

**NEWPORT EXPLORATION LTD.**

**FINANCIAL STATEMENTS**

**JULY 31, 2005**

## AUDITORS' REPORT

To the Shareholders of  
Newport Exploration Ltd.

We have audited the balance sheets of Newport Exploration Ltd. as at July 31, 2005 and 2004 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

**"DAVIDSON & COMPANY LLP"**

Vancouver, Canada

Chartered Accountants

November 15, 2005

A Member of SC INTERNATIONAL

**NEWPORT EXPLORATION LTD.**  
**BALANCE SHEETS**  
**AS AT JULY 31**

	2005	2004
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 52,846	\$ 364,035
Term deposits	1,536,162	1,848,909
Marketable securities (Note 3)	10,518	13,975
Receivables	50,444	6,629
Prepays	<u>27,137</u>	<u>137,035</u>
	1,677,107	2,370,583
<b>Equipment</b> (Note 4)	56,139	84,880
<b>Mineral properties</b> (Note 5)	542,086	4,912
<b>Deposit</b>	<u>9,264</u>	<u>-</u>
	<u>\$ 2,284,596</u>	<u>\$ 2,460,375</u>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

<b>Current</b>		
Accounts payable and accrued liabilities	\$ 207,800	\$ 15,060
Obligation under capital lease (Note 7)	<u>-</u>	<u>28,461</u>
	<u>207,800</u>	<u>43,521</u>
<b>Shareholders' equity</b>		
Capital stock (Note 8)	34,323,271	34,305,271
Contributed surplus (Note 8)	181,596	59,443
Deficit	<u>(32,428,071)</u>	<u>(31,947,860)</u>
	<u>2,076,796</u>	<u>2,416,854</u>
	<u>\$ 2,284,596</u>	<u>\$ 2,460,375</u>

**Nature and continuance of operations** (Note 1)

**Commitments** (Note 15)

**Subsequent event** (Note 16)

**On behalf of the Board:**

\_\_\_\_\_  
 "Ian T. Rozier"

Director

\_\_\_\_\_  
 "Barbara E. Dunfield"

Director

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

**NEWPORT EXPLORATION LTD.**  
**STATEMENTS OF OPERATIONS AND DEFICIT**  
**YEAR ENDED JULY 31**

	2005	2004
<b>EXPENSES</b>		
Administrative services	\$ 30,000	\$ 22,500
Amortization	27,200	30,815
Automobile	14,110	5,063
Consulting	127,357	111,119
Management fees	54,000	38,000
Office and miscellaneous	30,279	15,682
Professional fees	19,573	21,160
Property investigation	10,000	-
Regulatory fees	18,187	24,818
Rent and telephone	44,761	22,500
Shareholder information	7,181	11,616
Stock-based compensation (Note 9)	122,153	-
Travel and related costs	<u>16,546</u>	<u>37,039</u>
<b>Loss before other items</b>	<u>(521,347)</u>	<u>(340,312)</u>
<b>OTHER ITEMS</b>		
Other income	3,385	1,318
Interest income	33,623	26,428
Gain on disposition of equipment (Note 7)	16,775	-
Foreign exchange	(9,190)	-
Write-down of marketable securities (Note 3)	(3,457)	(6,344)
Write-off of mineral properties (Note 5)	-	(170,479)
Recovery of petroleum exploration costs (Note 6)	<u>-</u>	<u>57,364</u>
	<u>41,136</u>	<u>(91,713)</u>
<b>Loss for the year</b>	(480,211)	(432,025)
<b>Deficit, beginning of year</b>	<u>(31,947,860)</u>	<u>(31,515,835)</u>
<b>Deficit, end of year</b>	<u>\$ (32,428,071)</u>	<u>\$ (31,947,860)</u>
<b>Basic and diluted loss per common share</b>	<u>\$ (0.03)</u>	<u>\$ (0.04)</u>
<b>Weighted average number of common shares outstanding</b>	<u>14,665,134</u>	<u>11,964,678</u>

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

**NEWPORT EXPLORATION LTD.**  
**STATEMENTS OF CASH FLOWS**  
**YEAR ENDED JULY 31**

	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the year	\$ (480,211)	\$ (432,025)
Items not affecting cash:		
Amortization	27,200	30,815
Stock-based compensation	122,153	-
Write-down of marketable securities	3,457	6,344
Gain on disposition of equipment	(16,775)	-
Write-off of mineral properties	-	170,479
Changes in non-cash working capital items:		
Increase in receivables	(43,815)	(1,368)
(Increase) decrease in prepaids	109,898	(120,985)
Increase in accounts payable and accrued liabilities	<u>9,125</u>	<u>1,064</u>
Net cash used in operating activities	<u>(268,968)</u>	<u>(345,676)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Term deposits	312,747	(1,848,909)
Deposit	(9,264)	-
Acquisition of equipment	(10,145)	-
Mineral properties	(60,000)	(68,950)
Deferred exploration costs	<u>(275,559)</u>	<u>(4,912)</u>
Net cash used in investing activities	<u>(42,221)</u>	<u>(1,922,771)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of capital stock, net of finders fees	-	2,069,062
Repayment of capital lease obligations	<u>-</u>	<u>(10,189)</u>
Net cash provided by financing activities	<u>-</u>	<u>2,058,873</u>
<b>Decrease in cash during the year</b>	(311,189)	(209,574)
<b>Cash, beginning of year</b>	<u>364,035</u>	<u>573,609</u>
<b>Cash, end of year</b>	<u>\$ 52,846</u>	<u>\$ 364,035</u>

