

**ROCKGATE CAPITAL CORP.**

REPORT AND FINANCIAL STATEMENTS

June 30, 2006 and 2005

## AUDITORS' REPORT

To the Shareholders,  
Rockgate Capital Corp.

We have audited the balance sheets of Rockgate Capital Corp. as at June 30, 2006 and 2005 and the statements of operations and deficit and cash flows for the year ended June 30, 2006 and for the period November 23, 2004 (Date of Inception) to June 30, 2005. 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 June 30, 2006 and 2005 and the results of its operations and its cash flows for the year ended June 30, 2006 and the period November 23, 2004 (Date of Inception) to June 30, 2005 in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada  
August 28, 2006

**"AMISANO HANSON"**  
Chartered Accountants

**ROCKGATE CAPITAL CORP.**  
**BALANCE SHEETS**  
**June 30, 2006 and 2005**

| <u>ASSETS</u>             | <u>2006</u>                | <u>2005</u>            |
|---------------------------|----------------------------|------------------------|
| Current                   |                            |                        |
| Cash and cash equivalents | \$ 1,020,704               | \$ 86,899              |
| Deposit                   | <u>                  -</u> | <u>          4,565</u> |
|                           | <u>\$ 1,020,704</u>        | <u>\$ 91,464</u>       |

**LIABILITIES**

|   |                  |                  |
|---|------------------|------------------|
| Current   |                  |                  |
| Accounts payable and accrued liabilities – Note 6 | \$ <u>49,854</u> | \$ <u>17,552</u> |

**SHAREHOLDERS' EQUITY**

|                                  |                     |                  |
|----------------------------------|---------------------|------------------|
| Share capital – Notes 4, 6 and 7 | 1,217,130           | 100,000          |
| Contributed surplus              | 66,100              | -                |
| Deficit                          | <u>(312,380)</u>    | <u>(26,088)</u>  |
|                                  | <u>970,850</u>      | <u>73,912</u>    |
|                                  | <u>\$ 1,020,704</u> | <u>\$ 91,464</u> |

Commitments – Notes 4 and 7

APPROVED ON BEHALF OF THE BOARD:

|  |          |   |          |
|--|----------|---|----------|
| <u>          “Douglas E. Ford”          </u> | Director | <u>          “Karl Kottmeier”          </u> | Director |
| Douglas E. Ford                              |          | Karl Kottmeier                              |          |

SEE ACCOMPANYING NOTES

**ROCKGATE CAPITAL CORP.**  
**STATEMENTS OF OPERATIONS AND DEFICIT**  
for the year ended June 30, 2006 and  
for the period November 23, 2004 (Date of Inception) to June 30, 2005

|   | Year ended<br>June 30,<br><u>2006</u> | November 23,<br>2004 (Date of<br>Inception) to<br>June 30,<br><u>2005</u> |
|---|---------------------------------------|---|
| Revenue                                       |                                       |   |
| Interest income                               | \$ 4,878                              | \$ -  |
| Foreign exchange                              | <u>3,159</u>                          | <u>-</u>  |
|   | <u>8,037</u>                          | <u>-</u>  |
| Expenses                                      |                                       |   |
| Accounting and audit fees                     | 16,664                                | 8,500   |
| Corporate finance fees                        | -                                     | 5,386   |
| Filing fee                                    | 37,897                                | 284   |
| Interest and bank charges                     | 192                                   | -   |
| Legal   | 65,034                                | 11,918  |
| Mineral property costs – Notes 4 and 7        | 80,000                                | -   |
| Newswire services                             | 882                                   | -   |
| Office supplies                               | 1,266                                 | -   |
| Professional services                         | 4,555                                 | -   |
| Rent – Note 6                                 | 21,000                                | -   |
| Sponsorship fees                              | 21,539                                | -   |
| Stock-based compensation – Note 4             | 40,000                                | -   |
| Travel  | <u>5,300</u>                          | <u>-</u>  |
| Total expenses                                | <u>294,329</u>                        | <u>26,088</u>   |
| Net loss for the period                       | (286,292)                             | (26,088)  |
| Deficit, beginning of period                  | <u>(26,088)</u>                       | <u>-</u>  |
| Deficit, end of period                        | <u>\$ (312,380)</u>                   | <u>\$ (26,088)</u>  |
| Basic and diluted loss per share              | <u>\$ (0.07)</u>                      | <u>\$ (0.04)</u>  |
| Weighted average number of shares outstanding | <u>4,292,329</u>                      | <u>663,737</u>  |

