



**UNIGOLD INC.**

**THIRD QUARTER INTERIM REPORT**

**September 30, 2006**

**Notice to Readers:**

**The Consolidated Financial Statements and the accompanying notes thereto contained in this report have not been reviewed or audited by the Company's auditor.**

# UNIGOLD INC.

*Form 51-102F1*

## **Nine Months Ended September 30, 2006**

### **Management's Discussion and Analysis of Financial Results**

The following discussion and analysis of the operating results and financial condition of Unigold Inc. ("Unigold" or the "Company") has been prepared as of November 21, 2006 and should be read in conjunction with the consolidated financial statements of the Company and notes thereto for the nine month period ended September 30, 2006. Said financial statements were prepared in accordance with Canadian generally accepted accounting principles.

#### **Nature of Operations**

The Company is in the process of exploring its mineral properties located in the Dominican Republic and has not as yet determined whether these properties contain reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties and deferred exploration costs are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete its exploration program and upon future profitable production or proceeds from disposition of such properties.

#### **Forward Looking Statements**

This Management's Discussion and Analysis of Financial Results, contains certain forward-looking statements related to, among other things, expected future events and the financial and operating results of the Company. Forward-looking statements are subject to inherent risks and uncertainties including, but not limited to, market and general economic conditions, changes in regulatory environments affecting the Company's business and the availability and terms of financing. Consequently, actual results and events may differ materially from those included in, contemplated or implied by such forward-looking statements for a variety of reasons.

#### **Overview**

During October 2006, 5,100,000 share purchase warrants and 800,000 compensation warrants were exercised for gross proceeds to the Company of \$2,025,000. This along with the net proceeds received from the July 11, 2006 private placement of approximately \$4,300,000 has put the Company in a strong financial position.

During the third quarter, the Company retained the services of Excelsior Communications Incorporated to strengthen its investor relations activities and effectively communicate shareholder value to investors.

## Exploration Activities

The Company, since February 2006, has been re-assessing and re-evaluating the previous exploration work results obtained from the Neita Concession while continuing with surface exploration. 3-D compilation of the gold assay values from drill holes, trenching & geochemical sampling along with the results by geophysics (IP & Resistivity), has verified the previously obtained results indicated in the pre-feasibility study made by BRGM in 1998. Moreover, the 3-D compilation has also revealed that data of the tested proportion between the drilled and un-drilled parts of Los Candelones Gold Deposit shows high probability to significantly improve the known gold resource. Based on this date compilation, a 19 hole drilling program started in July 2006. A total length of 2.5 kilometres of trenching has also been completed, covering an area of almost a square kilometre. The results are shown in the two tables below. Assays were done at SGS laboratory in Toronto by fire assay procedure and the reported length represents true width section.

Hole DC-46 provides a good example of the extension of the core zone with more than 21 metres at 3.3 g/t within 62 metres at 1.82 g/t and demonstrates the on strike and down dip continuation.

DRILL HOLES					TRENCHES		
DDH No.	FROM (m)	TO (m)	LENGTH (m)	GRADE (g/t)	TRENCH No:	LENGTH (m)	GRADE (g/t)
DC-45	8	22	14	0.68	TC-613	14	0.78
	32	82	50	0.86	TC-614	22	1.19
DC-46	13	75	62	1.81	TC-615	6	0.98
	incl 19	40	21	3.34	TC-616	12	0.43
	incl 64	74	10	2.55	TC-619	6	0.68
DC-47	7	16	9	1.32	TC-619b	32	3.13
	33	46	13	0.54	TC-621	17	0.42
DC-48	32	48	16	0.63	TC-623	12	5.95
DC-49	37	53	16	1.26	TC-625	10	0.47
DC-50	49	55	6	0.79			
DC-51	52	69	17	0.62			

To date, the Los Candelones Gold Deposit has had 52 diamond drill holes totaling approximately 6,200 metres which has allowed the Company to now demonstrate the on strike and down dip continuation of the 25 to 30 metre thick gold core of epithermal mineralization which grades from 1.0 to 4.4 g/t gold and which is enclosed within an up to 100 metres wide lower grade gold halo. The existing trenched and diamond drilled mineralized area is a small part of the 1,200 metre long by 600 metre wide gold in soil anomaly and coincident IP chargeability high which represents sulphide mineralization. The Los Candelones Gold Deposit is the most advanced of several very encouraging target areas within the 226 square kilometre Neita property.

A detailed structural survey on Los Candelones is underway and the first preliminary results are confirming the possibility of a dome and basin structure type at Los Candelones. Evidences of a polyphased tectonic regime were seen in the sedimentary units near the area, associated with the barite in soil anomaly and the leached magnetic signature at depth under the actual gold resource this should lead the drilling program on deeper targets in the south east sector of Candelones. Field evidences of an offsetting senestral fault displacing the actual gold resource were found in trench TC-42 in the high grade zones (11 metres at 45 g/t) as previously reported.

