CANADIAN ZINC CORPORATION
(a development stage company)

Financial Statements

December 31, 2005 and 2004

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AUDITORS' REPORT

To the Shareholders of
Canadian Zinc Corporation
(a development stage company)

We have audited the balance sheet of **Canadian Zinc Corporation** as at December 31, 2005 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. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

The financial statements as at December 31, 2004, and for the year then ended, were audited by other auditors who expressed an opinion without reservation on those statements in their report dated February 25, 2005.

Ernst & Young LLP

Vancouver, Canada,
March 3, 2006.

Chartered Accountants

CANADIAN ZINC CORPORATION

(a development stage company)
Balance Sheets
As at December 31

		2005		2004
ASSETS				
Current assets				
Cash and cash equivalents	$	16,063,876		12,907,997
Accounts receivable		24,179		24,711
		16,088,055		12,932,708
Resource interests (Note 3)		18,495,140		16,927,724
Plant and equipment (Note 4)		111,385		133,547
	$	34,694,580	$	29,993,979
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities		48,409		175,080
Asset retirement obligations (Note 5)		1,302,212		1,227,996
		1,350,621		1,403,076
SHAREHOLDERS' EQUITY				
Share capital (Note 6)		43,066,867		37,789,923
Contributed surplus (Note 6)		1,479,424		36,000
Deficit		(11,202,332)		(9,235,020)
		33,343,959		28,590,903
	$	34,694,580	$	29,993,979

See accompanying notes

On behalf of the Board: *"John F. Kearney"* John F. Kearney *"Robert Gayton"* Robert Gayton

CANADIAN ZINC CORPORATION

(a development stage company)
Statements of Operations and Deficit
Years Ended December 31

	2005	2004
Income		
Interest income	$ 329,115	$ 330,076
Expenses		
Amortization	3,117	3,794
Listing and regulatory fees	58,381	33,447
Office and general	273,533	152,313
Management and directors fees	203,283	328,773
Professional fees	215,112	165,648
Project evaluation	72,921	-
Shareholder and investor communications	156,080	325,228
Stock-based compensation	1,314,000	-
	2,296,427	1,009,203
Net loss for the year	(1,967,312)	(679,127)
Deficit, beginning of year	(9,235,020)	(8,555,893)
Deficit, end of year	$ (11,202,332)	$ (9,235,020)
Loss per share - basic and diluted	$ (0.03)	$ (0.01)
Weighted average number of common shares outstanding - basic and diluted	71,378,444	67,174,891

See accompanying notes

CANADIAN ZINC CORPORATION

(a development stage company)
Statements of Cash Flows
Years Ended December 31

		2005		2004
Cash flows from (used in) operating activities				
Net loss for the year	$	(1,967,312)	$	(679,127)
Adjustment for items not involving cash:				
- amortization		3,117		3,794
- stock-based compensation		1,314,000		-
		(650,195)		(675,333)
Change in non-cash working capital items:				
- accounts receivable		532		29,744
- accounts payable and accrued liabilities		(126,671)		(34,161)
		(776,334)		(679,750)
Cash flows from financing activities				
Proceeds from shares issued and subscribed, Net of issuance costs and broker warrants		5,406,368		2,444,625
Cash flows used in investing activities				
Purchase of equipment		(17,943)		(45,657)
Deferred exploration and development costs, excluding amortization and accretion		(1,426,212)		(2,120,663)
Lease and property abandonment deposit		(30,000)		(30,000)
		(1,474,155)		(2,196,320)
Increase (decrease) in cash and cash equivalents		3,155,879		(431,445)
Cash and cash equivalents, beginning of year		12,907,997		13,339,442
Cash and cash equivalents, end of year	$	16,063,876	$	12,907,997
Supplementary cash flow information:				
Interest paid in cash	$	-	$	-
Income taxes paid in cash	$	-	$	-
Non cash transactions:				
Shares issued pursuant to royalty acquisition agreement	$	-	$	408,000

See accompanying notes

1. Nature of Operations

The Company is primarily engaged in the exploration and development of its Prairie Creek property and related activities. The Company is considered to be in the exploration and development stage and to date has not earned any significant revenues. The recoverability of amounts shown for resources interests and related deferred costs is dependent on the existence of economically recoverable reserves, obtaining the necessary permits to operate a mine, obtaining the financing to complete development and future profitable production (see Note 3).

