



ANNUAL REPORT 2005



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## **A MESSAGE FROM THE CHAIRMAN**

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### **Message to Shareholders**

On behalf of the Board of Directors I am pleased to report on the accomplishments of Wildcat Exploration Ltd. in 2005, and our plans for growth in 2006.

Our field programs in 2005 brought us many signs of encouragement. The discovery of a new gold zone on the Poundmaker grouping called the Rio Gold Zone was a highlight. As well, the Company was successful in financing its activities and continued to broaden its shareholder base.

Wildcat raised aggregate net proceeds of about \$2.1 million from non-brokered private placements. Through these placements Wildcat was able to continue to broaden its private investor base as well as the institutional shareholder base. These financings provided the Company with the funds to complete the 2005 exploration program as well as to start the 2006 program.

Exploration in 2005 included the completion of the winter drill program on the Poundmaker and Siderock properties. Drilling on the Poundmaker deposit clearly indicated two discrete zones of auriferous mineralization. Drilling on the Portage gold zone on the Siderock property expanded the width of the zone and confirmed that the gold mineralization was open along strike and down dip. The results in these areas strongly indicated that further work was warranted.

The Company's summer program consisted of approximately 170 km of line cutting establishing or extending 13 grids on its Bissett properties. A twelve-man crew was assembled for geological mapping, sampling and hydraulic washing. A Mobile Metal Ion (MMI) soil survey was conducted with approximately 2000 samples being collected and analyzed on all Bissett properties (MMI is an advanced surface exploration technique for locating mineral deposits). Results of the summer exploration program were encouraging with several new gold zones being identified and numerous high-grade gold samples collected (up to 152.5 gpt Au).

An airborne geophysical survey was completed on the Company's wholly owned Foster River zinc – lead – silver property located in the Hewetson Lake area of Saskatchewan. A summer program was conducted to identify previous drill hole collars, conduct MMI surveys, and collect rock samples in preparation for a full program in 2006.

Plans for the coming year will include the continuing advancement of our exploration programs at our gold projects and at our significant Foster River zinc project in Saskatchewan. Look for the profile of the Foster River project to increase within the Company's portfolio of projects. We expect to increase our level of target identification and drill testing. As a result of the increasing success of the exploration programs over the last several years the Company continues to recruit additional personnel to complement the existing team. We are pleased at the recent appointment of Mr. Sol Prizant as President and Chief Executive Officer to bring additional leadership and focus to our efforts.

At this time I would like to express appreciation to our exploration team and office staff for their hard work this past year. I would also like to thank our shareholders for their continuing support as the Company continues to build and advance its projects.

On behalf of the Board of Directors

Jerrold Siemens  
Chairman  
May 2006

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The following discussion, prepared by management, reviews the Company's financial results for the year ended December 31, 2005 compared to the previous year and covers the subsequent period to April 27, 2006.

Additional information about the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **FORWARD LOOKING STATEMENT**

This report may contain forward-looking statements that involve a number of risks and uncertainties including statements regarding the outlook of the Company's business and results of operations. By nature, these risk and uncertainties could cause actual results to differ materially from those indicated. Such factors include, without limitation, risks inherent in mineral exploration, the Company's history of operating losses and uncertainty of future profitability, uncertainty of access to additional capital, and environmental risks.

Wildcat Exploration Ltd. disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

### **OVERVIEW**

Wildcat Exploration Ltd. is a Manitoba-based junior exploration company active in the acquisition and exploration of mining properties, focusing its exploration in Central Canada. Wildcat is strategically positioned in the Bissett gold camp of Manitoba, where it has accumulated the largest land holdings in an under-explored portion of the camp, with 155 claims covering 247 square kilometers. In the Snow Lake area, Wildcat has two projects that cover 50 square kilometers, hosting platinum and palladium mineralization, and is made up of 27 claims. As well, the Company is exploring for base metals in the Wollaston Domain of Saskatchewan where it holds three claims covering 8,089 hectares, known as the Foster River project.

Because Wildcat has not begun production on any of its properties, the Company does not have any revenue from operations. The Company raises capital for use in its operations through private placements and the exercise of warrants and options.

Wildcat completed a diamond drill program over the Poundmaker and Siderock properties between November 2004 and February 2005. 1109 meters diamond drilling was carried out on the Poundmaker property with drilling focused in two areas 1) a new gold discovery made in 2003 - the Lady Gold Zone and 2) an historical gold producer - Poundmaker deposit. 1472 meters of drilling was conducted on the Siderock property where the focus of attention was the Portage Gold Zone.

The 2005 summer program consisted of extensive line-cutting and geophysical surveying on the Poundmaker, Siderock, Garner and Jeep properties, followed by mapping and prospecting on the four properties in the Bissett area of Manitoba. Hydraulic stripping and trenching were also completed on the Poundmaker and Jeep properties.

Work on the Foster River property in Saskatchewan consisted of a helicopter-borne magnetic and electromagnetic survey in early 2005 with a preliminary field exploration program during the fall.

## SELECTED ANNUAL INFORMATION

The following table sets forth selected annual information of the Company for, and as at, the end of each of the last three financial years of the Company ending December 31, 2005. The financial information is derived from the annual audited financial statements of the Company and has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All references to dollars are in Canadian funds.

	Years ended		
	2005	2004	2003
Revenue	Nil	Nil	Nil
Income (Loss)	(166,994)	(521,046)	(129,644)
Income (Loss) per Share	(0.01)	(0.04)	(0.01)
Fully Diluted Loss per Share	(0.01)	(0.04)	(0.01)
Total Assets	5,203,729	3,601,915	1,811,297
Long-term Debt	66,722	90,824	Nil
Cash Dividends Paid	Nil	Nil	Nil
Mineral Exploration Properties	3,443,376	2,432,864	1,757,204

## OVERALL PERFORMANCE AND RESULTS OF OPERATIONS

At the end of 2005, Wildcat had \$52,000 in general funds on hand, compared to \$129,000 at the end of the previous year. As well, the Company had \$1,559,000 (2004 - \$790,000) of restricted cash at year-end. Restricted cash is raised through the issue of flow-through shares and is available to finance specified Canadian exploration activities. Cash flows show a net decrease in general funds during 2005 of \$77,000 compared to a net increase in general funds in 2004 of \$103,000. Financings resulted in net cash raised for operations of \$2,134,000 during 2005, very similar to the net financings from 2004 of \$2,135,000. An expanded exploration program during 2005 resulted in an investment of \$1,372,000 in exploration activities before government grants received of \$98,000 (2004 investment - \$784,000, 2004 government grants - \$108,000), an investment of \$51,000 (2004 - \$72,000) in field and office equipment, and \$471,000 (2004 - \$326,000) disbursed on head office operations.

The following table sets forth selected annual expenses of the Company for, and as at, the end of each of the last two financial years of the Company ending December 31, 2005. This information should be read in conjunction with the annual audited financial statements of Wildcat. All references to dollars are in Canadian funds.

	Years ended	
	2005	2004
Cumulative Mineral Exploration Properties	3,443,376	2,432,864
Investment in Deferred Exploration-net of grants	1,274,000	675,658
Loss before Other Income and Expenses and Income Taxes	565,785	521,046
Loss before Income Taxes	655,504	521,046
Loss for the year	166,994	521,046
Loss per Common Share	(0.01)	(0.04)
Audit and Related Fees	41,493	20,204
Investor Relations	125,039	33,240
Legal and Agency Fees	18,242	40,250
Office Expenses	47,556	29,003
Office Salaries and Professional Fees	110,064	81,050
Rent	22,903	12,474
Stock-based Compensation	51,047	166,790
Recovery on Disposal of Resource Properties	104,421	Nil
Resource Property Costs Written Off	(155,185)	Nil
Future Taxes (Recovery) on Renouncement of Flow-Through Expenditures	(488,510)	Nil

Successful financings in the last half of 2004 and during 2005 enabled the Company to run an expanded summer program during the summer of 2005 in comparison to prior years' programs. The results of the 2005 exploration work are discussed in more detail in the section entitled "Resource Properties".

