

**E-ENERGY VENTURES INC.**

**Report and Financial Statements**

**March 31, 2006**

# **SAM S. MAH INC.**

Chartered Accountant

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## **AUDITOR'S REPORT**

### **To the Shareholders, E-Energy Ventures Inc.**

I have audited the balance sheet of E-Energy Ventures Inc. as at March 31, 2006 and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 my opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at March 31, 2005 and for the year then ended were audited by another firm of chartered accountants who expressed an opinion without reservation on them in their report dated June 24, 2005.



Vancouver, Canada  
July 14, 2006

Chartered Accountant

**E-ENERGY VENTURES INC.****Balance Sheet****As at March 31, 2006**

	<b>2006</b>	<b>2005</b>
<b>ASSETS</b>		
<i>Current</i>		
Cash	\$ 11,875	\$ 170,815
GST receivable	837	1,601
Prepaid and deposit	-	1,842
	<u>12,712</u>	<u>174,258</u>
Equipment - (Note 3)	2,078	-
Mineral property and deferred exploration costs - (Note 4)	<u>278,750</u>	<u>5,250</u>
	<u>\$ 293,540</u>	<u>\$ 179,508</u>
<b>LIABILITIES</b>		
<i>Current</i>		
Accounts payable and accrued liabilities	\$ 60,947	\$ 71,425
Loan from related party - (Note 6)	-	62,389
Due to related parties - (Note 7)	-	138,613
	<u>60,947</u>	<u>272,427</u>
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock - (Note 8)	6,593,644	5,975,864
Contributed surplus - (Note 9)	164,627	-
Share issuance costs	-	( 16,080)
Share subscription received	-	204,000
Deficit	<u>( 6,525,678)</u>	<u>( 6,256,703)</u>
	<u>232,593</u>	<u>( 92,919)</u>
	<u>\$ 293,540</u>	<u>\$ 179,508</u>

Nature and continuance of operations - (Note 1)

Subsequent events- (Note 13)

*Approved by the Board:*"Simon Tam", Director"David Rankin", Director*See accompanying notes to the financial statements*

**E-ENERGY VENTURES INC.**  
**Statement of Operations**  
**For the Year Ended March 31, 2006**

	2006	2005
<b>General and Administrative Expenses</b>		
Administration fees - (Note 7)	\$ 6,000	\$ 3,600
Amortization	603	-
Consulting fees	30,000	21,606
Filing fees	10,399	9,862
Interest	342	7,155
Management fees - (Note 7)	12,000	19,606
Office and miscellaneous	2,890	2,060
Professional fees	25,241	26,795
Rent - (Note 7)	6,000	7,800
Shareholder information	2,570	838
Stock based compensation - (Note 9)	164,627	-
Transfer agent fees	9,022	6,511
Travel and promotion	209	3,372
	<hr/>	<hr/>
<b>Loss before other item</b>	<b>( 269,903)</b>	<b>( 109,205)</b>
<b>Other items</b>		
Gain on extinguishment of debt - (Note 5)	-	46,250
Interest income	928	-
	<hr/>	<hr/>
<b>Loss for the year</b>	<b>( 268,975)</b>	<b>( 62,955)</b>
<b>Deficit, beginning of year</b>	<b>( 6,256,703)</b>	<b>( 6,193,748)</b>
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<b>Deficit, end of year</b>	<b>\$( 6,525,678)</b>	<b>\$( 6,256,703)</b>
	<hr/>	<hr/>
<b>Basic and diluted loss per common share</b>	<b>\$( 0.01)</b>	<b>\$( 0.01)</b>
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<b>Weighted average number of shares outstanding</b>	<b>18,097,516</b>	<b>8,833,703</b>
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*See accompanying notes to the financial statements*