The Company is also pleased to announce that it has acquired another drill from Atlas Copco. Drill Model DIAMEC U6 converted with an 115 horse power diesel engine will be able to reach deeper targets on Los Candelones at more than 400 metres on HQ size.

## Results of Operations

The Company recorded a net loss of \$69,212 or \$nil per share in the three month period ended September 30, 2006. This compares to a net loss of \$87,287, or \$0.01 per share, for the previous year's three month period ended September 30, 2005. On a year-to-date basis, the loss is \$600,516, or \$0.01 per share, compared to a loss of \$389,983, or \$0.01 per share, in the year earlier period.

Revenue is limited to interest earned on cash balances and term deposits and amounted to \$70,901 in the third quarter of 2006. On a year-to-date basis the interest earned amounts to \$118,895. The interest income is greater in 2006 compared to 2005 as a result of having higher cash balances due to the various completion of the private placements.

Administrative expenses were \$140,113 in the third quarter of 2006, compared to \$87,317 in the year earlier period. On a year-to-date basis, the administrative expenses total \$719,411 for 2006 compared to \$392,346 for 2005. The higher 2006 administrative expenses reflect higher levels of activities as in 2005 the Company reduced and/or eliminated most of its overhead costs as a result of insufficient funds. The 2006 expenses also include a termination and settlement payment of \$126,000 as a result of the change of control of the Company which occurred in the first quarter.

## Quarterly Information

The following is a summary of selected financial information for the quarterly periods indicated:

	Net Revenues	Net Loss	Net loss per share
September 30, 2006	\$70,901	\$(69,212)	\$ nil
June 30, 2006	\$33,135	\$(201,300)	\$ nil
March 31, 2006	\$14,859	\$(330,004)	\$(0.01)
December 31, 2005	\$13	\$(98,155)	\$ nil
September 30, 2005	\$30	\$(87,287)	\$ nil
June 30, 2005	\$190	\$(160,163)	\$(0.01)
March 31, 2005	\$2,143	\$(142,533)	\$(0.004)
December 31, 2004	\$2,547	\$(372,327)	\$(0.01)

## Liquidity and Capital Resources

The Company has no producing properties and, consequently, has no current operating income or cash flow. Financing of the Company's activities to date has been primarily obtained from equity issues.

Cash on hand as of September 30, 2006 was \$7,104,850 an increase of \$7,040,691 from the year ended December 31, 2005. As at September 30, 2006, the Company has a working capital of \$7,287,758. The major reason for the increase in cash during the first nine months of 2006 is as a result of the Company completing three private placements..

On January 23, 2006, the Company completed a non-brokered private placement of 4,444,443 common shares of the Company at a price of \$0.225 per common share for aggregate gross proceeds of approximately \$1,000,000.

On February 1, 2006, the Company completed a non-brokered private placement of 20,180,770 common shares of the Company at a price of \$0.16 per common share for aggregate gross proceeds of approximately \$3,229,000 to Shairco. With this placement, Shairco owned a total of 22 million common shares of the Company or approximately 36.5% of the total number of outstanding common shares. In connection with this private placement, a 5% finder's fee was payable. This transaction resulted in a change of control of the Company.

On July 11, 2006, the Company completed a non-brokered private placement (the "Private Placement") of 9,000,000 units of the Company ("Units") at a price of \$0.50 per Unit for aggregate gross proceeds of \$4,500,000. Each Unit consists of one common share of the Company (a "Common Share") and one warrant (a "Warrant"), with each Warrant entitling the holder thereof to purchase one Common Share at any time for a period of 12 months following the date of the closing of the Private Placement at a price of \$0.75. The agents were collectively paid a cash commission of \$170,910 and were issued 455,760 compensation warrants, with each warrant entitling the holder thereof to purchase one Common Share at any time

for a period of 12 months following the date of the closing of the Private Placement at a price of \$0.50. All of the securities issued in connection with the Private Placement are subject to a four month hold period.

In October 2006, 5,100,000 share purchase warrants and 800,000 compensation warrants from a private placement done in 2004, were exercised for gross proceeds to the Company of \$2,025,000. This has put the Company in a strong financial position.

During the first nine months of 2006, warrants and options to purchase common shares of the Company were exercised as follows:

	3 <sup>rd</sup> Quarter		Year to Date	
	Shares Issued	Amount Received	Shares Issued	Amount Received
Warrants	380,000	\$133,000	850,000	\$297,500
Stock Options	---	---	260,000	91,100
	<u>380,000</u>	<u>\$133,000</u>	<u>1,110,000</u>	<u>\$388,600</u>

## Trend Information

There are no major trends which are anticipated to have a material effect on the Company's financial condition and results of operations in the near future.

## Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements, no capital lease agreements and no long-term debt obligations.

## Transactions with Related Parties

During the nine months ending September 30, 2006, payments made to companies under the control or significant influence of officers and directors of the Company were as follows:

Management Services fees paid to companies controlled by or have significant influence by officers and directors of the Company	\$222,133
Representation Services fees paid to a company controlled by an officer of the Company	\$ 31,197
Promotional Services fees and expenses paid to a company controlled by a director of the Company	\$ 35,000
Financial Consulting fees paid to an officer of the Company	\$ 22,500

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

## Proposed Transactions

There are no proposed transactions that will materially affect the performance of the Company.

## Critical Accounting Estimates

The Company prepares its financial statements in accordance with accounting principles generally accepted in Canada. The most significant accounting estimates are the policy of capitalizing exploration costs on its mining properties and the valuation of such properties, stock-based compensation, tax accounts and property receivables. The Company reviews its portfolio of properties on an annual basis to determine whether a write-down of the capitalized cost of any property is required under Canadian generally accepted accounting principles.

## **Changes in accounting policies**

There were no changes in accounting policies during the first quarter of 2006 that affected the Company.

## **Financial Instruments**

### **Fair Value**

Canadian generally accepted accounting principles require that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The carrying amounts for sundry receivables and accounts payable and accrued liabilities on the balance sheets approximate fair value because of the limited term of these instruments.

### **Foreign Exchange Risk**

The Company is subject to foreign exchange risk as some of its operating and investing activities are transacted in currencies other than the Canadian dollar. The Company is therefore subject to gains and losses due to fluctuations in these currencies relative to the Canadian dollar.

### **Commodity Price Risk**

The ability of the Company to develop its properties and the future profitability of the Company is directly related to the market price of certain minerals.

## **Other**

The Company's authorized share capital consists of an unlimited number of common shares of which 69,829,178 common shares were outstanding on September 30, 2006, and 75,729,178 are outstanding as of the date of this report. The Company currently has 9,000,000 share purchase warrants outstanding with an exercise price of \$0.75, with an expiry date of July 11, 2007. The Company also has outstanding 3,835,000 stock options, with exercise prices ranging from \$0.25 to \$0.80 with expiry dates from February 13, 2008 to October 2, 2011 and broker warrants exercisable to purchase up to 455,760 common shares at \$0.50 per share until July 11, 2007.

## **Qualified Person**

The foregoing scientific and technical information has been prepared or reviewed by Daniel Danis, the Chief Operating Officer of the Company. Mr. Danis is a "qualified person" within the meaning of National Instrument 43-101. Mr. Danis also supervises all work associated with the Company's exploration programs in the Dominican Republic.

## **Risks and Uncertainties**

At the present time, the Company does not hold any interest in a mining property in production. The Company's viability and potential successes lie in its ability to develop, exploit and generate revenue out of mineral deposits. Revenues, profitability and cash flow from any future mining operations involving the Company will be influenced by precious and/or base metal prices and by the relationship of such prices to production costs. Such prices have fluctuated widely and are affected by numerous factors beyond the Company's control.

The Company has limited financial resources and there is no assurance that additional funding will be available to it for further exploration and development of its projects or to fulfill its obligations under applicable agreements. Although the Company has been successful in the past in obtaining financing through the sale of equity securities, there can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration and development of the property interests of the Company with the possible dilution or loss of such interests.

Additional information relating to the Company may be accessed by visiting the SEDAR website at [www.sedar.com](http://www.sedar.com).

**UNIGOLD INC.**  
(A Development Stage Company)

**CONSOLIDATED BALANCE SHEETS**  
(Unaudited - Canadian \$)

	As at September 30, 2006	As at December 31, 2005
<b>Current assets</b>		
Cash	\$ 7,104,850	\$ 64,159
Sundry receivables	75,278	21,967
Prepaid expenses	<u>136,628</u>	<u>11,794</u>
	7,316,756	97,920
<b>Property receivable (note 4)</b>	233,200	233,200
<b>Equipment (note 3)</b>	175,777	151,829
<b>Mineral Properties (note 4)</b>	367,174	367,174
<b>Deferred exploration costs (note 4)</b>	3,074,442	2,439,876
<b>Public listing status</b>	<u>100,000</u>	<u>100,000</u>
	<u>\$ 11,267,349</u>	<u>\$ 3,389,999</u>
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	<u>\$ 28,998</u>	<u>\$ 259,013</u>
<b>Contingencies (notes 1 and 9)</b>		
<b>Non-controlling interest</b>	<u>2,831</u>	<u>2,831</u>
<b>Shareholders' Equity</b>		
Common shares (note 5(a))	16,228,836	8,550,122
Share purchase warrants (note 5(b))	1,525,000	495,833
Contributed surplus (note 5(d))	1,443,414	1,443,414
Deficit	<u>(7,961,730)</u>	<u>(7,361,214)</u>
	<u>11,235,520</u>	<u>3,128,155</u>
	<u>\$ 11,267,349</u>	<u>\$ 3,389,999</u>

