

**PGM VENTURES CORPORATION**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005 and 2004**  
**(AUDITED)**

## **Management's Responsibility for Financial Statements**

The accompanying consolidated financial statements and all of the data included in this report have been prepared by and are the responsibility of the management of the Company. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and reflect management's best estimates and judgments based on currently available information. The Company has developed and maintains systems of internal accounting controls in order to assure, on a reasonable and cost-effective basis, the reliability of its financial information, and that the assets are safeguarded from loss.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee of the Board which meets to satisfy itself that management's responsibilities are properly discharged and with the external auditors to review the financial statements before they are presented to the Board of Directors for approval.

The consolidated financial statements for the years ended December 31, 2005 and December 31, 2004 were audited by McCarney Greenwood LLP Canada. Their report outlines the scope of their examination and opinion on the consolidated financial statements.

(signed)

Peter M. Miller  
President and Chief Executive Officer

(signed)

Leo O'Shaughnessy  
Chief Financial Officer

Toronto, Canada  
April 7, 2006, except note 22(d) which is dated April 28, 2006

## Auditors' Report

To the Shareholders of  
PGM Ventures Corporation

We have audited the consolidated balance sheets of PGM Ventures Corporation as at December 31, 2005 and 2004 and the related statements of operations and deficit and cash flows for each of the years in the two-year period ended December 31, 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2005 in accordance with Canadian generally accepted accounting principles.

"McCarney Greenwood LLP"

**McCarney Greenwood LLP**

Chartered Accountants

Toronto, Canada

April 7, 2006, except note 22(d) which is dated April 28, 2006

# PGM VENTURES CORPORATION

## Consolidated Balance Sheets

As at December 31,

	2005	2004
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 762,081	\$ 2,055,700
Funds held in trust	4,001,350	-
Mineral property settlement (note 3)	581,500	-
Accounts receivable	1,051,382	267,293
Prepays	99,696	4,686
Marketable securities, at market	-	23,448
	6,496,009	2,351,127
Long-term investment, at cost (note 4)	2,166,000	-
Simberi Gold Corporation settlement (note 5)	882,000	-
Property, plant and equipment (note 6)	24,201,216	9,327,855
Mining interests (note 7)	1,173,191	13,481,832
Guaranteed investment certificate (note 4)	-	130,000
	<b>\$ 34,918,416</b>	<b>\$ 25,290,814</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 3,595,730	\$ 1,841,804
Promissory notes (note 6(i)(a) and note 6(i)(e))	2,465,925	-
Due to Simberi Gold Corporation (note 8)	393,800	-
Due to related parties	-	126,858
Current portion of long-term debt (note 9)	695,514	-
	7,150,969	1,968,662
Term loan (note 10(b)(11))	-	718,648
Long-term debt (note 9)	845,085	-
Non-controlling interest	-	1,086,009
	7,996,054	3,773,319
<b>Shareholders' equity</b>		
Share capital (note 10)	38,399,811	24,507,554
Contributed surplus (note 12)	906,162	808,130
Warrants (note 13)	4,765,359	4,059,275
Deficit	(17,148,970)	(7,857,464)
	26,922,362	21,517,495
	<b>\$ 34,918,416</b>	<b>\$ 25,290,814</b>

Nature of operations and going concern assumption (note 1)

Commitments and contingencies (note 14)

The notes to consolidated financial statements are an integral part of these statements.

Approved by the Board of Directors:

(signed) Peter M. Miller \_\_\_\_\_

Director

(signed) Norman Brewster \_\_\_\_\_

Director

**PGM VENTURES CORPORATION**  
**Consolidated Statements of Operations and Deficit**  
**Year ended December 31,**

	2005	2004
<b>Costs and expenses (income)</b>		
General and administration	\$ 1,578,325	\$ 2,183,008
Stock-based compensation (note 11)	1,510,878	1,033,110
Write-off of deferred financing costs	-	436,319
(Gain) loss on sale of marketable securities	(3,460)	42,553
Foreign exchange	510,497	5,385
Interest income	(36,629)	(2,687)
	3,559,611	3,697,688
<b>(Loss) before the following</b>	<b>(3,559,611)</b>	<b>(3,697,688)</b>
Write-off of mining interests (note 7(g))	(5,745,401)	-
(Loss) on sale of the Thierry Mine, net of selling costs (note 4)	(815,162)	-
Gain on sale of the Simberi Mining Property, net of selling costs (note 7(e))	1,265,145	-
Gain on dilution of interest - Simberi Gold Corporation	-	116,762
	(5,295,418)	116,762
Net (loss) before non-controlling interest	(8,855,029)	(3,580,926)
Non-controlling interest's share of (loss) income to date of disposal	(436,477)	809,998
<b>Net (loss)</b>	<b>(9,291,506)</b>	<b>(2,770,928)</b>
<b>Deficit, beginning of year</b>	<b>(7,857,464)</b>	<b>(5,086,536)</b>
<b>Deficit, end of year</b>	<b>\$ (17,148,970)</b>	<b>\$ (7,857,464)</b>
<b>(Loss) per share (note 19)</b>		
Basic and diluted	\$ (0.15)	\$ (0.10)