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

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

**NEWPORT EXPLORATION LTD.**  
NOTES TO THE FINANCIAL STATEMENTS  
JULY 31, 2005

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

Newport Exploration Ltd. (the "Company") is a Canadian company incorporated under the Business Corporation Act of British Columbia. The Company is primarily engaged in the acquisition and exploration of resource properties. To date, the Company has not earned significant revenues and is considered to be in the exploration stage.

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate.

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	2005	2004
Working capital	\$ 1,469,307	\$ 2,327,062
Deficit	(32,428,071)	(31,947,860)

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**2. SIGNIFICANT ACCOUNTING POLICIES**

**Use of 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from these estimates.

**Term deposits**

Term deposits consists of liquid investments with a maturity greater than three months.

**Marketable securities**

Marketable securities are recorded at the lower of cost or fair market value.

Realized gains and losses on sale of securities are determined based on the specific cost basis.

**Equipment**

Equipment is carried at cost less accumulated amortization. Amortization is recorded at the following annual rates:

Automotive equipment under capital lease	30% declining balance
Computer equipment	30% declining balance
Furniture and fixtures	20% declining balance
Leasehold improvements	straight-line over lease term

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

**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**

Effective August 1, 2004, 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 cost must be recognized at fair value 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. Adoption of this standard has not affected the Company's financial statements.

**Foreign currency translation**

The monetary assets and liabilities of the Company that are denominated in foreign currencies are translated into Canadian dollar equivalents at the rate of exchange in effect at the balance sheet date and non-monetary items are translated at historical rates. Revenues and expenses are translated at the average exchange rate for the year. Exchange gains or losses arising on translation are included in the statement of operations.

**Stock-based compensation plans**

The Company uses the fair value method of accounting for all stock-based compensation. The Company estimates the fair value at the date of grant using the Black-Scholes option pricing model. Any consideration paid by the option holders to purchase shares is credited to capital stock.

**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.

**NEWPORT EXPLORATION LTD.**  
NOTES TO THE FINANCIAL STATEMENTS  
JULY 31, 2005

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

**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 years 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 year.

**Comparative figures**

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

**3. MARKETABLE SECURITIES**

Marketable securities are comprised of the following:

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	2005	2004
Cost	\$ 22,542	\$ 22,542
Market value	\$ 10,518	\$ 13,975

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During the year ended July 31, 2005, marketable securities were written-down by \$3,457 (2004 - \$6,344) to reflect market value.

**NEWPORT EXPLORATION LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JULY 31, 2005**

**4. EQUIPMENT**

	2005			2004		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Automotive equipment under capital lease	\$ -	\$ -	\$ -	\$ 116,851	\$ 105,165	\$ 11,686
Computer equipment	37,067	29,406	7,661	37,067	26,123	10,944
Furniture and fixtures	21,758	15,413	6,345	21,758	13,827	7,931
Leasehold improvements	<u>105,816</u>	<u>63,683</u>	<u>42,133</u>	<u>95,671</u>	<u>41,352</u>	<u>54,319</u>
	\$ 164,641	\$ 108,502	\$ 56,139	\$ 271,347	\$ 186,467	\$ 84,880

**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 conveyancing 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.

	2005	
	Mulga Tank Nickel Project, Australia	Total
<b>Acquisition costs</b>		
Balance, beginning of year	\$ -	\$ -
Acquisition costs	<u>78,000</u>	<u>78,000</u>
Balance, end of year	<u>78,000</u>	<u>78,000</u>
<b>Deferred exploration costs</b>		
Balance, beginning of year	4,912	4,912
Consulting	44,406	44,406
Drilling	87,602	87,602
Earth moving	10,887	10,887
Field administration	10,309	10,309
Field supplies	21,469	21,469
Geochemistry	7,768	7,768
Geophysics	68,191	68,191
Project management fees	97,085	97,085
Technical consulting	101,546	101,546
Travel	<u>9,911</u>	<u>9,911</u>
Balance, end of year	<u>464,086</u>	<u>464,086</u>
<b>Total</b>	\$ 542,086	\$ 542,086