Approved on Behalf of the Board:

Signed: "Dr. Talal A. Alshair"  
Director

Signed: "Joseph Del Campo"  
Director

See accompanying notes to the consolidated financial statements

**UNIGOLD INC.**  
(A Development Stage Company)

**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
(Unaudited - Canadian \$)

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>Revenue</b>				
Interest income	\$ 70,901	\$ 30	\$ 118,895	\$ 2,363
<b>Administrative expenses</b>				
Travel, promotion and business development	46,126	2,246	107,411	14,270
Salaries and wages	---	15,627	138,348	124,604
Listing and shareholder information	11,035	5,470	145,238	52,849
General and administrative expenses	36,297	51,782	95,848	121,080
Professional and consulting fees	8,560	9,849	65,030	60,809
Management services fees	35,318	---	159,205	---
Loss on disposal of equipment	---	---	---	9,325
Foreign exchange (gain) loss	---	12	---	1,584
Amortization	2,777	2,331	8,331	7,825
	<u>140,113</u>	<u>87,317</u>	<u>719,411</u>	<u>392,346</u>
<b>Net loss for the period</b>	(69,212)	(87,287)	(600,516)	(389,983)
Deficit, beginning of period	<u>(7,892,518)</u>	<u>(7,175,772)</u>	<u>(7,361,214)</u>	<u>(6,873,076)</u>
<b>Deficit, end of period</b>	<b><u>\$(7,961,730)</u></b>	<b><u>\$(7,263,059)</u></b>	<b><u>\$(7,961,730)</u></b>	<b><u>\$(7,263,059)</u></b>
<b>Basic net loss per share</b>	<b><u>\$ ---</u></b>	<b><u>\$ ---</u></b>	<b><u>\$ (0.01)</u></b>	<b><u>\$ (0.01)</u></b>

*Weighted average number*  
*of shares outstanding* 61,439,845    33,224,735

*See accompanying notes to the consolidated financial statements*



**UNIGOLD INC.**  
(A Development Stage Company)

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited - Canadian \$)

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>Cash flows from operating activities</b>				
Net loss for the period	\$ (69,212)	\$ (87,287)	\$ (600,516)	\$ (389,983)
Add items not requiring cash:				
Amortization	2,777	2,331	8,331	7,825
Loss on disposal of equipment	--	--	--	9,325
	<u>(66,435)</u>	<u>(84,956)</u>	<u>(592,185)</u>	<u>(372,833)</u>
Net changes in non-cash working capital balances	<u>(195,953)</u>	<u>119,636</u>	<u>(408,160)</u>	<u>165,608</u>
	<u>(262,388)</u>	<u>34,680</u>	<u>(1,000,345)</u>	<u>(207,225)</u>
<b>Cash flows from financing activities</b>				
Private placements, net of costs	4,303,896	--	8,319,281	--
Exercise of warrants and stock options	133,000	--	388,600	--
	<u>4,436,896</u>	<u>--</u>	<u>8,707,881</u>	<u>--</u>
<b>Cash flows from investing activities</b>				
Deferred exploration costs	(282,379)	(13,331)	(610,778)	(387,200)
Sale (acquisition) of equipment	(20,294)	--	(56,067)	6,500
Mineral properties	--	(58,565)	--	(58,565)
	<u>(302,673)</u>	<u>(71,896)</u>	<u>(666,845)</u>	<u>(439,265)</u>
<b>Increase (decrease) in cash</b>	3,871,835	(37,216)	7,040,691	(646,490)
Cash, beginning of period	<u>3,233,015</u>	<u>88,751</u>	<u>64,159</u>	<u>698,025</u>
<b>Cash, end of period</b>	<u>\$ 7,104,850</u>	<u>\$ 51,535</u>	<u>\$ 7,104,850</u>	<u>\$ 51,535</u>

**Supplemental Information**

Income taxes paid	--	--	--	--
Interest paid	--	--	--	--
Property receivable due on property sale	--	--	--	--

See accompanying notes to the consolidated financial statements

## **UNIGOLD INC.**

(A Development Stage Company)

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*(Unaudited – Canadian \$)*

**As at September 30, 2006 and for the year ended December 31, 2005**

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

Unigold Inc. (the “Company”) is a development stage company and is in the process of exploring its mineral properties in the Dominican Republic.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of exploration properties and the Company’s continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise alternative financing, if necessary, or alternatively upon the Company’s ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write downs of the carrying values. The Company’s mining assets are located outside of Canada and are subject to the risk of foreign investment, including increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations, and political uncertainties.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current state 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 in accordance with Canadian generally accepted accounting principles applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying financial statements.

