



AUREA MINING INC.

Consolidated Financial Statements

Year ended:

December 31, 2005

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CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of the Company have been prepared by, and are the responsibility of, the management of the Company. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect management's best estimates and judgements based on currently available information.

The Audit Committee of the Board of Directors has met with the Company's independent auditors to review the scope and results of the annual audit, and to review the financial statements and related financial reporting matters prior to submitting the financial statements to the Board for approval.

The consolidated financial statements have been audited by Davidson & Company, Chartered Accountants, who were appointed by the shareholders. The auditors' report outlines the scope of their examination and their opinion on the consolidated financial statements.

"Richard O'C. Whittall"

Richard O'C. Whittall
Director, President & Chief Executive Officer

"Salvador Miranda"

Salvador Miranda
Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of
Aurea Mining Inc.

We have audited the consolidated balance sheets of Aurea Mining Inc. as at December 31, 2005 and 2004 and the consolidated statements of operations and deficit and cash flows for the year ended December 31, 2005 and for the period from incorporation on March 22, 2004 to December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the year ended December 31, 2005 and for the period from incorporation on March 22, 2004 to December 31, 2004 in accordance with Canadian generally accepted accounting principles.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Accountants

April 12, 2006

A Member of *SC INTERNATIONAL*

AUREA MINING INC.
CONSOLIDATED BALANCE SHEETS
As at December 31

	2005	2004
ASSETS		
Current		
Cash	\$ 45,351	\$ 53,816
Receivables	55,258	44,265
Prepaid expenses	2,311	921
	<u>102,920</u>	<u>99,002</u>
Equipment (Note 4)	11,388	16,440
Mineral properties (Note 5)	1,239,781	437,242
	<u>\$ 1,354,089</u>	<u>\$ 552,684</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 64,216	\$ 174,213
Promissory note payable (Note 6)	-	115,615
Convertible loan payable (Note 7)	-	143,092
Convertible promissory notes (Note 8)	152,701	-
	<u>216,917</u>	<u>432,920</u>
Shareholders' equity		
Capital stock (Note 9)	2,460,123	1,041,020
Commitment to issue shares (Note 7)	-	4,425
Contributed surplus (Note 9)	532,316	-
Deficit	(1,855,267)	(925,681)
	<u>1,137,172</u>	<u>119,764</u>
	<u>\$ 1,354,089</u>	<u>\$ 552,684</u>

Nature and continuance of operations (Note 1)

Commitments (Note 15)

Subsequent events (Note 16)

On behalf of the Board:

<i>“Joseph W. Fodor”</i> <hr/> Director	<i>“Kenneth R. Thorsen”</i> <hr/> Director
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The accompanying notes are an integral part of these consolidated financial statements

AUREA MINING INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

	Year ended December 31, 2005	Period from incorporation on March 22, 2004 to December 31, 2004
Expenses		
Amortization	\$ 5,183	\$ 2,714
Foreign exchange loss	18,880	19,441
Investor relations	67,864	30,280
Office and administration	110,736	47,840
Professional fees	123,250	91,998
Regulatory and transfer agent fees	40,812	10,167
Stock compensation expense (Note 9)	532,316	-
Listing sponsorship	40,106	-
Loss before other item	(939,147)	(202,440)
Other item		
Interest income	9,561	-
Loss for the period	(929,586)	(202,440)
Deficit, beginning of period	(925,681)	-
Excess of liabilities over assets acquired (Note 3)	-	(723,241)
Deficit, end of period	\$ (1,855,267)	\$ (925,681)
Basic and diluted loss per share	\$ (0.03)	\$ (0.01)
Weighted average number of shares outstanding	33,327,843	26,831,534

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

AUREA MINING INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31, 2005	Period from incorporation on March 22, 2004 to December 31, 2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	\$ (929,586)	\$ (202,440)
Items not affecting cash:		
Amortization	5,183	2,714
Interest accrued on convertible loan payable	2,701	-
Stock compensation expense	532,316	-
Changes in non-cash working capital items:		
Increase in receivables	(10,993)	(39,976)
Increase in prepaid expenses	(1,390)	(921)
Increase (decrease) in accounts payable and accrued liabilities	(109,997)	128,126
Net cash used in operating activities	<u>(511,766)</u>	<u>(112,497)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of capital stock	1,294,207	28,020
Proceeds of convertible loan and promissory notes payable	150,000	147,517
Advances	-	195
Repayment of promissory note	(115,615)	-
Share issuance costs	(22,621)	-
Net cash provided by financing activities	<u>1,305,971</u>	<u>175,732</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures on mineral properties	(802,539)	(437,242)
Cash acquired on acquisition	-	446,977
Acquisition of equipment	(131)	(19,154)
Net cash used in investing activities	<u>(802,670)</u>	<u>(9,419)</u>
Change in cash during the period	<u>(8,465)</u>	<u>53,816</u>
Cash, beginning of period	<u>53,816</u>	<u>-</u>
Cash, end of period	<u>\$ 45,351</u>	<u>\$ 53,816</u>
Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>
Cash paid for income taxes	<u>\$ -</u>	<u>\$ -</u>