**NEWPORT EXPLORATION LTD.**  
NOTES TO THE FINANCIAL STATEMENTS  
JULY 31, 2005

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

	<b>2004</b>			Total
	Mantua Copper Project, Cuba	Franco Gold Project, Mexico	Mulga Tank Nickel Project, Australia	
<b>Acquisition costs</b>				
Balance, beginning of year	\$ 100,000	\$ -	\$ -	\$ 100,000
Acquisition costs	-	63,950	-	63,950
Written-off	<u>(100,000)</u>	<u>(63,950)</u>	<u>-</u>	<u>(163,950)</u>
Balance, end of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Deferred exploration costs</b>				
Balance, beginning of year	90,946	-	-	90,946
Geological	-	5,000	4,912	9,912
Recovery of costs	(89,417)	-	-	(89,417)
Written-off	<u>(1,529)</u>	<u>(5,000)</u>	<u>-</u>	<u>(6,529)</u>
Balance, end of year	<u>-</u>	<u>-</u>	<u>4,912</u>	<u>4,912</u>
<b>Total</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,912</u>	<u>\$ 4,912</u>

**Mantua Copper Project, Cuba**

During the year ended July 31, 2003, the Company entered into an option agreement to acquire an undivided 50% interest in the Mantua Copper Project (the "Project") in Cuba from Northern Orion Explorations Ltd. ("Northern Orion"). Upon exercise of the option, the Company would have acquired 100% of the issued and outstanding shares of Minera Mantua Inc., a wholly owned subsidiary of Northern Orion which owns a 50% interest in the Project. As consideration for the option, the Company issued to Northern Orion 400,000 common shares at an agreed value of \$100,000.

During the year ended July 31, 2004, the Company decided to abandon this property and all costs were written-off to operations.

**Franco Gold Project, Mexico**

During the year ended July 31, 2004, the Company entered into an agreement with Cardero Resources Ltd. ("Cardero"), to acquire a 50% interest in the Franco Gold Project ("Franco") located in San Luis Potosi, Mexico. The Company paid \$63,950 (US\$50,000) upon signing the agreement. The Company was also required to incur US\$250,000 in exploration expenditures on or before August 3, 2004, of which \$128,035 (US\$100,000) was paid and recorded in prepaids, and make payments of US\$80,000 to the underlying optioner of Franco by September 3, 2004. The property was subject to a 2% net smelter royalty.

**NEWPORT EXPLORATION LTD.**  
NOTES TO THE FINANCIAL STATEMENTS  
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**5. MINERAL PROPERTIES (cont'd...)**

**Franco Gold Project, Mexico (cont'd...)**

The Company decided to abandon this property and all related costs were written-off to operations in the year ended July 31, 2004.

During the year ended July 31, 2005, the Company received a refund of prepaid exploration expenditures of \$128,035.

**Mulga Tank Nickel Project, Australia**

During the year ended July 31, 2004, the Company entered into an agreement to acquire an 80% interest in an exploration license and a 75% interest in an application exploration license, collectively known as the Mulga Tank Nickel Project ("Mulga Tank") located in Western Australia. The Company paid \$60,000 and issued 150,000 common shares with a value of \$18,000, upon closing the option agreement. To acquire its interest, the Company is required:

- i) On or before September 1, 2005, pay \$60,000 (Note 16), issue 300,000 common shares (Note 16) and incur expenditures of \$250,000 (incurred).
- ii) On or before September 1, 2006, pay \$90,000, issue 450,000 common shares and incur additional expenditures of \$500,000.
- iii) On or before September 1, 2007, pay \$150,000, issue 600,000 common shares and incur additional expenditures of \$750,000.
- iv) On or before September 1, 2008, incur additional expenditures of \$1,000,000.

Upon completion of a feasibility study, the Company will be required to pay \$240,000 and issue 750,000 common shares. Upon commencement of commercial production, the Company will be required to issue an additional 1,000,000 common shares.

**6. RECOVERY OF PETROLEUM EXPLORATION COSTS**

The Company previously entered into an agreement with Tri-Valley Oil and Gas Co. ("TVOG") in the year ended July 31, 1999 pursuant to which the Company would acquire a 5.81% working interest in the initial well to be drilled on the Ekho Project oil and gas property (the "Ekho Project") in the San Joaquin Valley, Kern County, California. In consideration, the Company was to fund 6.64% of TVOG's property acquisition and work program costs, including drilling the initial well.

In the year ended July 31, 2000, the Company decided not to participate in the Ekho Project and accordingly, \$1,604,986 was written off to operations.

During the year ended July 31, 2004, TVOG paid the Company an advanced abandonment cost of \$57,364 (US \$41,564) in consideration that the Company terminate all terms of the agreement and thereupon will have no rights or obligations under the agreement. TVOG also granted the Company a 0.7231% overriding royalty participation on the property.

**NEWPORT EXPLORATION LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JULY 31, 2005**

**7. OBLIGATION UNDER CAPITAL LEASE**

	2005	2004
Total minimum lease payments	\$ -	\$ 31,097
Amount representing interest	-	(2,636)
Balance of obligation	-	28,461
Less: current portion	-	(28,461)
	\$ -	\$ -

During the year ended July 31, 2005, the capital lease expired and the related automobile was disposed of resulting in a gain of \$16,775. The capital lease was for a corporate vehicle for use by a director of the Company.

