
Financial Statements

Plato Gold Corp.

For the Years Ended December 31, 2005 and 2004

INDEX

Management's Responsibility for Financial Reporting	1
Auditors' Report	2
Balance Sheets	3
Statements of Operations and Deficit	4
Cash Flow Statements	5
Notes to the Financial Statements	6 - 17

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements and other financial information for this annual report were prepared by the management of Plato Gold Corp., reviewed by the Audit Committee of the Board of Directors, and approved by the Board of Directors.

Management is responsible for the preparation of the financial statements and believes that they fairly represent the Company's financial position and the results of operations in accordance with Canadian generally accepted accounting principles. Management has included amounts in the Company's financial statements based on estimates, judgements, and policies that it believes reasonable in the circumstances.

To discharge its responsibilities for financial reporting and for the safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the assets are maintained and accounted for in accordance with its policies and that transactions are recorded accurately in the Company's books and records.

Smith, Nixon & Co. LLP, Chartered Accountants, were appointed as auditors by the board of directors of the Company.

"Anthony J. Cohen"

President and CEO

"Greg K. W. Wong"

CFO

Toronto, Ontario
April 24, 2006



Smith, Nixon & Co. LLP
Chartered Accountants
Suite 1900, 390 Bay Street
Toronto, Ontario
M5H 2Y2

T: 416.361.1622
F: 416.367.1238
www.smith-nixon.com

AUDITORS' REPORT

TO THE SHAREHOLDERS OF PLATO GOLD CORP.

We have audited the balance sheet of Plato Gold Corp. 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 cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements of Plato Gold Corp. as at December 31, 2004 and for the year then ended were audited by other auditors who expressed an opinion without reservation on these financial statements in their report dated February 4, 2005.

Chartered Accountants
Toronto, Ontario
February 16, 2006

Plato Gold Corp.

Balance Sheets
As at December 31

	2005	2004
Assets		
Current Assets		
Cash and cash equivalents	\$ 126,911	\$ 3,756
Other receivables	82,824	-
Deposits and prepaid expenses	<u>37,478</u>	<u>14,842</u>
	247,213	18,598
Mineral Properties and Deferred Exploration Costs		
(note 4)	1,354,732	522,440
Property, Plant and Equipment (note 5)		
	<u>6,461</u>	<u>1,512</u>
	<u>\$ 1,608,406</u>	<u>\$ 542,550</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 316,386	\$ 73,388
Due to related parties (note 6)	<u>102,537</u>	<u>-</u>
	418,923	73,388
Due to related parties (note 6)		
	<u>-</u>	<u>72,771</u>
	<u>418,923</u>	<u>146,159</u>
Shareholders' Equity		
Share Capital (note 7)	2,131,658	662,578
Warrants (note 8)	84,920	-
Stock Options (note 9)	71,836	-
Contributed Surplus (note 10)	31,647	13,628
Deficit	<u>(1,130,578)</u>	<u>(279,815)</u>
	<u>1,189,483</u>	<u>396,391</u>
	<u>\$ 1,608,406</u>	<u>\$ 542,550</u>

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

Approved on behalf of the Board

"Anthony J. Cohen", Director

"Robert Van Tassell", Director

Plato Gold Corp.