**E-ENERGY VENTURES INC.**  
**Statement of Cash Flows**  
**For the Year Ended March 31, 2006**

	2006	2005
<b>Operating Activities</b>		
Loss for the year	\$( 268,975)	\$( 62,955)
Items not affecting cash:		
Accrued interest	-	6,106
Accrued management and consulting fees to related parties	-	41,111
Amortization	603	-
Gain on extinguishment of debt	-	( 46,250)
Stock-based compensation	164,627	-
	( 103,745)	( 61,988)
Change in non-cash working capital items:		
Increase in receivables	764	( 439)
Increase in prepaid and deposit	1,842	( 1,342)
Increase in accounts payable and accrued liabilities	( 10,479)	27,234
	( 111,618)	( 36,535)
<b>Investing activities</b>		
Equipment	( 2,681)	-
Mineral property and deferred exploration costs	( 273,500)	( 5,250)
	( 276,181)	( 5,250)
<b>Financing activities</b>		
Proceeds from issuance of shares	617,781	-
Share subscription received	( 204,000)	204,000
Issuance costs	16,080	( 16,080)
Loan payable to related party	( 62,389)	20,550
Due to related party	( 138,613)	4,000
	228,859	212,470
<b>Increase (decrease) in cash during the year</b>	( 158,940)	170,685
<b>Cash, beginning of year</b>	170,815	130
<b>Cash, end of year</b>	\$ 11,875	\$ 170,815

**Supplemental disclosure with respect to cash flows - (Note 11)**

*See accompanying notes to the financial statements*

## 1. Nature and Continuance of Operation

The Company was incorporated under the laws of the Province of British Columbia and is in the business of exploration and development of mineral properties. To date, the Company has not earned significant revenues and is considered to be in the exploration stage.

The company is in the process of exploring and developing its mineral properties and has not yet determined whether the properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties and related deferred exploration costs are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production.

These financial statements have been prepared assuming the Company will continue on going-concern basis. The Company has incurred losses since inception and the ability of the Company to continue as a going-concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. Management is actively targeting sources of additional financing through alliances with financial, exploration and mining entities, or other business and financial transactions which would assure continuation of the Company's operations and exploration programs. In order for the Company to meet its liabilities as they come due and to continue its operations, the Company is solely dependent upon its ability to generate such financing.

There can be no assurance that the Company will be able to continue to raise funds, in which case the Company may be unable to meet its obligations. Should the Company be unable to realize its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the balance sheets.

	2006	2005
Working capital (deficiency)	\$( 48,234)	\$( 98,169)
Deficit	( 6,525,678)	( 6,256,703)

## 2. Significant Accounting Policies

### *Estimates*

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates.

### *Mineral Property and Deferred Exploration Costs*

All costs related to the acquisition, exploration and development of mineral properties are capitalized by property. If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operation. If, after management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated net realizable value. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

## 2. Significant Accounting Policies - cont'd

### *Mineral Property and Deferred Exploration Costs - cont'd*

The amounts shown for mineral properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

### *Cost of Maintaining Mineral Properties*

The Company does not accrue the estimated future costs of maintaining its mineral property in good standing.

### *Equipment*

Equipment consists of computer equipment. The computer equipment is recorded at cost and amortized at an annual rate of 30% using the declining balance method.

### *Asset Retirement Obligations*

An asset retirement obligation is a legal obligation associated with the retirement of tangible long-lived assets that the Company is required to settle. This would include obligations related to future removal of property and equipment, and site restoration costs. The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability. The adoption of this accounting policy during the current fiscal year has not affected the Company's financial statements.

### *Stock-Based Compensation*

Effective April 1, 2003, the Company adopted the fair value method whereby the Company recognizes compensation costs for the granting of all stock options and direct awards of stock.

### *Loss Per Share*

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

Basic loss per share is calculated using the weighted-average number of common shares outstanding during the year. The Company has no potentially dilutive options or warrants outstanding.

### *Financial Instruments*

The Company's financial instruments consist of cash, GST receivable, account payable and accrued liabilities. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

2. Significant Accounting Policies - cont'd

*Future Income Taxes*

Future income taxes are recorded using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against that excess.

3. Equipment

	Cost	Amortization	2006 Net	2005 Net
Computer equipment	\$ 2,681	\$ 603	\$ 2,078	\$ -

In the year of acquisition, amortization is taken at half the normal rates.

The carrying value of equipment is reviewed whenever events or changes in circumstance indicate the recoverable value may be less than the carrying amount. Recoverable value is based on management's estimates of undiscounted future net cash flows expected to be recovered from specific asset or groups of assets through use or future disposition. Where impairment is indicated, impairment charges are recorded in the reporting period in which impairment is determined by management.

