

INLET RESOURCES LTD.

FINANCIAL STATEMENTS

December 31, 2005 and 2004

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The accompanying financial statements of Inlet Resources Ltd. have been prepared by management in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in this report has been reviewed to ensure consistency with the financial statements.

Management maintains systems of internal control designed to provide reasonable assurance that the assets are safeguarded. All transactions are authorized and duly recorded, the financial records are properly maintained to facilitate financial statements in a timely manner. The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee of the Board of Directors has reviewed the financial statements with management and the external auditors. Moen and Company LLP, an independent firm of chartered accountants, appointed as external auditors by the shareholders, have audited the financial statements and their report is included herein.

/s/ David Baker
President and Chief Executive Officer

AUDITORS' REPORT

To the Shareholders
Inlet Resources Ltd.

We have audited the balance sheets of Inlet Resources Ltd. as at December 31, 2005 and December 31, 2004 and the statements of income (loss) and deficit, and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"Moen and Company"

Vancouver, British Columbia, Canada
April 16, 2006

Chartered Accountants

INLET RESOURCES LTD.
BALANCE SHEETS
(Expressed In Canadian Dollars)

	December 31	
	2005	2004
ASSETS		
Current Assets		
Cash	\$ 205,759	\$ 474,578
Due from broker	13,259	-
GST receivable	4,742	4,867
Accounts receivable (Note 4)	143,738	-
Short term investment in public company shares, at market value (Note 14)	51,800	89,000
Total Current Assets	419,298	568,445
Mineral Properties (Note 7)		
Acquisition costs	-	220,001
Deferred exploration costs	-	689
	-	220,690
Property and equipment – net (Note 5)	2,879	4,319
Long-term investments (Note 11)	141,839	141,839
Total Assets	\$ 564,016	\$ 935,293
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 17,493	\$ 20,132
Shareholders' Equity		
Capital stock (Notes 8 and 16)		
Authorized: 100,000,000 common shares without par value (subsequently increased to an unlimited number of common shares without par value)		
Issued:		
64,254,511 common shares (2004 – 58,284,511 common shares)	13,586,210	13,306,960
Contributed surplus	339,088	339,088
Deficit, accumulated during the development stage (Note 2)	(13,378,775)	(12,730,887)
Total Shareholders' Equity	546,523	915,161
Total Liabilities and Shareholders' Equity	\$ 564,016	\$ 935,293

APPROVED ON BEHALF OF THE BOARD:

"David Baker" (Signed)

Director

"Earl Terris" (Signed)

Director

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

INLET RESOURCES LTD.
STATEMENTS OF INCOME (LOSS) AND (DEFICIT)
(Expressed In Canadian Dollars)

	Year Ended December 31	
	<u>2005</u>	<u>2004</u>
INTEREST AND OTHER REVENUE	\$ <u>5,912</u>	\$ <u>8,918</u>
GENERAL AND ADMINISTRATIVE EXPENSES		
Accounting fees	27,850	59,343
Audit fees	12,478	19,744
Amortization	1,440	3,478
Consulting and administration fees	57,691	112,551
Foreign exchange loss	-	358
Interest and bank charges	1,104	1,031
Legal fees	2,480	1,249
Management fees	35,700	45,224
Property investigation	34,061	-
Rent, telephone, office expenses and services	82,438	134,283
Shareholders' communication fees and expense	89,613	118,990
Transfer agent and filing fees and services	41,859	56,781
Travel and promotion	65,123	27,837
Office expenses recoverable	(141,360)	-
Loss in value of short term investment	37,200	-
Total general and administrative expenses	<u>347,677</u>	<u>580,870</u>
OTHER EXPENSES		
Write-off Red Lake property	306,122	-
Write-off Ungava property	1	-
	<u>306,123</u>	<u>-</u>
NET LOSS FOR THE YEAR	\$ <u>(647,888)</u>	\$ <u>(571,952)</u>
DEFICIT, BEGINNING OF YEAR	\$ (12,730,887)	\$ (12,158,935)
DEFICIT, END OF YEAR	\$ <u>(13,378,775)</u>	\$ <u>(12,730,887)</u>
BASIC AND DILUTED LOSS PER SHARE (Note 10)	\$ <u>(0.01)</u>	\$ <u>(0.01)</u>
Weighted average shares outstanding		
- Basic and diluted	<u>61,781,286</u>	<u>52,802,992</u>