Supplemental disclosure with respect to cash flows (Note 12)

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

AUREA MINING INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

1. NATURE AND CONTINUANCE OF OPERATIONS

The Company was incorporated under the provisions of the Company Act of British Columbia on June 8, 1988. The Company's shares were delisted from the TSX Venture Exchange ("TSX-V") effective June 5, 2002 for failure to pay its annual sustaining fees. During fiscal 2004, the Company changed its name from Olly Industries Inc. to Aurea Mining Inc. On May 14, 2004, the Company completed a share exchange with the shareholders of Minera Aurea, S.A. de C.V. (formerly Minera Ottawa, S.A. de C.V.) ("Minera") (Note 3). In June 2005, the Company was listed for trading on the TSX Venture Exchange. The Company is in the business of acquiring and exploring mineral property interests in Mexico. To date, the Company has not generated any significant revenues from operations and is considered to be an exploration stage company.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The financial statements do not include adjustments to amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue operations. Continued operations of the Company are dependent on the Company's ability to receive continued financial support, complete equity financings, or generate profitable operations in the future.

	2005	2004
Deficit	\$ (1,855,267)	\$ (925,681)
Working capital (deficiency)	(113,997)	(333,918)

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

These consolidated financial statements include the accounts of Minera for the period from incorporation on March 22, 2004, and its wholly owned subsidiary from the date of acquisition on May 14, 2004 onward. Significant inter-company transactions and balances have been eliminated upon consolidation.

Use of estimates

The preparation of consolidated 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 amount of revenues and expenses during the period. Actual results could differ from these estimates.

AUREA MINING INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Equipment

Equipment is recorded at cost less accumulated amortization. Amortization is recorded on a declining balance basis at the following annual rates:

Vehicle	20%
Computer equipment	30%
Furniture and fixtures	20%

Mineral properties

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 operations. 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.

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.

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. 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.

Stock-based compensation

The Company uses the fair value-based methodology for measuring compensation costs whereby the Company recognizes the fair value of compensation costs for the granting of all stock options and direct awards of stock. Any consideration paid by the option holders to purchase shares is credited to capital stock.

Foreign currency translation

The Company's subsidiary is an integrated foreign operation and is translated into Canadian dollars using the temporal method. Monetary items are translated at the exchange rate in effect at the balance sheet date and non-monetary items are translated at historical exchange rates. Income and expense items are translated at rates approximating those in effect at the time of the transaction. Translation gains and losses are reflected in loss for the period.

AUREA MINING INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

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 the excess.

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 period. For the periods presented, this calculation proved to be anti-dilutive.

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period.

3. ACQUISITION

On May 14, 2004, the Company acquired substantially all of the issued and outstanding common shares of Minera in exchange for 20,000,000 common shares of the Company. The share exchange resulted in the shareholders of Minera acquiring control of the Company. This type of share exchange is referred to as a "reverse take-over" and though the Company is the legal parent of Minera, Minera is deemed to have acquired the Company for accounting purposes. Accordingly, the net assets of Minera which was incorporated on March 22, 2004, are included in the consolidated balance sheet at their historical carrying values and the net assets of the Company are recorded at fair market value at the date of the acquisition. Furthermore, the consolidated statements of operations and deficit and cash flows include the accounts of Minera from the date of its incorporation on March 22, 2004 and of the Company for the period from the date of acquisition on May 14, 2004.

The carrying values assigned to the assets and liabilities of the Company acquired are based on an estimate of their fair value at May 14, 2004 as follows:

Cash	\$ 446,977
Receivables	4,289
Advances to Minera	<u>195</u>
	451,461
Accounts payable	(46,087)
Promissory note payable	(615,615)
Share subscriptions received in advance	<u>(513,000)</u>
Excess of liabilities over assets	\$ <u>(723,241)</u>

AUREA MINING INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

3. ACQUISITION (cont'd...)

The excess of the liabilities over the assets acquired represents a transaction cost and is recorded as a charge against deficit.

The share exchange agreement with Minera required the Company to fulfill certain obligations including the completion of financing, settlement certain debts and the requirement to obtain a listing of its shares on the TSX-V.

