting policies

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared using careful judgment within the framework of the significant accounting policies summarized below.

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned inactive subsidiary, Quicksilver Ventures (Nevada), Inc.. All significant intercompany amounts and transactions have been eliminated on consolidation.

(b) Financial instruments

The carrying amounts of cash and accounts payable and accrued liabilities approximate their fair value due to the short-term maturity of these instruments. 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.

(c) Furniture, equipment and leasehold improvements

Furniture, equipment and leasehold improvements are carried at cost less accumulated amortization. Amortization is determined at rates which will reduce original cost to estimated residual value over the useful life of each asset. The annual rates used to compute amortization are as follows:

Asset	Basis	Rate
Furniture and equipment	declining balance	20%
Computers	declining balance	30%
Leasehold improvements	straight-line	term of lease

Amortization is recorded at half the annual rate in the year of acquisition.

KEEGAN RESOURCES INC.

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Notes to Consolidated Financial Statements, page 3
Years ended March 31, 2006 and 2005

Expressed in Canadian Dollars

2. Significant accounting policies (continued)

(d) Resource properties and deferred exploration costs

The Company accounts for resource property costs in accordance with the Canadian Institute of Chartered Accountants Handbook Section 3061, "Property, plant and equipment" ("CICA 3061"), and abstract EIC-126, "Accounting by Mining Enterprises for Exploration Costs" ("EIC-126") of the Emerging Issues Committee. CICA 3061 provides for the capitalization of the acquisition and exploration costs of a resource property where such costs are considered to have the characteristics of property, plant and equipment. EIC-126 provides that a mining enterprise is not precluded from considering exploration costs to have the characteristics of property, plant and equipment when it has not established resource reserves objectively and therefore does not have a basis for preparing a projection of the estimated future net cash flow from the property.

Resource property costs include initial acquisition costs and related option payments, which are recorded when paid. Exploration and development costs are capitalized until properties are brought into production, when costs are amortized on a unit-of-production basis over economically recoverable reserves. Option payments are credited against resource property costs when received. No gain or loss on disposition of a partial interest is recorded until all carrying costs of the interest have been offset by proceeds of sale or option payments received. No gain or loss on disposition of a partial interest is recorded until all carrying costs of the interest have been offset by proceeds of sale or option payments received.

CICA 3061 also provides that property, plant and equipment be written down when the long-term expectation is that the net carrying amount will not be recovered. EIC-126 states that a mining enterprise which has not objectively established resource reserves and therefore does not have a basis for preparing a projection of the estimated future cash flow from a property is not obliged to conclude that the capitalized costs have been impaired. However, EIC-126 references certain conditions that should be considered in determining subsequent write-downs, such as changes or abandonment of a work program or poor exploration results, and management reviews such conditions to determine whether a write-down of capitalized costs is required. When the carrying value of a property exceeds its net recoverable amount, provision is made for the impairment in value.

Accounting standards subsequently issued by the CICA dealing with Intangible Assets (CICA 1581 and CICA 3062) include reference to "Use rights such as drilling, water, air, mineral, timber cutting, and route authorities" as examples of intangible assets. CICA 3062 also states, inter alia, that intangible assets should be amortized over their useful life and tested for impairment. Management has reviewed this potential reporting conflict with the previously issued standards and is of the opinion that it is appropriately accounting for its resource properties as having the characteristics of property, plant and equipment.

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Notes to Consolidated Financial Statements, page 4
Years ended March 31, 2006 and 2005

Expressed in Canadian Dollars

2. Significant accounting policies (continued)

(e) Asset retirement obligations

Effective April 1, 2004, the Company adopted the CICA Handbook Section 3110, "Asset Retirement Obligations" ("HB 3110"). HB 3110 requires that the fair value of a liability for an asset retirement obligation, such as site reclamation costs, be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The Company is required to record the estimated present value of future cash flows associated with site reclamation as a liability when the liability is incurred and increase the carrying value of the related assets for that amount. The obligations recognized are statutory, contractual or legal obligations. The liability is accreted over time for changes in the fair value of the liability through charges to accretion, which is included in depletion, amortization and accretion expense. The costs capitalized to the related assets are amortized in a manner consistent with the depletion and amortization of the related asset.

