

**TERYL RESOURCES CORP.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**AS AT AUGUST 31, 2006**

(Stated in Canadian Dollars)

## **TERYL RESOURCES CORP.**

### **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**TERYL RESOURCES CORP.**  
**CONSOLIDATED BALANCE SHEET**  
**AS AT AUGUST 31, 2006**

**ASSETS**

	Aug. 31. 2006 Unaudited \$	Aug. 31. 2005 Unaudited \$	Mar 31. 2006 Audited \$
Current Assets:			
Cash	21,377	226,942	209,636
Amounts receivable	96,888	49,963	95,869
Prepaid expenses	6,977	31,895	8,067
Advances to related companies (Note 3)	<u>9,680</u>	<u>31,895</u>	<u>6,840</u>
	134,922	308,800	320,412
Investments (Note 4)	4,026	4,026	4,026
Equipment (Note 5)	15,051	21,474	16,043
Gas Wells (Note 6)	207,506	-	103,045
Mineral Property Interests (Note 7)	197,422	203,519	190,236
Deferred Expenditures:			
Exploration and development (Note 7)	<u>2,870,505</u>	<u>2,777,570</u>	<u>2,867,841</u>
	<b><u>3,429,432</u></b>	<b><u>3,315,389</u></b>	<b><u>3,501,603</u></b>

**LIABILITIES AND CAPITAL LESS DEFICIT**

Current Liabilities:			
Accounts payable and accrued liabilities	11,000	28,724	21,718
Income taxes payable	605	651	604
Debenture payable (Note 9)	-	150,000	-
Advances from related parties (Note 10)	<u>90,803</u>	<u>70,971</u>	<u>83,255</u>
	102,408	250,346	105,577
Share Capital - Issued (Note 12)	10,611,332	9,940,083	10,611,332
Subscriptions Received	69,972	69,972	69,972
Contributed Surplus	182,177	175,935	182,177
Deficit	<u>(7,536,457)</u>	<u>(7,120,947)</u>	<u>(7,467,455)</u>
	<u>3,327,024</u>	<u>3,065,042</u>	<u>3,396,025</u>
	<b><u>3,429,432</u></b>	<b><u>3,315,389</u></b>	<b><u>3,501,603</u></b>
<u>Contingencies and Commitments</u> (Note 11)			
Approved by the Directors:			
<u>“John Robertson”</u> John Robertson			
<u>“Jennifer Lorette”</u> Jennifer Lorette			

**TERYL RESOURCES CORP.**

CONSOLIDATED STATEMENT OF OPERATIONS

FOR THE THREE MONTHS ENDED AUGUST 31, 2006

	Three Months Ended August 31,	
	2006	2005
	Unaudited	Unaudited
Oil and Gas Operations: (Note 6)	\$	\$
<b>Revenue from Oil &amp; Gas Sales</b>	<b>6,661</b>	<b>6,362</b>
Deduct: Oil & Gas Operating Expenses	783	1,296
<b>Net Operating Income (Loss)</b>	<b><u>5,878</u></b>	<b><u>5,066</u></b>
Other Income and Expenses:		
Mineral property written off (Note 7C)	-	(15,878)
Administration expenditures (Schedule A)	<u>(74,880)</u>	<u>(73,326)</u>
	<u>(74,880)</u>	<u>(89,204)</u>
<b>Net Income (Loss) for the Period</b>	<b><u>(69,002)</u></b>	<b><u>(84,138)</u></b>
EARNINGS (LOSS) PER SHARE	<u>(0.0019)</u>	<u>(0.0023)</u>
Weighted Average Number of Shares Outstanding	<u>39,468,188</u>	<u>36,777,688</u>

CONSOLIDATED STATEMENT OF DEFICIT

Deficit - Beginning of Period	(7,467,455)	(7,036,809)
Add: Net Income (Loss) for the Period	(69,002)	(84,138)
<b>Deficit - End of Period</b>	<b><u>(7,536,457)</u></b>	<b><u>(7,120,947)</u></b>