While the Loss before Other Income and Expenses and Income Taxes for 2005 is not significantly higher than that of 2004, there was a significant shift in the nature of the underlying activities. Elevating the Company's profile within the mining industry, primarily through building relationships within the mining investment community and through attendance at mining conventions, was a focus of investor relations during 2005, with close to a four-fold increase in expenditures. Increased Office Expenses and Office Salaries and Professional Fees is a direct result of the increase in both exploration and investor relations activities. Two factors also contributing significantly to the increase in professional fees were: the implementation of a new accounting system, one that functions effectively in a multi-user environment and has much broader reporting capabilities than the previous accounting system; and, the continually increasing regulatory requirements.

2005 audit fees include an unanticipated charge for 2004 of \$7,400 resulting from the increased level of activity of the Company during 2004 as well as the purchase and sale transaction with Arc Metals Ltd., that, while a common transaction in the mining sector, was an unusual transaction for Wildcat. 2005 also includes \$9,300 in tax related costs

Legal and Agency Fees for 2004 were more than double those of 2005 due to costs associated with a 2004 short-form offering that was never completed. Exclusive of these additional costs, legal fees are consistent between 2004 and 2005.

The Recovery on Disposal of Resource Properties and Resource Properties Written Off relate to the sale of Central claims to Grandview Gold Inc. and the write-off of costs previously charged to other claims in the Central area that were determined by management to no longer have value with the sell-off of the claims to Grandview Gold Inc.

Future Taxes (Recovery) on Renunciation of Flow-Through Expenditures represents the income tax effect of the renunciation of Canadian Exploration Expenditures tax credits to flow-through shareholders. \$1,316,030 was raised through flow-through financings during 2004, with renunciation to flow-through shareholders in early 2005. The corresponding income tax credits of \$488,510 flowed through to the income statement as a tax recovery during 2005. This tax treatment came into effect for all flow-through share agreements dated after March 19, 2004. Because all flow-through funds raised during 2004 were renounced in 2005, there is no corresponding tax effect for the 2004 financial statements.

## SUMMARY OF QUARTERLY RESULTS

The following table sets out the summary quarterly results for Wildcat Exploration for each of the eight most recently completed quarters. This financial data has been prepared in accordance with Canadian generally accepted accounting principles. All amounts are shown in Canadian dollars.

	Dec 31, 2005	Sep 30, 2005	Jun 30, 2005	Mar 31, 2005	Dec 31, 2004	Sep 30, 2004	Jun 30, 2004	Mar 31, 2004
Net loss (income)	348,657	76,773	34,614	(293,050)	221,378	92,786	118,215	88,667
Basic and fully diluted loss (income) per share	0.019	0.004	0.002	(0.018)	0.015	0.007	0.011	0.008

## LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2005, Wildcat had working capital of \$1,317,000 (2004 – \$818,000), with long-term debt of \$67,000 arising from a resource property purchase from Arc Metals Ltd. during 2004 (2004 – \$90,824). Unrestricted cash available at December 31, 2005 for general business activities was \$52,000 (2004 - \$129,000) and restricted cash, available for exploration activities only, at the end of the year was \$1,559,000 (2004 - \$790,000). As of December 31, 2005, there was a shortfall in the flow-through bank account of \$87,613.

Cash flows show a net decrease in general funds during 2005 of \$77,000 with a net increase in funds for 2004 of \$103,000. Financings during 2005 resulted in net proceeds of \$327,000 in the first quarter, \$296,000 during the second quarter and \$1,511,000 during the final quarter, bringing the total net proceeds from financings during 2005 to \$2,134,000. By Comparison, the Company raised net proceeds of \$283,000, \$231,000, \$1,112,000 and \$509,000 during the first, second, third and final quarters of 2004, respectively, for a total of \$2,135,000.

During 2005, exploration expenditures of \$1,372,000 were incurred, \$476,000 of which comprised an airborne survey over the Foster River property and diamond drilling in the Bissett area. The remainder of the exploration expenses totaling \$896,000 comprised line-cutting and geological, geochemical and geophysical surveying and the associated writing of reports.

The ability of the Company to fund its exploration projects is dependant upon the Company's ability to obtain sufficient funding for its operations and is ultimately dependant on the recoverability of the amounts capitalized to resource properties. The Company has not yet determined whether its mineral properties contain gold reserves that are economically recoverable, and accordingly, the success of any further exploration or development prospects cannot be assured. Because the Company is not yet a producer, the primary source of future funds is through the sale of additional equity capital. There is no assurance that the Company will be successful in raising sufficient capital to meet its obligations. If the Company is not successful in raising sufficient capital, the Company may have to curtail or otherwise limit its operations. The Company is actively working to raise additional capital through private placements and other forms of equity financing.

## FOURTH QUARTER RESULTS OVERVIEW

During the final quarter of 2005, financings resulted in net cash raised for operations of \$1,511,000, with \$509,000 raised during the final quarter of 2004. An investment in exploration of \$117,000, before mineral exploration grants received of \$59,000, was made during the final quarter of 2005 (2004 investment - \$351,000, 2004 mineral exploration grants - \$47,000). Head office costs of \$212,594 were incurred (2004 - \$221,378). \$155,185 in resource property costs on the Central property were written off during the final quarter of 2005 following the review of capitalized resource property costs (2004 - Nil).

## RESOURCE PROPERTIES

Wildcat is currently focusing its exploration activities in Central Canada specifically in the provinces of Manitoba and Saskatchewan. In Manitoba two project areas are being examined - the Bissett gold mining camp and the Snow Lake mining camp. In the Bissett area, four properties Poundmaker, Jeep, Siderock and Garner are being evaluated for their gold potential. In the Snow Lake area, the Reed Lake property hosts platinum and palladium mineralization. In Saskatchewan the Foster River property is being examined for its base metal (zinc, lead and silver) potential.

### ***Bissett Area Projects***

During the first quarter, diamond drilling was conducted on the Poundmaker and Siderock properties. The company also completed an extensive program of line-cutting and geophysical surveying on the Poundmaker, Jeep, Garner and Siderock properties during the first and second quarters. During the second and third quarters, the company then assembled a 12-man team to map and prospect the 13 grids established on the four Bissett properties. Key geological outcrops on the Poundmaker and Jeep properties were also subjected to hydraulic stripping and trenching via an excavator.

### ***Poundmaker Property:***

Wildcat commenced diamond drilling on the Poundmaker property on November 15, 2004 and completed the program January 11, 2005. Drilling was focused in two areas 1) a new gold discovery made in 2003 - the Lady Gold Zone and 2) an historical gold producer - Poundmaker deposit.

On the Lady Gold Zone, one target, a surface gold occurrence, was selected for initial testing. Drill holes 2004-1 & 2 targeted this gold occurrence near line 10+00E. No significant gold assays were intersected along this one transect of the shear zone. Further drilling is required to evaluate the full extent of this auriferous shear zone.

On the Poundmaker deposit which lies within the Clinton-Poundmaker tonalite intrusion 10 holes (2004-1 to 10 inclusive) with a total 1109 meters were drilled. The deposit is a shear-hosted, high-grade gold, quartz vein system. Previous diamond drilling conducted on the deposit by Wildcat includes holes 2001-1 to 8 inclusive (drilled in 2001) and 2002-1 to 6 inclusive (drilled in 2002) for a total of 3143 meters. A longitudinal diagram is presented which indicates all drilling conducted since 2001 (excluding holes 2001-6, 2002-6, and 2004-9; discussed below). Please see [www.wildcat.ca](http://www.wildcat.ca).

Near-surface high-grade mineralization has been intersected immediately southeast of the deposit shaft. Drill intercepts in this area include holes 2004-3 (41.5g/t over 0.6m), 2001-2 (5.7 g/t over 3.0m), 2001-3 (12.1 g/t over 0.45m, 20.2 g/t over 1.1m), 2001-4 (14.9 g/t over 0.42m) and 2001-7 (13.7 g/t over 1.4m). This mineralization is open along strike to the southeast. The down plunge extent of this near-surface mineralization is also poorly constrained and remains open to the southeast.

This phase of drilling has clearly indicated two discrete zones of auriferous mineralization. Consequently, a re-examination and re-interpretation of all previous drill data is required to redefine mineralization. Section, level and longitudinal plans utilizing 3D modeling software will be undertaken to help resolve the distribution of gold mineralization at the Poundmaker deposit. Subsequent to this work systematic 'tier' drilling is planned to fully evaluate the potential of the Poundmaker deposit.

Line-cutting (54.85 km) and geophysical surveying (47.8 km) were conducted in the spring of 2005 followed by geological mapping, prospecting and sampling. An MMI survey was completed over selected portions of 2005 established grids and extensions to grids previously cut in 2004.