As of March 31, 2006, the Company has determined that it does not have material obligations for asset retirement obligations. Accordingly, adoption of HB 3110 had no impact on the consolidated financial statements.

(f) Foreign currency translation

Foreign denominated monetary assets and liabilities are translated to their Canadian dollar equivalents using foreign exchange rates which prevailed at the balance sheet date. Non-monetary items are translated at exchange rates prevailing when the assets were acquired or the obligations incurred. Foreign currency denominated revenue and expense items are translated at exchange rates prevailing at the transaction date. Exchange gains or losses arising on foreign currency translation are included in the determination of operating results for the year.

(g) Earnings (loss) per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year.

Basic earnings (loss) per share is calculated using the weighted-average number of shares outstanding during the year. For the years ended March 31, 2006 and 2005, the inclusion of the Company's stock options and warrants in the computation of diluted loss per share would have an anti-dilutive effect on loss per share and therefore are excluded from the computation.

KEEGAN RESOURCES INC.

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Notes to Consolidated Financial Statements, page 5
Years ended March 31, 2006 and 2005

Expressed in Canadian Dollars

2. Significant accounting policies (continued)

(h) Stock-based compensation

The Company accounts for the granting of share purchase options to employees and non-employees using the fair value method whereby all awards to employees and non-employees will be recorded at fair value on the date of the grant. The fair value of all share purchase options are expensed over their vesting period with a corresponding increase to contributed surplus. Upon exercise of share purchase options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

The Company uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate and, therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's share purchase options.

(i) Income taxes

The Company accounts for income taxes by the asset and liability method. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized in the current year for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized.

3. Furniture, equipment and leasehold improvements

2006	Cost	Accumulated amortization	Net book value
Furniture and equipment	\$ 32,761	\$ 9,039	\$ 23,722
Computers	14,145	5,456	8,689
Leasehold improvements	6,570	1,551	5,019
	\$ 53,476	\$ 16,046	\$ 37,430

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Notes to Consolidated Financial Statements, page 6
Years ended March 31, 2006 and 2005

Expressed in Canadian Dollars

3. Furniture, equipment and leasehold improvements (continued)

2005	Cost	Accumulated amortization	Net book Value
Furniture and equipment	\$ 32,014	\$ 3,201	\$ 28,813
Computers	13,076	1,961	11,115
Leasehold improvements	6,570	548	6,022
	\$ 51,660	\$ 5,710	\$ 45,950

4. Resource properties

Title to resource properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequent ambiguous conveyancing history characteristic of many resource properties. The Company has investigated title to all of its resource properties and, to the best of its knowledge, title to all of its properties are in good standing. However, this should not be construed as a guarantee to title. The concessions may be subject to prior claims, agreements or transfer and rights of ownership may be affected by undetected defects.

(a) Horse Mountain Claims

During the year ended March 31, 2005, the Company entered into agreements with Hunter Dickinson Group Inc. ("HDG"), Anaconda Gold (USA) Inc. ("Anaconda") and Barrick Gold Exploration Inc. ("Barrick"), whereby it has acquired the right to earn an interest in the Horse Mountain Project in Nevada. The transactions with Anaconda and Barrick (collectively the "Acquisition") served as the Company's Qualifying Transaction for the purposes of the policies of the Exchange.

Pursuant to an assignment agreement entered into on August 5, 2004 between the Company and HDG (the "Anaconda Agreement"), the Company was assigned HDG's interest in a letter agreement dated August 7, 2003 between HDG and Anaconda as amended by letter agreement dated July 28, 2004 among HDG, Anaconda and the underlying owners to acquire an interest in 223 mining claims situated in Elko County, Nevada (the "Anaconda Horse Mountain Claims") that form part of the Horse Mountain Project. Pursuant to the terms of an option agreement entered into on August 16, 2004 between the Company and Barrick (the "Barrick Agreement"), the Company may earn an interest in 35 mining claims and a mining lease situated in Elko County, Nevada (the "Barrick Horse Mountain Claims") that form the balance of the Horse Mountain Project.