## TERYL RESOURCES CORP.

## CONSOLIDATED STATEMENT OF ADMINISTRATION EXPENDITURES

FOR THE THREE MONTHS ENDED AUGUST 31, 2006

	Three Months Ended <u>August 31,</u>	
	2.006 Unaudited	2.005 Unaudited
	\$	\$
Publicity, promotion and investor relations	23,672	30,403
Management and directors fees (Note 13)	18,681	14,817
Secretarial fees (Note 13)	8,188	4,050
Office supplies, telephone and courier	7,405	6,651
Auto, travel and entertainment	6,554	4,378
Employee benefits	2,903	3,124
Legal fees	2,089	105
Audit, accounting and consulting	1,650	1,000
Office rent and utilities	1,420	1,420
Transfer agent fees	838	1,825
Filing fees and electronic data services	500	2,020
Foreign exchange loss (gain)	181	(764)
Bank charges and other interest	163	490
Interest income	(356)	(1,313)
Debenture interest (Note 9)	-	3,704
Amortization	992	<u>1,416</u>
<b>Total Administration Expenses</b>	<b><u>74,880</u></b>	<b><u>73,326</u></b>

**TERYL RESOURCES CORP.**

CONSOLIDATED STATEMENT OF DEFERRED  
EXPLORATION AND DEVELOPMENT EXPENDITURES  
FOR THE THREE MONTHS ENDED AUGUST 31, 2006

	Three Months Ended August 31,	
	2006	2005
	\$	\$
<b>Fish Creek Claims:</b> (Joint Venture)		
Geophysical survey, auger and drilling	-	24,519
Maps, insurance and property tax	1,045	3,362
Lease payments	-	-
	1,045	27,881
<b>Gold Hill Claims:</b>		
Assays and travel	1,619	-
<b>Gil Venture:</b> (Joint Venture)		
Phase II exploration	-	6,628
Reports and maps	-	-
	-	6,628
Exploration and Development for the Period	2,664	34,509
Exploration and Development at Beginning of Period	2,867,841	2,743,061
<b>Exploration and Development at End of Period</b>	<b>2,870,505</b>	<b>2,777,570</b>

**TERYL RESOURCES CORP.**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE THREE MONTHS ENDED AUGUST 31, 2006

	Three Months Ended	
	<u>August 31,</u>	
	2006 Unaudited \$	2005 Unaudited \$
<b>Operating Activities:</b>		
Revenue receipts	5.269	6.362
Interest income receipts	356	1.313
Receipts from goods and services sales taxes	3.828	-
Decrease (increase) in income tax liability	(46)	68
Payments to suppliers for goods and services	(86.263)	(68.960)
Cash Flows (Used) by Operating Activities	(76.856)	(61.217)
<b>Financing Activities:</b>		
Share capital issued for cash (Note 12)	-	-
Advances from (to) related parties (Notes 3 & 10)	4.708	4.381
Cash Flows from Financing Activities	4.708	4.381
<b>Investing Activities:</b>		
Purchase of gas well interest	(106.261)	-
Purchase of mineral property interest	(7.186)	-
Exploration and development payments	<u>(2.664)</u>	<u>(34,509)</u>
Cash Flows (Used) by Investing Activities	<u>(116,111)</u>	<u>(34,509)</u>
Increase (Decrease) in Cash for the Period	(188,259)	(91,345)
Cash (Deficiency) at Beginning of Period	<u>209,636</u>	<u>318,287</u>
<b>Cash (Deficiency) at End of Period</b>	<b><u>21,377</u></b>	<b><u>226,942</u></b>

**TERYL RESOURCES CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED AUGUST 31, 2006**  
(Stated in Canadian Dollars)

**1. NATURE OF OPERATIONS AND GOING CONCERN**

Teryl Resources Corp. is a public company incorporated under the British Columbia Business Corporations Act on July 16, 1985. Its shares are listed on the TSX Venture Exchange.

The Company makes expenditures on acquiring mineral properties and carries out exploration work. It also acquires oil and gas property interests and participates in drilling wells. The recoverability of amounts shown for investments, mineral properties, interest in oil and gas properties and the related deferred expenditures is dependent upon the existence of economically recoverable reserves, the ability to obtain the necessary financing to complete the exploration, the profitability of future production or the ability of the Company to dispose of those assets on a profitable basis. The Company's ongoing operation is dependent upon cash flow from successful operations and equity financing. The Company has incurred a loss of \$69,002 in the period ended August 31, 2006 (2005 - \$ 84,138). These consolidated financial statements do not include adjustments that would be necessary should it be determined that the Company may be unable to continue as a going concern.

**2. SIGNIFICANT ACCOUNTING POLICIES**

[a] Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Argon Investment Corporation (inactive) and Teryl, Inc. Teryl, Inc. was incorporated on November 17, 1988, in the State of Delaware and registered to do business in the USA, to hold and operate the Alaska mineral property interests and Texas oil and gas well interests.