4. Mineral Property and Deferred Exploration Costs

*Stormy Mountain Molybdenum Property*

Pursuant to a Purchase Agreement dated February 21, 2005, the Company acquired a 100% interest in certain mining claim units located in the Watson Lake Mining District of the Yukon Territories, referred to as the Stormy Mountain Molybdenum Property (the "Property"). The Property is subject to a 2% Net Smelter Royalty ("NSR") with the Company having the right to purchase 1% of the NSR for \$1,000,000 from the vendors. In consideration, the Company paid \$75,000 in cash and issued 2,000,000 common shares. The Company paid a finder's fee of 293,750 common shares in connection with the acquisition of the property.

	March 31, 2006	Additions	March 31, 2005
Stormy Mountain Molybdenum Property			
Acquisition costs	\$ 258,000	\$ 258,500	\$ -
Deferred exploration costs			
Geological consulting fees	20,250	15,000	5,250
	<u>\$ 278,750</u>	<u>\$ 273,500</u>	<u>\$ 5,250</u>

**4. Mineral Property and Deferred Exploration Costs - cont'd**

*Stormy Mountain Molybdenum Property - cont'd*

Title to mining 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 mining properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties are in good standing.

**5. Loan Payable**

	2006	2005
Demand loan, bearing interest at 10% per annum and is unsecured.		
Principal amount	\$ -	\$ 30,000
Accrued interest	-	16,250
		<hr/>
	-	46,250
Extinguishment of debt	-	( 46,250)
		<hr/>
	\$ -	\$ -
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**6. Loan from Related Party**

A company controlled by directors has loaned the Company various amounts at 10% interest per annum, convertible into common shares on or before certain conversion dates. On issuance of the loans, the relative fair value that would be attributed to the equity component of these individual loans was not significant.

	2006	2005
Loan, bearing interest at 10% per annum		
Principal amount	\$ -	\$ 54,550
Accrued interest	-	7,839
		<hr/>
	\$ -	\$ 62,389
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**7. Related Party Transactions**

Amounts due to related parties at March 31, 2006 totalling \$Nil (2005 - \$138,613) are owing to a director and company controlled by directors of the Company for services rendered.

The Company entered into the following transactions with related parties:

- a) Paid or accrued \$30,000 (2005 - \$21,606) for consulting fees to a company controlled by a director and to a director of the Company.

**7. Related Party Transactions - cont'd**

b) Paid or accrued to a management company controlled by directors of the Company the following:

	<u>2006</u>		<u>2005</u>	
Management fees	\$	12,000	\$	19,606
Rent		6,000		7,800
Administration fees		<u>6,000</u>		<u>3,600</u>
	\$	<u>24,000</u>	\$	<u>31,006</u>

c) Paid or accrued \$Nil (2005 - \$6,106) in interest on a loan from a related party.

d) A company controlled by directors of the Company loaned an amount of \$Nil (2005 - \$20,550) to the Company as outline in Note 6.

The amounts charged to the Company for the services provided have been determined by negotiation among the parties and in certain cases, by signed agreements. These transactions were in the normal course of operations and were measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

**8. Capital Stock**

	<u>2006</u>		<u>2005</u>	
	<u>Number of Shares</u>	<u>Amount</u>	<u>Number of Shares</u>	<u>Amount</u>
Balance, March 31, 2005	8,833,703	\$ 5,975,864	8,833,703	\$ 5,975,864
Issued for cash				
Private placement	8,000,000	480,000	-	-
Issued for mineral property	2,000,000	160,000	-	-
Issued for finder's fees	293,750	23,500	-	-
Share issue expenses	-	( 45,720)	-	-
	<u>19,127,453</u>	<u>\$ 6,593,644</u>	<u>8,833,703</u>	<u>\$ 5,975,864</u>

i) Private Placement

During the year ended March 31, 2006, the Company completed a private placement which consisted of 8,000,000 units at a price of \$0.06 per unit. Each unit consisted of one share and one share purchase warrant. One share purchase warrant will entitle the holder to purchase one further common share of the Company within one year. The exercise price for the warrants is \$0.12 per share, expiring on April 11, 2006.

ii) Shares Issued for Mineral Property

During the year ended March 31, 2006, the Company issued 2,293,750 common shares including 293,750 common shares as a finder's fee at a deemed price of \$0.08 per share pursuant to the Stormy Mountain Molybdenum Property purchase agreement referred to in Note 4.

8. Capital Stock - cont'd

*Stock Options*

The Company has a stock option plan whereby it is authorized to grant options to directors and employees to acquire up to 10% of issued and outstanding common stock. Under the policy, the exercise price of each option equals the market price of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of 5 years.