SEE ACCOMPANYING NOTES

**ROCKGATE CAPITAL CORP.**  
**STATEMENTS OF CASH FLOWS**  
for the year ended June 30, 2006 and  
for the period November 23, 2004 (Date of Inception) to June 30, 2005

|  | Year ended<br>June 30,<br><u>2006</u> | November 23,<br>2004 (Date of<br>Inception) to<br>June 30,<br><u>2005</u> |
|--|---------------------------------------|---|
| Operating Activities                               |                                       |   |
| Net loss for the period                            | \$ (286,292)                          | \$ (26,088)   |
| Add items not involving cash:                      |                                       |   |
| Stock-based compensation                           | 40,000                                | -   |
| Mineral property cost – share consideration        | <u>20,000</u>                         | <u>-</u>  |
|  | (226,292)                             | (26,088)  |
| Change in non-cash working capital item:           |                                       |   |
| Accounts payable and accrued liabilities           | <u>32,302</u>                         | <u>17,552</u>   |
| Net cash used in operating activities              | <u>(193,990)</u>                      | <u>(8,536)</u>  |
| Financing Activities                               |                                       |   |
| Deposit  | 4,565                                 | (4,565)   |
| Issuance of common shares, net                     | <u>1,123,230</u>                      | <u>100,000</u>  |
| Net cash from financing activities                 | <u>1,127,795</u>                      | <u>95,435</u>   |
| Increase in cash during the period                 | 933,805                               | 86,899  |
| Cash and cash equivalents, beginning of the period | <u>86,899</u>                         | <u>-</u>  |
| Cash and cash equivalents, end of the period       | <u>\$ 1,020,704</u>                   | <u>\$ 86,899</u>  |
| Supplementary disclosure of cash flow information  |                                       |   |
| Cash paid for:                                     |                                       |   |
| Interest   | <u>\$ -</u>                           | <u>\$ -</u>   |
| Income taxes                                       | <u>\$ -</u>                           | <u>\$ -</u>   |

SEE ACCOMPANYING NOTES

**ROCKGATE CAPITAL CORP.**  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006 and 2005

Note 1     Nature of Operations

The Company was incorporated in the Province of British Columbia on November 23, 2004 under the Business Corporations Act of British Columbia. The Company was classified as a Capital Pool Company (“CPC”) as defined in the TSX Venture Exchange (the “Exchange”) Policy 2.4 until April 25, 2006.

Further to Note 7 hereto, effective April 25, 2006 the Company completed an agreement with Oro Gold Resources Ltd. (“Oro Gold”) pursuant to which the Company has been granted an option to earn up to a 65% undivided interest in the Ixtapan gold property, located 120 kilometres west of Mexico City, Mexico.

The acquisition of an interest in the Ixtapan gold property and the private placement constituted the Company’s qualifying transaction pursuant to Policy 2.4 of the Exchange.

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

Note 2     Significant Accounting Policies

Management has prepared the financial statements of the Company in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements have, in management’s opinion, been properly prepared using careful judgement within the framework of the significant accounting policies summarized below.

a)   Basic and Diluted Loss per Share

Basic loss per share is computed by dividing the loss for the period by the weighted average number of common shares outstanding during the period. Diluted loss per share reflects the potential dilution that could occur if potentially dilutive securities were exercised or converted to common stock. The dilutive effect of options and warrants and their equivalent is computed by application of the treasury stock method and the effect of convertible securities by the “if converted” method. Fully diluted amounts are not presented when the effect of the computations are anti-dilutive due to the losses incurred. Accordingly, there is no difference in the amounts presented for basic and diluted loss per share.