[b] Equipment

The Company records its office and automotive equipment at cost and depreciates them on the declining-balance basis over the estimated useful lives at the following rates:

Office equipment	20% per annum
Automotive equipment	30% per annum

[c] Accounting for Oil and Gas Well Interests

The Company follows the successful efforts method of accounting for its oil and gas producing activities. Under this method, all costs associated with productive exploratory wells and productive or non-productive development wells are capitalized while the costs of non-productive exploratory wells are expensed. If an exploratory well finds oil and gas reserves, but a determination that such reserves can be classified as proved is not made after one year following completion of drilling, the costs of drilling are charged to operations. Indirect exploratory expenditures, including geophysical costs and annual lease rentals, are expensed as incurred. Unproved oil and gas properties that are individually significant are periodically assessed for impairment of value, and a loss is recognized at the time of impairment by providing an impairment allowance. Capitalized costs of producing oil and gas properties and related support equipment are depreciated and depleted by the unit-of-production method.

On the sale or retirement of a complete unit of a proved property, the cost and related accumulated depreciation, depletion, and amortization are eliminated from the property accounts, and the resultant gain or loss is recognized. On the retirement or sale of a partial unit of proved property, the cost is charged to accumulated depreciation, depletion, and amortization with a resulting gain or loss recognized in income. On the sale of an entire interest in an unproved property for cash or cash equivalent, gain or loss on the sale is recognized, taking into consideration the amount of any recorded impairment if the property had been assessed individually. If a partial interest in an unproved property is sold, the amount received is treated as a reduction of the cost of the interest retained. In joint ventured activities, the accounts reflect only the Company's proportionate interest in such activities.



## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### d) Accounting for Mineral Property Interests

The Company capitalizes its acquisition costs of mineral properties (including finders fees) and the related exploration and development expenditures by claim groups, or its share of costs on joint ventures, which are to be amortized as follows;

- i) If property sold outright - costs written off entirely against proceeds.
- ii) If property sold under option-type agreement - on basis of cash or shares received over total undiscounted amount to be received under agreement, exclusive of royalties or net profit participation.
- iii) If property brought into production - on basis of units of production over total estimated reserves recoverable.
- iv) If property retained, but has no proven economic reserves and is not currently being explored or developed by the Company or joint venture partner - costs written down to a nominal value.
- v) If property abandoned - costs written off entirely.

### e) Revenue Recognition

Revenue associated with the sales of oil and gas are recorded when title passes to the customer. Revenues from oil and gas production from properties in which the Company has an interest with other producers are recognized on the basis of the Company's net working interest.

### f) Foreign Exchange Translations

The Company's functional currency is the Canadian dollar. Transactions recorded in United States dollars have been translated into Canadian dollars using the temporal method as follows:

- i) Monetary items at the rate prevailing at the balance sheet date.
- ii) Non-monetary items at the historical exchange rate.
- iii) Revenue and expense at the average rate in effect during the year.

Gains or losses arising on translation are included in the consolidated statements of operations.

### g) Investments

The Company accounts for its investments in companies subject to significant influence on the equity method. Under the equity method, the pro-rata share of the investee's earnings is recorded as income and added to the carrying value of the investments shown on the consolidated balance sheet. Dividends received are considered as a return of capital and are accordingly deducted from the carrying value of the investment.

The Company's investments in companies that are not subject to significant influence are recorded at cost. Investments are written down only when there is clear evidence that a decline in value that is other than temporary has occurred.

### h) Financial Instruments

The carrying value of financial instruments not otherwise disclosed separately in the financial statements, approximate their fair values. Those financial instruments include cash, accounts and advances receivable, bank overdraft, accounts payable and amounts due to related parties, and their fair values approximate their carrying values, since they are short term in nature and are receivable or payable on demand.