Statements of Operations and Deficit
For the Years Ended December 31

	2005	2004
Revenue		
Interest income	\$ 7,479	\$ -
Expenses		
Amortization	1,407	267
Consulting fees	16,917	-
Insurance	16,897	-
Interest and financing costs	3,482	143
Office and general	10,930	17,897
Professional fees	95,568	55,900
Public and investor relations	7,028	20,657
Rent and utilities	18,858	10,000
Salaries and benefits	82,895	-
Stock-based compensation (note 9)	12,784	-
Transfer and filing fees	18,593	-
	<u>285,359</u>	<u>104,864</u>
Loss Before the Undernoted Item	(277,880)	(104,864)
Reverse Takeover Transaction Costs (note 2)	<u>(291,214)</u>	<u>-</u>
Net Loss for the Year	(569,094)	(104,864)
Deficit - Beginning of Year	(279,815)	(174,951)
Reverse Takeover Transaction Costs (note 2)	34,007	-
Share Issuance Costs (note 7(c))	<u>(315,676)</u>	<u>-</u>
Deficit - End of Year	<u>\$ (1,130,578)</u>	<u>\$ (279,815)</u>
Loss per Share - basic and diluted	<u>\$ (0.03)</u>	<u>\$ (0.01)</u>
Weighted Average Number of Common Shares Outstanding - basic and diluted	<u>19,243,770</u>	<u>13,872,868</u>

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

Plato Gold Corp.

Cash Flow Statements

For the Years Ended December 31

	2005	2004
Cash Flows from Operating Activities		
Cash paid to suppliers and employees	\$ (360,033)	\$ (46,391)
Interest received	7,479	-
	<u>(352,554)</u>	<u>(46,391)</u>
Cash Flows from Financing Activities		
Due to related parties	26,167	48,617
Cash received from reverse takeover	137,323	-
Reverse takeover transaction costs	(335,460)	-
Issuance of share capital	1,469,080	10,000
Issuance of warrants	84,920	-
Share issuance costs	<u>(230,924)</u>	<u>-</u>
	<u>1,151,106</u>	<u>58,617</u>
Cash Flows from Investing Activities		
Mineral properties and deferred exploration costs	(669,041)	(7,030)
Purchase of property, plant and equipment	<u>(6,356)</u>	<u>(1,779)</u>
	<u>(675,397)</u>	<u>(8,809)</u>
Change in Cash and Cash Equivalents	123,155	3,417
Cash and Cash Equivalents - Beginning of Year	<u>3,756</u>	<u>339</u>
Cash and Cash Equivalents - End of Year	<u>\$ 126,911</u>	<u>\$ 3,756</u>

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

Plato Gold Corp.

Notes to the Financial Statements

For the Years Ended December 31, 2005 and 2004

1. Nature of Operations

Plato Gold Corp. (the “Company”) is an Ontario corporation formed by amalgamation on May 30, 2005 as described below.

A predecessor corporation (Plato Gold Corp.) commenced operations in November 1996 when it entered into an agreement to acquire an interest in mining properties in the Timmins area of Northern Ontario. The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain mineral reserves. Consequently, the Company considers itself to be an exploration stage company.

The other predecessor corporation (Shatheena Capital Corp.) was classified as a Capital Pool Company as defined in TSX Venture Exchange Inc. (the “Exchange”) Policy 2.4.

2. Acquisition and Amalgamation

Shatheena Capital Corp. (“Shatheena”) entered into a letter agreement dated September 1, 2004 (the “Letter Agreement”), as amended January 1, 2005, under which Shatheena issued an offer to the shareholders of Plato Gold Corp. (“Plato Gold”) to acquire all the issued and outstanding common shares of Plato Gold in exchange for common shares of Shatheena.

On May 30, 2005, pursuant to the Letter Agreement with Plato Gold, Shatheena issued to the shareholders of Plato Gold, in aggregate, 14,000,000 newly issued common shares of Shatheena, at a deemed price of \$0.25 per share for aggregate consideration of \$3,500,000 in exchange for all of the issued and outstanding shares of Plato Gold. Completion of the transaction constituted Shatheena’s qualifying transaction (“Qualifying Transaction”). The shareholders of Plato Gold held the majority of the outstanding shares of Shatheena following the transaction, and accordingly, the transaction has been accounted for as a reverse take-over. Since Shatheena’s operations do not constitute an economic unit, this transaction has been accounted for as a capital transaction. The comparative figures presented in these financial statements are the historical results of Plato Gold.