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Notes to Consolidated Financial Statements, page 7
Years ended March 31, 2006 and 2005

Expressed in Canadian Dollars

4. Resource properties (continued)

(a) Horse Mountain Claims (continued)

Under the terms of the Anaconda Agreement, the Company was assigned the right and option to earn a 55% interest in the Anaconda Horse Mountain Claims as follows:

- i) by making cumulative exploration expenditures of US\$1,500,000 by August 31, 2010 as follows:
 - Year 1 – US\$150,000 (incurred)
 - Year 2 – US\$225,000 (incurred)
 - Year 3 – US\$300,000
 - Year 4 – US\$300,000
 - Year 5 – US\$300,000
 - Year 6 – US\$225,000

- ii) by making US\$385,000 in option payments to Anaconda:
 - Year 2004 – US\$ 80,000 (paid)
 - Year 2005 – US\$ 90,000 (paid)
 - Year 2006 – US\$115,000 (of which \$57,500 is payable in shares)
 - Year 2007 – US\$100,000 (of which \$50,000 is payable in shares)

- iii) by issuing to Anaconda 100,000 common shares (issued during the year ended March 31, 2005) of the Company as reimbursement for the payment by Anaconda of US\$68,376 for past Bureau of Land Management (“BLM”) fees and past option payments to the underlying vendors; and

- iv) by providing HDG with consideration for assigning its rights to the Anaconda Horse Mountain Claims as follows:
 - a) issuing to HDG 141,159 common shares of the Company for reimbursement of \$119,986 of out of pocket costs incurred by HDG (issued during the year ended March 31, 2005);
 - b) issuing to HDG a further 75,000 common shares (issued during the year ended March 31, 2005); and
 - c) reimbursing HDG for US\$23,376.50 for 2004 BLM payments made by HDG on the Anaconda Horse Mountain Claims and US\$5,925 for holding costs on the Barrick Horse Mountain Claims (paid during the year ended March 31, 2005).

Pursuant to a letter agreement dated July 21, 2004 between the Company and Anaconda, the Company issued to Anaconda 25,000 common shares for the one time right to opt out of the area of influence (AOI) clause applicable pursuant to the terms of the Anaconda Agreement. The Company also agreed to issue an additional 100,000 common shares to Anaconda for the permanent right to opt out of the AOI clause if and when the Company earns its 70% interest in the Barrick Horse Mountain Claims.

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Years ended March 31, 2006 and 2005

Expressed in Canadian Dollars

4. Resource properties (continued)

(a) Horse Mountain Claims (continued)

Under the terms of the Barrick Agreement, the Company can earn a 70% interest in the Barrick Horse Mountain Claims by making exploration expenditures of US\$1,500,000 over four years as follows:

Year 1 – US\$200,000
Year 2 – US\$300,000
Year 3 – US\$400,000
Year 4 – US\$600,000

During the year ended March 31, 2006, the Company decided not to pursue its option agreement on the Horse Mountain claims and as a result, \$1,018,587 in acquisition and deferred exploration expenditures were written-off.

(b) Regent Gold Silver Project

Pursuant to an agreement dated March 4, 2005, between the Company and Jerry Baughman and Fabiola Baughman ("Optionors"), the Company may acquire 100% of the Regent Gold Silver Project ("Regent property") located in Mineral County, Nevada, on the following terms:

i) pay US\$305,000 as follows:

- US\$45,000 upon signing the agreement (paid);
- US\$35,000 on June 15, 2005 (paid);
- US\$45,000 on June 15, 2006 (paid subsequent to March 31, 2006);
- US\$50,000 on June 15, 2007;
- US\$55,000 on June 15, 2008; and
- US\$75,000 on June 15, 2009

ii) issue a total of 500,000 common shares of the Company to the Optionors as follows:

- 100,000 common shares upon obtaining regulatory approval (issued);
- 50,000 common shares on June 15, 2005 (issued);
- 50,000 common shares on June 15, 2006 (issued subsequent to March 31, 2006);
- 50,000 common shares on June 15, 2007;
- 75,000 common shares on June 15, 2008; and
- 175,000 common shares on June 15, 2009.

iii) complete US\$3,000,000 of exploration work on the Regent property as follows:

- US\$250,000 prior to March 4, 2006 (incurred);
- US\$300,000 prior to March 4, 2007;
- US\$400,000 prior to March 4, 2008;
- US\$500,000 prior to March 4, 2009;
- US\$500,000 prior to March 4, 2010; and
- US\$1,050,000 prior to March 4, 2011.

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Notes to Consolidated Financial Statements, page 9
Years ended March 31, 2006 and 2005

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4. Resource properties (continued)

(a) Regent Gold Silver Project (continued)

After meeting the above commitments, the Company will have an undivided 100% interest in the property subject to a 2.5% NSR royalty, 60% of which may be purchased for US\$3,000,000. 35,890 shares were issued to HDG as finder's fees with respect to the Regent property.

(c) Asumura Gold Project

The Company entered into an option agreement with GTE Ventures Limited ("GTE") dated February 18, 2005 whereby the Company may acquire 100% of the Asumura Reconnaissance Concession ("Asumura property") located in the Republic of Ghana, West Africa, under the following terms:

i) pay US\$100,000 to GTE as follows:

- US\$10,000 upon signing the agreement (paid);
- US\$30,000 on or before October 8, 2006; and
- US\$60,000 on or before October 8, 2007.

ii) issue common shares of the Company with a value of US\$100,000 to GTE as follows:

- common shares with a value of US\$10,000 upon regulatory approval (issued 13,899 shares);
- common shares with a value of US\$30,000 based on the 10 day average closing price prior to issuance on or before October 8, 2006; and
- common shares with a value of US\$60,000 based on the 10 day average closing price prior to issuance on or before October 8, 2007.

iii) complete US\$1,000,000 of exploration work on the Asumura property as follows:

- US\$80,000 on or before July 31, 2005, (incurred);
- an additional US\$400,000 on or before July 31, 2006 (incurred); and
- an additional US\$520,000 on or before July 31, 2007.

After meeting the above commitments, the Company will have an undivided 100% interest in the Asumura property subject to a 3.5% net smelter return, 50% of which may be purchased for US\$2,000,000. 11,270 shares were issued to HDG as finder's fees with respect to the Asumura property.

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Notes to Consolidated Financial Statements, page 10
Years ended March 31, 2006 and 2005

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4. Resource properties (continued)

(d) Fri Property

The Company entered into an option agreement dated May 31, 2005 with Gerald Baughman and Fabiola Baughman (the "Optionors") pursuant to which the Company has the option to acquire 100% interest in the Fri gold project located in Nye County, Nevada, under the following terms:

i) pay US\$285,000 as follows:

- US\$20,000 upon signing the agreement (paid);
- US\$40,000 on May 31, 2006;
- US\$45,000 on May 31, 2007;
- US\$50,000 on May 31, 2008;
- US\$55,000 on May 31, 2009; and
- US\$75,000 on May 31, 2010

ii) issue a total of 500,000 common shares of the Company to the Optionors as follows:

- 25,000 common shares upon obtaining regulatory approval (issued);
- 100,000 common shares on May 31, 2006;
- 45,000 common shares on May 31, 2007;
- 75,000 common shares on May 31, 2008;
- 75,000 common shares on May 31, 2009; and
- 180,000 common shares on May 31, 2010.

iii) complete US\$3,000,000 of exploration work on the Fri property as follows:

- US\$70,000 prior to May 31, 2006;
- US\$230,000 prior to May 31, 2007;
- US\$300,000 prior to May 31, 2008;
- US\$400,000 prior to May 31, 2009;
- US\$1,000,000 prior to May 31, 2010; and
- US\$1,000,000 prior to May 31, 2011.