The notes to consolidated financial statements are an integral part of these statements.

# PGM VENTURES CORPORATION

## Consolidated Statements of Cash Flows

Year ended December 31,

	2005	2004
<b>Operating activities</b>		
Net (loss)	\$ (9,291,506)	\$ (2,770,928)
Write-off of marketable securities	505	-
Write-off of mining interests and other sundry assets	5,745,401	-
(Loss) on sale of the Thierry Mine, net of selling costs (note 4)	815,162	-
Gain on sale of the Simberi Mining Property, net of selling costs (note 7(e))	(1,265,145)	-
Loss (Gain) on sale of marketable securities	(3,460)	42,553
Gain on dilution of interest in subsidiary	-	(116,762)
Non-controlling interest's share of income (loss)	436,477	(809,998)
Stock-based compensation	1,510,878	1,033,110
Foreign exchange	510,497	-
Interest income from cash in trust	(6,350)	-
Interest expense from debt settlement	35,297	-
Write-down of other assets	-	461,468
	(1,512,244)	(2,160,557)
Accounts receivable and prepaids	(432,649)	(150,709)
Accounts payable and accrued liabilities	(1,912,099)	(9,610)
Other assets	-	100,096
	(3,856,992)	(2,220,780)
<b>Financing activities</b>		
Proceeds from sale of mining property	4,000,000	-
Proceeds from sale of Simberi Gold Corporation	940,000	-
Cash disposed of from Simberi Gold Corporation	(3,604,933)	-
Funds held in (trust) escrow	-	3,203,865
Term loan	-	700,000
Repayment of long-term debt	(176,448)	-
Due to related parties	(203,382)	126,858
Shares issued for cash	11,267,885	8,456,981
Share issue costs	(1,114,081)	-
	11,109,041	12,487,704

# PGM VENTURES CORPORATION

## Consolidated Statements of Cash Flows

Year ended December 31,

	2005	2004
<b>Investing activities</b>		
Capital expenditures on mining interests	(2,036,090)	(9,300,027)
Proceeds on sale of marketable securities, net	26,403	47,448
Capital grants offset to property, plant and equipment	535,597	-
Non-controlling interest in Simberi Gold Corporation	-	(387,011)
Cash acquired from subsidiary	1,014,491	-
Cash paid to acquire MATSA	(13,549,295)	-
Increase in net assets of of existing and former subsidiary	5,333,226	321,460
	(8,675,668)	(9,318,130)
<b>Change in cash and cash equivalents</b>	(1,423,619)	948,794
<b>Cash and cash equivalents, beginning of year</b>	2,185,700	1,236,906
<b>Cash and cash equivalents, end of period year</b>	<b>\$ 762,081</b>	<b>\$ 2,185,700</b>

The notes to consolidated financial statements are an integral part of these statements.

# **PGM VENTURES CORPORATION**

## **Notes to Consolidated Financial Statements**

**December 31, 2005 and 2004**

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### **1. Nature of operations and going concern assumption**

PGM Ventures Corporation (the "Company") is a company involved in the evaluation, development and mining of base metal deposits in Spain. The Company's shares are listed on the TSX Venture Exchange.

The recoverability of amounts shown as mining interests and property, plant and equipment is dependent upon a number of factors including environmental risks, legal and political risks, the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying assets, the ability of the Company to obtain necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

These consolidated financial statements have been prepared on the basis that the Company is a going concern, which contemplates the realization of its assets and the settlement of its liabilities in the normal course of operations. The ability of the Company to continue operations is dependent upon obtaining the necessary financing to complete the development of its properties and/or the realization of proceeds from the sale of one or more of its properties. These consolidated financial statements do not include any adjustments related to the carrying values and classifications of assets and liabilities that would be necessary should the Company be unable to continue as a going concern.