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

INLET RESOURCES LTD.
STATEMENTS OF CASH FLOWS
(Expressed In Canadian Dollars)

	Year Ended December 31	
	2005	2004
Operating activities		
Net loss for the year	\$ (647,888)	\$ (571,952)
Less: Non-cash items		
Amortization	1,440	1,846
Stock-based compensation	-	272,607
Write-off mineral properties	306,123	-
Loss in value of short term investment	37,200	-
Changes in non-cash working capital items		
Accounts receivable and GST	(143,613)	(156)
Accounts payable	(2,639)	6,812
Due from brokers	(13,259)	26,000
Net cash used in operating activities	<u>(462,636)</u>	<u>(264,843)</u>
Investing activities		
Property and equipment purchased	-	(5,399)
Deferred exploration costs	(85,433)	(2,785)
Net cash used in investing activities	<u>(85,433)</u>	<u>(8,184)</u>
Financing activities		
Proceeds from issuance of common shares	279,250	733,352
Net cash provided by financing activities	<u>279,250</u>	<u>733,352</u>
CASH, INCREASE (DECREASE) DURING THE YEAR	(268,819)	460,325
CASH, BEGINNING OF YEAR	<u>474,578</u>	<u>14,253</u>
CASH, END OF YEAR	<u>\$ 205,759</u>	<u>\$ 474,578</u>
Supplementary Disclosure of Non-Cash Transactions		
Shares received per property agreement – Red Lake	\$ -	\$ 15,000
Shares received from Goldbrook Ventures Inc. for Ungava property	\$ -	\$ 141,839
Write-off Ungava property	\$ 1	\$ -
Write-off Red Lake property	\$ 306,122	\$ -
Loss in value of short term investment	\$ 37,200	\$ -
Interest paid	\$ -	\$ -
Income taxes paid	\$ -	\$ -

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

INLET RESOURCES LTD.
Notes to Financial Statements
December 31, 2005
(Expressed in Canadian Dollars)

Note 1. **Business of the Company**

Inlet Resources Ltd. ("the Company") carries out its business activities exclusively in Canada, and is engaged in the acquisition, exploration, development and subsequent production relating to mineral properties. The Company is incorporated in British Columbia, Canada.

Note 2. **Nature of Operations and Going Concern**

The Company is considered to be a development stage enterprise, in the exploration of mineral properties, and accordingly, the deficit has been accumulated during the development stage.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) applicable to a going concern which assume that the Company will realize its assets and discharge its liabilities in the normal course of business. The Company has incurred losses since incorporation and inception of \$13,378,775 and has working capital at December 31, 2005 of \$401,805. These factors create substantial doubt as to the ability of the Company to continue as a going concern unless sufficient funds are raised for ongoing operations. The Company proposes to raise funds by private placements (see Note 16(b)). Realization values may be substantially different from the carrying values as shown in these financial statements should the Company be unable to continue as a going concern.

Note 3. **Summary of Significant Accounting Policies**

(a) **Mineral Property Interests and Deferred Exploration Costs**

- (i) Acquisition costs of mineral property interests together with exploration costs thereon are deferred in the accounts to be written off when production is attained or disposition occurs. If the results from exploration warrant abandonment of certain mineral properties, costs related thereto are written off to current operations.
- (ii) Exploration costs and mine development costs to be incurred, including those to be incurred in advance of commercial production and those incurred to expand capacity of proposed mines, are to be capitalized. Mine development costs to be incurred to maintain production will be expensed as incurred. Depletion and amortization expense related to capitalized mineral property interests and exploration costs and mine development costs will be computed using the units-of-production method based on proven and probable reserves.