The transaction has been accounted for as follows:

Assets acquired:	
Cash	\$ 137,323
Prepaid share issuance costs	25,700
Deferred acquisition costs	<u>428,537</u>
	<u>591,560</u>
Liabilities assumed:	
Accounts payable and accrued liabilities	\$ (416,631)
Due to related parties	<u>(3,599)</u>
	<u>(420,230)</u>
Net assets acquired	<u>\$ 171,330</u>

The transaction costs in excess of cash received have been charged to expense.

Plato Gold Corp.

Notes to the Financial Statements

For the Years Ended December 31, 2005 and 2004

2. Acquisition and Amalgamation (continued)

The transaction was a non-arm's length transaction as Shatheena and Plato Gold have an officer in common. This officer was also a shareholder and director of both corporations.

A prospectus dated April 25, 2005 was issued to offer for sale at least 3,000,000 equity units ("Units"), consisting of one common share and one-half common share purchase warrant, and 3,000,000 flow-through common shares ("Flow-Through Shares") at \$0.25 per Flow-Through Share or Unit. On May 30, 2005, 3,088,000 Units and 3,128,000 Flow-Through Shares were issued.

Subsequent to the share exchange and financing, Shatheena and Plato Gold amalgamated to continue as Plato Gold Corp.

3. Significant Accounting Policies

These financial statements have been prepared in accordance with accounting principles generally accepted in Canada, and reflect the following significant accounting policies:

a) Basis of Presentation - Going Concern

These financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. There is significant doubt about the appropriateness of the use of the going concern assumption because the Company has experienced recurring losses and has experienced negative cash flows from operations over a number of years. The application of the going concern concept is dependent on the Company's ability to generate future profitable operations. Management is of the opinion that sufficient working capital will be obtained from external financing to meet the Company's liabilities and commitments as they become payable.

The financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments may be necessary in the carrying value of assets and liabilities and the balance sheet classifications used.

b) Use of Estimates

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of operations during the reporting period. Significant estimates and assumptions include those related to the recoverability of resource properties and the ability to continue as a going concern. While management believes that the estimates and assumptions are reasonable, actual results could differ from those estimates.

Plato Gold Corp.

Notes to the Financial Statements

For the Years Ended December 31, 2005 and 2004

3. Significant Accounting Policies (continued)

c) Cash and Cash Equivalents

Cash and cash equivalents include bank deposits and short-term money market investments which on acquisition have a term to maturity of three months or less.

d) Mineral properties and deferred exploration costs

Acquisition costs of resource properties together with direct exploration and development expenditures thereon are deferred in the accounts. When production is attained, these costs will be amortized on a units-of-production basis. If the properties are abandoned, sold or considered to be impaired in value, the costs of the properties and related deferred expenses will be written down at that time. When deferred expenditures on individual producing properties exceed the estimated net realizable value of undiscounted proven reserves, the properties are written down to the estimated fair value.

The Company is in the process of exploring and developing its mineral properties and has not yet determined the amount of reserves available. Senior management regularly reviews the carrying amount of mineral properties and deferred exploration and development costs to assess whether there has been any impairment in value.

e) Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Amortization is provided over the estimated useful lives of the assets using the declining-balance method at the following rates per annum:

Computer	30% - 45%
Furniture and fixtures	30%

Additions during the year are amortized using the half year rule.

f) Flow-through Financing

The Company has financed a portion of its exploration activities through the issuance of flow-through shares, which transfer the tax deductibility of exploration expenditures to the investors. Proceeds received on the issuance of such shares have been credited to capital stock. Related exploration expenditures have been charged to mineral properties and deferred exploration costs. Resource expenditures deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. When these expenditures are renounced, temporary taxable differences created by the renunciation will reduce share capital.

Plato Gold Corp.

Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004

3. Significant Accounting Policies (continued)

g) Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on the differences between the carrying amount of assets and liabilities on the balance sheet and their corresponding tax values, using the substantively enacted tax rates expected to apply when these temporary differences are reversed. Future income tax assets are recorded to recognize tax benefits only to the extent that, based on available evidence, it is more likely than not that they will be realized.

h) Stock-Based Compensation

The Company has one stock option plan that is described in note 9.