2. Significant Accounting Policies

The financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following significant accounting policies:

Basis of Presentation

The Company follows generally accepted accounting principles in the preparation of its financial statements. All dollar amounts are reported in Canadian funds.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions about future events that affect the reported amounts in the financial statements and the notes thereto. Actual results may differ from those estimates.

Cash Equivalents

Cash equivalents usually consist of liquid investments which are readily convertible into cash with maturities of three months or less when purchased. Cash equivalents consist of $15,435,000 (2004 - $12,896,000) in redeemable term deposits.

Plant and Equipment

Plant and equipment are recorded at cost, net of accumulated amortization. Amortization is provided on a declining-balance basis at the following annual rates:

Mining equipment and pilot plant	30%
Office furniture and equipment	20%
Computer equipment	30%

Amortization is provided at half the annual rate in the year of acquisition.

Resource Interests

The Company follows the policy of capitalizing all acquisition (including plant and equipment acquired with the property), exploration and development costs relating to the resource interests. The amounts shown for resource interests represent costs incurred to date, less recoveries, and do not necessarily reflect present or future values. These costs will be amortized against revenue from future production or written off if the interest is abandoned or sold.

2. Significant Accounting Policies (cont'd)

Resource Interests (cont'd)

Depletion of costs capitalized on projects put into commercial production will be recorded using the unit-of-production method based upon estimated proven and probable reserves.

The carrying values of mineral interests, on a property-by-property basis, are reviewed by management at least annually to determine if they have become impaired. If impairment is deemed to exist, the mineral property will be written down to its net recoverable value.

Ownership in resource interests involves certain inherent risks, including geological, metal prices, operating costs, and permitting risks. Many of these risks are outside the Company's control.

The ultimate recoverability of the amounts capitalized for the mineral properties is dependent upon the delineation of economically recoverable ore reserves, obtaining the necessary financing to complete their development, obtaining the necessary permits to operate a mine, and realizing profitable production or proceeds from the disposition thereof. Management's estimates of recoverability of the Company's investment in Prairie Creek has been based on current conditions. However, it is reasonably possible that changes could occur which could adversely affect management's estimates and may result in future write downs of capitalized property carrying values.

Property Option Agreements

Property Option payments are recorded as resource property costs or recoveries when the payments are made or received, respectively.

Asset Retirement Obligations

The Company adopted the recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3110, "Asset Retirement Obligations". Under this Section, future obligations to retire an asset, including dismantling, remediation and ongoing treatment and monitoring of the site, are recognized and recorded as a liability at fair value as at the time in which they are incurred or the event occurs giving rise to such an obligation. The liability is increased (accreted) over time through periodic charges to earnings. The corresponding asset retirement cost is capitalized as part of the asset's carrying value, and is amortized over the asset's estimated useful life. The amount of the liability will be subject to re-measurement at each reporting period.

The Company, where possible, has estimated asset retirement obligations based on current best practice. These estimates, made by Management, are subject to change as a result of changes in regulations, the extent of environmental remediation required, the means of reclamation, or cost estimates. Changes in estimates are accounted for prospectively from the period the estimate is revised.

Long-lived Assets Impairment

Long-term assets of the Company are reviewed when changes in circumstances suggest their carrying value has become impaired. Management considers assets to be impaired if the carrying value exceeds the estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition. If impairment is deemed to exist, the asset will be written down to fair value. Fair value is generally determined using a discounted cash flow analysis.

2. Significant Accounting Policies (cont'd)

Earnings (Loss) Per Share

Earnings (loss) per share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share amounts are calculated by the treasury stock method giving effect to the potential dilution that would occur if options, warrants or other contracts to issue common shares were exercised or converted to common shares. As the Company incurred net losses in fiscal 2005 and 2004, the stock options and share purchase warrants as disclosed in Note 6 were not included in the computation of loss per share as such inclusion would be anti-dilutive.

Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized.