(b) **Property Option Agreements**

The Company may acquire or dispose of properties pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded; option payments are recorded as resource property costs or recoveries when the payments are made or received.

INLET RESOURCES LTD.
Notes to Financial Statements
December 31, 2005
(Expressed in Canadian Dollars)

Note 3. **Summary of Significant Accounting Policies (cont'd)**

(c) **Values**

The amounts shown for Mineral Property Acquisition Costs and Deferred Exploration Costs represent historic costs incurred to date and are not intended to reflect present or future values. The recoverability of the amounts shown for mineral property interests and related deferred exploration costs is dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain necessary financing to successfully complete their development, and future profitable production.

(d) **Basis of Presentation**

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. (GAAP)

(e) **Property and Equipment**

Property and equipment is carried at cost and is depreciated over its estimated useful life of five years on a straight-line basis.

(f) **Foreign Currency**

The accounts of the Company are translated into Canadian dollars, using the temporal method, where applicable, on the following basis:

- Monetary assets and liabilities are translated at the rate of exchange in effect at the balance sheet date;
- Non-monetary assets and liabilities are translated at the rate prevailing when the transaction occurred;
- Revenue, general and administration expenses, and gains and losses are translated at the average exchange rate in effect during the period;
- Exchange gains or losses from conversion are included in the current net income;
- Depreciation or amortization of assets translated at historical exchange rates are translated at the same exchange rates as the assets to which they relate.

INLET RESOURCES LTD.
Notes to Financial Statements
December 31, 2005
(Expressed in Canadian Dollars)

Note 3. **Summary of Significant Accounting Policies (cont'd)**

(g) **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 reported amount of revenues and expenses during the reporting period. Significant areas where management's judgment is applied include asset and investment valuations, equipment lives, contingent liabilities, tax provisions and future income tax balances, asset retirement obligations and other accrued liabilities. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

(h) **Stock Option Plan**

The Company grants stock options under a fixed stock option plan in accordance with the TSX Venture Exchange policies. Effective for fiscal years commencing on or after January 1, 2004, Canadian generally accepted accounting principles require the fair value of all share purchase options to be 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 the 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, do not necessarily provide a reliable single measure of the fair value of the Company's share purchase options.

(i) **Environmental Issues**

The Company is not aware of any environmental studies made and of any present or past obligations.

The operations of the company may in the future be affected from time to time to varying degree by changes in environmental regulations, including those for future removal and site restoration costs. Both the likelihood of new regulations and their overall effect upon the company vary greatly and are not predictable. The company's policy is to meet or, if possible, surpass standards set by relevant legislation, by application of technically proven and economically feasible measures.

INLET RESOURCES LTD.
Notes to Financial Statements
December 31, 2005
(Expressed in Canadian Dollars)

Note 3. **Summary of Significant Accounting Policies (cont'd)**

(j) **Income Taxes**

Future income tax assets and liabilities are computed based on differences between the carrying amounts of assets and liabilities on the balance sheet and their corresponding tax values, using the enacted or substantively enacted, as applicable, income tax rates at each balance sheet date. Future income tax assets also result from unused loss carry-forwards and other deductions. The valuation of future income tax assets is reviewed on a regular basis and adjusted, if necessary, by use of valuation allowance to reflect the estimated realizable amount.

(k) **Asset Retirement Obligations**

Effective January 1, 2004, the company adopted CICA Handbook Section 3110. Under this standard, future obligations to retire an asset including dismantling, remediation and ongoing treatment and monitoring of the site are initially recognized and recorded as a liability at fair value, assuming a credit adjusted risk-free discount rate and an inflation factor. The liability is adjusted for changes in the expected amounts and timing of cash flows required to discharge the liability and accreted to full value over time through periodic charges to earnings. The amount of the asset retirement liability initially recognized is capitalized as part of the asset's carrying value and amortized over the asset's estimated useful life.