**8. CAPITAL STOCK**

	Number of Shares	Capital Stock	Contributed Surplus
Authorized			
100,000,000 common shares without par value			
Issued			
As at July 31, 2003	8,178,850	\$ 32,295,652	\$ -
Private placement	5,549,000	1,942,150	59,443
Exercise of warrants	800,000	200,000	-
Finders' fees	-	(132,531)	-
Fractional shares upon 2002 consolidation	<u>24</u>	<u>-</u>	<u>-</u>
As at July 31, 2004	14,527,874	34,305,271	59,443
Acquisition of mineral property	150,000	18,000	-
Stock-based compensation	<u>-</u>	<u>-</u>	<u>122,153</u>
As at July 31, 2005	<u>14,677,874</u>	<u>\$ 34,323,271</u>	<u>\$ 181,596</u>

On December 16, 2003, the Company issued 5,549,000 units for proceeds of \$1,942,150 pursuant to a private placement. Each unit was comprised of one common share and one non-transferable share purchase warrant. Each warrant entitles the holder to acquire an additional common share at a price of \$0.40 until December 16, 2004 and \$0.45 until December 16, 2005. The finders' fees include the Company paying \$73,088 and issuing 292,400 warrants exercisable into additional common shares at \$0.40 until December 16, 2004 and at \$0.45 until December 16, 2005. The finders' warrants have been recorded at a fair value of \$59,443, which is included in contributed surplus.

**NEWPORT EXPLORATION LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**9. STOCK OPTIONS AND WARRANTS**

**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, minimum price or a discounted 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. The board of directors has the exclusive power over the granting of options and their vesting provisions.

At July 31, 2005, the Company had outstanding stock options, enabling the holders to acquire common shares as follows:

Number of Shares	Exercise Price	Expiry Date
1,450,000	\$ 0.16	February 21, 2007

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance, July 31, 2003	945,000	\$ 0.25
Options cancelled/expired	<u>(745,000)</u>	0.23
Balance, July 31, 2004	200,000	0.35
Options granted	1,450,000	0.16
Options expired	<u>(200,000)</u>	0.35
Balance, July 31, 2005	1,450,000	\$ 0.16
Number of options currently exercisable	1,450,000	\$ 0.16

**Stock-based compensation**

During the year ended July 31, 2005, the Company granted 1,450,000 stock options resulting in stock-based compensation expense of \$122,153 using the Black-Scholes option pricing model which was also recorded as contributed surplus on the balance sheet. The weighted average fair value of the stock options granted was \$0.08 per share. There were no stock options granted during the year ended July 31, 2004.

**NEWPORT EXPLORATION LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**9. STOCK OPTIONS AND WARRANTS (cont'd...)**

**Stock-based compensation (cont'd...)**

The following weighted average assumptions were used for the Black-Scholes option pricing model valuation of stock options and warrants granted:

	2005	2004
Risk-free interest rate	2.85%	3.43%
Expected life of options	2 years	1 year
Annualized volatility	104.0%	107.0%
Dividend rate	0%	0%

**Warrants**

At July 31, 2005, the Company had outstanding share purchase warrants, enabling holders to acquire shares as follows:

Number of Shares	Exercise Price	Expiry Date
5,841,400	\$ 0.45	December 16, 2005

Warrant transactions and the number of warrants outstanding are summarized as follows:

	Number of Warrants	Exercise Price
Balance, July 31, 2003	3,500,000	\$ 0.35
Warrants granted	5,841,400	0.45
Warrants exercised	(800,000)	0.25
Warrants cancelled/expired	(200,000)	0.25
Warrants cancelled/expired	<u>(1,000,000)</u>	0.60
Balance, July 31, 2004	7,341,400	0.39
Warrants cancelled/expired	<u>(1,500,000)</u>	0.35
Balance, July 31, 2005	5,841,400	\$ 0.45

**10. RELATED PARTY TRANSACTIONS**

The Company entered into the following transactions with related parties:

- a) Paid or accrued consulting fees of \$86,000 (2004 - \$82,000) to companies controlled by two directors.

**NEWPORT EXPLORATION LTD.**  
NOTES TO THE FINANCIAL STATEMENTS  
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**10. RELATED PARTY TRANSACTIONS (cont'd...)**

- b) Paid or accrued management fees of \$54,000 (2004 - \$38,000) to a company controlled by a director.
- c) Paid or accrued rent of \$36,000 (2004 - \$22,500) to a company controlled by a director.
- d) Paid or accrued automobile costs of \$14,110 (2004 - \$Nil) under a vehicle operating lease for use by directors and officers.

Included in prepaids at July 31, 2005 is \$16,000 (2004 - \$9,000) for consulting fees, management fees and rent to companies controlled by directors 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.