The Company has adopted CICA Handbook Section 3870, "*Stock-Based Compensations and Other Stock-Based Payments*", which recommends the fair market value-based method of accounting for stock-based compensation. The fair value of each option is accounted for over the vesting period of the options and the related credit is included in the recorded value of stock options.

i) Asset Retirement Obligations

Effective January 1, 2004, the Company adopted the CICA Handbook Section 3110, "*Asset Retirement Obligations*", which established standards for asset obligations and the associated retirement costs related to site reclamation and abandonment. The fair value of the liability for an asset retirement obligation is recorded when it is incurred and the corresponding increase to the asset is depreciated over the life of the asset. The liability is increased over time to reflect an accretion element considered in the initial measurement at fair value. As at December 31, 2005, the Company has not incurred or committed any asset retirement obligations related to its mineral properties.

j) Loss Per Share

Loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year, including contingently issuable shares which are included when the conditions necessary for issuance have been met. Diluted loss per share is calculated in a similar manner, except that the weighted average number of common shares outstanding is increased to include potentially issuable common shares from the assumed exercise of common share purchase options and warrants, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options and warrants. As the Company had a loss in each of the two years presented, basic and diluted loss per share are the same, as the exercise of all options and warrants would be anti-dilutive.

k) Related Party Transactions

All transactions with related parties are in the normal course of business and are measured at the exchange amount.

Plato Gold Corp.

Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004

3. Significant Accounting Policies (continued)

l) Comparative Figures

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

4. Mineral Properties and Deferred Exploration Costs

The Company acquired a project comprised of four properties along the Destor - Porcupine Fault Zone through the vesting of an option agreement. The properties are subject to a 2% net smelter returns royalty to a director of the Company.

	<u>Acquisition Costs</u>	<u>Exploration Expenditures</u>	<u>Total</u>
Balance - December 31, 2003	\$ 252,508	\$ 262,114	\$ 514,622
Expenditures capitalized during the year	-	7,030	7,030
Expenditures contributed by a shareholder (note 12(b))	-	788	788
	<hr/>	<hr/>	<hr/>
Balance - December 31, 2004	252,508	269,932	522,440
Expenditures capitalized during the year	-	819,452	819,452
Expenditures contributed by a shareholder (note 12(b))	-	12,840	12,840
	<hr/>	<hr/>	<hr/>
Balance - December 31, 2005	<u>\$ 252,508</u>	<u>\$ 1,102,224</u>	<u>\$ 1,354,732</u>

Each year, the Company is committed to spend approximately \$40,000 to maintain one of its mineral properties in good standing. As a result of the 2005 drilling program, the Company has accumulated enough credits to keep this property in good standing for 10 years.

5. Property, Plant and Equipment

	<u>2005</u>			<u>2004</u>		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Computer equipment	\$ 2,879	\$ 886	\$ 1,993	\$ 1,779	\$ 267	\$ 1,512
Furniture and fixtures	5,256	788	4,468	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	<u>\$ 8,135</u>	<u>\$ 1,674</u>	<u>\$ 6,461</u>	<u>\$ 1,779</u>	<u>\$ 267</u>	<u>\$ 1,512</u>

Plato Gold Corp.

Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004

6. Due to Related Parties

	<u>2005</u>	<u>2004</u>
Related company	\$ 25,858	\$ 21,400
Director	<u>76,679</u>	<u>51,371</u>
	<u>\$ 102,537</u>	<u>\$ 72,771</u>

Amounts due to related parties are non-interest bearing, unsecured and due on demand. At December 31, 2004, the related company and the director agreed not to demand repayment within the next twelve months from that date for cash or other assets.

The Company and the related company have a director in common. This director is also a shareholder and officer of both companies.