A recent new gold discovery was made on the Poundmaker Property during the second quarter; dubbed the Rio Gold Zone, surface grab assays returned up to 16.9 g/t (Press Release July 29, 2005). The Rio Gold Zone lies along a northeast trending shear which is host to several other gold showings distributed along a minimum 4.5 km strike length.

Further fieldwork (approximately 20 man-days) constituting prospecting and surface rock sampling was carried out in the Rio Gold zone during the third quarter. Numerous new gold showings comprising historical trenches and mineralized outcrops were found throughout this zone (Press Releases: September 23 & October 31, 2005). Gold assays range from trace to 50.1 g/t.

### ***Siderock Property:***

An eight hole, 1472 meter, diamond drill program was conducted between January 15 and February 9, 2005 on the Portage Gold Zone located in the south-central part of the Siderock property (see Figure 1: drill locations at [www.wildcat.ca](http://www.wildcat.ca); March 30 Press Release). The objective of the program was to test the subsurface extent of gold mineralization found at several surface gold occurrences and geochemical anomalies identified by a recent MMI survey. There is no record of previous diamond drilling in the Portage area.

Diamond drilling was successful in:

- a) expanding the width of gold mineralization at the Portage Gold Zone from approximately 200 meters to over 400 meters,
- b) confirming the presence of subsurface gold in the Portage Gold Zone,
- c) strongly supporting the interpretation of a gold mineralized fault splay extending northeast from the Wanipigow fault.

Minor to significant gold mineralization was encountered in all except two drill holes leaving mineralization open along strike and down dip. This first phase drill program has shown clearly the highly anomalous nature of the rocks in this area of the property. The positive results obtained to date strongly suggest further work is warranted.

Line-cutting (56.4 km) and geophysical surveying (51.9 km) were conducted in the spring of 2005, followed by geological mapping, prospecting and sampling. This work was conducted on the Point and Fold Nose grids. Preliminary surface rock sampling from the latter grids has revealed localized areas of high arsenic and low gold anomalies. A MMI survey was completed over selected portions of 2005 established grids and extensions to grids previously cut in 2004.

**Garner Property:**

Line-cutting (39.1 km) and geophysical surveying (34.7 km) were conducted in the spring of 2005 followed by geological mapping, prospecting and sampling summer.

Assay results from the Garner Lake property have returned high-grade gold values ranging up to 153 g/t from narrow quartz veins at the Marlin showing. To the north of the Marlin showing, approximately 150 meters, surface rock sampling returned a 3.1 g/t gold assay. To the south of the Marlin showing, approximately 360 meters, surface rock sampling returned up to 18.2 g/t gold from a trench blast rock. All samples are located within the Beresford shear zone and associated with ankerite-sericite-chlorite-quartz alteration. Further work is required to evaluate this area of gold mineralization.

**Jeep Property:**

Line-cutting (27.4 km) and geophysical surveying (25.2 km) were conducted in the spring of 2005 followed with an MMI survey over selected portions of 2005 established grids and extensions to grids previously cut in 2004.

Excavating with a backhoe uncovered a gossan zone within a magnetic anomaly located immediately southeast of the Jeep deposit. The best grab sample assayed 0.44% nickel, 0.18% copper, 1.4g/t palladium, 0.39 g/t gold and 65 ppb platinum (Press Release July 29, 2005). In the third quarter, prospecting with a "backhoe" was continued and significantly increased the size of the initial gossan zone. At the Jeep mine, the historical #1 vein, was uncovered on surface with backhoe stripping and high-grade gold samples with visible gold were collected.

**Central:**

In April 2005, the company signed an agreement to sell certain mineral claims to Grandview Gold Inc. for consideration of \$100,000 and 70,000 common shares of Grandview Gold Inc., for total proceeds of \$212,000. Costs previously charged to other claims in the Central area totaling \$148,000 were written off following the sell-off of the claims to Grandview Gold Inc.

**Jeep Property:**

Subsequent to the line-cutting (27.4 km) and geophysical surveying (25.2 km) conducted in the spring of 2005 an MMI survey was completed over selected portions of 2005 established grids and extensions to grids previously cut in 2004.

Excavating with a backhoe uncovered a gossan zone within a magnetic anomaly located immediately southeast of the Jeep deposit. The best grab sample assayed 0.44% nickel, 0.18% copper, 1.4g/t palladium, 0.39 g/t gold and 65 ppb platinum (Press Release July 29, 2005). In the third quarter, prospecting with a "backhoe" was continued and significantly increased the size of the initial gossan zone. At the Jeep mine, the historical #1 vein, was uncovered on surface with backhoe stripping and high-grade gold samples with visible gold were collected.

**Ramrod Property:**

No work was conducted on the Ramrod property during 2005.

**Snow Lake****Reed Lake:**

No work was conducted on the Reed Lake property during 2005.

***Iskwasum:***

During late 2005, additional claim staking onto the Iskwasum claim block was undertaken. The claims cover a known mineralized zone, the Law zone, which comprises known nickel mineralization (up to 1.96% Ni over 0.8 meters and 2.3% Ni over 0.7 meters). The zone will be evaluated for platinum group metal potential.

***Saskatchewan Project******Foster River Property:***

The Foster River Property comprises three contiguous mining claims totaling 8,089 hectares and is located immediately west of Hewetson Lake, approximately 140 kilometers northwest of the town of La Ronge in northern Saskatchewan. The Foster River Property has geological characteristics similar to the Broken Hill Main Lode area of southeast Australia and hosts BH-type zinc-lead-silver mineralization.

Wildcat completed an helicopter-borne magnetic and electromagnetic survey over the Foster River property in March 2005 and began a preliminary field exploration program of the property August 29, 2005. An orientation MMI sampling program was carried out over the Sito East, Sito West and Fable Lake mineralized zones.

**RELATED-PARTY TRANSACTIONS**

During 2005, management fees totaling \$30,000 were paid to Mr. Jerrold Siemens, Chairman of Wildcat Exploration Ltd., in his capacity as part-time acting CEO. \$20,000 was paid to Arc Metals Ltd., a company controlled by Mr. Eduard Sawitzky, former President and COO and former Director of the Company, for the rental of geological and office equipment.

The Corporation borrowed \$30,000 from Mr. Robert Dzisiak, a Director of the Corporation, during 2005. This loan, with interest accrued at 10%, was repaid June 23, 2005. During March 2005, the Corporation borrowed \$20,000 from Arc Metals Ltd, with an additional loan of \$25,000 during November 2005. Interest is being accrued at the rates of 10% and 9.75% respectively. Both loans remain outstanding.

During October 2004 Wildcat acquired a 100% interest in the Foster River and PGE properties from Arc Metals Ltd. for cash consideration of \$160,000 and 350,000 common shares in Wildcat's capital stock, all being paid or issued over a four-year period. At the year-end, the Corporation had not paid the cash payments due, totaling \$85,000. Wildcat and Arc Metals Ltd. have agreed to treat this amount as a loan with interest accruing at a rate of 6% per annum, unsecured, with repayment of the loan at the Company's discretion.

**OUTSTANDING SHARE DATA**

The number of common shares outstanding at April 27, 2006 was 22,967,059, with 22,022,559 outstanding at December 31, 2005 and 16,246,059 outstanding at December 31, 2004.

**EFFECTIVENESS OF DISCLOSURE CONTROLS AND PROCEDURES**

Although the Company continues to refine its disclosure controls and procedures from time to time, the acting chief executive officer and acting chief financial officer have concluded that, during 2005, the process was effective enough to ensure material information was accumulated and communicated up to management in sufficient time for management to make decisions regarding the Company's disclosure required by securities legislation.

## **ADOPTION OF NEW ACCOUNTING POLICY**

### **Asset retirement obligations:**

Effective January 1, 2005, the Company adopted the recommendations of CICA Handbook Section 3110, Asset Retirement Obligations. This new section requires recognition of a legal liability for obligations relating to retirement of property, plant, and equipment, and arising from the acquisition, construction, development, or normal operation of those assets. Such asset retirement costs must be recognized at fair value, when a reasonable estimate of fair value can be estimated, in the period in which it is incurred, added to the carrying value of the asset, and amortized into income on a systematic basis over its useful life.

There is no material impact on the financial statements resulting from the adoption of Section 3110.