**11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

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	2005	2004
Cash paid during the year for interest	\$ -	\$ 2,636
Cash paid during the year for income taxes	\$ -	\$ -

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The significant non-cash transactions for the year ended July 31, 2005 consisted of:

- a) issuing 150,000 common shares at a value of \$18,000 for the acquisition of a mineral property (Note 5).
- b) the expiry of a capital lease resulting in a reduction to equipment and obligation under capital lease of \$11,686 and \$28,461 respectively.
- c) the accrual of deferred exploration costs totalling \$183,615.

The significant non-cash transaction for the year ended July 31, 2004 was a reduction of accounts payable by \$89,417 in conjunction with a write-off of mineral properties (Note 5).

**12. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash, term deposits, marketable securities, receivables, accounts payable and accrued liabilities and obligation under capital lease. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

**Currency Risk**

The Company is exposed to financial risk arising from fluctuations in foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

**NEWPORT EXPLORATION LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**13. INCOME TAXES**

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

	2005	2004
Loss before income tax recovery	\$ (480,211)	\$ (432,025)
Expected tax recovery	\$ (170,451)	\$ (153,801)
Write-off of mineral properties and deferred exploration costs	-	60,690
Other	39,948	8,025
Unrecognized benefits of non-capital losses	<u>130,503</u>	<u>85,086</u>
Total income tax recovery	\$ -	\$ -

b) Details of future income tax assets are as follows:

	2005	2004
Future tax assets:		
Equipment	\$ 77,000	\$ 66,000
Resource deductions	321,000	334,000
Share issuance costs	27,000	38,000
Non-capital loss carryforwards	<u>1,068,000</u>	<u>1,257,000</u>
	1,493,000	1,695,000
Valuation allowance	<u>(1,493,000)</u>	<u>(1,695,000)</u>
Net future tax assets	\$ -	\$ -

The Company has non-capital losses of approximately \$3,130,000 which may be carried forward and applied against taxable income in future years. These losses, if unutilized, will expire through to 2015. Subject to certain restrictions, the Company has further resource development and exploration expenditures totalling approximately \$1,481,000 available to reduce taxable income of future years. The future income tax benefits of these losses and resource deductions have not been reflected in these financial statements and have been offset by a valuation allowance.

**14. SEGMENTED INFORMATION**

The Company has one reportable operating segment, the acquisition and exploration of mineral properties. Geographical information is as follows:

	Canada	Australia	Total
<b>2005</b>			
Equipment	\$ 56,139	\$ -	\$ 56,139
Mineral properties	<u>-</u>	<u>542,086</u>	<u>542,086</u>
	\$ 56,139	\$ 542,086	\$ 598,225

**NEWPORT EXPLORATION LTD.**  
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**14. SEGMENTED INFORMATION (cont'd...)**

	Canada	Australia	Total
<b>2004</b>			
Equipment	\$ 84,880	\$ -	\$ 84,880
Mineral properties and deferred	<u>-</u>	<u>4,912</u>	<u>4,912</u>
	<u>\$ 84,880</u>	<u>\$ 4,912</u>	<u>\$ 89,792</u>

**15. COMMITMENTS**

The Company has obligations under operating leases for its premises to a company controlled by a director, and for a vehicle. The annual lease commitments under these leases are as follows:

2006	\$ 62,111
2007	<u>40,000</u>
	<u>\$ 102,111</u>

**16. SUBSEQUENT EVENT**

Subsequent to July 31, 2005, the Company issued 300,000 common shares valued at \$55,000 and paid \$60,000 pursuant to an agreement on the Mulga Tank Project (Note 5).

## **NEWPORT EXPLORATION LTD.**

### **MANAGEMENT DISCUSSION AND ANALYSIS**

**For the Year Ended July 31, 2005**

The following discussion and analysis of financial results, prepared as of November 15, 2005, should be read in conjunction with the audited financial statements of Newport Exploration Ltd. ("Newport" or the "Company") for the year ended July 31, 2005, together with the related notes thereto. The audited financial statements are prepared in accordance with Canadian generally accepted accounting principles. All amounts are expressed in Canadian dollars unless otherwise indicated.

The discussion contains forward-looking statements that involve risks and uncertainties. Such information, although considered reasonable by the Company's management at the time of preparation, may prove to be inaccurate and actual results may differ materially from those anticipated in the statements made.

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

#### ***Description of Business***

Newport Exploration Ltd. is a mineral exploration company engaged in the acquisition and exploration of mineral properties in Western Australia. The Company's head office is in Vancouver, British Columbia. The Company has an exploration property for nickel in Western Australia where it holds an option to acquire an 80% interest in an exploration license and a 75% interest in an application exploration license. The Company is a reporting issuer in British Columbia, Alberta and Saskatchewan and trades on the TSX Venture Exchange under the symbol NWX.

#### ***Results of Operations***

The Company recorded a loss for the year ended July 31, 2005 of \$480,211 or (\$0.03) per common share compared to a loss of \$432,025 or (\$0.04) per common share for the year ended July 31, 2004.

#### ***Exploration Expenditures***

During the year ended July 31, 2005, the Company incurred net exploration expenditures of \$459,174 (2004 - \$4,912). These expenditures for both 2005 and 2004 were incurred on the Company's Mulga Tank project.