Note 2 Significant Accounting Policies – (cont'd)

b) Financial Instruments

The carrying value of the Company's financial instruments, consisting of cash, short-term investment and accounts payable and accrued liabilities approximate their fair value due to the short-term maturity of such instruments. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

c) Income Taxes

The Company follows the asset and 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 determined based on differences between the tax and accounting basis of assets and liabilities. The future tax assets or liabilities are calculated using the tax rates for the period in which the differences are expected to be settled. Future tax assets are recognized to the extent that they are considered more likely than not to be realized.

d) Foreign Currency Translation

Monetary items denominated in a foreign currency are translated into Canadian dollars at exchange rates prevailing at the balance sheet date and non-monetary items are translated at exchange rates prevailing when the assets were acquired or obligations incurred. Foreign currency denominated revenue and expense items are translated at exchange rates prevailing at the transaction date. Gains or losses arising from the translations are included in operations.

e) Stock-based Compensation

The fair value of all share purchase options granted is expensed over their vesting period with a corresponding increase to contributed surplus. Upon exercise of share purchase options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

The Company uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate and, therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's share purchase options.

f) Mineral Properties and Deferred Exploration Costs

All costs related to acquisition, exploration and development are expensed by the Company when incurred until such time as reserves are proven.

Note 2 Significant Accounting Policies – (cont'd)

f) Mineral Properties and Deferred Exploration Costs – (cont'd)

From time to time, the Company may acquire or dispose of properties pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as mineral property costs or recoveries when the payments are made or received.

g) Asset Retirement Obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease to the carrying amount of the liability and the related long-lived asset.

h) Cash and Cash Equivalents

The Company's excess cash balances are held in accounts at Canadian chartered banks. From time to time, these funds are invested in fully insured or Government guaranteed interest-bearing instruments. Any invested funds are committed to instruments which mature in no more than 90 days and are redeemable without penalty to principal at any time.

Note 4 Share Capital – Notes 6 and 7

a) Authorized:

Unlimited common shares without par value

Note 4 Share Capital – Notes 6 and 7 – (cont'd)

b) Issued:

|   |             | <u>Number</u>    | <u>Amount</u>       |
|---|-------------|------------------|---------------------|
| Issued for cash pursuant to:            |             |                  |                     |
| Incorporation                           | - at \$0.05 | 150              | \$ 7                |
| Private placement                       | -at \$0.05  | <u>1,999,850</u> | <u>99,993</u>       |
| Balance, June 30, 2005                  |             | 2,000,000        | 100,000             |
| Issued for cash pursuant to:            |             |                  |                     |
| Initial public offering                 | - at \$0.10 | 2,000,000        | 200,000             |
| Share issue costs                       |             | -                | (41,770)            |
| Private placement                       | - at \$0.20 | 4,750,000        | 950,000             |
| Share issue costs                       |             |                  | (21,100)            |
| Exercise of share purchase options      | - at \$0.10 | 100,000          | 10,000              |
| Finder's fee                            |             | 100,000          | -                   |
| Issued pursuant to a property agreement | - at \$0.20 | <u>100,000</u>   | <u>20,000</u>       |
| Balance, June 30, 2006                  |             | <u>9,050,000</u> | <u>\$ 1,217,130</u> |

c) Escrow Shares:

The Company has issued 2,000,000 common shares at \$0.05 per share to its directors, officers and founders for total proceeds of \$100,000. These shares are subject to an escrow agreement to be released in accordance with the CPC policy guidelines.

With the completion of the Qualifying Transaction, the shares held in escrow will be released on the following basis:

| <u>Amount Released</u> | <u>Date</u>      |
|------------------------|------------------|
| 10%                    | April 25, 2006   |
| 15%                    | October 25, 2006 |
| 15%                    | April 25, 2007   |
| 15%                    | October 25, 2007 |
| 15%                    | April 25, 2008   |
| 15%                    | October 25, 2008 |
| 15%                    | April 25, 2009   |

As at June 30, 2006, 1,800,000 common shares remain in escrow.