	Number of Shares	Weighted Average Exercise Price \$	Weighted Average Life Remaining in years
Balance, March 31, 2005	-	-	-
Granted	1,200,000	0.14	4.9
Cancelled	( 100,000)	0.14	-
	<hr/>	<hr/>	<hr/>
Balance, March 31, 2006	1,100,000	0.14	4.0

The following stock options were outstanding at March 31, 2006

Number	Exercise Price	Expiring
<u>1,100,000</u>	\$ 0.14	May 20, 2010

*Share Purchase Warrants*

	Number of Share	Weighted Average Exercise Price \$	Weighted Average Life Remaining in years
Balance, March 31, 2005	-	-	-
Granted	8,000,000	0.12	1.0
	<hr/>	<hr/>	<hr/>
Balance, March 31, 2006	8,000,000	0.12	0.1

The following stock options were outstanding at March 31, 2006

Number	Exercise Price	Expiring
<u>8,000,000</u>	\$ 0.12	April 11, 2006

**9. Contributed Surplus and Stock Based Compensation**

On May 20, 2005 the Company granted 1,200,000 stock options to consultants, directors and officers. The options are exercisable at \$0.14 per common share and expire 5 years from the date of grant. The fair value of the options was estimated at \$164,627 (\$0.14 per option) and was recorded as contributed surplus.

The fair value was estimated using the Black-Scholes option pricing model, under the following current assumptions: Risk free interest rate 4.33%, volatility 204%, expected life of 5 years, and a 0% dividend yield.

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 and warrants.

**10. Segmented Information**

The Company primarily operates in one reportable operating segment, being the acquisition and development of mineral properties in Canada.

**11. Supplemental Disclosure with Respect to Cash Flows**

	<u>2006</u>	<u>2005</u>
Cash paid during the year for interest	\$ -	\$ 1,082

There were no significant non-cash transaction for the years ended March 31, 2006 and 2005.

**12. Income Taxes**

A reconciliation of income taxes (recovery) at statutory rates with the reported taxes (recovery) is as follows:

	<u>2006</u>	<u>2005</u>
Loss for the year	\$( 268,975)	\$( 62,955)
Expected income tax (recovery) at statutory rates	( 95,755)	( 22,425)
Deductible expenses, net	( 5,219)	( 12,651)
Unrecognized benefits of non-capital losses	<u>100,974</u>	<u>35,076</u>
Total income tax	<u>\$ -</u>	<u>\$ -</u>

**12. Income Taxes - cont'd**

Detail of future income tax assets are as follow:

	<u>2006</u>	<u>2005</u>
Future income tax assets		
Resource properties	\$ 1,361,000	\$ 1,262,000
Cumulative eligible capital	17,000	17,000
Tax value of equipment in excess of book value	3,589	3,000
Non-capital loss carry forwards	<u>255,000</u>	<u>281,000</u>
	1,636,589	1,563,000
Valuation allowance	<u>( 1,636,589)</u>	<u>( 1,563,000)</u>
Net future income tax asset	<u>\$ -</u>	<u>\$ -</u>

The Company has available for deduction against future taxable income, non-capital losses of approximately \$700,000. These losses, if not utilized, will expire through to 2016. Subject to certain restrictions, the Company also has resource expenditures available to reduce taxable income in future years. Future tax benefits which may arise as a result of these non-capital losses, resource expenditures and other tax assets have not been recognized in these financial statements and have been offset by a valuation allowance.

**13. Subsequent Events**

*Subsequent to March 31, 2006:*

- a) 200,000 share purchase warrants were exercised at \$0.12 per share.
- b) 7,800,000 share purchase warrants, exercisable at \$0.12 per share, expired on April 11, 2006.
- c) 500,000 stock options were granted on April 11, 2006 to a director and a consultant, exercisable at \$0.12 per share for three years, expiring on April 17, 2009.
- d) Subject to regulatory approval, the Company intends to issue a private placement of 12,000,000 units at \$0.07 per unit. Each unit consist of one common share and one share purchase warrant entitling the holder thereof to purchase one common share at \$0.12 per share within a two year period.
- e) Subject to regulatory approval, the Company intends to issue a private placement of 2,700,000 units at \$0.15 per unit. Each unit consist of one common share and one share purchase warrant entitling the holder thereof to purchase one common share at \$0.22 per share within a two year period.
- f) 150,000 stock options were exercised at \$0.14 per share.