The Company continues work on the Mulga Tank Nickel Project ("Mulga Tank"). Mulga Tank is a significant target for the large dunite hosted nickel sulphide deposit located approximately 250km northeast of Kalgoorlie in the Northeast Goldfields of Western Australia, an area that contains some of the world's largest nickel deposits.

The Mulga Tank tenements comprise an Exploration Licence ("EL") covering 210 sq km and an Application for Exploration Licence ("AEL") covering a further 153 sq km. The Company has

an option over an 80% interest in the EL and an option over a 75% interest in the AEL and all first year commitments and obligations have been met.

The EL and AEL overlay portions of an extensive greenstone belt, which includes the Minigwal dunite, a large, intense, circular, magnetic anomaly with an area of approximately 4 km in diameter. This anomaly has the characteristics for a major dunite hosted nickel sulphide deposit such as Mt. Keith, also located in the Northeast Goldfields area of Western Australia. Technical work undertaken by BHP at Mulga Tank in the early 1980s reported assay results of up to 2% nickel.

In the third quarter 2005, the Company reported that the results from the I.P. Program over Mulga Tank had been collated and interpreted by Peter Smith of Global Geoinfo, Fremantle, Western Australia. The interpretation of data identified drill targets similar to those associated with high-grade massive sulphides deposits rather than with disseminated deposits, which had formerly been the target model of Mulga Tank.

Drilling, contracted by Wallis Drilling of Kalgoorlie, Western Australia commenced in July with a geologist and two field technicians contracted from Baxter geological on site throughout the entire program. Core from the drilling program was logged, cut and sampled on-site with samples sent to Amdel and ALS assay laboratories in Perth, Australia. Downhole geophysics (EM) was also conducted.

Following up on the discovery of uranium at Mulga Tank, (50km to the east) and the ‘tracking’ of anomalous units into the Mulga Tank Exploration Licence (“EL”), a spectrometer was used to test for uranium anomalism around the Mulga Tank EL, as detected by a Tempest Airborne Geophysical survey.

On September 26, 2005 the Company reported assay results from two vertical diamond drill holes (MTD001 and MTD002) that tested two anomalous zones within a large buried dunite and airborne magnetic anomaly indicative of unexplored nickel targets. BHP previously (1980s) completed a program of shallow RC drilling to bedrock and one shallow diamond drill hole. The dunite body, covering an area of approximately 4.7km x 3.2km, had received little attention in the past due to lack of outcrop, being totally overlain by sand, and was recognized by Newport as being prospective for a large nickel sulphide target.

Drill hole MTD001 was targeted to test shallow RC drilling by BHP which reportedly returned cuttings in the range 0.38% Ni to 2.0% Ni and up to 455 ppm Cu. MTD001 was drilled to a depth of 345m to test the southern margin of the dunite body and intersected 270m with an average grade of 0.20% Ni across the entire 270m serpentinised dunite interval. In MTD001 both Ni and Cr grades systematically increase down hole within the dunite. The nickel content and texture suggest komatiitic affinities and the potential to host large disseminated, or smaller massive high grade, nickel deposits. Sulphides visible in the drill core appear mainly due to the alteration of silicate minerals. The dunite is in contact with a flat lying sulphide rich meta-sediments creating a setting highly favorable for the formation of massive nickel sulphides.

MTD002 was targeted to test and confirm BHP’s diamond hole MD-1A drilled near the center of the magnetic anomaly that previously reported an intersection of 0.58% Ni between 196-197m. Drill hole MTD002 was drilled to 372m and intersected 212m with an average grade of 0.19% Ni (from 60m). In MTD002 disseminated pentlandite and millerite were identified by petrographic examination of drillcore specimens from 175.3m. The hole was terminated within ultramafic rocks.

The preliminary interpretation of the assay results suggested that the nickel grade down both drill holes is consistent, with no significant high-grade intervals that could distort the interpretation of results as presented. For example, in MTD001 between 276-326m there is a 50m interval with average grade of 0.24% Ni. Between 234 and 330m, the 96m interval has an average Ni grade of 0.22%. Similarly in MTD002, an 80m interval between 60-140m has an average Ni grade of 0.22%.

Drill holes MTD001 and MTD002 were drilled two kilometers apart, with each having a differing geological character, although being komatiitic in nature. The extensive size of the target and encouraging geology suggest that significant potential remains to host economic nickel deposits, particularly near the southern periphery of the dunite. Final results including petrology and geophysical interpretations are awaited and will form the basis of the next work program.

Nickel mines in production within the region, such as Mt. Keith (the world's largest known dunite hosted Archean Ni deposit at 299mt @ 0.56% Ni), or the high grade Silver Swan that averaged 14% nickel, both located close to Mulga Tank, attest to the fertility of the target rocks within the Mulga Tank project area.