Note 4 Share Capital – Notes 6 and 7 – (cont'd)

d) Share Purchase Options

Stock-based Compensation Plan

The Company's Stock Option Plan dated August 2, 2005 provides that the Board of Directors of the Corporation may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers and technical consultants to the Corporation, non-transferable options to purchase Common Shares, provided that the number of Common Shares reserved for issuance will not exceed

10% of the issued and outstanding Common Shares, exercisable for a period of up to five years from the date of grant. The number of Common Shares reserved for issuance to any individual director or officer will not exceed five percent (5%) of the issued and outstanding Common Shares and the number of Common Shares reserved for issuance to all technical consultants will not exceed two percent (2%) of the issued and outstanding Common Shares. Options may be exercised the greater of twelve months after the Completion of the Qualifying Transaction and 90 days following cessation of the optionee's position with the Corporation, provided that if the cessation of office, directorship, or technical consulting arrangement was by reason of death, the option may be exercised within a maximum period of one year after such death, subject to the expiry date of such option.

The Company has granted officers, directors and consultants' share purchase options. These options are granted in accordance with the policies of the regulatory authorities and the Company's Stock Option Plan.

|  | <u>Options</u>   | <u>Weighted<br/>Average<br/>Exercise<br/>Price</u> |
|--|------------------|--|
| Outstanding at June 30, 2005                 |                  |  |
| Granted                                      | 600,0000         | \$0.10   |
| Exercised                                    | <u>(100,000)</u> | \$0.10   |
| Outstanding and exercisable at June 30, 2006 | <u>500,0000</u>  | \$0.10   |

As at June 30, 2006, the following stock options were outstanding:

| <u>Number</u>  | <u>Exercise Price</u> | <u>Expiry Date</u> |
|----------------|-----------------------|--------------------|
| 100,000        | \$0.10                | October 12, 2007   |
| <u>400,000</u> | \$0.10                | October 12, 2010   |
| <u>500,000</u> |                       |                    |

These options entitle the holder thereof the right to acquire one common share for each option held.

Note 4 Share Capital – Notes 6 and 7 – (cont'd)

d) Share Purchase Options – (cont'd)

Stock-based Compensation Plan – (cont'd)

For the year ended June 30, 2006, the Company recorded a stock-based compensation expense of \$40,000.

In conjunction with the initial public offering, the Company issued 200,000 agents options as part of the share issue costs. The fair value of these options, \$12,000, was determined using the Black-Scholes option pricing model.

The fair value of each option is estimated on the grant date using the Black-Scholes option pricing model. The assumptions used in calculating fair value are as follows:

|   |             |
|---|-------------|
| Risk-free interest rate                                       | 4.25%       |
| Expected stock volatility                                     | 118.8%      |
| Expected dividend yield                                       | Nil         |
| Expected option life  | 2-5 years   |
| Weighted average fair value of share purchase options granted | \$0.06-0.10 |

e) Warrants

In conjunction with the private placement, the Company issued one share purchase warrant with each common share purchased and 117,500 warrants as a finder's fee. Accordingly, for the year ended June 30, 2006 the following warrants are outstanding:

|   | <u>Options</u>   | <u>Weighted<br/>Average<br/>Exercise<br/>Price</u> |
|---|------------------|--|
| Number of warrants outstanding at June 30, 2005 | -                | \$ -   |
| Issued with private placement                   | 4,750,000        | \$0.345  |
| Issued on finder's fee                          | 117,500          | \$0.345  |
| Exercised                                       | <u>-</u>         | <u>\$ -</u>  |
| Number of warrants outstanding at June 30, 2006 | <u>4,867,500</u> | <u>\$0.345</u>                                     |