### **2. Summary of significant accounting policies**

The following is a summary of significant accounting policies used in the preparation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"):

#### **(a) Basis of consolidation**

These consolidated financial statements include the assets, liabilities, revenues and expenses of the Company and its wholly owned Spanish subsidiary, Minas de Aguas Tenidas SAU ("Matsa").

#### **(b) Use of estimates**

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results may differ significantly from these estimates.

#### **(c) Mining interests**

The Company does not derive any income from its mining interests. It is the Company's policy to defer expenditures related to the exploration and development of its mining properties (including direct administrative expenditures, if any) until such time as they are brought into commercial production. The cost of acquiring the mining property and all related deferred exploration and development expenditures will be amortized on a unit-of-production basis.

The carrying value of mining properties is not intended to reflect their present or future value.

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

# PGM VENTURES CORPORATION

## Notes to Consolidated Financial Statements

December 31, 2005 and 2004

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### 2. Summary of significant accounting policies (continued)

#### (d) Stock-based compensation

Effective January 1, 2003, the Company adopted, on a prospective basis, the policy of recording compensation expense for stock options granted to employees based on the fair value of options on the grant date.

#### (e) Income taxes

Income taxes are calculated using the asset and liability method of tax accounting. 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 financial reporting and tax bases of assets and liabilities and on unclaimed losses carried forward and are measured using the substantially enacted tax rates that are expected to be in effect when the differences are expected to reverse or losses are expected to be utilized. Future tax assets are recorded to recognize tax benefits only to the extent that, based on available evidence, it is more likely than not they will be realized.

#### (f) Earnings per share

Basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding during the year. Diluted earnings per share is computed using the "treasury stock method". The treasury stock method assumes that any "in the money" option proceeds are used to purchase common shares of the Company at the average market price during the year.

#### (g) Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks and money market investments with original maturities of three months or less and which are readily convertible into cash.

#### (h) Marketable securities

Marketable securities are carried at the lower of cost or market value on an individual basis.

#### (i) Property, plant and equipment

Property, plant and equipment, including mine development expenditures, are carried at cost less accumulated depreciation and amortization and any write-downs to recognize impairment. Depreciation and amortization are charged to income on a unit-of-production basis over estimated mineral reserves once the mine is taken into production. Properties under development include initial acquisition costs and costs incurred subsequent to completion of an economic feasibility study.

Property, plant and equipment is 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.

The Company currently has no mines in production.

# PGM VENTURES CORPORATION

## Notes to Consolidated Financial Statements

December 31, 2005 and 2004

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### 2. Summary of significant accounting policies (continued)

#### (j) Asset retirement obligations

The accounting for asset retirement obligations encompasses the accounting for legal obligations associated with the retirement of a long-lived tangible asset that results from the acquisition, construction, development and/or normal operation of a long-lived asset. The retirement of a long-lived asset is its other than temporary removal from service, including its sale, abandonment, recycling or disposal in some other manner.

The fair value of a liability for an asset retirement obligation is recorded in the period in which it is incurred. When the liability is initially recorded, the cost is capitalized by increasing the cost of the related long-lived asset. Changes in the liability for an asset retirement obligation resulting from the passage of time and/or revisions to either the timing or the amount of the original estimate of undiscounted cash flows are recognized in the period of change and the related costs are recognized in the period of change or in the period of change and future periods, if the change affects more than one period. Over time, the liability is increased to reflect an interest element (accretion expense) considered in the initial measurement of fair value. The capitalized cost is amortized on a unit-of-production basis. Upon settlement of the liability, a gain or loss is recorded if the actual costs incurred are different from the liability recorded.

It is possible that the Company's estimates of its asset retirement obligations could change as a result of changes in regulations, the extent of environmental remediation required and the means of reclamation or cost estimates. Changes in estimates are accounted for prospectively from the period in which these estimates are revised.

The Company currently has no asset retirement obligations.

#### (k) Foreign currency translation

Foreign currency transactions are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue or expense is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date and the resulting foreign exchange gains and losses are included in operations in the current period.

Matsa is considered an integrated foreign operation therefore monetary items are translated into Canadian dollars at exchange rates in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at rates in effect at the time of the transaction. Foreign exchange gains and losses are included in operations in the current period.

#### (l) Hedging transactions

The Company has not entered into any hedging transactions.

#### (m) Flow-through financing

The Company has financed a portion of its exploration activities through the issue of flow-through shares which transfer the tax deductibility of exploration expenditures to the investor. Proceeds received on the issue of such shares have been credited to share capital and the related exploration costs have been charged to mining and resource properties.

#### (n) Share issue costs and reorganization costs

Share issue costs are recorded as a reduction of share capital. Reorganization costs are charged to deficit.