The Company has a need for equity capital and financing for working capital and exploration requirements. Because of limited working capital and continuing operating losses, the Company’s continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations.

The accompanying consolidated financial statements do not include any adjustments relating to the carrying values and classification of assets or liabilities that might be necessary should the Company be unable to continue as a going concern.

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The significant accounting policies are summarized as follows:

##### **Principles of Consolidation:**

These consolidated financial statements include the accounts of the Company, which is incorporated in Canada under the Ontario Business Corporations Act, and its wholly owned subsidiary, Unigold Resources Inc., which is incorporated in Canada under the Canada Business Corporations Act, and its 96.7% owned subsidiary, Unigold Dominicana, S.A., which is incorporated in the Dominican Republic.

**Foreign Exchange Translation:**

The Company considers the Canadian dollar to be the functional currency of its primary operations and, accordingly, amounts denominated in other currencies are translated into Canadian dollars using the temporal method. This method translates monetary balances at the rates of exchange at the dates of the consolidated balance sheet, non-monetary balances at historical exchange rates and revenue and expense items at average exchange rates during the year, except for amortization which is translated at rates pertaining to the related equipment. The resulting gains and losses are included in the consolidated statements of operations and deficit.

**Mineral Properties and Deferred Exploration:**

Mineral properties are recorded at the direct cost of acquisition. Deferred exploration costs represent the costs incurred in conducting exploration work for unknown or unproven ore deposits. These costs are deferred until the commencement of commercial mining operations, or until such time that the interests in the associated properties are disposed of. Deferred exploration costs associated with projects, which prove to be economically unviable, are written off. Proceeds derived from the full or partial disposal of interests in properties are credited against the carrying cost of the related property.

The amounts shown for both mineral properties and deferred exploration costs represent costs incurred to date and do not necessarily reflect present or future values.

The Company reviews its mineral properties on an annual basis to determine if events or changes in circumstances have transpired which indicate that the carrying value of its assets may not be recoverable. The recoverability of costs incurred on the mineral properties is dependent upon numerous factors including exploration results, environmental risks, commodity risks, political risks, and the Company's ability to attain profitable production. In reviewing its mineral properties, the Company estimates the potential future cash flows expected to result from each asset and its eventual disposition. If the sum of the undiscounted, expected potential future cash flow is less than the carrying value of the asset, an impairment loss is recognized. It is reasonably possible, based on existing knowledge, that changes in future conditions in the near-term could require a change in the determination of the need for and amount of any write down.

**Use of Estimates:**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the related reported amounts of revenue and expense during the report period. Such estimates and assumptions affect the carrying value of assets, impact decisions as to when exploration and development costs should be capitalized or expensed, and estimates for asset retirement obligations and reclamation costs. Other significant estimates made by the Company include factors affecting valuations of stock-based compensation, warrants, property receivable and tax accounts. Actual results could differ from those estimates. Management believes that the estimates are reasonable.

**Stock-Based Compensation:**

The Company has adopted the CICA Handbook Section 3870 which required the Company to follow the fair value method of accounting for all stock-based compensation arrangements. The fair value of each option granted during the period is accounted for in operations over the vesting period of the option using the Black-Scholes option pricing model on the date of the grant, with the related increase to contributed surplus.

**Loss Per Share:**

Basic loss per share is calculated using the weighted average number of shares outstanding. Diluted loss per share is calculated using the treasury stock method. In order to determine diluted loss per share, the treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted loss per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease loss per share.

**Public Listing Status:**

The public listing status was acquired as a result of a business combination in 2002 and is considered to have an indefinite life. Should the Company determine that there is an impairment in the value of this asset, an appropriate write down of value will be charged to operations.

### Equipment and Amortization:

Equipment is recorded at cost. The equipment noted below is amortized over their estimated useful lives using the following annual rates and methods.

Office furniture and equipment	20% declining balance
Computer equipment	30% declining balance
Vehicles	30% declining balance
Field equipment	20% declining balance

Amortization of equipment related to exploration activities has been capitalized to deferred exploration costs.

### Income Taxes:

The Company uses the liability method of accounting for income taxes. Under this method of tax allocation, future income taxes are determined based on the differences between the financial reporting amounts and tax bases of assets and liabilities. These income tax assets and liabilities are measured using the substantively enacted tax rates that are expected to be in effect in the periods in which the income tax assets and liabilities are expected to be settled or realized. A valuation allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized.