All outstanding warrants at June 30, 2006 are exercisable on a 1:1 basis and are summarized as follows:

| <u>Warrants</u>  | <u>Exercise Price</u> | <u>Expiry Date</u> |
|------------------|-----------------------|--------------------|
| <u>4,867,500</u> | \$0.345               | October 6, 2007    |

Note 4 Share Capital – Notes 6 and 7 – (cont'd)

e) Warrants – (cont'd)

The fair value of these warrants of \$14,100 was determined using the Black-Scholes option pricing model with assumptions used as follows:

|                                       |         |
|---------------------------------------|---------|
| Risk-free interest rate               | 4.21%   |
| Expected stock volatility             | 140.80% |
| Expected dividend yield               | Nil     |
| Expected warrant life                 | 2 years |
| Fair value of share purchase warrants | \$0.12  |

Note 5 Income Taxes

Significant components of the Company's future tax assets are as follows:

|                             | <u>2006</u>     | <u>2005</u>    |
|-----------------------------|-----------------|----------------|
| Non-capital losses          | \$ 56,739       | \$ 9,626       |
| Resource pools              | <u>27,296</u>   | <u>-</u>       |
|                             | 84,035          | 9,626          |
| Valuation allowance         | <u>(84,035)</u> | <u>(9,626)</u> |
| Net future income tax asset | <u>\$ -</u>     | <u>\$ -</u>    |

The Company has recorded a valuation allowance against its future income tax assets based on the extent to which it is more likely-than-not that sufficient taxable income will not be realized during the carry-forward period to utilize all the future tax assets.

The Company has accumulated foreign resource expenditures of approximately \$80,000 and non-capital losses totalling \$192,380 which are available to reduce taxable income in future taxation years. The non-capital losses expire as follows:

|      |                   |
|------|-------------------|
| 2015 | \$ 26,088         |
| 2016 | <u>166,292</u>    |
|      | <u>\$ 192,380</u> |

Note 6 Related Party Transactions

Effective August 1, 2005, the Company entered into a management services agreement with a company controlled by a director of the Company to provide rental space and office services at a month-to-month fee of \$1,750 totalling \$21,000 for the year ended June 30, 2006. These charges were measured by the exchange amount, which is the amount agreed upon by the transacting parties.

Note 6      Related Party Transactions – (cont'd)

Included in accounts payable and accrued liabilities as at June 30, 2006 is \$2,883 owing to a director of the Company for the recovery of expenses paid on behalf of the Company. This amount is unsecured, non-interest bearing with no specific terms for repayment.

During the year ended June 30, 2006, the Company issued 477,500 units at \$0.20 per unit pursuant to a private placement to directors of the Company.

During the period ended June 30, 2005, the Company issued 2,000,000 shares of common stock at \$0.05 for cash proceeds of \$100,000 to directors of the Company.

Note 7      Ixtapan Gold Property

Effective April 25, 2006, the Company completed its qualifying transaction consisting of an option to earn up to a 65-per-cent undivided interest in the Ixtapan gold project from Oro Gold Resources.

The Company signed an arm's-length letter of intent dated January 6, 2006 with Oro Gold Resources Ltd. ("Oro Gold") pursuant to which the Company was granted an option to earn up to a 65% undivided interest in the Ixtapan gold property, located 120 kilometres west of Mexico City, Mexico. Oro Gold has agreed to cause the existing concession to be subdivided into two separate concessions to segregate the Company's interests in the property.

Under the terms of the option agreement, the Company may earn a 51-per-cent interest by issuing 100,000 common shares of the Company to Oro Gold (issued); incurring US\$200,000 in expenditures on the property by April 25, 2007 and paying to Oro Gold a \$20,000 management fee (paid). The Company may earn an additional 9% interest by incurring an additional US\$300,000 in expenditures on the property and by issuing an additional 100,000 common shares of the Company to Oro Gold by April 25, 2008. The Company may earn a further additional 5% interest by incurring an additional US\$500,000 in expenditures on the property and by issuing an additional 150,000 shares of the Company to Oro Gold by April 25, 2009.