## **SUBSEQUENT EVENT**

### ***Change of Executive and Directors:***

Effective March 28, 2006, Mr. Eduard Sawitzky resigned as President and COO of Wildcat. He has resigned his position as Director as well. The Company has commenced a search for a new President.

## **OTHER**

### ***Issuance of Options:***

On October 6, 2005, Wildcat issued incentive stock options to a consultant to purchase up to 150,000 common shares in the capital stock of the Company, at an exercise price of \$0.40 per share and an expiry date of October 6, 2010. The options were issued pursuant to the Company's stock option plan which reserves for issuance shares equal in number to 10% of the Company's issued share capital at the time of the grant. Any shares issued upon the exercise of Options are subject to a four-month hold period pursuant to the policies of the TSX Venture Exchange.

## AUDITOR'S REPORT

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*Staley, Okada & Partners*  
CHARTERED ACCOUNTANTS

Suite 400 - 889 West Pender Street  
Vancouver, BC Canada V6C 3B2  
Tel 604 694-6070  
Fax 604 585-8377  
info@staleyokada.com  
www.staleyokada.com

### To the Shareholders of Wildcat Exploration Ltd.:

We have audited the balance sheet of Wildcat Exploration Ltd. (the "Company") (A Development Stage Company) as at December 31, 2005 and the statements of loss and deficit and cash flows for the year 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 audit.

We conducted our audit 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 the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The balance sheet as at December 31, 2004 and the statements of loss and deficit and cash flows for the year then ended were reported on by other auditors, who issued an unqualified opinion on April 21, 2005.

**"Staley, Okada & Partners"**

Vancouver, BC  
March 24, 2006

STALEY, OKADA & PARTNERS  
CHARTERED ACCOUNTANTS

## FINANCIAL STATEMENTS AND NOTES

### Balance Sheets

As at December 31, 2005 and 2004

	2005	2004
<b>Assets</b>		
Current assets:		
Cash (note 5)	\$ 52,124	\$ 129,293
Restricted cash [note 10(a)]	1,559,328	790,228
Accounts receivable	11,816	30,777
Subscriptions receivable	–	150,030
Prepaid expenses	23,885	3,661
Marketable securities	20,200	–
	1,667,353	1,103,989
Property and equipment (note 6)	93,000	65,062
Resource properties - schedule (note 7)	3,443,376	2,432,864
	\$ 5,203,729	\$ 3,601,915

### Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 185,805	\$ 173,624
Payable to Arc Metals Ltd. [note 11(b)]	117,667	112,833
Shareholder loan (note 8)	46,918	–
	350,390	286,457
Payable to Arc Metals Ltd. [note 11(b)]	66,722	90,824
Shareholders' equity:		
Share capital (note 9)	7,288,526	5,612,349
Contributed surplus (note 9)	397,925	345,125
Deficit	(2,899,834)	(2,732,840)
	4,786,617	3,224,634
Basis of presentation (note 2)		
Commitment (note 12)		
Subsequent event (note 13)		
	\$ 5,203,729	\$ 3,601,915

See accompanying notes to financial statements.

On behalf of the Board:

"Denis Fillion" Director

"Jerrold Siemens" Director

**Statements of Loss and Deficit**

Years ended December 31, 2005 and 2004

	2005	2004
Operating Expenses:		
Amortization	\$ 23,395	\$ 7,579
Audit and related fees	41,493	20,204
Investor relations	125,039	33,240
Legal and agency fees	18,242	40,250
Management fees	99,940	104,362
Office expenses	47,556	29,003
Office salaries and professional fees	110,064	81,050
Rent	22,903	12,474
Stock-based compensation	51,047	166,790
Telephone	6,960	7,534
Transfer agent and regulatory fees	19,146	18,560
Loss before Other Income and Expenses and Income Taxes	565,785	521,046
Other Income (Expenses):		
Recovery on disposal of resource properties	104,421	-
Resource property costs written off	(155,185)	-
Loss on disposal of marketable securities	(27,155)	-
Unrealized loss on marketable securities	(11,800)	-
Loss before Income Taxes	655,504	521,046
Income Taxes:		
Future taxes (recovery) on renouncement of flow-through expenditures [Note 10(c)]	(488,510)	-
Loss for the year	166,994	521,046
Deficit, beginning of year:		
As previously reported	2,732,840	1,786,229
Adjustment to reflect change in accounting for stock-based compensation plan	-	161,910
As restated	2,732,840	1,948,139
Adjustment to reflect accounting for related party transaction [note 11(b)]	-	263,655
Deficit, end of year	\$ 2,899,834	\$ 2,732,840
Basic and diluted loss per common share [note 9(i)]	\$ (.01)	\$ (.04)

See accompanying notes to financial statements.

**Statements of Cash Flows**

Years ended December 31, 2005 and 2004

	2005	2004
Cash provided by (used in):		
Operations:		
Loss for the year	\$ (166,994)	\$ (521,046)
Items not involving cash:		
Amortization	23,395	7,579
Stock-based compensation	51,047	166,790
Recovery on disposal of resource property	(104,421)	-
Write-off of resource property costs	155,185	-
Realized loss on marketable securities	27,155	-
Unrealized loss on marketable securities	11,800	-
Future income tax recovery	(488,510)	-
Change in non-cash operating working capital:		
Accounts receivable	18,961	(15,569)
Prepaid expenses	(20,224)	(3,661)
Accounts payable and accrued liabilities	21,294	39,461
	(471,312)	(326,446)
Financing:		
Subscriptions receivable	150,030	(150,030)
Proceeds on disposal of marketable securities	52,845	-
Payable to Arc Metals	12,732	-
Issuance of share capital, net	2,134,440	2,135,107
Decrease (increase) in restricted cash	(769,100)	(778,383)
Increase (decrease) in shareholder loan	46,918	(61,534)
	1,627,865	1,145,160
Investments:		
Marketable securities	(112,000)	-
Purchase of property and equipment	(51,333)	(71,859)
Resource property costs	(1,371,535)	(783,734)
Grants received	98,258	108,076
Proceeds on disposal of resource properties	212,000	-
Accounts payable relating to resource properties	(9,112)	31,838
	(1,233,722)	(715,679)
Increase (decrease) in cash	(77,169)	103,035
Cash, beginning of year	129,293	26,258
Cash, end of year	\$ 52,124	\$ 129,293
Supplemental Cash Flow Information:		
	2005	2004
Shares received for disposal of resource properties	\$ 112,000	\$ -
Issuance of shares for resource properties	\$ 32,000	\$ 60,000
Future income tax recovery	\$ 488,510	\$ -

See accompanying notes to financial statements.

**Schedule of Resource Property Costs**  
 Years ended December 31, 2005 and 2004

Schedule

	December 31, 2005			December 31, 2004		
	Acquisition Costs	Deferred Exploration	Total	Acquisition Costs	Deferred Exploration	Total
<b>Resource Properties</b>						
<b>Poundmaker</b>						
Claims and staking	\$ 7,375	\$ -	\$ 7,375	\$ 5,632	-	\$ 5,632
Salaries	-	153,390	153,390	-	134,845	134,845
Fieldwork	-	114,670	114,670	-	85,258	85,258
Geophysics- ground	-	11,337	11,337	-	20,258	20,258
Geochemical	-	35,706	35,706	-	29,520	29,520
Line cutting	-	27,807	27,807	-	37,511	37,511
Drilling	-	5,030	5,030	-	116,582	116,582
MEAP	-	(31,194)	(31,194)	-	(54,038)	(54,038)
	7,375	316,746	324,121	5,632	369,936	375,568
<b>Siderock</b>						
Acquisition costs	-	-	-	10,000	-	10,000
Claims and staking (recovery)	(4,163)	-	(4,163)	5,708	-	5,708
Salaries	-	106,415	106,415	-	126,639	126,639
Fieldwork	-	70,555	70,555	-	83,362	83,362
Geophysics-airborne & ground	-	11,615	11,615	-	21,109	21,109
Geochemical	-	65,470	65,470	-	11,803	11,803
Line cutting	-	28,594	28,594	-	25,474	25,474
Drilling	-	144,112	144,112	-	-	-
MEAP	-	(35,985)	(35,985)	-	(54,038)	(54,038)
	(4,163)	390,776	386,613	15,708	214,349	230,057
<b>Garner Lake</b>						
Claims and staking (recovery)	(19,003)	-	(19,003)	18,568	-	18,568
Salaries	-	55,138	55,138	-	3,392	3,392
Fieldwork	-	50,410	50,410	-	585	585
Geophysics-ground	-	8,749	8,749	-	-	-
Geochemical	-	6,605	6,605	-	-	-
Line cutting	-	19,906	19,906	-	-	-
MEAP	-	(8,238)	(8,238)	-	-	-
	(19,003)	132,570	113,567	18,568	3,977	22,545
<b>Jeep</b>						
Claims and staking (recovery)	1,250	-	1,250	(5,195)	-	(5,195)
Salaries	-	43,337	43,337	-	9,946	9,946
Fieldwork	-	38,110	38,110	-	2,971	2,971
Geophysics-airborne & ground	-	14,037	14,037	-	3,980	3,980
Geochemical	-	20,783	20,783	-	6,784	6,784
Line cutting	-	14,056	14,056	-	6,195	6,195
MEAP	-	(7,231)	(7,231)	-	-	-
	1,250	123,092	124,342	(5,195)	29,876	24,681
<b>Ramrod</b>						
Claims and staking	4,083	-	4,083	4,083	-	4,083
Salaries	-	60	60	-	772	772
Fieldwork	-	-	-	-	8	8
	4,083	60	4,143	4,083	780	4,863
Balance carried forward	\$ (10,458)	\$ 963,244	\$ 952,786	\$ 38,796	\$ 618,918	\$ 657,714