### i) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Company's management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes to the consolidated financial statements. Actual results may differ from those estimates.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Income Taxes

The Company uses the liability method of accounting for future income taxes whereby future income taxes assets and liabilities are computed based on the differences between the carrying amount of assets and liabilities on the balance sheet, and their corresponding tax values using the currently enacted or substantially enacted, income tax rates expected to apply when these differences reverse. Future income tax assets also result from unused loss carry forwards and other deductions. The valuation of future income tax assets is reviewed annually and adjusted, if necessary, by the use of a valuation allowance which is recorded against any future income tax asset if it is more likely that not that the asset will not be realized.

k) Loss Per Share

Basic and diluted loss per share amounts are computed using the weighted average number of common shares outstanding during the year. The Company calculates earning per share using a new standard, the treasury stock method. Under the treasury stock method, only instruments with exercise amounts less than the market prices impact the diluted calculations. In computing diluted loss per share, no shares were added to the weighted average number of common shares outstanding during the periods ended August 31, 2006 and 2005 and year ended May 31, 2006 for the dilutive effect of employee stock options and warrants, as they were all anti-dilutive. No adjustments were required to reported loss from operations in computing diluted per share amounts.

l) Stock Based Compensation

The Company follows the recommendations of CICA Handbook Section 3870 - A Stock Base Compensation and Other Stock Based Payments to account for stock based transactions with officer, directors and outside consultants. Accordingly, the fair value of stock options is charged to operations, with an offsetting credit to contributed surplus. The fair value of stock options, which vest immediately, is recognized at the date of grant; the fair value of options, which vest in the future, is recognized on a straight line bases over the vesting period. Any consideration received on exercise of stock options together with the related portion of contributed surplus is credited to share capital.

m) Asset Impairment

On an annual basis or when impairment indicators arise, the Company evaluates the future recoverability of its mineral property costs. Impairment losses or write downs are recorded in the event the net book value of such assets exceeds the estimated indicated future cash flow attributable to such assets.

n) Asset Retirement Obligations

The Company follows the recommendations in CICA Handbook Section 3110 – “Asset Retirement Obligations” whereby the legal obligations associated with the retirement of tangible long-lived assets are recorded as liabilities. The liabilities are calculated using the net present value of the cash flows required to settle the obligation. A corresponding amount is capitalized to the related asset. Asset retirement costs are charged to earnings in a manner consistent with the depreciation, depletion and amortization of the underlying asset. The liabilities are subject to accretion over time for changes in the fair value of the liability through charges to accretion which is included in cost of sales and operating expenses. As at May 31, 2006, the Company did not have any asset retirement obligations.

o) Variable Interest Entities

The Canadian Institute of Chartered Accountants (CICA) issued Accounting Guideline 15, “Consolidation of Variable Interest Entities”, to provide accounting guidance related to variable interest entities (“VIE”). A VIE exists when the entity’s equity investment is at risk. When a VIE is determined to exist, the guidance requires the VIE to be consolidated by the primary beneficiary. The Company adopted the Guideline effective June 1, 2005 and has determined that it does not have a primary beneficiary interest in VIE.

p) Comparative Figures

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

**3. ADVANCES TO RELATED COMPANIES**

	<u>2006</u>	<u>2005</u>
Access Information Systems Inc	-	70
Information Highway.com Inc.	-	818
KLR Petroleum, Inc.	-	9,022
Reg Technologies Inc.	6,839	-
REGI US, Inc.	2,840	2,840
SMR Investments Ltd.	-	19,144
International Diamond Syndicate Ltd. (See Note 4)	<u>1</u>	<u>1</u>
	<u>9,680</u>	<u>31,895</u>

The advances to related companies bear no interest and have no fixed repayment terms.

**4. INVESTMENTS**

Linux Gold Corp. is a public company listed on US Stock Exchanges having a market value of \$ 6,490 Cdn. at August 31, 2006 (2005 - \$2,545).

	August 31, <u>2006</u>	August 31, <u>2005</u>
Linux Gold Corp.		
15,880 shares at cost	<u>4,026</u>	<u>4,026</u>

**5. EQUIPMENT**

	<u>2006</u>	<u>2005</u>
Furniture and fixtures - at cost	21,237	48,215
Less: Accumulated amortization	<u>(13,226)</u>	<u>(36,797)</u>
	<u>8,011</u>	<u>11,418</u>
Automotive equipment - at cost	15,531	15,531
Less: Accumulated amortization	<u>(8,491)</u>	<u>(5,475)</u>
	<u>7,040</u>	<u>10,056</u>
	<u>15,051</u>	<u>21,474</u>

**6. OIL AND GAS WELL INTERESTS**

The Company owns 6.5% working interest (4.680% net revenue interest) in the Peters No. 1 Well, in Fayette County, Texas, and a 7.5% working interest (5.79375% net revenue interest) in each of the C-S #1, Jancik #2 and Herrmann #4 wells, located in Burleson County, Texas. The carried cost of these wells has been completely depleted.