7. Share Capital

a) Authorized:

Unlimited common shares
Unlimited preferred shares

b) Common Shares Issued and Outstanding:

	<u>Number</u>	<u>Amount</u>
Plato Gold Corp. (old)		
Balance - December 31, 2003	7,873,279	\$ 652,578
Options exercised	<u>100,000</u>	<u>10,000</u>
Balance - December 31, 2004 and May 30, 2005	<u>7,973,279</u>	<u>\$ 662,578</u>
Plato Gold Corp. (new) (formerly Shatheena Capital Corp.)		
Balance - December 31, 2003 and 2004	2,620,000	\$ 412,000
Options exercised prior to Qualifying Transaction	<u>25,000</u>	<u>7,385</u>
Balance - May 30, 2005	2,645,000	419,385
Elimination of share capital in Shatheena	-	(419,385)
Shares issued to effect Qualifying Transaction	14,000,000	662,578
Issued for cash (note 7(c))	<u>6,216,000</u>	<u>1,469,080</u>
Balance - December 31, 2005	<u>22,861,000</u>	<u>\$ 2,131,658</u>

Plato Gold Corp.

Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004

7. Share Capital (continued)

c) Prospectus Offering

As described in note (2), the Company issued 3,088,000 Units and 3,128,000 Flow-Through Shares at \$0.25 per Flow-Through Share or Unit. The Units consist of one common share and one-half common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at \$0.35 per share until November 30, 2006.

The estimated fair value of the warrants was \$84,920 and this amount has been allocated to the warrant component of the Units.

In connection with the prospectus offering, the Company paid a cash commission of \$132,610 plus 312,800 common share options and 308,800 options to purchase Units. Each option of common shares entitles the agent to purchase one common share at a price of \$0.25 per share until May 30, 2007, and each option of Units entitles the agent to purchase one Unit at a price of \$0.25 per Unit until May 30, 2007. The fair value of these options was estimated at \$29,716 and \$29,336 respectively.

In addition, the Company incurred other share issuance costs of \$124,014. Share issuance costs totalling \$315,676 (including the fair value of options granted to the agent) has been charged to retained earnings.

The fair values of warrants and options were estimated on the grant date using the Black-Scholes pricing model, with the following weighted average assumptions: risk-free interest rate of 2.95%, dividend yield of 0%, a volatility factor of the expected market price of the Company's shares of 66.10%; and an expected life of 2.0 years.

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

8. Warrants

	<u>Number</u>	<u>Value</u>	<u>Weighted Average</u> <u>Exercise Price</u>
Balance - December 31, 2003 and 2004	-	\$ -	\$ -
Issued: For cash (note 7(c))	1,544,000	84,920	0.35
Balance - December 31, 2005	<u>1,544,000</u>	<u>\$ 84,920</u>	<u>\$ 0.35</u>

As at December 31, 2005, the Company has 1,544,000 common share purchase warrants issued and outstanding. Each warrant entitles the holder to purchase one common share at \$0.35 per share until November 30, 2006.

Plato Gold Corp.

Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004

9. Options

- a) The Board of Directors has adopted a stock option plan for the Company (the "Plan"). Pursuant to the Plan, the Board of Directors may, from time to time at its discretion, allocate non-transferable options to purchase shares to directors, officers, employees and consultants of the Company.

Under the Plan, the aggregate number of shares to be issued upon the exercise of options granted thereunder may not exceed 10% of the number of issued and outstanding shares at the time of granting the options. Options shall expire no later than five years after the date of grant.

The exercise price of options granted pursuant to the Plan shall be established based on the average closing price of the shares for the five days prior to the date of grant or such other method of pricing as may be acceptable to the stock exchange on which the shares are listed.