Under the standard, future asset retirement obligations are only recorded when the timing or amount of remediation costs can be reasonably estimated.

(l) **Earnings (Loss) per Common Share**

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the year. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the year, if dilutive. The "treasury stock method" is used for the assumed proceeds upon the exercise of the stock options and warrants that are used to purchase common shares at the average market price during the year. During the years ended December 31, 2005 and 2004, all of the outstanding stock options and warrants were antidilutive.

INLET RESOURCES LTD.
Notes to Financial Statements
December 31, 2005
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Note 4. **Accounts Receivable**

The Company recognized \$141,360 expenses recoverable from rent, computer/office equipment and miscellaneous services provided at two different offices for the years 2004 and 2005. The amounts recoverable were recorded as a credit to operations in the year ended December 31, 2005, and were subsequently received after that date. The following are included in accounts receivable

	December 31	
	2005	2004
Due from companies with common directors	\$ 1,404	\$ -
Accrued interest receivable	974	-
Recoverable expenses	141,360	-
	\$ 143,738	\$ -

Note 5. **Property and Equipment**

	December 31	
	2005	2004
Equipment at cost	\$ 57,413	\$ 57,413
Accumulated Amortization	(54,534)	(53,094)
	\$ 2,879	\$ 4,319

Note 6. **Contingent Liabilities and Commitments**

The Company is not aware of any significant contingent liabilities or guarantees as at December 31, 2005. The Company has reserved shares for the commitment to issue shares in the event of the exercise of incentive stock options (Note 8(d)) or share purchase warrants (Note 8(e)).

Note 7. **Mineral Properties**

Red Lake Gold Property

On November 19, 2003, the Company entered into a Property Acquisition Agreement with Mackenzie Jaims ("Jaims"). The Company agreed to acquire a 100% interest in the property consisting of 53 mining claims totaling 830 claim units comprised of 32,800 acres located in the Red Lake area of Ontario. In consideration, the Company paid \$60,000 in cash and issued 2,000,000 shares to Jaims. Jaims retains a 2% net smelter royalty and the Company has the option to purchase a 1% of the net smelter royalty ("NSR") for \$1,000,000.

INLET RESOURCES LTD.
Notes to Financial Statements
December 31, 2005
(Expressed in Canadian Dollars)

Note 7. **Mineral Properties (cont'd)**

Red Lake Gold Property (cont'd)

	Balance, December 31, 2005	Exploration expenditure s during 2005	Balance, December 31, 2004
Red Lake Gold Property			
Acquisition cost - 100% interest			
- Cash payment	\$ -	\$ -	\$ 60,000
- 2,000,000 shares per agreement	-	-	200,000
	-	-	260,000
Deduct: Option payment received from Rampart	-	-	(25,000)
100,000 Rampart shares received (@\$0.15/share)	-	-	(15,000)
	-	-	220,000
Deferred exploration costs			
- Assays and sampling	-	540	-
- Claims maintenance	-	3,763	689
- Consulting (Geological)	-	40,345	-
- Field work and supplies	-	9,250	-
- Field and office costs	-	12,096	-
- Report and map	-	1,237	-
- Legal	-	412	-
- Site visit	-	663	-
- Wages and salaries	-	17,127	-
Total deferred exploration costs	-	85,433	689
Total costs	-	85,433	220,689
Write-off Red Lake property	-	(306,122)	-
Total Red Lake Properties	\$ -	\$ (220,689)	\$ 220,689

On December 1, 2003, the Company granted Rampart Ventures Ltd. ("Rampart") the option to acquire an undivided 60% interest in the Red Lake Gold Property. The Company received an option payment of \$25,000 and 100,000 shares of Rampart valued at \$0.15 per share in the year ended December 31, 2004.

On March 1, 2005, Rampart Ventures Ltd. terminated the option agreement.

During the year ended December 31, 2005, the Company continued a comprehensive review of the 2004 exploration data as well as review of previous exploration data. The company completed a 14 day field program on the property consisting of geological mapping and prospecting. Based on the exploration results, there is no future value in the property and, accordingly, the Company wrote off the acquisition costs and exploration expenditures associated with the Red Lake Gold property.