On May 18, 2006, the Company entered into an agreement with IAS Communications, Inc. to purchase a 40% interest (subject to 40% net revenue interests to others) in the Ken Lee #1 natural gas well, located in Knox County, Kentucky for \$ 103,045 (\$ 92,500 US). As the well was still being drilled at the date of the balance sheet no amortization has been allowed for.

**6. OIL AND GAS WELL INTERESTS (Continued)**

On June 6, 2006, the Company entered into an agreement with IAS Communications, Inc. to purchase a 40% interest (subject to 40% net revenue interests to others) in the Elvis Farris #2 gas well, located in Laurel County, Kentucky for \$ 106,261 (\$ 92,500 US). As the well was still being drilled at the date of the balance sheet no amortization has been allowed for.

The Company has first refusal rights to participate in up to 22 future wells and in September, 2006 entered into an agreement with IAS Communications, Inc. to participate in the Clarence Bright well located in Knox/Laurel County, Kentucky.

**7. MINERAL PROPERTY INTERESTS**

	Balance	Changes	Balance	Changes	Balance
	<u>May 31/05</u>	<u>2006</u>	<u>May 31/06</u>	<u>In Quarter</u>	<u>Aug 31/06</u>
<b>PROPERTY COSTS:</b>					
Silverknife	1		1		1
Fish Creek	33,538		33,538		33,538
Gold Hill	-		-	7,186	7,186
Anderson Group Tier 2	15,878	(15,878)	-		-
Upper Fox Creek	13,283	(13,283)	-		-
West Ridge	116,189		116,189		116,189
Gil Venture	31,127		31,127		31,127
Stepovich Lease	<u>9,381</u>		<u>9,381</u>	<u>-</u>	<u>9,381</u>
	<u>219,397</u>	<u>(29,161)</u>	<u>190,236</u>	<u>7,186</u>	<u>197,422</u>

- A. SILVERKNIFE, Laird, BC, Canada  
Pursuant to agreements between Reg Technologies Inc., SMR Investments Ltd., Rapitan Resources Inc., and Chevron Minerals Ltd., the Company acquired a 30% working interest in the Silverknife mineral claims, situated in the Liard Mining Division in the Province of British Columbia, subject to a 10% Net Profit Royalty to Rapitan and a 1% Net Smelter Returns to SMR. The Company has written down their acquisition costs to \$ 1 and has written off their exploration and development expenditures entirely, since the claims are not currently being explored and have no proven economic reserves.
- B. FISH CREEK, Fairbanks, Alaska, USA  
On March 5, 2002, the Company and Linux Gold Corp. entered into an agreement whereby the Company may earn up to a 50% interest in the Fish Creek mineral claims located in the Fairbanks district of Alaska, USA, by expending \$550,750 (\$500,000 US) within three years and issuing 200,000 common shares (issued December 16, 2002 at \$0.08 per share). Linux will have a 5% net royalty interest until the Company pays \$2,203,000 (\$2,000,000 US). The agreement was extended to expire on March 5, 2007, subject to TSX approval. The Company authorized 100,000 common shares for issuance to Linux as consideration for the extension. TSX approval of the extension is dependent upon receipt of approval of disinterested shareholders. Approval will be sought at the Annual General Meeting scheduled for November 14, 2006.
- C. GOLD HILL, Cochise County, Arizona, USA  
On June 10, 2006, the Company and Frederic & John Rothermel (the Vendors) entered into an agreement whereby the Company would purchase a 100% interest in the Gold Hill Patented Claim Group located in the Warren Mining District, Cochise County, Arizona, USA, subject to a 10% Net Profits royalty to the vendors, for the following considerations:

- C. GOLD HILL, Cochise County, Arizona, USA (Continued)
- a) \$ 5,655 (\$ 5,000 US) to complete a due diligence within 90 days (paid)
  - b) \$ 10,000 US upon completion of the due diligence (paid) and \$ 10,000 US per year thereafter,
  - c) complete a \$ 50,000 US first phase exploration program conducted by the Vendors,
  - d) \$ 250,000 US per year upon commencement of production

A further 6 unpatented adjacent claims were registered 100% in the Company's name for \$ 1,531 (\$ 1,354 US).