## 3. EQUIPMENT

	As at September 30, 2006			As at December 31, 2005		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Office furniture and equipment	\$ 20,618	\$ 3,093	\$ 17,525	\$ ---	\$ ---	\$ ---
Computer equipment	41,080	21,437	19,643	25,925	15,734	10,191
Vehicles	80,195	38,443	41,752	59,901	32,213	27,688
Field equipment	197,829	100,972	96,857	197,829	83,879	113,950
	<u>\$339,722</u>	<u>\$163,945</u>	<u>\$175,777</u>	<u>\$283,655</u>	<u>\$131,826</u>	<u>\$151,829</u>

## 4. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS

Mineral properties and deferred exploration costs consist of the following:

	Balance, Dec. 31, 2004	Additions	Sale	Balance, Dec. 31, 2005	Additions	Balance, Sept. 30, 2006
<u>Mineral properties</u>						
Neita	\$ 225,182	\$ 58,565	\$ ---	\$ 283,747	\$ ---	\$ 283,747
Los Guandules	83,427	---	---	83,427	---	83,427
	<u>\$ 308,609</u>	<u>\$ 58,565</u>	<u>\$ ---</u>	<u>\$ 367,174</u>	<u>\$ ---</u>	<u>\$ 367,174</u>
<u>Deferred exploration costs</u>						
Neita	\$1,916,640	\$ 523,236	\$ ---	\$2,439,876	\$ 634,566	\$3,074,442
Los Guandules	---	---	---	---	---	---
	<u>\$1,916,640</u>	<u>\$ 523,236</u>	<u>---</u>	<u>\$2,439,876</u>	<u>\$ 634,566</u>	<u>\$3,074,442</u>
Total	<u>\$2,225,249</u>	<u>\$ 581,801</u>	<u>\$ ---</u>	<u>\$2,807,050</u>	<u>\$ 634,566</u>	<u>\$3,441,616</u>

### Neita Property

The Neita Property covers an area of 25,221 hectares in Central Cordillera of northwestern Dominican Republic. Pursuant to the July 2002 Neita Exploration Contract between the Company and the Dominican Republic government, the Company was granted 100% of the exploration rights for gold, silver, zinc, copper and all associated minerals on the Neita Property, as well as a sole and exclusive option for the commercial mining of the mineral deposits. Payments totaling US\$150,000 have been made to the Dominican Republic government for the Neita Property. In the first quarter of 2006, the regulatory authorities in the Dominican Republic granted the Neita Property the exploration concession status. The exploration concession is issued for three years plus two one-year extensions after which it must be converted to an exploitation licence which is issued for 75 years.

### **Sabaneta Property**

According to the mining laws of the Dominican Republic, the same entity may not be granted one or more exploration concessions exceeding 30,000 hectares in the aggregate. Due to this limitation, the Company sold its mineral rights in respect of the Sabaneta property which totals 55,720 hectares to two separate Dominican companies, Inversiones Mineras Sabaneta, S.A. (27,600 hectares) and Inversiones Mineras Aldajo, S.A. (28,120 hectares) for total consideration to consist of US\$200,000 in aggregate. The Company and the two Dominican companies have agreed to postpone the payment until the concessions have been granted. The Canadian dollar equivalent of \$233,200 is reflected as property receivable on the balance sheet.

### **Los Guandules**

On February 16, 2004, the Company entered into a definitive agreement with Americana de Explotaciones Mineras, S.A. ("Americana"), a Dominican private company, and the shareholders thereof relating to the acquisition by the Company of the Los Guandules concession in the Municipalities of Elias Pina and Dajabon, Dominican Republic. Under the terms of the agreement, in consideration for the payment of US\$30,000 (which has been previously paid) and the issue of an aggregate of 330,000 common shares of the Company, the Company will be granted an option to acquire, at its election, the rights of Americana under the Los Guandules concession agreement or all of the shares of Americana for the price of \$1.00 at any time for a period of five years. Completion of the transaction is subject to the receipt of all required regulatory approvals and the issuance of 330,000 common shares of the Company. The only material asset or liability of Americana is the Los Guandules property.

## **5. SHARE CAPITAL**

### **(a) Common Shares**

Authorized - unlimited number of common shares without par value

Issued – 69,829,178 common shares

Transactions during the first nine months of 2006 and for the year ended December 31, 2005 are as follows:

	Number of Shares	Amount
Balance, December 31, 2004	33,224,735	\$ 8,343,302
Shares Issued:		
Private placement (i)	1,819,230	236,500
Share purchase warrants exercised	50,000	21,667
Share issue costs	---	(51,347)
Balance, December 31, 2005	35,093,965	\$ 8,550,122
Shares Issued:		
Private placement (ii)	4,444,443	1,000,000
Private placement (iii)	20,180,770	3,228,923
Private placement (iv)	9,000,000	3,400,000
Stock options exercised	260,000	91,100
Share purchase warrants exercised	850,000	368,333
Share issue costs		(409,642)
Balance, September 30, 2006	69,829,178	\$16,228,836

- (i) In December 2005, the Company closed a non-brokered private placement of 1,819,230 common shares of the Company at a price of \$0.13 per common share for gross proceeds of \$236,500 with Shairco Ltd. ("Shairco") of Jeddah, Saudi Arabia. A finder's fee of 5% of the gross proceeds was paid on the private placement.
- (ii) In January 2006, the Company completed a non-brokered private placement of 4,444,443 common shares of the Company at a price of \$0.225 per common share for aggregate gross proceeds of approximately \$1,000,000.