The Company is very encouraged by the significant nickel mineralization encountered in these two drill holes. *"To get a 270m intersection of 0.2% nickel in our first hole at Mulga Tank is outstanding"*, said Ian Rozier, President of Newport. *"To follow it up with a second hole two thousand metres away almost as good speaks volumes for the geophysical-geological interpretation and planning that preceded the drilling program and target selection. The Mulga Tank property is looking very good and we have an excellent land position"* he further added.

Although the Company's main focus at this time is the Mulga Tank Project the Company has a 2.5% royalty for any hydrocarbons discovered on the following petroleum exploration permit in Australia; PEL's 91/106/107, ATP's 539P/549 (West)/549(Cypress), 552 and EPP27. As part of a joint venture between Beach Petroleum Ltd. ("Beach") and Great Artesian Oil & Gas Ltd., Beach will earn a 40% interest in P/EL 107, and Magellan Petroleum Australia Ltd. have farmed in to earn a 30% interest in the Kiana-1 and Tringa-1 wells on PEL107 by paying 60% of the costs of drilling and testing the wells. Kiana-1 has been completed as an oil and gas producer with initial flows from the Permian Pathawarra Formation of 1100 barrels of oil per day. Gas flows will be measured at a later date. The Tringa-1 well has yet to be completed. The Company will have a 2.5% royalty interest in priority to any of the Joint Venture equity interests in Kiana-1 and any other successful wells on the exploration permits over which it holds the 2.5% royalty. At this time the Company cannot speculate on the potential income from the Kiana-1 well.

The identification of massive sulphide targets is regarded by the Company as being a very exciting development at Mulga Tank. The Company is well financed and able to meet all its work commitments at Mulga Tank through 2006.

The Company's accounting policy is to record its mineral properties at cost. Exploration and development expenditures relating to mineral properties are deferred until either the properties are brought into production, at which time they are amortized on a unit of production basis, or until the properties are sold or abandoned, at which time the deferred costs are written off.

### ***General & Administrative***

For the year ended July 31, 2005, the Company incurred a total of \$521,347 (2004 - \$340,312) on general and administrative expenses. Stock-based compensation was \$122,153 (2004 - \$Nil) which reflects the majority of the difference between the two years. Management believes the 2005 expenses are reflective of what the Company's ongoing expenditures will be.

### ***Other Income and Expenses***

The Company recorded a recovery of petroleum exploration costs of \$Nil (2004 - \$57,364) as a result of a payment by Tri-Valley Oil and Gas Co. for all rights in connection with the Ekho project in San Joaquin Valley, California. In 2000, the Company had written off all costs associated with this project.

The Company also recorded a write-off of mineral properties of \$Nil (2004 - \$163,950) pursuant to the Franco Gold project in Mexico and the Mantua Copper project in Cuba. Lastly, the Company realized a gain of \$16,775 on the disposition of equipment.

### ***Liquidity and Capital Resources***

The Company's working capital position at July 31, 2005 was \$1,469,307 as compared to a working capital position of \$2,327,062 at July 31, 2004. The decrease in working capital is primarily a result of the \$519,174 spent on exploration and acquisition costs in connection with the Mulga Tank project.

The Company has financed its operations to date primarily through the issuance of common shares and exercise of stock options and share purchase warrants. The Company continues to seek capital through various means including the issuance of equity and/or debt.

The Company has not paid any dividends on its common shares. The Company has no present intention of paying dividends on its common shares, as it anticipates that all available funds will be invested to finance the growth of its business.

The financial statements have been prepared on a going concern basis which assumes that the Company will be able realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future.

### ***Commitments and Contractual Obligations***

The Company has work commitments on its Mulga Tank project pursuant to its underlying agreements. Newport has fulfilled its obligations in accordance with the commitment schedule. The work and acquisition commitments outlined below are contingent on successful exploration results being obtained.

	Expiry Date	Exploration Expenditures	Acquisition Costs	Share Issuances	
Year 1	Sept 1, 2005	\$ 250,000	\$60,000	300,000	(completed)
Year 2	Sept 1, 2006	500,000	90,000	450,000	
Year 3	Sept 1, 2007	750,000	150,000	600,000	
Year 4	Sept 1, 2008	1,000,000			

***Annual Financial Information***

Year Ended	July 31, 2005	July 31, 2004	July 31, 2003
<b>Financial Results</b>			
Exploration expenditures	\$ 459,174	\$ 9,912	\$ 90,946
Loss for the year	480,211	432,025	629,727
Loss per share – basic and diluted	(0.03)	(0.04)	(0.10)
<b>Financial Position</b>			
Working capital position	\$ 1,469,307	\$ 2,327,062	\$ 501,637
Mineral properties	542,086	4,912	190,946
Total assets	2,284,596	2,460,375	921,880
Total long-term liabilities	-	-	28,461
Share capital	34,323,271	34,305,271	32,295,652
Deficit	(32,428,071)	(31,947,860)	(31,515,835)