**Schedule of Resource Property Costs**

Schedule (cont.)

Years ended December 31, 2005 and 2004

	December 31, 2005			December 31, 2004		
	Acquisition Costs	Deferred Exploration	Total	Acquisition Costs	Deferred Exploration	Total
Balance carried forward	\$ (10,458)	\$ 963,244	\$ 952,786	\$ 38,796	\$ 618,918	\$ 657,714
<b>Foster River</b>						
Acquisition costs	-	-	-	1	-	1
Claims and staking	115	-	115	-	-	-
Salaries	-	44,666	44,666	-	4	4
Fieldwork	-	46,756	46,756	-	237	237
Geophysics-airborne & ground	-	213,591	213,591	-	-	-
Geochemical	-	12,709	12,709	-	-	-
CEIP	-	(15,610)	(15,610)	-	-	-
	115	302,112	302,227	1	241	242
<b>Other</b>						
Claims and staking	11,518	-	11,518	9,443	-	9,443
Salaries	-	2,670	2,670	-	6,094	6,094
Fieldwork	-	175	175	-	2,167	2,167
Geophysics-airborne	-	3,900	3,900	-	-	-
	11,518	6,745	18,263	9,443	8,261	17,704
Costs for the period	1,175	1,272,101	1,273,276	48,240	627,420	675,660
Balance, beginning of year	598,011	1,834,853	2,432,864	549,771	1,207,433	1,757,204
Recovery of costs	(97,363)	(10,216)	(107,579)	-	-	-
Write-off of costs	(49,642)	(105,543)	(155,185)	-	-	-
Balance – end of year	\$ 452,181	\$ 2,991,195	\$ 3,443,376	\$ 598,011	\$ 1,834,853	\$ 2,432,864

See accompanying notes to financial statements.

## NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2005 and 2004

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### 1. Nature of operations:

Wildcat Exploration Ltd. (the "Company") is a development stage company which is engaged in the acquisition and exploration of resource properties. The Company currently holds interests in resource properties in the Provinces of Manitoba and Saskatchewan. The recovery of the Company's investment in resource properties is dependent upon the ability of the Company to obtain necessary financing for its operations and the discovery of economically feasible mineral reserves, the ultimate outcome of which cannot presently be determined as they are contingent on future events.

### 2. Basis of presentation:

These financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The ability of the Company to continue as a going concern and to be able to realize on its assets and discharge its liabilities is dependant upon the Company's ability to obtain sufficient funding for its operations, which management believes will mitigate the conditions and events which would otherwise raise doubts about the going concern assumption used in the preparation of these financial statement. If the going-concern assumption was not appropriate for these financial statements, then adjustments would be necessary in the carrying values of assets and liabilities, the reported revenue and expenses and the balance sheet classifications used.

### 3. Significant accounting policies:

#### (a) Marketable securities:

Marketable securities, investments in a public company which the Company has less than a 20% interest and where the Company has no significant influence, are recorded at cost. Marketable securities are written down to the lower of cost or market value when the decline in market value is deemed to be other than temporary.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2005 and 2004

### 3. Significant accounting policies (continued):

#### (b) Property and equipment:

Property and equipment are recorded at cost. Amortization is provided using the following methods and annual rates:

Asset	Basis	Rate
Office equipment	Declining balance	20%
Computer hardware	Declining balance	30%
Computer software	Straight-line	20%
Vehicles	Declining balance	25%
Field equipment	Declining balance	20%
Other field machinery & equip (motorized)	Declining balance	30%

#### (c) Impairment of long-lived assets:

The Company follows CICA Handbook Section 3063, "Impairment of Long-Lived Assets" ("HB 3063"). HB 3063 requires the Company to assess the impairment of long-lived assets, which consists primarily of property and equipment, whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying value of the asset to its fair value. If such assets are considered to be impaired, the amount of the impairment is measured by the amount by which the carrying amount of the asset exceeds its fair value. The amount of the impairment is charged to income in the period when the impairment is determined.

#### (d) Resource properties:

The Company is in the process of exploring its resource properties and has not yet determined whether these properties contain ore reserves that are economically feasible.

All costs related to the acquisition, exploration and development of resource properties are capitalized. Amounts reflected for resource properties not in commercial production represent costs incurred to date, net of write-downs and are not intended to reflect present or future values. The recoverability of the cost is dependent upon the discovery of economically feasible ore reserves, the ability to obtain necessary financing to complete development and the development of future profitable production from the properties or realization of sufficient proceeds from the disposition of the properties.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2005 and 2004

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### 3. Significant accounting policies (continued):

#### (d) Resource properties (continued):

The Company assesses its capitalized resource property costs on a regular basis. A property is written-down or written-off when the Company determines that a permanent impairment of value has occurred or when exploration results indicate that no further work is warranted.

Title to resource properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many resource properties. The Company has investigated title to all of its resource properties and, to the best of its knowledge, title to all of its properties is in good standing.

#### (e) Asset retirement obligations:

Effective January 1, 2005, the Company adopted the recommendations of CICA Handbook Section 3110, Asset Retirement Obligations. This new section requires recognition of a legal liability for obligations relating to retirement of property, plant, and equipment, and arising from the acquisition, construction, development, or normal operation of those assets. Such asset retirement costs must be recognized at fair value, when a reasonable estimate of fair value can be estimated, in the period in which it is incurred, added to the carrying value of the asset, and amortized into income on a systematic basis over its useful life.

There is no material impact on the financial statements resulting from the adoption of Section 3110 either in the current or prior periods presented.

#### (f) Flow-through shares:

The Company follows the recommendations of the Emerging Issues Committee, relating to flow-through shares, effective for all flow-through share agreements dated after March 19, 2004. Under the terms of Canadian flow-through share legislation, the tax attributes of qualifying expenditures are renounced to subscribers. To recognize the foregone tax benefits, share capital is reduced and a future income tax liability is recognized as the related expenditures are renounced. This future income tax liability is then reduced by the recognition of previously unrecorded future income tax assets on unused tax losses and deductions.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2005 and 2004

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### 3. Significant accounting policies (continued):

(g) Income taxes:

The asset and liability method is used for determining future income taxes. Under the asset and liability method, the change in the net future tax asset or liability is included in income. The income tax effects of temporary differences in the time when income and expenses are recognized in accordance with Company accounting practices and the time they are recognized for income tax purposes are reflected as future income tax assets or liabilities. Future income tax assets and liabilities are measured using statutory rates that are expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled.

(h) Stock-based compensation:

The Company has adopted the recommendations of CICA Handbook Section 3870, stock-based compensation and other stock-based payments, which applies to all awards granted on or after January 1, 2002. This Section establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services.

This standard requires that all stock-based awards made to employees and non-employees be measured and recognized using a fair value based method. Under the new standard, the Company calculates the fair value of the stock options at the date of grant, recorded as compensation expense over the vesting period of the grants. Under the previous standard, no compensation expense was recorded when stock options were issued with any consideration received upon exercise credited to share capital.