INLET RESOURCES LTD.
Notes to Financial Statements
December 31, 2005
(Expressed in Canadian Dollars)

Note 7. **Mineral Properties (cont'd)**

Ungava Property

On February 3, 2003, the Company acquired a 100% interest in the Ungava property located in Quebec, through the delivery of 600,000 shares at \$0.13 per share and the payment of \$100,000. The property is subject to a 1% NSR of which half may be purchased for \$1,000,000.

On August 6, 2003, the Company entered into an Option and Joint Venture Agreement with Goldbrook Ventures Inc. ("Goldbrook"). The Company granted Goldbrook the exclusive right and option to acquire an undivided 80% interest in the Ungava Property, through the delivery of an aggregate 500,000 common shares of Goldbrook and incurring an aggregate of \$3,500,000 of work expenditures on the Property for the next 4 years.

On July 30, 2004, the Company announced that it had reached an agreement with Goldbrook Ventures Inc. ("Goldbrook") whereby Goldbrook will acquire all of the Company's interest in the Wakeham Property (the "Property") comprised of approximately 74,280 acres in the Raglan area of northern Quebec. As consideration, Goldbrook delivered 3,000,000 common shares to the Company valued at \$141,839.

This Agreement replaces the option previously granted to Goldbrook by the Company to earn up to an 80% interest in the Property. The Wakeham Property is subject to a 1-per-cent net smelter return royalty on any mineral production from the Property. Goldbrook has the option to purchase one-half of this royalty for \$1 million.

During the year ended December 31, 2005, the Company wrote off the \$1 nominal value of the Ungava property.

	December 31	
	2005	2004
Ungava Property		
Acquisition costs		
- Cash payment	\$ 100,000	\$ 100,000
- 600,000 shares @ \$0.13 (Acquisition agreement)	78,000	78,000
	178,000	178,000
Less: Goldbrook shares (Option agreement)	(100,000)	(100,000)
Less: Goldbrook shares (property disposal consideration)	(77,999)	(77,999)
Net acquisition costs	1	1
 Deferred exploration costs		
- Claims, maintenance & surveying	28,096	28,096
- Consulting fees	32,167	32,167
- Equipment rental & repairs	1,656	1,656
- Reports & maps	1,921	1,921
Less: Goldbrook shares (property disposal consideration)	(63,840)	(63,840)
Total deferred costs	-	-
Write-off Ungava property	(1)	-
 Total – Ungava property	\$ -	\$ 1

INLET RESOURCES LTD.
Notes to Financial Statements
December 31, 2005
(Expressed in Canadian Dollars)

Note 8. **Capital Stock**

- (a) Authorized: 100,000,000 common shares without par value, subsequently increased to an unlimited number of common shares without par value.
- (b) Issued and outstanding:

	Year Ended December 31			
	2005		2004	
	Shares	\$	Shares	\$
Balance, beginning of period	58,284,511	\$ 13,306,960	43,284,437	\$ 12,573,608
Issued during the year				
Adjustment for rounding discrepancy			74	
For Cash – Private Placement				
- 04/21/2004 @\$0.05/share			10,000,000	500,000
- Finder's fees / agent fees			-	(43,800)
- 06/15/2004 @\$0.06/share			1,990,500	119,430
- Finder's fees / agent fees			-	(5,091)
- 07/07/2004 @\$0.06/share			3,009,500	180,570
- Finder's fees / agent fees			-	(17,757)
- 05/31/2005 @\$0.05/share	5,170,000	258,500		
- Finder's fees / agent fees	-	(14,500)		
- 06/09/2005 @\$0.05/share	800,000	40,000		
- Finder's fees / agent fees	-	(4,750)		
Total issued during the year	5,970,000	279,250	15,000,000	733,352
Balance, end of year	64,254,511	\$ 13,586,210	58,284,511	\$ 13,306,960