#### (o) Long-term investments

Long-term investments are carried at cost until an other than temporary decline occurs.

# PGM VENTURES CORPORATION

## Notes to Consolidated Financial Statements

December 31, 2005 and 2004

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### 3. Mineral property settlement

The Company came to terms with various vendors on January 27, 2006 to receive US \$500,000 in two installments: US\$250,000 on or before June 15th, 2006, and; US\$250,000 on or before December 15th, 2006. The US\$500,000 (CDN\$581,500) is a termination payment for the Incredible 16 and Choco 6 Concessions. This amount was credited to the carrying value of the property and then the remaining carrying value was charged to the consolidated statement of operations and deficit.

### 4. Long-term investment

Pursuant to an agreement dated December 23, 2005, the Company completed an agreement with its joint venture partner Richview Resources Inc. ("Richview") to sell the balance of the Thierry Mine ("Thierry") located near Pickle Lake, Patricia Mining Division, Ontario. Richview has issued to the Company 5,700,000 units in the capital of Richview, each unit consisting of one common share and one-half share purchase warrant. Each whole warrant shall entitle the Company to acquire an additional common share of Richview at a price of \$0.90 for a period of two years from the date of completion of the transaction. Richview now owns a 100% beneficial interest in Thierry. The total proceeds were calculated as \$2,166,000 which was the fair value of the units received on the date of the transaction. The Company recorded a loss on the sale of Thierry, net of selling costs in the amount of \$815,162 in 2005.

It is management's intention to hold the shares of Richview for the long-term in order to be able to benefit if the Thierry Mine is a success.

In 2004, a guaranteed investment certificate ("GIC") was used to secure a letter of credit issued to the Province of Ontario relating to a potential reclamation cost at the Thierry Mine site. As a result of the sale of the property, this GIC is available for operations and is therefore included in cash and cash equivalents for 2005.

### 5. Simberi Gold Corporation settlement

The Company completed, pursuant to a share purchase agreement dated August 12, 2005 (the "Share Purchase Agreement"), the sale to Porphyry Inc. (the "Purchaser") of 10,000,000 common shares and 12,000,000 common shares (the "Purchased Shares") in the capital of Simberi Gold Corporation ("Simberi") representing approximately 23.30% of the issued and outstanding common shares of Simberi. The Purchaser acquired the common shares at a price of \$0.04 and \$0.045 per Purchased Share or an aggregate purchase price of \$400,000 and \$540,000, respectively.

Under the Share Purchase Agreement, the Company has also agreed to sell to the Purchaser, and the Purchaser has agreed to purchase from the Company, an additional 18,000,000 common shares (the "Additional Shares") of Simberi at a price of \$0.049 per share or an aggregate purchase price of \$882,000. The Purchaser will acquire the Additional Shares as such shares are released from escrow with all of the Additional Shares expected to be released from escrow by April 14, 2007. The Additional Shares represent approximately 19.1% of the issued and outstanding common shares of Simberi. Until the sale of all of the Additional Shares is completed, the Company has agreed to exercise all voting rights attaching to the Additional Shares in accordance with the written direction of the Purchaser, therefore the sale is deemed to be the full 23.30% interest.

The sale to Porphyry Inc. is a related party transaction as this company is controlled by a director of the Company who is also a director of Simberi. The loss on the sale of shares of Simberi will be applied against contributed surplus. The sale is remains subject to regulatory approval.

# PGM VENTURES CORPORATION

## Notes to Consolidated Financial Statements December 31, 2005 and 2004

The details of the disposition in 2005 are as follows:

Proceeds	\$	1,822,000
Selling costs		(51,044)
Net proceeds		1,770,956
Net assets of Simberi		5,010,696
Less: non-controlling interest		(1,522,486)
Net assets sold		3,488,210
Loss on sale of Simberi Gold Corporation	\$	(1,717,254)

### 6. Property, plant and equipment

December 31,	2005	2004
Property, plant and equipment (i)	\$ 51,527,423	\$ -
Pre-acquisition costs - Matsa	-	9,327,855
Less: negative goodwill arising on Matsa acquisition (ii)	(27,326,207)	-
	\$ 24,201,216	\$ 9,327,855

(i) The following is a detailed list of transactions that outlines the purchase of Matsa in Spain:

The Company entered into an agreement on June 24, 2004 to purchase and earn an 85% interest in Matsa which owns 100% of a copper/zinc deposit located in southern Spain.