Effective January 1, 2004, the Company adopted and retroactively applied this standard, without restatement of prior years, to all stock options granted since January 1, 2002. Accordingly, the Company recorded an increase in deficit at the beginning of 2004 of \$161,910 with a corresponding increase in contributed surplus.

(i) Income (loss) per share:

Basic income (loss) per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the year. The computation of diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share by application of the treasury stock method.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2005 and 2004

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### 3. Significant accounting policies (continued):

#### (j) Mineral exploration grants (MEAP and CEIP):

Periodically, the Company applied for mineral exploration grants (Mineral Exploration Assistance Program – “MEAP”, Corporation Exploration Incentive Program – “CEIP”) for exploration work completed on applicable claims. Grants received from the government are recorded as a recovery of resource property costs.

The Company received mineral exploration grants of \$98,258 in 2005 (2004 - \$108,076).

#### (k) Management’s 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 dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates.

### 4. Fair value of financial instruments:

The Company’s financial instruments consist of cash, restricted cash, marketable securities, accounts receivable, accounts payables and amounts due to related parties. Unless otherwise noted, it is management’s opinion that the Company is not exposed to significant interest, currency or credit risks arising from the financial instruments. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation.

### 5. Cash:

The Company is required to maintain a minimum bank balance of \$20,000 as security for corporate credit cards.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Years ended December 31, 2005 and 2004

**6. Property and equipment:**

2005	Cost	Accumulated amortization	Net book value
Office equipment	\$ 14,852	\$ 3,826	\$ 11,026
Computer hardware	8,884	2,992	5,892
Computer software	14,150	3,566	10,584
Vehicles	38,468	12,921	25,547
Field equipment	24,230	3,163	21,067
Other field machinery & equip (motorized)	24,825	5,941	18,884
	<b>\$ 125,409</b>	<b>\$ 32,409</b>	<b>\$ 93,000</b>

2004	Cost	Accumulated amortization	Net book value
Office equipment	\$ 7,592	\$ 2,040	\$ 5,552
Computer hardware	6,156	853	5,303
Computer software	14,150	734	13,416
Vehicles	37,248	4,643	32,605
Field equipment	8,930	744	8,186
	<b>\$ 74,076</b>	<b>\$ 9,014</b>	<b>\$ 65,062</b>

**7. Resource properties:**

A summary of the resource property costs from inception to date for each property is:

Property Name	Acquisition Costs	Exploration Costs	Total
<b>Poundmaker</b>	245,718	1,370,500	1,616,218
<b>Siderock</b>	37,521	850,276	887,797
<b>Garner</b>	7,430	163,913	171,343
<b>Jeep</b>	106,226	277,352	383,578
<b>Central</b>	13,570	19,004	32,574
<b>Ramrod</b>	31,935	1,968	33,903
<b>Reed Lake</b>	585	1,700	2,285
<b>Iskwasum</b>	9,080	4,129	13,209
<b>Foster River</b>	116	302,353	302,469
<b>Total</b>	<b>452,181</b>	<b>2,991,195</b>	<b>3,443,376</b>

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2005 and 2004

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(a) Manitoba:

Bissett area properties:

In 1998 Wildcat initiated the acquisition of claims in the Bissett gold mining camp (also known as the Rice Lake area) and has acquired to date a total of 155 claims which constitute approximately 247 sq. km. These claims comprise four main projects (Poundmaker, Jeep, Siderock and Garner) and two minor, two-claim, blocks. The properties are wholly-owned by Wildcat with no outstanding royalties.

- i. Poundmaker: First claim(s) acquired in 1998, now comprising 96 claims (152 sq. km); no outstanding NSR, located in Rice Lake area.
- ii. Siderock: Claims first acquired in 1998, now comprising 26 claims (44 sq. km); no outstanding NSR, located in Rice Lake area.
- iii. Garner Lake: Claims first acquired in 2002, now comprising 12 claims (23.7 sq. km); no outstanding NSR, located in Rice Lake area.
- iv. Jeep: First claim(s) acquired in 1999, now comprising 17 claims (20.5 sq. km); no outstanding NSR, located in Rice Lake area.
- v. Central: Comprises 2 claims (3.6 sq. km); no outstanding NSR, located in Rice Lake area. Lynx claims MB2988 and MB2989 have been re-staked. The areas of the old claims have been used for the sq. km calculation.
- vi. Ramrod: Claim(s) first acquired in 2002, now comprising 2 claims (3.3 sq. km); no outstanding NSR, located in Rice Lake area.

Snow Lake area properties:

- vii. Reed Lake: Claims acquired through purchase and sale agreement in 2004 from Arc Metals Ltd.; restaked in 2005, now comprising 14 claims (26.5 sq. km); 3% outstanding NSR, located in Snow Lake area.
- viii. Iskwasum: Claims acquired through purchase and sale agreement in 2004 from Arc Metals Ltd.; restaked recently in 2006, now comprising 13 claims (23.3 sq. km); 3% outstanding NSR, located in Snow Lake area.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Years ended December 31, 2005 and 2004

## (b) Saskatchewan:

Foster River: Claims acquired in 2004 through purchase and sale agreement from Arc Metals Ltd., now comprising 3 claims (80.9 sq. km); 2% outstanding NSR, located in Hewetson Lake area, SK.

**8. Shareholder loans:**

	2005
Loan of \$20,000 plus interest accrued at 10% per annum, no set terms of repayment, unsecured	\$ 21,551
Loan of \$25,000 plus interest accrued 9.75%, due June 30, 2006, unsecured	25,367
<b>Balance of shareholder loans, December 31, 2005</b>	<b>\$ 46,918</b>

**9. Share capital:**

a) Details are as follows:

	Shares	Amount	Contributed Surplus
Authorized:			
Unlimited common shares without par value			
Issued and fully paid:			
Balance, December 31, 2003	10,227,659	\$3,433,667	\$ 161,910
Issued for cash – private placements (Note 9b)	5,625,400	2,211,030	–
Issued for cash – exercise of options	50,000	10,000	–
Issued for cash – exercise of warrants	80,500	36,225	–
Issued for property acquisition (Note 11b)	150,000	60,000	–
Stock-based compensation	–	–	166,790
Share issuance costs – cash	–	(122,148)	–
Share issuance costs – shares	112,500	–	–
Share issuance costs – warrants	–	(16,425)	16,425
<b>Balance, December 31, 2004</b>	<b>16,246,059</b>	<b>\$5,612,349</b>	<b>\$ 345,125</b>
Issued for cash – private placements (Note 9b)	5,696,500	2,240,025	–
Issued for property acquisition	80,000	32,000	–
Future income taxes on renouncement of resource properties	–	(488,510)	–
Stock-based compensation	–	–	51,047
Share issuance costs – cash	–	(105,585)	–
Share issuance costs – warrants	–	(1,753)	1,753
<b>Balance, December 31, 2005</b>	<b>22,022,559</b>	<b>\$7,288,526</b>	<b>\$ 397,925</b>

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2005 and 2004

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### 9. Share capital (continued):

#### (b) Private placements:

- (i) Between December 14 and 29, 2005, 3,850,000 flow-through units and 200,000 non-flow-through units were issued through a private placement at a price of \$0.40 per flow-through unit and \$0.35 per non-flow-through unit. Each flow-through unit consisted of (i) one flow-through common share and (ii) one-half of one common share purchase warrant. Each whole warrant on the flow-through units entitles the holder to purchase one additional common share of the Company at a price of \$0.70 per share until December 14 or 22, 2006, the expiry date being dependent upon the issuance date of the units. Each non-flow-through unit consisted of (i) one non-flow-through common share and (ii) one common share purchase warrant. Each warrant on the non-flow-through unit entitles the holder to purchase one common share of the Company at a price of \$0.45 per share until December 14, 2006. 170,000 non-flow-through share purchase warrants of the Company were issued as payment of finder's fees. Cash costs of the share issuance totaled \$98,371.
- (ii) On July 14, 2005, 750,000 units were issued through a private placement at a price of \$0.40 per unit. Each unit consisted of (i) one flow-through common share and (ii) one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.70 per share until July 14, 2006. Cash costs of the share issuance totaled \$4,429.
- (iii) On June 23, 2005, 571,500 units were issued through a private placement at a price of \$0.35 per unit. Each unit consisted of (i) one common share and (ii) one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.45 per share until June 23, 2006. Cash costs of the share issuance totaled \$1,525.
- (iv) On June 23, 2005, 325,000 units were issued through a private placement at a price of \$0.40 per unit. Each unit consisted of (i) one flow-through common share and (ii) one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.70 per share until June 23, 2006. Cash costs of the share issuance totaled \$1,175.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2005 and 2004