- D. UPPER FOX CREEK, Fairbanks, Alaska, USA  
On June 23, 2004, the Company, Jean Turner and Ron Way (Owners) entered into a mineral property lease with Right of First Refusal, for a period of ten years (and longer if still developing or in production), to develop the property known as the Upper Fox Creek mining lease, subject to a 3% Net Smelter Return, for payments of \$ 10,000 US per year. The lease was cancelled in the May 31, 2006 year and accordingly, property costs of \$ 13,283 and exploration costs of \$ 36,377 were written off.
- E. WEST RIDGE, Dome Creek, Alaska, USA  
Pursuant to various agreements the Company, earned a 100% interest in the West Ridge (48 claims) mineral properties (approximately 5,200 acres) located in the Dome Creek area of the Fairbanks District of Alaska, USA. The Company has been conducting an exploration program over the past few years.
- F. GIL VENTURE, Dome Creek, Alaska, USA  
Pursuant to various agreements the Company acquired a 50% interest in 237 claims located in the Gilmore Dome area of Fairbanks District of Alaska. On May 31, 1991, the Company, NERCO Exploration Company and Fort Knox Venture entered into an agreement which granted the Company a 20% participating interest in the claims. Under the agreement, Fort Knox Venture paid the Company cash and funded approved programs earning them an 80% participating interest in the property with the Company retaining a 20% participating interest. Fort Knox Venture through its operator Fairbanks Gold, has been doing exploration and development work on this property during the 2005 and 2006 years and hopes to go into production in the next few years. The Company's 20% share of expenses, were \$ 111,127 (\$ 98,916 US) in the May, 2006 year and \$ Nil in the August 31, 2006 quarter.  
Additional cash calls are expected in the 2007 year.
- G. STEPOVICH LEASE, Dome Creek, Alaska, USA  
On May 29, 1992, the Company granted Fort Knox Venture all of their interest in the Stepovich lease, except for a 10% Net Profit Interest. Fort Knox Venture assumed all of the Company's liabilities and obligations under the Stepovich lease.
- H. ANDERSON GROUP, Fairbanks, Alaska, USA  
Pursuant to a purchase agreement dated August 18, 2003, the Company paid Michael D. Roberts \$ 15,878 (\$ 12,500 US), with an additional \$ 113,000 US owing in the two years, for a 100% interest (subject to a 5% net profit interest) for 70.785 acres located in the Fairbanks Mining district of Alaska, USA, known as Anderson Group 2nd Tier. During the 2006 year, \$ 15,878 in mineral property costs were written off as management decided not to maintain this option.

**7. MINERAL PROPERTY INTERESTS** (Continued)

Deferred Exploration Expenditures

	Three Months Ended	
	<u>2006</u>	<u>2005</u>
	\$	\$
<u>Fish Creek Claims:</u> (Joint Venture)		
Geophysical survey, pinger and drilling	-	24,519
Maps, insurance and property tax	<u>1,045</u>	<u>3,362</u>
	<u>1,045</u>	<u>27,881</u>
 <u>Gold Hill Claims:</u>		
Assays and travel	<u>1,619</u>	<u>-</u>
<u>Gil Venture:</u> (Joint Venture)		
Phase II exploration	-	6,628
Reports and maps	-	-
	<u>-</u>	<u>6,628</u>
Exploration and Development for the Period	2,664	34,509
Exploration and Development at Beginning of Period	<u>2,867,841</u>	<u>2,743,061</u>
 <b>Exploration and Development at End of Period</b>	 <b><u>2,870,505</u></b>	 <b><u>2,777,570</u></b>

**8. INCOME TAXES**

Future income taxes reflect the net tax effects of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future tax assets as of August 31 are as follows:

	<u>2006</u>	<u>2005</u>
Non-capital losses carry forwards	\$ <b>804,000</b>	\$ 741,000
Equipment	<b>16,000</b>	14,000
Resource deductions	<u><b>474,000</b></u>	<u>472,000</u>
	<b>1,294,000</b>	1,227,000
Valuation allowance	<u><b>(1,294,000)</b></u>	<u>(1,277,000)</u>
Future income tax asset	<u>\$ -</u>	<u>\$ -</u>

A reconciliation of the combined federal and provincial income taxes at statutory rates and the Company's effective income tax expense is as follows:

	<u>2006</u>	<u>2005</u>
Statutory tax rate	<b>34%</b>	36%
Income tax recovery at statutory rate	\$ <b>(148,300)</b>	\$ (183,800)
Permanent differences	<b>2,900</b>	1,300
Effect of change in tax rate	<b>51,700</b>	43,100
Tax benefits not recognized	<u><b>93,700</b></u>	<u>139,400</u>
	<u>\$ -</u>	<u>\$ -</u>

**8. INCOME TAXES** (Continued)

The Company has non-capital losses of approximately \$2,356,000 (2005 - \$2,082,000), which expire over the years 2007 to 2016. The Company also has cumulative exploration expenses in the amount of \$1,584,000 (2005 - \$1,545,000) in Canada, which can be carried forward indefinitely.