After meeting these commitments, the Company will have an undivided 100% interest in the Fri property subject to a 2.5% net smelter return royalty payable to GTE, 60% of which (net purchase of 1.5%) may be purchased back by the Company for US\$3,000,000.

During the year ended March 31, 2006, the Company decided not to pursue its option agreement on the Fri property and as a result, \$179,531 in acquisition and deferred exploration expenditures were written-off.

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4. Resource properties (continued)

(e) Black Velvet Gold Project

The Company entered into an option agreement dated December 7, 2005 with Gerald Baughman and Fabiola Baughman (the "Optionors") whereby the Company may acquire 100% interest in the Black Velvet Gold Project in Pershing County, Nevada.

Under the terms of the agreement, the Company has the option to deliver cash payments of US\$150,000 and 150,000 shares of the Company to the Optionors over a period of four years as follows:

- i) cash payment of US\$2,500 upon execution of the agreement (paid);
US\$27,500 on December 1, 2006;
US\$30,000 on May 31, 2007;
US\$40,000 on May 31, 2008; and
US\$50,000 on May 31, 2009.
- ii) issuance of 10,000 common shares upon Exchange approval (issued);
20,000 common shares on July 31, 2006;
30,000 common shares on May 31, 2007;
40,000 common shares on May 1, 2008; and
50,000 common shares on May 31, 2009.

5. Share capital

(a) Authorized

100,000,000 common shares without par value; and
100,000,000 preferred shares without par value.

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5. Share capital (continued)

(b) Issued and outstanding common shares

	Number of shares	Amount
Balance, March 31, 2004	3,465,000	\$ 432,855
Issued on acquisition of mineral properties		
- at \$0.85	216,159	183,736
- at \$0.90	100,000	90,000
- at \$0.87	25,000	21,750
Issued for cash:		
Pursuant to a private placement		
- at \$0.10	3,200,000	320,000
- at \$0.75	870,500	652,875
Finders' fee	33,900	33,900
Pursuant to the exercise of options		
- at \$0.15	100,000	15,000
Share issuance costs	-	(75,788)
Balance, March 31, 2005	8,010,559	1,674,328
Issued on acquisition of mineral properties		
- at \$0.85	72,160	61,336
- at \$0.88	150,000	132,000
- at \$0.72	13,899	10,000
- at \$1.54	10,000	15,400
Issued for cash:		
Pursuant to a private placement		
- at \$0.80	3,000,000	2,400,000
Pursuant to the exercise of warrants		
- at \$0.85	265,300	225,505
- at \$1.00	520,000	520,000
Pursuant to the exercise of options		
- at \$0.92	122,500	112,700
Share issuance costs	-	(240,223)
Transferred from contributed surplus for the exercise of options	-	70,869
Balance, March 31, 2006	12,164,418	\$ 4,981,915

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5. Share capital (continued)

(c) Shares held in escrow

As at March 31, 2006, 90,000 (2005 – 135,000) common shares of the Company were the subject of an escrow agreement under which the shares may not be transferred, assigned or otherwise dealt with without the consent of the relevant regulatory body having jurisdiction thereon.

(d) Stock options

The Company maintains a fixed stock option plan that enables it to grant from time to time options to its directors, officers, employees and other service providers. During the year ended March 31, 2006, the Company amended its stock option plan increasing the number of shares reserved for issuance under the plan to 1,646,543. The options vest as to 25% on the date of the grant and 12 ½ % every three months thereafter for a total vesting period of 18 months.

As summary of the status of the Company's stock option plan for the years ended March 31, 2006 and 2005 is presented below:

	Number of shares	Weighted average Exercise price
Balance, March 31, 2004	100,000	\$ 0.15
Granted	1,348,000	\$ 0.92
Exercised	(100,000)	\$ 0.15
Balance, March 31, 2005	1,348,000	\$ 0.92
Granted	280,000	\$ 1.44
Exercised	(122,500)	\$ 0.92
Cancelled	(80,500)	\$ 0.92
Balance, March 31, 2006	1,425,000	\$ 1.02

The following table summarizes the stock options outstanding and exercisable at March 31, 2006:

Exercise price	Number outstanding at March 31, 2006	Expiry date	Number exercisable at March 31, 2006
\$0.92	1,145,000	February 3, 2010	1,011,000
\$1.16	220,000	November 22, 2010	82,500
\$2.48	60,000	February 2, 2011	15,000
	1,425,000		1,108,500

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5. Share capital (continued)

(d) Stock options (continued)

During the year, under the fair-value-based method, \$557,202 (2005 – \$194,961) in stock-based compensation expense was recorded in the statements of operations and deficit for stock options granted to directors and consultants of the Company.