The original deadline set out in the agreement for the Company to complete a second financing and the listing were not met. Accordingly, the Company and the former shareholders of Minera agreed to remove and amend certain obligations pursuant to an amendment agreement. As compensation for not fulfilling all of its obligations under the agreement, the Company granted collectively to the former shareholders of Minera, a 2.5% net smelter return royalty on the El Coyote Property, the Ottawa Property and certain other mineral and which rights were transferred to Minera (Note 5).

4. EQUIPMENT

	December 31, 2005			December 31, 2004		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Vehicle	\$ 9,935	\$ 3,933	\$ 6,002	\$ 9,936	\$ 1,450	\$ 8,486
Computer equipment	8,954	3,911	5,043	8,822	1,251	7,571
Furniture and fixtures	396	53	343	396	13	383
	\$ 19,285	\$ 7,897	\$ 11,388	\$ 19,154	\$ 2,714	\$ 16,440

5. MINERAL PROPERTIES

Title to mineral 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 conveyance history characteristic of many mineral 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.

AUREA MINING INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

5. MINERAL PROPERTIES (cont'd...)

2004	Aurea Norte	Aurea Sur	Properties under application	Total
Acquisition costs:				
Balance, beginning of period	\$ -	\$ -	\$ -	\$ -
Additions	<u>42,888</u>	<u>20,942</u>	<u>18,704</u>	<u>82,534</u>
Balance, end of period	<u>42,888</u>	<u>20,942</u>	<u>18,704</u>	<u>82,534</u>
Exploration costs:				
Balance, beginning of period	-	-	-	-
Project development and administration	27,432	13,715	9,144	50,291
Field surveys	133,968	80,990	-	214,958
Remuneration	-	-	-	-
Surveying works	12,827	6,071	-	18,898
Other	<u>15,254</u>	<u>3,822</u>	<u>51,485</u>	<u>70,561</u>
Balance, end of period	<u>189,481</u>	<u>104,598</u>	<u>60,629</u>	<u>354,708</u>
Total costs	<u>\$ 232,369</u>	<u>\$ 125,540</u>	<u>\$ 79,333</u>	<u>\$ 437,242</u>
<hr/>				
2005	Aurea Norte	Aurea Sur	Properties under application	Total
Acquisition costs:				
Balance, beginning of year	\$ 42,888	\$ 20,942	\$ 18,704	\$ 82,534
Additions	<u>24,783</u>	<u>19,353</u>	<u>-</u>	<u>44,136</u>
Balance, end of year	<u>67,671</u>	<u>40,295</u>	<u>18,704</u>	<u>126,670</u>
Exploration costs:				
Balance, beginning of year	189,481	104,598	60,629	354,708
Project development and administration	55,473	29,115	18,491	103,079
Field surveys	505,123	26,552	-	531,675
Remuneration	35,903	19,297	11,968	67,168
Surveying works	-	-	5,354	5,354
Other	<u>29,095</u>	<u>7,483</u>	<u>14,549</u>	<u>51,127</u>
Balance, end of year	<u>815,075</u>	<u>187,045</u>	<u>110,991</u>	<u>1,113,111</u>
Total costs	<u>\$ 882,746</u>	<u>\$ 227,340</u>	<u>\$ 129,695</u>	<u>\$ 1,239,781</u>

AUREA MINING INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

5. MINERAL PROPERTIES (cont'd...)

Aurea Norte group of properties, Mexico

The Aurea Norte Group of properties includes six exploration claims located in central Guerrero State, Mexico, acquired by the Company either by staking or by purchasing of 100% of the rights. Rights to some of these claims, notably "El Coyote", acquired in contemplation of the acquisition described in Note 3, were acquired from a company controlled by a director of the Company for consideration of \$33,165. The vendors retained a 2.5% NSR royalty.

Aurea Sur group of properties, Mexico

The Aurea Sur Group of properties includes four exploration claims located in central Guerrero State, Mexico, acquired by the Company either by staking or by purchasing of 100% of the rights. Rights to some of these claims, notably "Ottawa", acquired in contemplation of the acquisition described in Note 3, were acquired from a company controlled by a director of the Company for consideration of \$8,458. The vendors retained a 2.5% NSR royalty.

Other claims

The Company has filed applications for three additional claims in the same geographical area. Upon registration, the associated costs will be allocated to individual properties. If the Company is unable to successfully register a claim, the related cost will be charged to operations.