**9. DEBENTURE PAYABLE**

Pursuant to various agreements, the Company agreed to issue a convertible debenture for \$150,000 to Keltic Bryce Enterprises Inc. (“Keltic Bryce”), subject to regulatory approval. The original agreement, dated September 1, 1991, was approved. However, an amendment requested by Keltic Bryce, which resulted in the withdrawal of the original agreement, increasing the number of units and decreasing the share and warrant prices, did not subsequently receive approval and the debenture is not convertible under existing regulatory policy. The Company paid Keltic Bryce \$15,000 interest on November 15, 2005. Interest of \$11,749 was accrued to May 1, 2006 (2005 - \$13,260). Therefore, the \$150,000 debenture has been fully repaid plus accrued interest.

**10. ADVANCES FROM RELATED COMPANIES**

	August 31, <u>2006</u>	August 31, <u>2005</u>
JGR Petroleum, Inc.	22,584	22,584
Linux Gold Corp. (See Note 4)	20,934	20,872
Rainbow Network	22,576	22,778
Reg Technologies Inc.	-	4,737
SMR Investments Ltd.	<u>24,709</u>	<u>-</u>
	<u>90,803</u>	<u>70,971</u>

Advances from related companies bear no interest and have no fixed repayment terms.

**11. CONTINGENCIES AND COMMITMENTS**

See Outstanding Commitments to Issue Shares in Note 12.

**12. SHARE CAPITAL**

Authorized share capital consists of:

- 100,000,000 voting common shares with no par value
- 5,000,000 non-voting preferred shares with \$1 par value

The Preferred Shares have attached thereto a right to receive dividends as determined by the Directors. The Preferred Shares may be issued in series, with special rights and restrictions therefor being determined by the Directors, subject to regulatory approval. No Preferred Shares have been issued to the date of these financial statements.

**12. SHARE CAPITAL** (Continued)  
**Issued Share Capital - Common**

	NUMBER OF SHARES	AMOUNT	CONTRIBUTED SURPLUS
Balance, May 31, 2005	36,777,688	9,944,335	175,935
Stock options exercised (a)	37,500	7,500	-
Fair value of stock options exercised	-	12,776	(12,776)
Private placement (b)	2,648,000	662,000	-
Private placement warrants exercised (c)	5,000	1,750	-
Share issue costs	-	(4,254)	-
Stock based compensation	-	-	6,242
	<u>2,690,500</u>	<u>679,772</u>	<u>(6,534)</u>
Balance, May 31 & Aug. 31, 2006	<u>39,468,188</u>	<u>\$ 10,624,107</u>	<u>\$ 169,401</u>

- a. On February 23, 2006, a consultant exercised a portion of his stock option for 37,500 common shares at a price of \$ 0.20 to net the treasury \$ 7,500.
- b. On May 17, 2006, the Company issued 2,648,000 units of capital stock pursuant to a Private Placement with 3 places at a price of \$ 0.25 per unit to net the treasury \$ 662,000. Each unit consists of one share and one-half share purchase warrant exercisable within one year for \$ 0.30 per share (or for \$ 0.35 within the second year).
- c. On May 18, 2006, one individual exercised warrants for 5,000 shares at a price of \$ 0.35, to net the treasury \$ 1,750.

On October 7, 2005, an employee option was repriced from \$ 0.40 to \$ 0.20 and on November 17, 2005, an employee option for 25,000 common shares at \$ 0.45 was cancelled.

On February 19, 2006, a consultants option for 350,000 shares at a price of \$ 0.40 expired without being exercised.

Pursuant to an agreement dated May 24, 2006, effective June 1, 2006, Agoracom Investor Relations Corp. will provide investor relation services for one year for \$ 3,000 per month plus GST and a stock option allowing Agoracom to purchase up to 250,000 common shares in four equal installments of 62,500 shares, vesting each quarter starting September 1, 2006 and exercisable June 1, 2007, at a price of \$ 0.285 per share. The option will expire June 1, 2009.

On June 26, 2006, a consultant was granted a stock option to purchase up to 25,000 common shares at a price of \$ 0.30 for five years.