- b) A summary of changes to stock options is as follows:

	<u>Number</u>	<u>Amount</u>
Balance - December 31, 2003 and 2004	412,000	\$ 32,500
Expired prior to Qualifying Transaction	(150,000)	-
Exercised prior to Qualifying Transaction	<u>(25,000)</u>	<u>(2,385)</u>
	237,000	30,115
Elimination of options in Shatheena	-	(30,115)
Granted pursuant to Prospectus Offering:		
- options to purchase common shares (note 7(c))	312,800	29,716
- options to purchase units (note 7(c))	308,800	29,336
Granted to directors and officers	1,050,000	-
Cancelled/expired	(130,644)	-
Stock-based compensation recognized on options with graded vesting schedule	<u>-</u>	<u>12,784</u>
Balance - December 31, 2005	<u><u>1,777,956</u></u>	<u><u>\$ 71,836</u></u>

On September 1, 2005, the Company granted options to acquire a total of 1,050,000 common shares of the Company at an exercise price of \$0.20 per share to its directors and officers in accordance with its stock option plan.

The stock options are vested and released at a rate of 25% per year on the anniversary date of the grant and expire on September 1, 2010.

Compensation expense of \$12,784 was recorded in connection with these options. The fair value of the options granted by the Company to the directors and officers was estimated using the Black-Scholes option pricing model, with the following assumptions: risk free interest rate of 3.29%; dividend yield of 0%; a volatility factor of the expected market price of the Company's shares of 94%; and an expected life of 5 years.

Plato Gold Corp.

Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004

9. Options (continued)

c) Stock options were granted, exercised and expired/cancelled as follows:

	<u>Number</u>	<u>Weighted Average Exercise Price</u>
Balance - December 31, 2003 and 2004	412,000	\$ 0.20
Options exercised prior to Qualifying Transaction	(25,000)	(0.20)
Options issued pursuant to Prospectus Offering	621,600 ⁽¹⁾	0.25
Options expired/cancelled	(280,644)	(0.20)
Options granted to directors and officers	<u>1,050,000</u>	<u>0.20</u>
Balance - December 31, 2005	<u>1,777,956</u>	<u>\$ 0.22</u>
Options of Plato Gold		
Balance - December 31, 2003	300,000	\$ 0.10
Exercised	<u>(100,000)</u>	<u>(0.10)</u>
Balance - December 31, 2004	200,000	0.10
Cancelled upon completion of Qualifying Transaction	<u>(200,000)</u>	<u>(0.10)</u>
Balance - December 31, 2005	<u>-</u>	<u>\$ -</u>

d) As at December 31, 2005, the following options were outstanding:

<u>Option Price</u>	<u>Number of Options</u>		<u>Expiry Date</u>
	<u>Unvested</u>	<u>Vested</u>	
\$ 0.20	-	106,356	October 24, 2008
\$ 0.20	1,050,000	-	September 1, 2010
\$ 0.25	-	<u>621,600⁽¹⁾</u>	May 30, 2007
	<u>1,050,000</u>	<u>727,956</u>	

⁽¹⁾ Includes 308,800 options to purchase units. See note 7(c) for details.

10. Contributed Surplus

	<u>2005</u>	<u>2004</u>
Balance - beginning of year	\$ 13,628	\$ -
Exploration expenditures contributed (note 12(b))	<u>18,019</u>	<u>13,628</u>
Balance - end of year	<u>\$ 31,647</u>	<u>\$ 13,628</u>

Plato Gold Corp.

Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004

11. Income Taxes

- a) Income tax recovery attributable to the loss differs from the amounts computed by applying the combined federal and provincial tax rates of 36% (2004 - 36%) to the pretax loss as a result of the following:

	<u>2005</u>	<u>2004</u>
Loss for the year	\$ 569,094	\$ 104,864
Income tax recovery computed at statutory rates	205,500	37,700
Increase (reduction) in income tax recovery resulting from:		
Permanent differences	(4,900)	-
Share issuance costs	(71,800)	-
Income inclusion for the prescribed resource loss	-	(7,100)
Valuation allowance against current year's losses	(128,800)	(30,600)
	<u>\$ -</u>	<u>\$ -</u>