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### 9. Share capital (continued):

- (v) On December 31 2004, 333,400 flow-through common shares and 166,700 common share purchase warrants were issued through a private placement at a price of \$0.45 per share. Each full warrant entitled the holder to purchase one additional common share of the Company at a price of \$0.45 per share until December 31, 2005. Cash costs of the share issuance totaled \$7,800.
- (vi) On December 31, 2004, the Company completed a share offering at a price of \$4,000 per unit. Each unit consisted of (i) 7,000 flow-through shares for total consideration of \$2,800 (ii) 3,000 common shares for total consideration of \$1,200, and (iii) 3,000 common share purchase warrants. Each warrant entitled the holder to purchase one additional common share of the Company at a price of \$0.50 per share until December 31, 2005 and thereafter at a price of \$0.65 per share until December 31, 2006. The Company issued 95 units, or 950,000 common shares, of which 665,000 are flow-through and 285,000 common share warrants, for gross proceeds of \$380,000, with cash costs of \$2,425.
- (vii) On August 31, 2004, 2,250,000 flow-through common shares were issued through a brokered private placement at a price of \$0.40 per share. The broker received a commission of \$45,000 cash, 112,500 common shares of the Company, and 225,000 common share purchase warrants. Each broker warrant was exercisable into one common share of the Company at a price of \$0.40 per share. Cash costs of the share issuance totaled \$51,420.
- (viii) On August 20, 2004, 750,000 units were issued through a private placement at a price of \$0.40 per unit. Each unit consisted of (i) one common share and (ii) one common share purchase warrant. Each warrant entitled the holder to purchase one additional common share of the Company at a price of \$0.50 per share until August 20, 2005 and thereafter at a price of \$0.60 per share until August 20, 2006. Cash costs of the share issuance totaled \$1,363.
- (ix) On June 10, 2004, 392,000 units were issued through a private placement at a price of \$0.50 per unit. Each unit consisted of (i) one common share and (ii) one common share purchase warrant. Each warrant entitled the holder to purchase one additional common share of the Company at a price of \$0.70 per share until February 23, 2005. Cash costs of the share issuance totaled \$1,530.
- (x) On February 23, 2004, 950,000 units were issued through a private placement at a price of \$0.30 per unit. Each unit consisted of (i) one common share and (ii) one-half of one common share purchase warrant. Each full warrant entitled the holder to purchase one additional common share of the Company at a price of \$0.40 per share until February 23, 2005. Cash costs of the share issuance totaled \$2,050.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2005 and 2004

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### 9. Share capital (continued):

#### (c) Stock option plan:

The Company has a discretionary stock option plan under which the Company may grant options to its employees, directors, officers and any other persons providing ongoing management or consulting services to the Company for up to 10 percent of the common shares issued and outstanding. The options granted under the plan are valid for a period not to exceed five years from the date of their grant and may be subject to certain vesting conditions as determined by the Board of Directors. The options are exercisable at the price determined by the Company which must not be less than the last closing price of the listed shares of the Company before the date of their grant less any applicable discount. Under the terms of the plan, a total of 2,202,256 common shares have been reserved for issuance. In addition, the number of shares which may be reserved for issuance to any one individual may not exceed 5% of the issued and outstanding shares on a yearly basis or 2% if the optionee is engaged in investor relations activities or is a consultant.

In 2005, compensation costs of \$51,047 (2004 - \$166,790) were recorded in the statement of operations for options granted to directors and officers.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2005 and 2004

### 9. Share capital (continued):

- (d) The following is a summary stock options as of December 31, 2005 and 2004, and changes during the years ended on those dates:

	Number of options		Weighted Average exercise price
Balance, December 31, 2003	925,000	\$	0.34
Granted – vested (i)	400,000		0.40
Granted – vested (ii)	300,000		0.40
Exercised	(50,000)		0.20
Forfeited	(100,000)		0.53
Balance, December 31, 2004	1,475,000	\$	0.37
Granted – vested (iii)	150,000		0.40
Expired	(75,000)		0.45
Balance, December 31, 2005	1,550,000	\$	0.36
Number of options currently exercisable	1,550,000	\$	0.36

- (i) These options vested on the grant date.
- (ii) These options vested in equal amounts on October 15, 2004 and October 15, 2005.
- (iii) These options, issued on October 6, 2005 with an expiry date of October 6, 2010, vested on the grant date.

- (e) The following table summarizes information about stock options outstanding as at December 31, 2005:

Number of options	Exercise price	Expiry date
200,000	\$ 0.60	May 15, 2007
500,000	0.20	October 17, 2008
700,000	0.40	October 19, 2009
150,000	0.40	October 6, 2010
1,550,000		

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2005 and 2004

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### 9. Share capital (continued):

#### (f) Stock-based Compensation

Section 3870 regarding stock-based compensation and other stock-based payments of the Handbook has been adopted. During the year ended December 31, 2005, the Company granted options to purchase up to 150,000 shares of the Company's stock to a consultant at an exercise price of \$0.40. The estimated value of these options, equaling \$25,097, has been recorded in contributed surplus for the year ended December 31, 2005. During the year ended December 31, 2004, the Company granted 700,000 stock options to officers and directors on the Company at an exercise price of \$0.40. Because a portion of the options granted during 2004 were subject to vesting provisions, \$111,575 of the total estimated value of \$137,525 has been recorded in contributed surplus as stock-based compensation expense for the year ended December 31, 2004. The remaining \$25,950 was recorded in contributed surplus as stock-based compensation expense during the current year as the stock options vested.

The fair value of each option grant that has vested during the current year is estimated on the date of grant using the Black-Scholes Option Pricing Model, with the following weighted average assumptions:

	2005	2004
Risk-free interest rate	3.78%	4.00%
Expected dividend yield	NIL	NIL
Expected stock price volatility	41%	43%
Expected option life in years	5 years	5 years

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Years ended December 31, 2005 and 2004

**9. Share capital (continued):**

## (g) Warrants:

Following is a summary of the warrant transactions for 2005 and 2004:

Issue date	Expiry date	Number of warrants	Weighted average exercise price
Balance, December 31, 2003		491,799	0.45
February 23, 2004	February 23, 2005	475,000	0.40
June 10, 2004	June 10, 2005	392,000	0.70
August 20, 2004	August 20, 2006	750,000	0.60
August 31, 2004	August 31, 2005	225,000	0.40
December 31, 2004	December 31, 2006	285,000	0.65
December 31, 2004	December 31, 2005	166,700	0.45
Warrants exercised during the year		(80,500)	0.45
Warrants expired during the year		(411,299)	0.45
Balance, December 31, 2004		2,293,700	0.65
June 23, 2005	June 23, 2006	162,500	0.70
June 23, 2005	June 23, 2006	571,500	0.45
July 14, 2005	July 14, 2006	375,000	0.70
December 14, 2005	December 14, 2006	200,000	0.45
December 14, 2005	December 14, 2006	562,500	0.70
December 22, 2005	December 22, 2006	1,362,500	0.70
December 22, 2005	December 22, 2006	170,000	0.70
Warrants expired during the year		(1,258,700)	0.50
Balance, December 31, 2005		4,439,000	\$ 0.61

## (h) Expiry dates of the warrants outstanding as at December 31, 2005 are as follows:

Number of warrants	Exercise price	Expiry date
571,500	\$0.45	June 23, 2006
162,500	\$0.70	June 23, 2006
375,000	\$0.70	July 14, 2006
750,000	\$0.60	August 20, 2006
200,000	\$0.45	December 14, 2006
562,500	\$0.70	December 14, 2006
1,532,500	\$0.70	December 22, 2006
285,000	\$0.65	December 31, 2006
4,439,000		

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2005 and 2004

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### 9. Share capital (continued):

(i) Per share amounts:

The basic loss per share is calculated using the weighted average number of shares outstanding being 17,206,693 (2004 – 12,395,865).