The terms are as follows:

(a) Upon payment of €1,000,000 (CDN \$1,615,000) and the issuance of the Company shares equivalent to €1,500,000 (CDN \$2,988,463), along with the issue of a €1,000,000 promissory note (CDN \$1,572,260) which is repayable 30 days after receipt of exploration licences for the project, the Company will have earned a 50% interest in the Minas Aguas Tenidas deposit. As at December 31, 2005, all requirements in (a) have been satisfied. The €1,000,000 promissory note (CDN \$1,572,260) was paid in January 2006.

(b) By providing €2,000,000 (CDN \$3,193,066) in funds, primarily for completion of the bankable feasibility study, the Company will earn an additional 20% interest in the mine on the following three milestones being achieved:

<u>Funds spent</u>	<u>Interest earned</u>	<u>Total interest</u>
€700,000 (CDN \$1,100,820)	7%	57%
€650,000 (CDN \$1,044,425)	6%	63%
€650,000 (CDN \$1,047,821)	7%	70%

As at December 31, 2005, all requirements in (b) have been satisfied.

# PGM VENTURES CORPORATION

## Notes to Consolidated Financial Statements

December 31, 2005 and 2004

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### 6. Property, plant and equipment (continued)

(c) The Company has also entered into an agreement to acquire certain information and know-how related to the property of Matsa with Telluride Resources Group SA, which requires the payment of €500,000 in cash (CDN \$786,300) and €500,000 (CDN \$996,154) in shares of the Company concurrently with the initial payment to INSERSA set out in (a) above. As at December 31, 2005, all requirements in (c) have been satisfied.

(d) The Company subsequently had to do the following to bring the Company's total interest up to 85% according to the June 24, 2004 agreement: (1) place the mine into production at a rate of at least 200,000tpy for copper ores and/or 400,000tpy for zinc ores. The facility required for treatment of ores above mentioned must be built within 18 months of receipt of all required licenses and permits, otherwise the Company shall forfeit all of its interest in Matsa and the project. In the event external debt is used by Minas Aguas Tenidas to place the mine into production, the Company will have earned an 80% interest, as opposed to an 85% interest without external debt utilization; and (2) issue €1,500,000 in Company shares 18 months after issue of all exploration permits.

Section (d) was superceded on June 7, 2005 when the board of directors approved renegotiated terms to acquire the remaining 30% interest in Matsa. The new terms are outlined in (e), (f) and (g).

(e) The Company will issue a €750,000 (CDN \$893,665) promissory note to the shareholders of Matsa, which is due 45 days after the Company's year end. The €750,000 (CDN \$893,665) promissory note was paid in January 2006. This clause supercedes clause Note 6(i)(d)(2).

(f) The Company can acquire 20% of the shares of Matsa by making a payment of €2,000,000 (CDN \$2,993,915) by June 16, 2005 with a 10 day cure default clause. As at December 31, 2005, the requirement in (f) has been satisfied.

(g) INSERSA S.A., the previous owner of Matsa, recognizes that the Company acquired the final 10% interest in Matsa by making the cash offer indicated in Note 6(f). This clause supercedes clause Note 6(i)(d)(1).

# PGM VENTURES CORPORATION

## Notes to Consolidated Financial Statements

December 31, 2005 and 2004

### 6. Property, plant and equipment (continued)

#### (ii) Negative goodwill calculation

As a result of the purchase of Matsa, the following negative goodwill was recorded against property, plant and equipment:

<u>Net assets acquired</u>	
Cash and short term investments	\$ 1,014,491
Receivables and sundry	473,164
Mining operations	47,870,118
Accounts payable and accrued liabilities	(6,016,346)
<b>Net assets acquired</b>	<b>43,341,427</b>
<u>Acquisition cost</u>	
Issue of PGM shares equivalent to €1,500,000	\$ 2,988,463
€1,000,000 cash	1,615,000
€1,000,000 promissory note	1,572,260
€2,000,000 (note 6(i)(f))	2,993,915
€750,000 (note 6(i)(e))	893,665
€2,000,000 (note 6(i)(b))	3,193,066
Other expenditures associated with the purchase	2,758,851
<b>Total consideration</b>	<b>16,015,220</b>
<b>Negative goodwill on acquisition of Matsa</b>	<b>\$ (27,326,207)</b>

#### (iii) Spain agreement

On December 5, 2005, the Company and Trafigura Beheer BV ("Trafigura") agreed to enter into a 10 year offtake agreement and a concurrent \$27.4 million (US\$23.4 million) financing arrangement on the following terms:

##### Offtake Agreement

Trafigura has committed to purchase all the copper, zinc and lead concentrates to be produced by the Company's mine in southern Spain ("Aguas Tenidas project") for a ten year period on standard industry terms and conditions, beginning at the time of commercial production. At the end of the fifth year, the Company has the option to: i) continue with the Trafigura offtake agreement, ii) switch to an agency agreement, or iii) buy out the balance of the offtake contract.