Stock-based Compensation

In fiscal 2003, the Company prospectively adopted the fair value method of accounting for the stock options awards granted to employees and directors, as recommended by CICA Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments". The Handbook provides alternative methods of transition for the adoption of the fair value method and, as permitted, the Company has elected the prospective application, which allows the fair value method to be applied to awards granted, modified or settled on or after January 1, 2003. All stock-based awards made to non-employees continue to be recognized and measured using the fair value method.

The fair value of stock options is determined by the widely used Black-Scholes Option Pricing Model with assumptions for risk-free interest rates, dividend yields, volatility of the expected market price of the Company's common shares and an expected life of the options. The fair value of direct awards of stock is determined by the quoted market price of the Company's stock. Stock based compensation is amortized to earnings over the vesting period of the related option.

Option-pricing models require the use of highly subjective estimates and assumptions including the expected stock price volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide reliable measurement of the fair value of the Company's stock options.

Flow through shares

Canadian tax legislation permits a company to issue flow through shares whereby the deduction for income tax purposes for qualified resource expenditures can be renounced and claimed by the investors.

The Company follows the guidelines contained in *CICA Handbook – Emerging Issues Abstract* – 146, "Flow Through Shares" ("EIC-146") for all renunciations by the Company after March 19, 2004.

2. Significant Accounting Policies (cont'd)

Flow through shares (cont'd)

For pre-March 19, 2004 renunciation, the Company has elected to utilize provisions of the CICA Handbook whereby future income tax liabilities and future income tax assets could be offset in those instances where they relate to the same entity and the same taxation authority.

Revenue Recognition

Interest income on cash and cash equivalents and short-term investments is recognized as it is earned.

3. Resource Interests

The Company's resource interests comprise the Prairie Creek Mine Property:

		2005		2004
Acquisition costs:				
- mining lands	$	3,158,000	$	3,158,000
- plant and mills		500,000		500,000
		3,658,000		3,658,000
Reclamation security deposits		190,000		160,000
Increase from asset retirement obligation		875,350		1,004,070
Exploration and development costs		13,771,790		12,105,654
	$	18,495,140	$	16,927,724

Exploration and development costs incurred in 2005 and 2004 are detailed below:

		2005		2004
Exploration and development costs				
Assaying and metallurgical studies	$	182,450	$	37,310
Camp operation and site development		472,075		223,975
Drilling and underground development		-		912,258
Lease rental		82,527		58,003
Permitting and legal		139,821		35,417
Salaries and consulting – geology, permitting, environmental		393,663		570,780
Transportation and travel		155,676		282,920
		1,426,212		2,120,663
Amortization – asset retirement obligation		128,720		128,719
Amortization – mining plant and equipment		36,988		42,837
Asset retirement accretion		74,216		66,817
Total exploration and development costs for the year		1,666,136		2,359,036
Exploration and development costs, beginning of year		12,105,654		9,746,618
Exploration and development costs, end of year	$	13,771,790	$	12,105,654

3. Resource Interests (cont'd)

Prairie Creek Mine

The Company holds a 100% interest in the Prairie Creek Mine property, plant and equipment located in the Northwest Territories, Canada.

In 1994, the Company acquired a 100% interest, subject to a 2% net smelter royalty interest ("N.S.R."), in the property. The acquisition included a 60% interest in the plant and equipment located on the property with an option to acquire the remaining 40% interest. One-half of the 40% interest was to be transferred to the Company when N.S.R. payments totalled $3,200,000 and the remaining one-half interest when additional N.S.R. payments totalled $5,000,000, whereupon the N.S.R. terminated.

In 2004, the Company entered into an agreement with Titan Logix Corp. (Titan) to purchase Titan's interest in the Prairie Creek Mine Property. Under The Agreement with Titan, the Company acquired the remaining 40% interest in the physical plant and equipment and repurchased the 2% N.S.R.. The consideration for the acquisition was the issuance to Titan of 300,000 common shares and 250,000 purchase warrants exercisable at $1.25 per share until June 22, 2005 (see Note 9).

During 2003 the Company renewed two surface leases granted by the Federal Government relating to the operation and care and maintenance of the Prairie Creek Mine Property for a period of ten years terminating March 31, 2012. The Company paid $100,000 upon execution of the lease and is obligated to pay $30,000 per year for five years to a maximum of $250,000 (of which $160,000 was paid as at December 31, 2004 and $190,000 was paid as at December 31, 2005), as a security deposit for the performance of abandonment and reclamation obligations under the leases.