6. PROMISSORY NOTE PAYABLE

Concurrently with the 2004 acquisition described in Note 3, the Company settled a promissory note in the amount of \$615,615 by issuing 2,500,000 common shares at a value of \$0.20 per share for a total of \$500,000 and a new promissory note in the amount of \$115,615. A total of 450,000 of these shares were issued to a company controlled by a former director. The \$115,615 promissory note was paid in full in April 2005.

7. CONVERTIBLE LOAN PAYABLE

During fiscal 2004, the Company entered into a convertible demand loan of \$147,517 (US \$120,000) which was non-interest bearing and convertible at a price of \$0.10 per share. Of the total amount, \$131,044 (US \$106,600) was due to a company controlled by a director, a director and an officer of the Company. During fiscal 2004, certain debt holders had exercised their right of conversion of a principal balance of \$4,425 (US \$3,600) in exchange for a commitment to issue 44,255 shares. These shares were issued during the fiscal 2005. During fiscal 2005, the Company issued 1,430,916 common shares on conversion of the remaining principal balance of \$143,092 (US \$116,400).

8. CONVERTIBLE PROMISSORY NOTES

During fiscal 2005, the Company entered into convertible promissory notes of \$150,000 due to companies controlled by directors of the Company, bearing interest at prime plus 2% per annum and maturing December 25, 2005. The notes are unsecured and convertible on maturity at the option of the lender into common shares of the Company at a price per common share equal to the weighted average closing price for the previous twenty trading days. Subsequent to December 31, 2005, the Company repaid the principal and interest on the promissory notes.

AUREA MINING INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

9. CAPITAL STOCK AND CONTRIBUTED SURPLUS

Capital Stock (Common shares issued and outstanding)	Number of Shares	Amount	Contributed Surplus
Authorized			
Unlimited common shares without par value			
As at December 31, 2003	15,834,015	\$ -	\$ -
Consolidation: 25 for 1	(15,200,655)	-	-
Balance, post consolidation	633,360	-	-
Initial capitalization of Minera	-	6,020	-
Shares issued pursuant to acquisition	20,000,000	-	-
Private placements	5,349,998	535,000	-
Shares issued for settlement of promissory note	2,500,000	500,000	-
As at December 31, 2004	28,483,358	1,041,020	-
Private placements	4,977,718	1,294,207	-
Share issue costs	-	(22,621)	-
Exercise of convertible loan	1,475,171	147,517	-
Stock-based compensation	-	-	532,316
As at December 31, 2005	34,936,247	\$ 2,460,123	\$ 532,316

Private placements

During the year ended December 31, 2005, the Company issued 4,977,718 units for proceeds of \$1,294,207. Each unit consisted of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share exercisable at \$0.40 expiring on June 29, 2006. The Company paid \$22,621 as finders' fees.

During the period ended December 31, 2004 in connection with the acquisition described in Note 3, the Company completed two non-brokered private placements totalling 5,349,998 units at \$0.10 per unit for gross proceeds of \$535,000. Of these proceeds, \$513,000 had been received in advance by the Company (Note 3). Each unit consisted of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share exercisable at \$0.35 of which 2,299,999 expire May 6, 2006 and 375,000 expire June 1, 2006.

Included in issued capital stock are 16,545,690 common shares and 236,250 share purchase warrants subject to an escrow agreement. The agreement's escrow release schedule provided for an immediate release of 10% of the shares and warrants held in escrow, with further releases of 15% of the amount every six months thereafter.

AUREA MINING INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

9. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

Stock option and share purchase warrant transactions are summarized as follows:

	Warrants		Stock Options	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, May 14, 2004	-	\$ -	-	\$ -
Granted	2,674,999	0.35	-	-
Exercised	-	-	-	-
Expired/cancelled	-	-	-	-
Outstanding, December 31, 2004	2,674,999	0.35	-	-
Granted	2,488,859	0.40	3,350,000	0.26
Exercised	-	-	-	-
Expired/cancelled	-	-	-	-
Outstanding, December 31, 2005	5,163,858	\$ 0.37	3,350,000	\$ 0.26
Number currently exercisable	5,163,858	\$ 0.37	3,350,000	\$ 0.26

As at December 31, 2005, incentive stock options and share purchase warrants were outstanding as follows:

	Number of Shares	Exercise Price	Expiry Date
Options	1,900,000	\$ 0.26	January 20, 2010
	300,000	0.26	March 31, 2010
	1,150,000	0.26	June 15, 2010
Warrants	2,299,999	0.35	May 6, 2006
	375,000	0.35	June 1, 2006
	2,488,859	0.40	June 29, 2006

AUREA MINING INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

9. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

Stock options

The Company has a stock option plan under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the plan, 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 and vest at the discretion of the Board of Directors.