- (iii) In February 2006, the Company completed a non-brokered private placement of 20,180,770 common shares of the Company at a price of \$0.16 per common share for aggregate gross proceeds of \$3,228,923 to Shairco. A finders fee of 5% of the gross proceeds was paid on the private placement.
- (iv) On July 11, 2006, the Company closed a non-brokered private placement (the "Private Placement") of 9,000,000 units of the Company ("Units") at a price of \$0.50 per Unit for aggregate gross proceeds of \$4,500,000. Each Unit consists of one common share of the Company (a "Common Share") and one warrant (a "Warrant"), with each Warrant entitling the holder thereof to purchase one Common Share at any time for a period of 12 months following the date of the closing of the Private Placement at a price of \$0.75. The agents were collectively paid a cash commission of \$170,910 and were issued 455,760 compensation warrants, with each warrant entitling the holder thereof to purchase one Common Share at any time for a period of 12 months following the date of the closing of the Private Placement at a price of \$0.50. All of the securities issued in connection with the Private Placement are subject to a four month hold period. The gross proceeds have been prorated to Common Shares and Warrants based on the relative fair value of each component, as follows: Common Shares - \$3,400,000; Warrants - \$1,100,000. The Black-Scholes option pricing model was used to determine the fair market value of the Warrants using the following assumptions: expected dividend yield: 0%; expected volatility: 100%; risk-free interest rate: 4.0%; and an expected life of one year.

### (b) Share Purchase Warrants

As at September 30, 2006, the following share purchase warrants are outstanding:

<u>Exercise Price</u>	<u>Number of Shares</u>	<u>Fair Value</u>	<u>Expiry Date</u>
\$0.35	5,100,000	\$ 425,000	October 12, 2006
\$0.75	9,000,000	1,100,000	July 11, 2007
	<u>14,100,000</u>	<u>\$1,525,000</u>	

A summary of share purchase warrants outstanding and changes during the first nine months of 2006 and for the year ended December 31, 2005 is presented below:

	<u>September 30, 2006</u>			<u>December 31, 2005</u>		
	<u>Number</u>	<u>Weighted average exercise price</u>	<u>Fair value</u>	<u>Number</u>	<u>Weighted average exercise price</u>	<u>Fair value</u>
Balance, beginning of year	5,950,000	\$0.35	\$ 495,833	10,562,501	\$0.42	\$ 984,782
Issued	9,000,000	\$0.75	1,100,000	---		
Expired	---			(4,652,501)	\$0.48	(484,781)
Exercised	(850,000)	\$0.35	(70,833)	(50,000)	\$0.35	(4,168)
Balance, end of year	<u>1,410,000</u>	<u>\$0.63</u>	<u>\$1,525,000</u>	<u>5,950,000</u>	<u>\$0.35</u>	<u>\$ 495,833</u>

### (c) Stock-based Compensation

#### *Stock option plan*

The Company has a stock option plan (the "Plan"), which was approved by the shareholders on May 7, 2003. The purpose of the Plan is to attract, retain and motivate management, staff and consultants by providing them with the opportunity, through share options, to acquire a proprietary interest in the Company and benefit from its growth. The maximum number of options to be issued under the plan shall not exceed 10% of the total number of common shares issued and outstanding. The options are non-transferable and may be granted for a term not exceeding ten years. The exercise price of the options shall be determined by the board of directors on the basis of the market price of the common shares, subject to all applicable regulatory requirements.

### Share purchase plan

The Company has a share purchase plan that provides the directors of the Company with the authority to select those employees and members of management of the Company and designated affiliates who may participate in the share purchase plan. The Company matches the participant's contribution, which cannot exceed ten per cent of the participant's basic annual remuneration, on a quarterly basis and each participant is then issued Common Shares having a value equal to the aggregate amount contributed to the share purchase plan by the participant and the Company. The purchase price per share is the weighted average price of the Common Shares on a stock exchange for the calendar quarter in respect of which the Common Shares are issued. Such Common Shares are delivered to participants 12 months following their date of issue. A maximum of 850,000 Common Shares may be issued pursuant to the share purchase plan. To date, no Common Shares have been issued pursuant to the share purchase plan.