On September 10, 2003 the Company was granted a Type A Land Use Permit and a Type B Water Licence by the Mackenzie Valley Land and Water Board for a period of five years commencing September 10, 2003 for underground development and exploration and for metallurgical testing. Under the terms of the Land Use Permit and Water Licence the Company is obliged to contribute the amounts of $30,000 and $70,000, respectively, as security deposits for reclamation obligations.

In October 2003 an appeal to the Federal Court was filed by the Nahanni Butte Dene Band ("Nahanni"), Pehdzeh Kl First Nation and the Deh Cho First Nations against the Mackenzie Valley Land and Water Board and the Company seeking judicial review of the decision of the Water Board to grant the Water Licence to the Company. The case was heard in August 2005 and Judgment issued in December 2005. The Court directed the Water Board to re-issue the Water Licence so as to include an amendment to the wording of one of the conditions of the Licence. The Court also awarded the costs of the proceedings to the Company.

In 1996, the Company concluded a Co-operation Agreement with the Nahanni, part of the Deh Cho First Nations. In return for co-operation and assistance undertakings given by the Nahanni towards the development of the Prairie Creek Project, the Company granted the following net profit interest and purchase option to the Nahanni:

(i) A 5% annual net profits, before taxation, interest in the Prairie Creek Project, payable following the generation of profits after taxation equivalent to the aggregate cost of bringing the Prairie Creek Project into production and establishing the access road; and

3. Resource Interests (cont'd)

Prairie Creek Mine (cont'd)

(ii) An option to purchase either a 10% or a 15% interest in the Prairie Creek Project at any time prior to the expiry of three months following permitting for the Project, for the cash payment of either $6 million or $9 million, subject to price adjustment for exploration expenditure and inflation, respectively.

The appeal by the Nahanni in October 2003 against the decision of the Water Board to issue the Water Licence was a breach of the Co-operation Agreement. The Nahanni has informed the Company that Nahanni considers the Agreement terminated. Such termination is not in accordance with the provisions of the Agreement.

4. Plant and Equipment

	2005			2004
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Mining equipment	$ 222,384	$ 182,794	$ 39,590	$ 46,681
Pilot plant	108,161	55,162	52,999	75,712
Furniture, fixtures & equipment	89,825	71,029	18,796	11,154
	$ 420,370	$ 308,985	$ 111,385	$ 133,547

5. Asset Retirement Obligations

	2005	2004
Opening balance – beginning of the year	$ 1,227,996	$ 117,990
Obligations re-measured during the year	-	1,043,189
Accretion expense	74,216	66,817
Ending balance – end of the year	$ 1,302,212	$ 1,227,996

The Company's asset retirement obligation arises from its obligations to undertake site reclamation and remediation in connection with its operating activities.

The total discounted amount of the estimated cash flows required to settle the asset retirement obligation is estimated to be $1,302,212 measured in 2005 dollars (2004 - $1,227,996). While it is anticipated that some expenditures will be incurred during the life of the operation to which they relate, a significant component of this expenditure will only be incurred at the end of the mine life. In determining the carrying value of the asset retirement obligation, the Company has assumed a long term inflation rate of 2.5%, a credit-adjusted risk-free discount rate of 6.5% and a weighted average useful life of production facilities and equipment of ten years. Elements of uncertainty in estimating this amount include changes in the projected mine life, reclamation expenditures incurred during ongoing operations and reclamation and remediation requirements and alternatives.

6. Share Capital

Authorized: Unlimited (2004 - unlimited) common shares without par value.