##### Financing Arrangement

Trafigura has agreed to complete a \$4.0 million (US \$3.4 million) private placement in the Company, consisting of 4,700,000 shares at a price of \$0.85 per share (completed - see (note 10(b)(12))).

Trafigura has also agreed to provide an additional funding facility of approximately \$23.4 million (US \$20.0 million) through a combination of new equity, capital cost overrun guarantees and subordinated debt. Trafigura will provide a minimum of \$5.9 million (US \$5.0 million) in new equity, in addition to a maximum amount of \$11.7 million (US \$10.0 million) in capital cost overrun guarantees. Any outstanding balance in the Trafigura funding facility will be provided in the form of subordinated debt. This additional funding facility will be made available concurrent with the main equity financing. As at December 31, 2005, the funding facility has not been utilized.

# PGM VENTURES CORPORATION

## Notes to Consolidated Financial Statements

December 31, 2005 and 2004

### (iv) Feasibility Study for Minas Aguas Tenidas deposit

Subsequent to the year end ("January 20, 2006"), a feasibility study, prepared by SRK Consulting (UK) Ltd of Cardiff ("SRK"), demonstrates the Minas Aguas Tenidas deposit is both technically feasible and economically viable. As a result, subject to the availability of the required financing, the Company intends to proceed with the construction phase of the Aguas Tenidas project. It is anticipated that the required financing will consist primarily of a mixture of project debt, government grants and equity. It is anticipated that the Company will require financing of US\$168.2 million to construct the mine. As at December 31, 2005, the Company does not have the required funds to construct the mine.

## 7. Mining interests

December 31,	2005	2004
Sangold Property, Ontario (a)	\$ 1,173,191	\$ -
Thierry Mine, Ontario (b)	-	4,187,651
Venezuela Projects (c)	-	4,801,664
Asian Project (f)	-	33,682
Nixon-Bartleman Property (d)	-	871,164
Simberi Gold Project (e)	-	3,515,490
Novaking Properties (f)	-	72,181
	\$ 1,173,191	\$ 13,481,832

(a) On September 28, 2005, the Company signed an option with Kalwea Financial Corporation ("KALWEA") to acquire a 80% interest in its Sangold Property ("Sangold"), a gold exploration property, located in Keith Township approximately 80 kms west of Timmins and 16 kms southeast of the Town Foleyet, Ontario (Canada).

The terms of the transaction between the Company and KALWEA for the acquisition of Sangold are as follows: Prior to December 31, 2005, the Company will incur expenditures of \$800,000 (completed) to earn a 51% interest in Sangold. Upon the expenditure by the Company of a further \$1.0 million on Sangold, the Company shall earn an additional 29% interest in Sangold. In addition to the above expenditures, the Company shall pay the sum of \$67,500 to KALWEA (paid) on signing the agreement. On the one year anniversary of signing the agreement, the Company must pay KALWEA \$232,500. Upon completion of the initial expenditure of \$800,000, the Company shall be required to pay KALWEA further consideration in shares of the Company based upon a third party valuation of Sangold. (As of December 31, 2005, this has not been completed). Following the completion of the expenditure by the Company of \$1.8 million, KALWEA will contribute pro rata to any further expenditure or alternatively, elect to be diluted as per industry standard, but in no case will KALWEA be diluted below 15%. The terms of agreement further state that the Company has the option of purchasing the 15% interest for \$1.5 million. KALWEA shall retain a net smelter royalty on production from Sangold according to the following: at a price of gold of up to US \$500 per ounce, 1%; at a price of gold up to US\$700 per ounce, 1.5%; at a price of gold greater than US\$701 per ounce, 2.5%. At a gold price in excess of US\$701 per ounce, PGM will have a one time first right of refusal option to purchase ½ (one half) of the royalty for a sum of two million dollars US (US\$ 2,000,000).