The Company uses the fair value method for stock options granted to employees and consultants. During the year ended December 31, 2005, the Company granted an aggregate of 3,350,000 to directors and officers and charged \$532,316 of stock-based compensation expense to operations. The weighted average remaining contractual life as at the date of these statements is 4.21 years.

The weighted average fair value of the options granted during the fiscal year ended December 31, 2005 was \$0.16 per option using the *Black-Scholes Option Pricing Model* with the following assumptions: risk-free interest rate of 3.5%; dividend yield 0%; volatility of 71.32%; and expected life of approximately 5 years.

10. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

- a) Paid or accrued administrative fees of \$132,178 (2004 - \$10,682) of which \$69,863 (2004 - \$NIL) is included in deferred exploration expenses, to an officer of the Company, and companies controlled by officers of the Company.
- b) Paid or accrued geological and other fees of \$37,036 (2004 - \$Nil) of which \$28,836 (2004 - \$NIL) is included in deferred exploration expenses, to an officer of the Company.

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.

Included in accounts payable at December 31, 2005 is \$21,197 (2004 - \$53,492) due to companies controlled by directors or officers of the Company.

AUREA MINING INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

11. INCOME TAXES

A reconciliation of income taxes at statutory rates with reported taxes is as follows:

	2005	Period from Incorporation on March 22, 2004 to December 31, 2004
Loss before income tax	\$ (929,596)	\$ (202,440)
Expected income tax (recovery)	\$ (324,147)	\$ (72,069)
Non-deductible and other items	187,426	26,914
Unrecognized benefit of non-capital losses	136,721	45,155
Total income taxes	\$ -	\$ -

The significant components of the Company's future income tax assets are as follows:

	2005	2004
Future income tax assets		
Resource expenditure pools	\$ 112,937	\$ 117,914
Non-capital loss carry forwards	518,283	501,477
	631,220	619,391
Valuation allowance	(631,220)	(619,391)
Net future income tax assets	\$ -	\$ -

The Company has available for deduction against future years' taxable income non-capital losses at December 31, 2005 of approximately \$2,943,000. Unless utilized, these losses will expire through to 2015. In addition, the Company has resource deductions at December 31, 2005 of approximately \$1,251,000 available to reduce taxable income of future years. Future tax benefits, which may arise as a result of these losses and resource expenditures, have not been recognized in these financial statements and have been offset by a valuation allowance.

12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The significant non-cash transaction for the year ended December 31, 2005 consisted of the issuance of 1,475,171 common share on conversion of a loan payable of \$147,517 (Note 7)

AUREA MINING INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (cont'd...)

The significant non-cash transactions for the period from incorporation on March 22, 2004 to December 31, 2004 consisted of:

- a) The issuance of 2,500,000 common shares at a value of \$500,000 to settle a promissory note payable of \$500,000 (Note 6).
- b) The issuance of 5,130,000 common shares pursuant to a private placement in exchange for subscription proceeds received in advance of \$513,000 (Note 3).
- c) A commitment to issue 44,255 common shares pursuant to a conversion of loan payable of \$4,425 (US\$3,600) (Note 7).
- d) The issuance of 20,000,000 common shares in exchange for all the issued and outstanding shares of Minera (Note 3).

13. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities, promissory note payable, and convertible loans payable. Unless otherwise noted, 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 values of these financial instruments approximate their carrying value, unless otherwise stated.

14. SEGMENTED INFORMATION

The Company operates in one business segment, being the acquiring and exploring of mineral properties, in Mexico. The Company's capital assets are located in Mexico.

15. COMMITMENT

The Company entered into an employment agreement with an officer of the Company. The Company agreed to pay an officer of the Company US \$4,600 per month for a minimum of two years to June, 2006, and to pay certain other benefits of approximately \$6,700 per annum.

AUREA MINING INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

16. SUBSEQUENT EVENTS

Subsequent to December 31, 2005, the Company:

- a) Issued 5,410,000 units at a price of \$0.25 per unit for gross proceeds of \$1,352,500 consisting of one common share and one common share purchase warrant. Each warrant is exercisable into one common share of the Company at a price of \$0.35 for a period of one year from the date of issuance. The terms of the warrants also provide that if the closing price of the common shares of the Company is at least \$0.60 for ten consecutive trading days, the Company may issue a notice to warrant holders requiring them to exercise all warrants within 30 days or the warrants will expire. The Company paid finder's fees of \$58,000.
- b) Granted 393,000 stock options to acquire common shares exercisable at \$0.26 expiring January 18, 2011.
- c) Issued 1,808,650 common shares for proceeds of \$635,960 pursuant to the exercise of warrants and stock options.