The fair value of share options used to calculate compensation expense has been estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2006	2005
Risk free interest rate	3.78-3.92%	3%
Expected dividend yield	0%	0%
Stock price volatility	107.20 – 108.85%	124%
Expected life of options	3 years	2 years

The weighted average fair value of options granted during the year ended March 31, 2006 is \$0.97 (2005 – \$0.58) per share.

(e) Warrants

The following warrants were outstanding at March 31, 2006. Each warrant entitles the holder to purchase one common share of the Company as follows:

Number of Shares	Exercise Price	Expiry Date
639,100	\$0.85	January 31, 2007
2,584,000 ⁽¹⁾	\$1.00	October 13, 2007

⁽¹⁾ These warrants are subject to an acceleration clause whereby if the shares of the Company trade above \$2 for a period of 10 consecutive trading days, the Company will have the option to require the earlier exercise of the warrants within 30 days of formal notice from the Company.

(f) Contributed surplus

	2006	2005
Balance, beginning of year	\$ 313,649	\$ 100,000
Stock-based compensation	557,202	194,961
Brokers' warrants issued	67,385	18,688
Transferred to share capital for the exercise of options	(70,869)	-
Balance, end of year	\$ 867,367	\$ 313,649

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6. Related party transactions

Included in professional fees is \$39,443 (2005 – \$71,159) paid or accrued for legal fees to a company controlled by a director and officer of the Company and \$35,895 (2005 – \$nil) for accounting fees to a company controlled by a director and officer of the Company.

Included in consulting fees, wages and benefits is \$17,005 (2005: \$Nil) paid or accrued for consulting fees paid to an officer of the Company.

The Company has entered into a consulting agreement with a director and officer of the Company in the amount of US\$6,667 per month plus benefits. During the year ended March 31, 2006, the Company paid consulting fees and benefits of \$112,307 (2005 – \$45,118) under this agreement.

The Company has entered into a consulting agreement with a former officer of the Company in the amount of CAD\$3,333 per month. During the year ended March 31, 2006, the Company paid consulting fees of \$15,000 (2005 – \$5,833) under this agreement.

During the year ended March 31, 2006, the Company paid or accrued \$11,625 (2005 - \$nil) for deferred exploration costs to a director of the Company.

These charges were measure by the exchange amount, which is the amount agreed upon by the transacting parties.

Included in accounts payable and accrued liabilities is \$32,424 (2005 - \$23,183) owing to a director of the Company and a company controlled by a director and officer of the Company.

During the year ended March 31, 2006, the Company issued 60,000 common shares (2005 – nil) to a director and officer of the Company pursuant to the exercise of options at \$0.92 per share for total proceeds of \$55,200.

7. Commitments

The Company is committed to payments regarding agreements to lease its Vancouver office premises as follows:

2007	\$	47,823
2008		51,250
2009		51,548
2010		12,887
	\$	<u>163,508</u>

The Company is also committed to carry out the expenditures described in note 4.