Shares issued during the year:

	Number of Shares	Amount
Balance, December 31, 2003	64,482,932	$ 34,937,298
Warrants exercised at various exercise prices per share	4,462,010	2,410,125
Shares issued pursuant to mineral interest agreement	300,000	408,000
Stock options exercised at $0.23 per share	150,000	34,500
Balance, December 31, 2004	69,394,942	37,789,923
Warrants exercised at $0.60 per share	388,813	233,288
Private Placement of flow-through shares at $0.55 per share (less $444,685 issuance costs)	9,090,909	4,555,315
Brokers warrants		(109,091)
Private Placement of flow-through shares at $0.75 and $0.85 per share (less $57,235 issuance costs)	872,548	617,765
Brokers warrants		(20,333)
Balance, December 31, 2005	79,747,212	$ 43,066,867

Stock Options

The Company has outstanding directors and employee stock options entitling the holders to acquire additional common shares as follows:

Number of Shares	Exercise Price	Expiry Date
450,000	$0.23	March 18, 2007
3,550,000	$0.60	January 14, 2010
4,000,000		

In January 2005, pursuant to the Company's 10% Rolling Stock Option Plan, the Company granted stock options to purchase an aggregate of 3,650,000 common shares at $0.60 per share to directors, officers, consultants and service providers of the Company. These stock options vest immediately and expire in five years on January 14, 2010. Each option entitles the holder to acquire one common share of the Company.

6. Share Capital (cont'd)

The weighted average fair value of the options granted in 2005 was estimated at $0.36 per share by using the Black-Scholes Option Pricing Model with the following weighted average assumptions: risk-free interest rate of 3.5%, dividend yield of 0%, volatility of 91% and expected life of 5 years. An expense of $1,314,000, in respect of stock based compensation, was charged to operations and added to contributed surplus

The Black-Scholes model was developed for use in estimating the fair value of freely traded options which are fully transferable and have no vesting restrictions. In addition, this model requires the input of highly subjective assumptions, including future stock price volatility and expected time until exercise. The Company's options have characteristics which are significantly different from those of traded options, and changes in any of the assumptions can materially affect fair value estimate.

A summary of the stock option activity for the year is as follows:

	Shares	Weighted Average Exercise Price
Options outstanding and exercisable at December 31, 2003	600,000	$ 0.23
Exercised	(150,000)	0.23
Options outstanding and exercisable at December 31, 2004	450,000	0.23
Granted	3,650,000	0.60
Cancelled	(100,000)	0.60
Options outstanding and exercisable at December 31, 2005	4,000,000	$ 0.56

The remaining excepted term of these options is as follows:

Range of Exercise Price	Number Outstanding and Exercisable	Weighted Average Remaining Contractual Life
$0.23 - $0.60	4,000,000	3.72 years

Warrants

788,350 broker warrants were issued as part of the private placements of shares completed during 2005. In accordance with *CICA Handbook Section 3860, "Financial Instruments – Disclosure and Presentation",* share purchase broker warrants attached to private placements units issued in 2005 were allocated at fair value based on the Black Scholes Option Pricing Model. During 2005, 388,813 warrants were exercised at $0.60 per share for gross proceeds of $233,288.

6. Share Capital (cont'd)

Number of Warrants Outstanding at December 31, 2004	Number of Warrants Expired/ Exercised during 2005	Issued during 2005	Balance of Warrants Outstanding at December 31, 2005	Exercise Price Per Warrant	Expiry Date	Warrant Value
650,190	(650,190)	-	-	$0.60	May 10, 2005	$ -
3,358,875	(3,358,875)	-	-	$0.60	May 10, 2005	-
3,275,000	(3,275,000)	-	-	$1.25	June 22, 2005	-
		727,273	727,273 (1)	$0.55	Oct. 27, 2007	109,091
		46,666	46,666 (2)	$0.75	Dec. 30, 2006	15,866
		14,411	14,411 (2)	$0.85	Dec. 30, 2006	4,467
7,284,065	(7,284,065)	788,350	788,350			$ 129,424

(1) On October 27, 2005 broker warrants were issued to purchase 727,273 shares at $0.55 per share for two years.

(2) On December 30, 2005 46,666 share purchase warrants, each exercisable to acquire one additional share at $0.75 per share for one year and 14,411 share purchase warrants, each exercisable to acquire one additional share at $0.85 per share for one year. These warrants were issued as part of the cost of the private placement.