# PGM VENTURES CORPORATION

## Notes to Consolidated Financial Statements

December 31, 2005 and 2004

### 7. Mining interests (continued)

The following is a detailed list of expenditures that the Company incurred on Sangold during the year:

Cumulative from the start of the project

Payment to KALWEA	\$	67,500
Consulting		317,943
Accommodation		32,092
Travel		10,369
Drilling		516,491
Software usage		10,400
Linecutting		73,606
Assay work		19,553
Equipment rental		9,200
Survey		75,882
Other charges		40,155
	\$	1,173,191

- (b) During the year ended December 31, 2000, the Company entered into a memorandum of understanding to purchase Thierry and the surrounding claims encompassing 11,538 acres, a copper/nickel property, located in the Pickle Lake area of northwestern Ontario. During the year ended December 31, 2002, the Company entered into amending agreements related to the acquisition of Thierry property. Pursuant to the agreement and amendments, the total payments related to the acquisition of the property were \$1,060,000.

Richview entered into a letter agreement and has executed a definitive option agreement with the Company on April 30, 2004. Basic terms of the original agreement allowed Richview, or its assignee, the right to earn up to 70% participating interest in Thierry by producing a bankable feasibility study, or expending \$7 million for qualified exploration expenses on the property by March 31, 2011. In June 2004, Richview and the Company executed an agreement to amend the option agreement. Under the terms of the amended agreement Richview will earn 51% (previously 49%) interest in Thierry upon depositing the sum of \$2 million in a segregated bank account (the "Thierry Exploration Account"), such monies to be used for expenditure on Canadian Eligible Exploration Expenses ("CEE"). The \$2 million was deposited in an interest-bearing investment account and Richview has earned its 51% interest in Thierry. The amended agreement also provided Richview a right to earn on a deposit of \$3 million (aggregate \$5 million; previously \$7 million) to the segregated account at any time after January 2, 2005 or upon producing a bankable feasibility study, a further 24% interest for a total 75% (previously 70%) in Thierry Project.

Certain claw-back provisions in the original agreement relating to the failure of the Company to spend a total of \$2 million (aggregate \$4 million) or a further \$5 million (aggregate \$7 million) have, by the terms of the amended agreement, been cancelled. In addition, upon entering the Joint Venture Agreement, Richview and the Company are subject to dilution of their respective interests, at the rate of 1% for each \$40,000 of the party's share of expenditures not paid by the party with respect to further exploration and development costs.

Pursuant to an agreement dated December 23, 2005 the Company sold its interest in Thierry to Richview (See note 4).

- (c) The Company entered into a credit facility on December 23, 2003 which was amended on February 19, 2004, with Proyectos Mineros Del Sur Prominsur C.A. ("Prominsur"), a legal entity incorporated in the State of Miranda, Venezuela. The credit facility will allow Prominsur to be advanced funds by the Company for exploration and development on two mining properties on which Prominsur holds the leases. In exchange for the advance Prominsur will issue to the Company convertible interest bearing promissory notes. The convertibility feature allows the Company, by making payments to the shareholders of Prominsur, to exchange the promissory notes into shares

# PGM VENTURES CORPORATION

## Notes to Consolidated Financial Statements December 31, 2005 and 2004

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### 7. Mining interests (continued)

of Prominsur. Each advance shall bear interest at a rate equal to the prime rate of interest charged by the Royal Bank of Canada at the applicable date plus an average annual yield of the 13.625% Series Global Bonds issued by the Republic of Venezuela due August 15, 2018, per annum, compounding annually and payable semi-annually in arrears. Prominsur may elect to defer payment for the first five years in which case the interest rate payable on all advances shall be as set out above plus 3%.

The two mining properties that Prominsur holds the leases on, are Choco 6 Concession ("Choco 6") and Incredible 16 Concession ("Incredible 16") which are both exploration properties. The Choco 6 lease covers an area of approximately 5,000 hectares, located in the El Callao Autonomous Municipality, State of Bolivar, Guayana region, Venezuela for a term of 20 years with a 10 year possible extension. Incredible 16 covers an area of approximately 5,000 hectares, located in the Roscio Autonomous Municipality, State of Bolivar, Guayana region, Venezuela for a term of twenty years with a possible 10 year extension.