### 10. Income taxes:

(a) Flow-through shares:

In 2005, the Company issued flow-through shares in the amount of \$1,969,000 (2004 - \$1,316,030), excluding share issue costs, to finance eligible Canadian exploration expenditures. The resource expenditure deductions for income tax purposes related to exploration activities are renounced to investors in accordance with income tax legislation, and as a result tax deductibility of these costs are not available to the Company.

As at December 31, 2005 the subscription value of the flow-through shares of \$1,969,000 (2004 - 1,316,030) had not yet been renounced to the shareholders, and \$1,646,497 (2004 - \$940,258) of eligible Canadian exploration expenditures had not yet been expended by the Company. The Company is committed to spend this amount on qualifying expenditures by December 31, 2006. As of December 31, 2005, there was a shortfall in the flow-through bank account of \$87,613.

(b) Canadian development and exploration expenditures:

As at December 31, 2005, the Company had \$2,278,000 (2004 - \$1,650,000) of unused Canadian exploration and development expenses available to offset future taxable income of the Company. The tax benefit of these expenses carry forward indefinitely.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Years ended December 31, 2005 and 2004

**10. Income taxes (continued):**

## (c) Reconciliation of accounting and taxable income

	For the year ended Dec. 31, 2005	For the year ended Dec. 31, 2004
Net Income (Loss) for the year	\$ (166,994)	\$ (521,046)
Add:		
Amortization	23,395	7,579
Stock-based compensation	51,047	166,790
Write-off of resource property costs	155,185	-
Future income tax expense (recovery)	(488,510)	-
Losses for accounting purposes	38,955	-
Other	99,362	66,826
Deduct:		
Capital cost allowance	(39,543)	-
Share issuance costs	(77,476)	(125,149)
Recovery on disposal of resource properties	(104,421)	-
Net Income(loss) for tax purposes	\$ (509,000)	\$ (405,000)

## (d) Losses:

The Company has non-capital tax losses which may be applied to reduce future years' taxable income. At December 31, 2005, these losses expire as follows:

2005	\$ 37,000
2006	75,000
2007	400,000
2008	400,000
2009	733,000
2010	197,000
2014	405,000
2015	509,000
	<b>\$ 2,756,000</b>

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Years ended December 31, 2005 and 2004

**10. Income taxes (continued):**

(e) The components of the future income tax asset (liability) balances are as follows:

	December 31, 2005	December 31, 2004
Future income tax asset:		
Non-capital loss carry-forwards	\$ 2,756,000	\$ 2,247,000
Capital losses	158,000	145,000
Share issuance costs	288,000	366,000
Undepreciated capital cost in excess of accounting book value	2,000	18,000
Other	3,000	-
Future income tax liability:		
Resource property costs in excess of the tax basis	(1,165,000)	(1,320,000)
	2,042,000	1,456,000
Effective tax rate	36.6%	37.12%
Future income tax asset (liability)	748,000	540,000
Allowance for future income tax	(748,000)	(540,000)
Future income tax asset	\$ -	\$ -

Future income tax assets and liabilities are measured using statutory rates that are expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled.

Future income tax assets are recorded when it is more likely than not, that they will be recovered in future periods.

**11. Related party transactions:**

(a) The following is a listing of related party transactions and balances not otherwise disclosed in these financial statements:

- During fiscal 2005, management fees were charged by a director of the Company for his services of \$30,000 (2004 - \$30,000).
- During fiscal 2005, equipment rental of geological consulting equipment was charged by a company controlled by a director of \$17,200 (2004 - \$13,979).
- During fiscal 2005, the Company paid \$2,800 (2004 - \$4,400) to a Company controlled by a director for the rental of office equipment.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2005 and 2004

### 11. Related party transactions (continued):

- During fiscal 2005, management fees were charged by a company controlled by a director of the Company of NIL (2004 - \$51,450).
- During fiscal 2005, professional fees were charged by a company controlled by a director of the Company of NIL (2004 - \$3,408).
- During fiscal 2005, geological consulting services were purchased from a company controlled by a director of the Company of NIL (2004 - \$28,112).
- During fiscal 2005, the company paid NIL (2004 - \$2,100) to a Company controlled by a director for the rental of office space.
- During fiscal 2005, interest was accrued on shareholder loans totaling \$2,748 (2004 - \$1,357).
- During fiscal 2005, shareholder loan repayments were made totaling \$30,830 (2004 - \$132,891).
- Included in accounts payable and accrued liabilities is \$8,025 (2004 - \$32,100) owing to a director for his services.

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

- (b) During 2004, the Company acquired 25 mineral claims from Arc Metals Ltd. (AML), a company controlled by a director and officer of the Company, for total cash and share consideration of \$263,657. The purchase price was recorded at AML's carrying value of the mineral claims of \$2. The excess of the purchase price over the carrying value of the assets purchased of \$263,655 was charged to deficit.

The cash and share consideration is subject to the following payments terms:

Payment date	Cash	Number of shares
December 1, 2004 - issued	\$ 60,000 *	150,000
December 1, 2005 - issued	25,000 *	80,000
December 1, 2006	20,000	40,000
December 1, 2007	25,000	40,000
December 1, 2008	30,000	40,000
	\$ 160,000	350,000

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2005 and 2004

### 11. Related party transactions (continued):

The cash portion of the liability has been recorded on a discounted basis and the share portion of the liability has been recorded based on the fair value of the shares as at the transaction date of \$0.40 per share. For the year ended December 31, 2005, \$12,732 (2004 - NIL) of interest was accrued on the loan.

\* The Company has not paid the cash payments of \$25,000 due by December 1, 2005 and the \$60,000 due by December 31, 2004. Subsequent to December 31, 2004, the Company and AML have agreed to treat the \$60,000 payment as a separate loan effective December 1, 2004 with interest to be accrued at a rate of 6.0% per annum, unsecured, with repayment of the loan at the Company's discretion. Effective December 1, 2005, the company and AML agreed to add the \$25,000 loan payment to the 6.0% loan. For the year ended December 31, 2005, \$3,723 (2004 - \$296) of interest was accrued on the loan and is included in accounts payable. The loan balance of \$85,000 (2004 - \$60,000) has been classified as a current liability.

The amount payable to AML is comprised of:

	2005	2004
Original loan:		
Present value of cash portion	\$ 51,389	\$ 63,657
Fair value of share consideration	48,000	80,000
	99,389	143,657
Loan bearing interest at 6.0% per annum	85,000	60,000
	184,389	203,657
Less current portion	117,667	112,833
	\$ 66,722	\$ 90,824

### 12. Commitment:

The Company has committed to payments under operating leases for office space and equipment as follows:

2006	\$ 32,710
2007	19,420
2008	3,602
2009	3,602
2010	3,602
2011	600

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**Years ended December 31, 2005 and 2004

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**13. Subsequent event:**

January 2006 financing:

On January 19, 2006, 942,500 non-flow-through units were issued through a private placement at a price of \$0.40 per unit for proceeds of \$377,000. Each unit consisted of (i) one common share and (ii) one common share purchase warrant. Each full warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.50 per share until January 19, 2008.

**14. Comparative Figures**

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

## **OFFICERS, DIRECTORS AND SHAREHOLDER INFORMATION**

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### **Officers and Directors**

***Jerrold Siemens***

Chairman

***Sol Prizant***

President and C.E.O.

***Joseph J. Baylis***

***Denis Fillion***

***Robert Dzisiak***

***Head Office:***

Wildcat Exploration Ltd.  
Unit 66 -1313 Border Street  
Winnipeg, Manitoba R3H 0X4  
Phone: (204) 944-8916  
Fax: (204) 944-8918

***Transfer Agent:***

CIBC Mellon Trust Company  
333 – 7<sup>th</sup> Avenue S.W., Suite 600  
Calgary, AB T2P 2Z1

***Legal Counsel:***

Gowling Lafleur Henderson LLP  
Suite 2300, 1055 Dunsmuir Street  
Vancouver, BC V7X 1J1

***Auditors:***

Staley, Okada and Partners  
Chartered Accountants  
Suite 400–889 West Pender Street  
Vancouver, BC V6C 3B2

***Stock Exchange:***

TSX Venture Exchange

***Trading Symbol:***

WEL

***Share Structure:***

Authorized: Unlimited  
Outstanding: 22,967,059

### **Annual Meeting**

June 26, 2006  
2:30 PM  
Holiday Inn Astoria  
2935 Pembina Highway  
Winnipeg, Manitoba