Contributed Surplus

		Amount
Contributed surplus at December 31, 2004 and 2003	$	36,000
Stock based compensation expense		1,314,000
Value of broker warrants		129,424
Contributed surplus at December 31, 2005	$	1,479,424

7. Related Party Transactions

a) The Company incurred the following expenses to directors and corporations controlled by directors of the Company:

		2005		2004
Consulting fees	$	142,350	$	115,258
Executive and Director compensation		200,883		97,500
Investor relations		-		10,554
Rent		13,200		12,000
	$	356,433	$	235,312

7. Related Party Transactions (cont'd)

All transactions with related parties were within the normal course of business. These transactions have been recorded at the exchange amounts agreed to by the transacting parties.

8. Income Taxes

The Company's income tax expense for each of the years 2005 and 2004 is $nil. The Company provided a valuation allowance equal to the future tax assets because the timing of the utilization of the future tax assets is indeterminable.

A reconciliation of the statutory tax rate to the effective rate for the Company is as follows:

		2005		2004
Future income tax assets				
Non-Capital loss carry forwards	$	1,537,000	$	1,307,000
Capital assets		287,000		273,000
Asset retirement obligation		444,000		429,000
		2,268,000		2,009,000
Valuation allowance		(494,000)		(273,000)
Net future tax assets		1,774,000		1,736,000
Future income tax liability		(1,774,000)		(1,736,000)
Future income tax assets	$	-	$	-

As at December 31, 2005, the Company has non-capital losses of approximately $4,503,000 and unused cumulative Canadian exploration and development expenses of $13,291,000 to carry forward for tax purposes and are available to reduce taxable income of future years. The non-capital losses expire from 2006 to 2015. The exploration and development expenses and undepreciated capital costs can be carried forward indefinitely. Future income tax benefits which may arise as a result of these losses have been recognized in these financial statements to the extent necessary to offset future income tax liabilities that have arisen on issuance of flow through shares.

8. Income Taxes (cont'd)

The reconciliation of income tax attributable to operations computed at the statutory tax rates to income tax expense (recovery), using a 34.87% statutory tax rate, as at December 31 is:

	2005	2004
Income pre financial statements	$ 1,967,000	$ 679,000
Income tax rate	34.87%	35.62%
Income tax recovery	686,000	242,000
Permanent differences	(519,000)	(40,000)
Expired losses	(68,000)	(170,000)
Other	(10,000)	(11,000)
Income tax rate changes	(2,000)	(51,000)
Change in evaluation allowance	(87,000)	(30,000)
	$ -	$ -

During the year ended December 31, 2005 the Company renounced, to subscribers of 9,963,457, flow-through shares Canadian Exploration Expenditures (CEE) of $5,675,000. The Company has applied the accounting treatment in EIC-146 requiring the transaction to be reported in the 2006 fiscal period.

9. Non-cash Transactions

In the fiscal year 2005, there were no non-cash transactions.

In the fiscal year 2004**,** the Company entered into an agreement with Titan Logix Corp. ("Titan") to purchase Titan's interest in the Prairie Creek Mine Property. The consideration for the acquisition was the issuance to Titan of 300,000 common shares at $1.36 per share, being the fair value at the time of issuance, and 250,000 purchase warrants exercisable at $1.25 per share until June 22, 2005.

10. Financial Instruments

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgement, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values. The carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments. The Company places its cash and cash equivalents with high credit quality financial institutions which invested the funds in AAA debt instruments. The Company is not exposed to significant interest or currency risks arising from these financial instruments.

11. Comparative Figures

Certain 2004 comparative figures have been reclassified to conform with the financial statement presentation adopted for 2005.

12. Subsequent Events

In January, 2006 the Company completed an underwritten private placement for total proceeds of $9.6 million, through the issuance of 13,333,333 units, priced at $0.72 per unit. Each unit consists of one common share and one-half share purchase warrant exercisable to purchase one common share at a price of $1.00 per share for a period of two years.

Under the provisions of the Underwriting Agreement 1,333,333 Underwriter's options were issued to the Underwriter. Each Underwriter's option entitles the holder, subject to approval by the shareholders of the Company, to acquire one Underwriter's unit at a price of $0.72 per Underwriter's unit for a period of 24 months from January 30, 2006. In the event such shareholder approval is not obtained, the Underwriter shall be entitled to be paid cash compensation in the amount of $672,000 in lieu of the Underwriter options.