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8. Income taxes

The Company has accumulated foreign resource deductions totalling \$913,272 and non-capital losses totalling \$1,769,433 for income tax purposes, which may be carried forward to reduce taxable income of future years. Management has determined that sufficient likelihood of realization of the future potential benefits arising from the above losses has not been established. Accordingly, a 100% valuation allowance has been provided. The non-capital losses expire as follows:

2008	\$	9,686
2009		21,552
2010		31,355
2014		54,776
2015		428,701
2016		1,223,363
	\$	<u>1,769,433</u>

The significant components of the Company's future income tax assets are as follows:

	<u>2006</u>	<u>2005</u>
Non-capital losses	\$ 610,454	\$ 194,506
Foreign development and exploration expenditures	<u>913,272</u>	<u>188,514</u>
	1,523,726	383,020
Less: valuation allowance	<u>(1,523,726)</u>	<u>(383,020)</u>
	\$ -	\$ -

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9. Subsequent events

The following events occurred subsequent to March 31, 2006:

- (a) The Company entered into an option agreement dated May 3, 2006 with Sammetro Co. Ltd. ("Sammetro") to purchase a 100% interest in the Esaase gold property in southwest Ghana, subject to the underlying 10% interest and NSR of the Ghanaian government in all mining projects in Ghana, subject to the following terms:
- i) payment of \$100,000 to the bank from which Sammetro borrowed funds by May 17, 2006 (paid subsequent to March 31, 2006);
 - ii) payment of \$100,000 to Sammetro by June 30, 2006, which payment Sammetro will deliver to the Esaase Liquidation Committee (the "Committee") (paid subsequent to March 31, 2006);
 - iii) payment of \$40,000 to Sammetro on the first anniversary;
 - iv) payment of \$300,000 to the Committee over a four year period;
 - v) issuance of 780,000 shares of the Company to Sammetro over a four year period;
 - vi) exploration expenditures of \$2,250,000 over a four year period;
 - vii) payment to Sammetro of \$50,000 on the fourth anniversary and every anniversary thereafter until production; and
 - viii) on production, payments of \$200,000 to the Committee and \$100,000 to Sammetro.

The Company entered into a finders' fee agreement with respect to this acquisition whereby the Company will pay a finders' fees equal to 10% of the consideration paid to Sammetro, including the amount in i).

- (b) 50,000 warrants were exercised at a price of \$0.85 per share and 1,445,000 warrants were exercised at \$1.00 per share for an aggregate of 1,495,000 common shares issued for gross proceeds of \$1,487,500.

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10. Non-cash transactions

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the statements of cash flows. During the year ended March 31, 2006, the following transactions were excluded from the statements of cash flows:

- the Company issued 72,160 common shares at \$0.85 per share, 150,000 common shares at \$1.00 per share, 13,899 common shares at \$0.72 per share and 10,000 common shares at \$1.54 per share pursuant to mineral property option agreements;
- the Company issued 104,000 brokers' warrants pursuant to a private placement;

During the year ended March 31, 2005, the following transactions were excluded from the statements of cash flows:

- the Company issued 100,000 common shares at \$0.90 per share pursuant to an agreement to issue shares in lieu of required payments on a mineral property option agreement;
- the Company issued 25,000 common shares at \$0.87 per share pursuant to an agreement with a mineral property optionor;
- the Company issued 141,159 common shares at \$0.85 per share pursuant to an agreement to reimburse a mineral property optionor for expenses incurred;
- the Company issued 75,000 common shares at \$0.85 per share pursuant to a mineral property option agreement.

11. Segmented information

Geographic Information

The Company operates in one reportable operating segment, being the exploration of resource properties.

	<u>Canada</u>	<u>USA</u>	<u>Ghana</u>	<u>Total</u>
March 31, 2006				
Current assets	\$ 885,735	\$ -	\$ -	\$ 885,735
Furniture, equipment and leasehold improvements	37,430	-	-	37,430
Resource properties	-	604,269	844,778	1,449,047
	<u>\$ 923,165</u>	<u>\$ 604,269</u>	<u>\$ 844,778</u>	<u>\$ 2,372,212</u>

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11. Segmented information (continued)

Geographic Information (continued)

	<u>Canada</u>	<u>USA</u>	<u>Ghana</u>	<u>Total</u>
March 31, 2005				
Current assets	\$ 713,144	\$ -	\$ -	\$ 713,144
Furniture, equipment and leasehold improvements	45,950	-	-	45,950
Resource properties	-	485,619	43,617	529,236
	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 759,094	\$ 485,619	\$ 43,617	\$ 1,288,330