- (c) During the year, the Company arranged and closed its non-brokered private placement announced on April 29th, issuing 5,970,000 units at a price of \$0.05 per unit for gross proceeds of \$298,500. Each unit is comprised of one common share and one common share purchase warrant; each warrant exercisable into one additional common share for a period of two years from the closing date at an exercise price of \$0.10. Management is not aware of any assignable value of the warrants. Shares issued pursuant to the private placement are legended with hold periods expiring on October 2nd, 2005 and October 10, 2005. The private placement was comprised of 2,170,000 flow-through units and 3,800,000 non-flow-through units.

INLET RESOURCES LTD.
Notes to Financial Statements
December 31, 2005
(Expressed in Canadian Dollars)

Note 8. **Capital Stock (cont'd)**

(d) Incentive Stock Options

At the Company's Annual General Meeting held on June 15, 2004, shareholders approved the Company's rolling stock option plan whereby a maximum of 10% of the issued shares will be reserved for issuance under the Plan.

A summary of the Company's outstanding stock options as of December 31, 2005 and December 31, 2004 and the changes during the years are presented below:

	<u>Number</u>	<u>Exercise Price</u>
Outstanding and exercisable at December 31, 2003	2,605,000	\$0.10
Granted	4,543,444	\$0.10
Cancelled	(1,315,000)	\$0.10
Expired	<u>(20,000)</u>	\$0.10
Outstanding and exercisable at December 31, 2004	<u>5,813,444</u>	<u>\$0.10</u>
Expired	(1,000,000)	\$0.10
Cancelled	<u>(160,000)</u>	\$0.10
Outstanding and exercisable at December 31, 2005	<u>4,653,444</u>	<u>\$0.10</u>

During the year ended December 31, 2005, there were no stock options granted.

Incentive Stock options outstanding at December 31, 2005 to Directors, Officers and key employees are as follows:

Number of shares	Expiry Date	Exercise Price
270,000	December 8, 2007	\$0.10
<u>4,383,444</u>	July 8, 2009	\$0.10
<u>4,653,444</u>		

INLET RESOURCES LTD.
Notes to Financial Statements
December 31, 2005
(Expressed in Canadian Dollars)

Note 8. **Capital Stock (cont'd)**

(e) Share Purchase Warrants

During the year ended December 31, 2005, 5,970,000 share purchase warrants were issued through the non-brokered private placement announced on April 29, 2005 (Note 8(c)).

A summary of the Company's outstanding share purchase warrants as at December 31, 2005 and December 31, 2004 and the changes during the years are presented below:

	<u>Number</u>	<u>Exercise Price</u>
Outstanding and exercisable at December 31, 2003	8,000,000	\$0.10
Expired – June 18, 2004	(8,000,000)	\$0.10
Issued – April 21, 2004	10,701,000	\$0.10
Issued – June 15, 2004	2,047,700	\$0.10
Issued – July 7, 2004	<u>3,120,450</u>	\$0.10
Outstanding and exercisable at December 31, 2004	<u>15,869,150</u>	<u>\$0.10</u>
Expired/cancelled	(869,150)	\$0.10
Issued – April 29, 2005	<u>5,970,000</u>	\$0.10
Outstanding and exercisable at December 31, 2005	<u>20,970,000</u>	<u>\$0.10</u>

At December 31, 2005, there were 20,970,000 outstanding share purchase warrants entitling the holders thereof the right to purchase one common share for each warrant held as follows:

<u>Number of Shares</u>	<u>Details</u>	<u>Expiry Date</u>	<u>Exercise Price Per Share</u>
10,000,000	Private Placement	April 20, 2006	\$0.10
1,990,500	Private Placement	June 15, 2006	\$0.10
3,009,500	Private Placement	July 6, 2006	\$0.10
5,170,000	Private Placement	May 30, 2007	\$0.10
<u>800,000</u>	Private Placement	June 8, 2007	\$0.10
<u>20,970,000</u>			

(f) Flow-through Shares

The Company renounced \$108,500 of deferred exploration costs on the effective date of December 31, 2005 due to the issuance of 2,170,000 common flow through shares. The future income tax liability is reduced to "Nil" by a valuation allowance.