**12. SHARE CAPITAL** (Continued)

Outstanding Commitments to Issue Shares

At August 31, 2006, the following commitments to issue shares were outstanding:

TYPE OF COMMITMENT	NUMBER OF SHARES	PRICE	EXPIRY DATE
Private placement warrants	1,324,000	\$ 0.30/0.35	May 17, 2007/2008
Consultants options	112,500	\$ 0.20	October 7, 2006
Directors options	1,590,000	\$ 0.15	April 22, 2007
Employees options	50,000	\$ 0.40	December 16, 2007
Consultants options	75,000	\$ 0.40	March 4, 2008
Consultants options	300,000	\$ 0.45	November 13, 2008
Directors options	50,000	\$ 0.35	March 5, 2009
Consultants option	250,000	\$ 0.285	June 1, 2009
Consultants option	25,000	\$ 0.30	June 26, 2011
	<u>3,776,500</u>		

During the period ended August 31, 2006, the Company had the following stock option activity:

	Number Of <u>Options</u>	Weighted Average Exercise <u>Price</u>
Balance outstanding May 31, 2006	2,177,500	\$ 0.20
Granted	275,000	0.29
Exercised	-	-
Canceled	-	-
	<u>2,452,500</u>	<u>\$ 0.21</u>

The following table summarizes information about the stock options outstanding at Aug. 31, 2006:

Exercise Price	Number Of Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Number Of Options Exercisable
\$ 0.15	1,590,000	.75	1,590,000
0.45	300,000	2.21	300,000
0.40	125,000	1.45	125,000
0.35	50,000	2.67	50,000
0.30	25,000	4.81	25,000
0.285	250,000	4.75	250,000
<u>0.20</u>	<u>112,500</u>	<u>2.15</u>	<u>112,500</u>
<u>\$ 0.21</u>	<u>2,452,500</u>	<u>3.75</u>	<u>2,452,500</u>

**12. SHARE CAPITAL** (Continued)

Stock Based Compensation Expense:

The fair value of each option granted is estimated on the grant date using the Black-Scholes option-pricing model assuming no dividend yield and the following weighted average assumption for options granted: expected volatility of 158% (2005 - 158%), weighted average risk free interest rate of 4.56% (2005 - 4.56%) and expected life of 2 years.

**13. RELATED PARTY TRANSACTIONS**

Related party 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. Related party transactions not disclosed elsewhere in these financial statements are as follows:

Reg Technologies Inc. is a public company which shares office facilities and staff, several directors and participates in Joint Ventures with the Company. REGI US, Inc. is another company with common directors, staff and office facilities.

SMR Investments Ltd., is a private company controlled by an officer of the Company. Under a management contract with SMR Investments Ltd. the Company agreed to pay up to \$ 2,500 per month for management services. The Company was charged management fees by SMR of \$ 7,500 during the current period (2005 - \$ 7,500).

The Company holds 15,880 shares of Linux Gold Corp., a BC public company with common directors.

During the August 31, 2006 period, directors fees of \$ 3,000 (2005 - \$ 3,000) were paid to J. Robertson, President of the Company; administration consulting fees of \$ 6,000 (2005 - \$ 3,000) were paid to J. Lorette, a director of the company and secretarial and consulting fees of \$ 3,750 (2005 - \$ 1,500) were paid to M. van Oord, a director of the company.

During the August 31, 2006 period, fees of \$ 2,180 (2005 - \$1,317) were paid to KLR Petroleum Ltd. (which is controlled by an officer of the Company) for administration of the Company payroll and benefit plan.

Office rent amounted to \$ 4,260 for the period ended August 31, 2006 (2005 - \$ 4,260) of which \$ 2,840 (2005 - \$ 2,840) has been shared with Reg Technologies Inc. and REGI US Inc.

**14. TERYL, INC. TRANSACTIONS (100% US Subsidiary):**

In 1998, Teryl, Inc. offered a private placement for up to 1,000,000 shares at a price of \$ 0.15 US and subscriptions of \$ 146,044 (\$ 96,750 US) were received by November 19, 1999. Since the offering was not fully subscribed, the Companies negotiated with the subscribers to replace the Teryl, Inc. shares with Teryl Resources Corp. shares. One subscriber did not return the agreement and negotiations are proceeding to resolve this.

**15. SUBSEQUENT EVENTS**

See Note 6 re subsequent participation in Clarence Bright Well.