- b) The income tax effects of temporary differences that give rise to significant portions of the future income tax assets and future income tax liabilities as at December 31, 2005 and 2004 are presented below:

	<u>2005</u>	<u>2004</u>
Future income tax assets:		
Canadian exploration expenses	\$ 15,300	\$ 15,600
Non-capital loss carryforwards	232,300	40,000
Share issuance costs	241,000	-
	<u>488,600</u>	<u>55,600</u>
Less: valuation allowance	<u>(488,600)</u>	<u>(55,600)</u>
Net future income tax assets	<u>\$ -</u>	<u>\$ -</u>

The valuation allowance for future income tax assets as at December 31, 2005 and December 31, 2004 was \$488,600 and \$55,600 respectively. The net change in the total valuation allowance for the year ended December 31, 2005 was an increase of \$433,000. In assessing the realizability of future income tax assets, management considers whether it is more likely than not that some portion or all of the future income tax assets will be realized. The ultimate realization of future income tax assets is dependent upon the generation of future taxable income during the periods in which these temporary differences and loss carryforwards become deductible. Based on the absence of historical taxable income and the difficulty of making reliable projections for future taxable income over the periods in which the future income tax assets are deductible, management believes that it is more likely than not the Company will not realize the benefits of these deductible differences and has accordingly provided a valuation allowance.

Plato Gold Corp.

Notes to the Financial Statements

For the Years Ended December 31, 2005 and 2004

11. Income Taxes (continued)

- c) As at December 31, 2005, the Company had non-capital loss carryforwards of approximately \$643,000 which are available to reduce taxable income of future years and expire as follows:

2009	\$ 46,000
2012	213,000
2013	68,000
2014	<u>316,000</u>
	<u>\$ 643,000</u>

- d) As at December 31, 2005, the Company has cumulative Canadian development expenses of \$1,147,264 (2004 - \$315,000) and cumulative Canadian exploration expenses of \$250,000 (2004 - \$250,000) available to reduce future years' taxable income.

12. Related Party Transactions

During the year ended December 31, 2005 the Company:

- a) incurred rent of \$18,858 (2004 - \$10,000) with related companies. The Company and the related companies have an officer in common. This officer is also a director and shareholder of all three companies.
- b) capitalized exploration expenditures of \$30,859 (2004 - \$788) were paid by a shareholder on behalf of the Company. Of this amount, \$12,840 was a deposit made during 2004 and \$18,019 was paid during the year ended December 31, 2005. The Company has recognized the shareholder's current year contributions of \$18,019 (2004 - \$13,628) as contributed surplus.
- c) incurred consulting fees of \$14,000 (2004 - \$Nil) with one of the Company's officers.
- d) incurred consulting fees of \$2,917 (2004 - \$Nil) with one of the Company's directors. As at December 31, 2005, accounts payable and accrued liabilities included \$1,250 payable to this director (2004 - \$Nil).
- e) incurred accounting fees of \$50,300 (2004 - \$Nil) with an accounting firm in which an officer is a partner. As at December 31, 2005, accounts payable and accrued liabilities included \$42,380 payable to this accounting firm (2004 - \$Nil).
- f) During the year, the Company incurred insurance costs of \$22,529 from a company which has an officer who is a director of the Company.

One additional related party transaction is described separately in note 2.

Plato Gold Corp.

Notes to the Financial Statements

For the Years Ended December 31, 2005 and 2004

13. Financial Instruments

Fair Value

The carrying amounts for cash and cash equivalents, other receivables, accounts payable and accrued liabilities approximate their fair values because of the short term nature of these items.

The fair value of amounts due to related parties are not determinable since there are no fixed terms of repayment.

Commodity Price Risk

The ability of the Company to develop its properties and the future profitability of the Company is directly related to the market price of certain minerals.

14. Subsequent Event

Subsequent to the year ended December 31, 2005, the Company issued 1,208,330 common shares for proceeds of \$145,000, of which 416,666 shares were issued to a director.