***Quarterly Financial Information***

	Three Months Ended Jul 31, 2005	Three Months Ended Apr 30, 2005	Three Months Ended Jan 31, 2005	Three Months Ended Oct 31, 2004
Total assets	\$ 2,284,596	\$ 2,233,110	\$ 2,360,255	\$ 2,492,635
Mineral properties and deferred costs	542,086	458,744	255,987	190,241
Working capital	1,469,307	1,645,699	1,965,004	2,112,088
Loss for the period	(117,108)	(230,467)	(78,113)	(54,523)
Loss per share – basic and diluted	(0.01)	(0.02)	(0.01)	(0.01)

	Three Months Ended Jul 31, 2004	Three Months Ended Apr 30, 2004	Three Months Ended Jan 31, 2004	Three Months Ended Oct 31, 2003
Total assets	\$ 2,460,375	\$ 2,736,374	\$ 2,650,050	\$ 846,994
Mineral properties and deferred costs	4,912	255,652	388,687	190,946
Working capital	2,327,062	2,147,806	2,049,681	436,000
Loss for the period	(193,324)	(57,266)	(111,546)	(69,889)
Loss per share – basic and diluted	(0.02)	(0.01)	(0.01)	(0.01)

Significant changes in key financial data from fiscal 2005 to 2004 can be attributed to the closing of the Company's 1.94 million dollars private placement 2004. Also in 2004 the Company wrote down certain costs associated to the option on the Cuba Copper project and Mexican Gold project. In the third quarter of 2005, the Company granted 1.45 million incentive stock options, which resulted in a \$122,153 stock-based compensation expenses using the Black-Scholes Option pricing model. This was the primary reason for the increase during that quarter.

During the fourth quarter, consulting fees increased as a result of the work program undertaken on the Mulga Tank project. Travel costs were lower in 2005 due to less travel once the Company had acquired the Mulga Tank project. There was an increase in the Company's office lease during the year. Most other expenses remained consistent.

Also, during 2005, the Company incurred \$459,174 in exploration expenditures on the Mulga Tank Nickel project in Western Australia. Under the terms of the agreement on the Mulga Tank project, the Company was committed to incur exploration expenditures in the first year of a minimum of \$250,000, pay \$60,000 and issue 300,000 common shares. This commitment has been met as at the date of this report.

#### ***Related Party Transactions***

During the year ended July 31, 2005, the Company paid or accrued \$72,000 (2004 - \$82,000) to Buccaneer Management Inc., a company controlled by the President of Newport, and paid or accrued \$14,000 (2004 - \$Nil) to 676421 B.C. Ltd., a company controlled by a director of the Company for consulting fees. Also during the year, the Company paid or accrued \$54,000 (2004 - \$38,000) for management fees to Tabo Investments Ltd., a company controlled by a director of Newport. Additionally, the Company paid or accrued \$36,000 (2004 - \$22,500) for rent charged by 641485 B.C. Ltd., a company controlled by the President of Newport.

#### ***Changes in Accounting Policy***

The Company adopted new CICA Handbook Section 3110, Asset Retirement Obligations effective July 1, 2004. Under this CICA Handbook section, an entity recognizes an asset retirement cost by increasing the carrying amount of the related long-lived asset by the same amount as the liability. Under this method, the Company would use the expected cash flow method to calculate the present value of asset retirement costs. Subsequently, the Company would allocate that asset retirement cost to expense using a systematic and rational method over its useful life. In periods subsequent to the initial measurement of the liability, the Company would recognize period-to-period changes in the asset retirement liability from the passage of time and from revisions to either the timing or amount of the original estimate of undiscounted cash flows.

Prior to the adoption of HB 3110, the Company had accounted for reclamation and closure costs by accruing an amount associated with the retirement of tangible long-lived assets as a charge to operations over the life of the asset.

The adoption of HB 3110 resulted in no changes to amounts previously presented.

***Risk, Uncertainties and Outlook***

The business of mineral deposit exploration and extraction involves a high degree of risk. Few properties that are explored ultimately become producing mines. At present, none of the Company's properties has a known commercial ore deposit. Certain of the Company's mineral properties are also located in emerging nations and, consequently, may be subject to a higher level of risk compared to developed countries.

Operations, the status of mineral property rights and the recoverability of amounts shown for mineral properties in emerging nations can be affected by changing economic, regulatory and political situations.

Other risks facing the Company include competition, environmental and insurance risks, fluctuations in metal prices, fluctuations in exchange rates, share price volatility and uncertainty of additional financing.

***Share Capital***

As at November 15, 2005, the Company had 14,977,874 common shares outstanding and the following outstanding warrants and options:

***Outstanding Warrants:***

Number of Warrants	Exercise Price	Expiry Date
5,841,000	\$0.45	December 16, 2005

***Outstanding Options:***

Number of Options	Exercise Price	Expiry Date
1,450,000	\$0.16	February 21, 2007

***Internal Disclosure Controls and Procedures***

We have evaluated the effectiveness of our disclosure controls and procedures and have concluded, based on our evaluation, that they are sufficiently effective to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries is made known to management and disclosed in accordance with applicable securities regulations.