### Share Bonus Plan

The share bonus plan permits Common Shares to be issued as a discretionary bonus to employees and management of the Company and designated affiliates. A maximum of 200,000 Common Shares may be issued pursuant to the share bonus plan. To date, no Common Shares have been issued pursuant to the share bonus plan.

A summary of the status of the Stock Option Plan as at September 30, 2006 and December 31, 2005 and changes during these periods is presented below:

	<u>September 30, 2006</u>		<u>December 31, 2005</u>	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding, beginning of year	2,415,000	\$0.50	2,735,000	\$0.49
Granted	---	---	---	---
Exercised	(260,000)	0.35	---	---
Cancelled / Expired	<u>(170,000)</u>	<u>0.48</u>	<u>(320,000)</u>	<u>0.41</u>
Outstanding, end of period	<u>1,985,000</u>	<u>\$0.53</u>	<u>2,415,000</u>	<u>\$0.50</u>

As at September 30, 2006, the Company had stock options issued to directors, officers and employees of the Company outstanding as follows:

<u>Number of Options</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
920,000	\$0.75	February 13, 2008
50,000	\$0.33	May 7, 2008
200,000	\$0.40	August 21, 2008
235,000	\$0.48	October 9, 2008
<u>580,000</u>	<u>\$0.25</u>	<u>November 10, 2009</u>
<u>1,985,000</u>		

### (d) Contributed Surplus

A summary of contributed surplus activity during the first nine months of 2006 and for the year ended December 31, 2005 is presented below:

	<u>September 30, 2006</u>	<u>December 31, 2005</u>
Balance, beginning of year	\$1,443,414	\$ 958,633
Share purchase warrants expired	---	<u>484,781</u>
Balance, end of period	<u>\$1,443,414</u>	<u>\$1,443,414</u>

## 6. RELATED PARTY CONTRACTUAL OBLIGATIONS AND TRANSACTIONS

Included in the accounts for the nine month period ended September 30, 2006 are payments made to companies under the control or significant influence of officers and directors as follows:

Management Services fees paid to companies controlled by or have significant influence by officers and directors of the Company	\$222,133
Representation Services fees paid to a company controlled by an officer and director of the Company	\$ 31,197
Promotional Services fees and expenses paid to a company controlled by a director of the Company	\$ 35,000
Financial Consulting fees paid to an officer of the Company	\$ 22,500

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

## 7. CONSOLIDATED STATEMENTS OF CASH FLOWS

The net change in non-cash working capital balances related to operating and investing activities consists of the following:

	<u>2006</u>	<u>2005</u>
Sundry receivables	\$ (53,311)	\$ 20,360
Prepaid expenses	(124,834)	7,638
Accounts payable and accrued liabilities	<u>(230,015)</u>	<u>137,610</u>
	<u>\$ (480,160)</u>	<u>\$ 165,608</u>

## 8. FINANCIAL INSTRUMENTS

### Fair Value

Canadian generally accepted accounting principles require that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The carrying amounts for sundry receivables and accounts payable and accrued liabilities on the balance sheets approximate fair value because of the limited term of these instruments.

### Foreign Exchange Risk

The Company is subject to foreign exchange risk as some of its operating and investing activities are transacted in currencies other than the Canadian dollar. The Company is therefore subject to gains and losses due to fluctuations in these currencies relative to the Canadian dollar.

### Commodity Price Risk

The ability of the Company to develop its properties and the future profitability of the Company is directly related to the market price of certain minerals.



## **9. COMMITMENTS, CONTINGENCIES AND CONTRACTUAL OBLIGATIONS**

The Company is a party to certain management contracts. These contracts contain clauses requiring additional payments be made upon the change of control of the Company.

During 2004, the Company was named as a defendant in a statement of claim in the Dominican Republic. The claim was filed by a tenant of one of the Company's mineral properties for damages in the amount of 2,000,000 Pesos (approximately Canadian \$85,000) for land use. The Company and its Dominican legal advisers believe that this claim is without merit and will continue to vigorously contest the claim. As the outcome of the claim is not determinable, no provision for the contingent loss has been reflected in these consolidated financial statements.

The Company is committed to a minimum amount rental under a lease for premises which expires February 28, 2007. Minimum rental commitments under the lease are \$12,500. Minimum rental commitments for the balance of 2006 is \$7,500; and for 2007 - \$5,000.

## **10. SUBSEQUENT EVENTS**

- (a) Subsequent to September 30, 2006, 5,100,000 share purchase warrants and 800,000 compensation warrants were exercised for total proceeds to the Company of \$2,025,000.
- (b) On October 2, 2006, 1,850,000 stock options at an exercise price of \$0.80 were granted to certain of the directors, officers, employees and consultants of the Company. The options expire on October 2, 2011.



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