INLET RESOURCES LTD.
Notes to Financial Statements
December 31, 2005
(Expressed in Canadian Dollars)

Note 9. **Contributed Surplus**

	Year Ended December 31	
	2005	2004
Balance at beginning of year	\$ 339,088	\$ 66,481
Stock option compensation	-	272,607
Balance at end of year	\$ 339,088	\$ 339,088

Note 10. **Earnings (Loss) Per Common Share**

	Year Ended December 31, 2005	Weighted Average Shares Outstanding	Loss Per Share
	Net Loss		
Basic Earnings (Loss) per Share	\$ (610,688)	61,781,286	\$ (0.01)
Effect of options		5,231,581	
Effect of warrants		18,788,585	
Dilutive Earnings (Loss) per Share	\$ (610,688)	85,801,452	\$ (0.01)*
Diluted Earnings (Loss) per Share	\$ (610,688)	61,781,286	\$ (0.01)*

* The diluted loss per share does not increase above the basic loss per share, due to anti-dilutive factors.

Note 11 **Long Term Investments**

As at December 31, 2005 and December 31, 2004, long term investments are recorded at cost of \$141,839 and consist of 3,000,000 common shares of Goldbrook Ventures Inc. ("Goldbrook"), a public company with a common director and common officer. 3,000,000 common shares have been placed in escrow and are to be released to the Company on the basis of one share for each \$0.42 in expenditures made by Goldbrook on the Ungava Property (Note 6, 7 and 16(c)) as approved by TSX Venture Exchange in its bulletin dated August 31, 2004.

The Company is exposed to liquidity risk which is the risk that the Company will encounter difficulty in selling all of these common shares at an amount at least equivalent to its cost.

INLET RESOURCES LTD.
Notes to Financial Statements
December 31, 2005
(Expressed in Canadian Dollars)

Note 12. **Related Parties**

The Company retains the services of certain directors and officers. Management fees, regulatory fees, and corporate and administration fees are as follows:

Expense	Year Ended December 31,	
	2005	2004
Management fees	\$ 35,700	\$ 24,000
Corporate & administration fees	-	13,895
Consulting fees – corporate strategy	-	1,500
Deferred exploration	8,800	-
Consulting fees (Shareholders communication)	7,500	
Corporate services	18,000	7,000
Total	\$ 70,000	\$ 46,395

In 2005, the management fees of \$35,700 (2004 - \$24,000) and deferred exploration costs of \$6,300 were paid to the president, who is also a director, of the Company. Deferred exploration costs of \$2,500 were also paid to a director. Three months of consulting fees, related to shareholders' communication of \$7,500 were paid to a company controlled by the spouse of the president. Corporate services of \$18,000 were paid to a director.

In 2005, 1,060,000 flow-through shares with private placement were subscribed by two directors of the Company.

At December 31, 2005, accounts payable and accrued liabilities included \$924 (2004 - \$662) due to a director of the Company and \$2,764 (2004 - \$2,573) owing to a company with common directors for expenses paid on behalf of the Company.

At December 31, 2005 accounts receivable include the offices expenses paid on behalf of companies with common directors and management in the amount of \$1,404 (2004 – Nil).

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Note 13. **Income Taxes**

- (a) The Company has losses for income tax purposes that may be carried forward to be applied against taxable income of future years as follows:

<u>Year</u>	<u>Amount</u>
2006	\$ 1,396,092
2007	597,933
2008	365,722
2009	227,675
2010	292,551
2014	575,139
2015	<u>502,188</u>
	<u><u>3,957,300</u></u>

- (b) Flow-Through Shares

Share capital includes \$108,500 in flow-through shares issued in 2005 pursuant to certain provisions of the Income Tax Act of Canada ("the Act"). The Act provides that, where the share issuance proceeds are used for exploration and development expenditures, the related income tax deductions may be renounced to subscribers. Accordingly, these expenditures provide no tax deduction to the Company.

The Company reduces share capital and deferred exploration costs by the estimated amount of the related future tax liability arising when the capital expenditures are incurred. However, any future tax liabilities related to flow-through shares are reduced by a valuation allowance.

- (c) The Company presently has no taxable income. The Company's future income tax assets and liabilities are as follows:

	December 31, 2005	December 31, 2004
Future income tax assets	\$ 1,345,482	\$ 1,302,950
Valuation allowance	<u>(1,345,482)</u>	<u>(1,302,950)</u>
Net future income tax assets	<u>\$ -</u>	<u>\$ -</u>

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Future income tax liabilities related to flow-through shares	(36,890)	-
Valuation allowance	<u>36,890</u>	-
Net future income tax liabilities	<u>-</u>	<u>-</u>

Future income tax rate is 34% reduced by valuation allowance of 34%

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Note 14. **Financial Instruments / Short Term Investment in Public Company Shares**

For cash, accounts receivable, investment in public company shares, and accounts payable and accrued liabilities, the carrying amounts of these financial instruments approximate their fair value, except for the investment in public company shares which are recorded at cost of \$89,000, and have a market value of \$51,800 at December 31, 2005; the decrease in value of \$37,200 is recorded in these financial statements. The investment in public company shares includes 160,000 common shares of Goldbrook Ventures Inc. at total cost of \$80,000 and 60,000 common shares of Rampart Ventures Ltd. at total cost of \$9,000.

<u>Investment</u>	December 31, 2005		December 31, 2004	
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
Goldbrook Ventures Inc.	\$ 80,000	\$ 36,800	\$ 80,000	\$ 54,400
Rampart Ventures Ltd.	9,000	15,000	9,000	22,800
Total	\$ 89,000	\$ 51,800	\$ 89,000	\$ 77,200

Note 15. **Risk Factors**

Concentration of credit risk

The Company does not believe it is subject to any significant concentration of credit risk. Cash is placed with major financial institutions on a cash or short term investment basis. Accounts receivable represent amounts that are collectible.

Interest rate risk

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary assets and current liabilities.

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Note 16. **Subsequent Events**

Subsequent to the year-ended December 31, 2005, the following transactions occurred:

- a) On January 17, 2006, pursuant to a special resolution passed by shareholders July 15, 2005, the Company consolidated its capital on a 30 old for 1 new basis and has subsequently increased its authorized capital to an unlimited number of common shares. Effective at the opening January 11, 2006, shares of the Company commenced trading on TSX Venture Exchange on a consolidated basis under the new trading symbol "INL". The Company is classified as a "Resource" company.
- b) In conjunction with the share consolidation on January 17, 2006, the Company completed a post-consolidation non-brokered private placement involving the issuance of 2,000,000 units (the "Units") at a price of \$0.225 per Unit, for gross proceeds of \$450,000 less finders' fees of \$12,195 for net proceeds of \$437,805. Each Unit is composed of one post-consolidated common share of the Company and one transferable common share purchase warrant. Each Warrant is exercisable into one additional post-consolidated common share of the Company for a period of two (2) years from the closing date of the Private Placement at an exercise price of \$0.30. The proceeds from the offering will be added to working capital and will be used for general and administrative expenses and to investigate new opportunities for the Company.
- c) The Company will be applying for the release of the 3 million escrow Goldbrook shares. As per the Goldbrook Ventures Inc. audited financials statements for the year-ended April 30, 2005, exploration expenditures incurred in the Wakeham Property from August 1, 2004 to April 30, 2005 total \$1,302,531 and May 1, 2005 to December 31, 2005 of \$90,577 for a total of \$1,393,108. Based on these expenditures, the Company is eligible to apply for release of the 3,000,000 escrow shares based upon one share for each \$0.42 in exploration expenditures made by Goldbrook in the Wakeham Property.