The total amount that may be advanced to Prominsur pursuant to the credit facility is US\$1,700,000. All amounts in the agreement are in US dollars. At any time subsequent to the first advance being made, while the loan is outstanding the convertibility feature can be exercised by the Company in whole or in part subject to the following conditions. In consideration of certain negative covenants provided by the current shareholders of Prominsur, the Company must make the following payments to the shareholders of Prominsur prior to being able to exercise all or part of the convertibility feature:

- a) US\$600,000 plus a share certificate representing that number of common shares of the Company equal to the quotient of US\$500,000 and the average closing price of the Company common shares over the last 20 trading days prior to issuance. In order to exercise the convertibility feature upon this event, the amount advanced to Prominsur must be US\$234,188. If exercised upon satisfaction of these conditions the Company would own 51% of the shares of Prominsur.
- b) Provided that the Company pays the shareholders of Prominsur an additional sum equal to US\$164,706, the Company shall be entitled to convert additional amounts advanced under the credit facility into shares of Prominsur equal to a further 14% of the outstanding shares provided that the total of all advances is US\$700,000 prior to conversion.
- c) Provided that the Company pays the shareholders of Prominsur US\$117,647, the Company shall be entitled to convert additional amounts advanced under the credit facility into shares of Prominsur equal to a further 10% of the outstanding shares provided that the total of all advances is US\$1,200,000 prior to conversion.
- d) Provided that the Company pays the shareholders of Prominsur US\$117,647 together with a share certificate representing the number of common shares of the Company equal to the quotient of US\$500,000 and the average closing price of the common shares over the last 20 trading days prior the issuance thereof, the Company shall be entitled to convert additional amounts advanced under the credit facility into shares of Prominsur equal to a further 10% of the outstanding shares provided that the total of all advances is US\$1,700,000 prior to conversion.

On January 27, 2006, the Company decided not to explore the Incredible 16 and Choco 6 Concessions and terminated its option with various vendors for US\$500,000 (See note 3).

On February 25, 2004, the Company agreed with a private company Billi-Ven Syndicate Inc. ("Billi-Ven") to acquire all of Billi-Ven's rights to the Botanamo and Incredible 14 concessions, which are gold exploration properties, located in Bolivar State, Venezuela. The Company has agreed, subject to receipt of all required approvals, to assume all Billi-Ven's obligations with respect to an option to purchase a joint venture agreement entered into on December 15, 2003 between Billi-Ven and Grupo Villacoa CA of Venezuela. Billi-Ven entered into a 2 part option agreement:

# PGM VENTURES CORPORATION

## Notes to Consolidated Financial Statements

December 31, 2005 and 2004

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### 7. Mining interests (continued)

(c) (continued)

- (1) The first part being with reference to the Incredible 14 Concession, whereby Billi-Ven would pay a non-refundable deposit of US\$25,000 within 90 days exercise the option to purchase this concession for US\$750,000. This would be paid as to US\$375,000 in cash and US\$375,000 worth of shares in a publicly quoted company. The US\$25,000 will be credited towards the US\$375,000 cash payment.
- (2) The second part being with reference to the Botanamo Concession and the Acarigua Licenses, whereby Billi-Ven would pay a non-refundable deposit of US\$25,000 and within 90 days exercise an option to purchase a 51% interest in the Botanamo and Acarigua properties by making a US\$600,000 payment comprising US\$300,000 in cash and US\$300,000 worth of shares of a publicly quoted company. The US\$25,000 will be credited towards the US\$300,000 cash payment. Billi-Ven or its assignees also agreed to a work commitment of US\$600,000 over a one-year period on these properties. Billi-Ven or its assignees maintains an irrevocable right to purchase an additional 24% interest for a total of 75% interest in the properties for an additional payment of US\$700,000 comprising US\$350,000 in cash and US\$350,000 worth of shares of a publicly quoted company along with a work commitment of US\$600,000 for the following year. Upon completion of this final portion of the agreement, Grupo Villacao CA will have the option of converting their remaining 25% interest in the properties into a 1% royalty or funding 25% of all future expenditures to maintain their 25% working interest, or selling their 25% interest at fair market value, payment in the form of shares of the publicly quoted company.

In a letter agreement Billi-Ven agreed to sell its rights in the first part of the option to the Company in consideration of the Company refunding the US\$25,000 paid by Billi-Ven and an amount of US\$10,000 with respect to various expenses for a total of US\$35,000.

In a letter agreement Billi-Ven agreed to sell its rights and obligations to the second part of the option to the Company in consideration of the Company refunding the US\$25,000 paid by Billi-Ven as well as US\$20,000 with respect to various expenses for a total of US\$45,000. In addition Billi-Ven, would cancel the US\$100,000 promissory note owed to it by the Company. The purchase price paid by the Company to Billi-Ven for the rights to the two options shall be 1,500,000 common shares of the Company to be issued from treasury. The refund of US\$35,000 with respect to the first part of the option shall also be paid in the Company's shares calculated on the average closing price on the Company shares on the 10 days prior to exercising the first part of the option.

On July 8, 2004, the Company received regulatory approval and issued 1,553,072 common shares to Billi-Ven for the rights to the two options for proceeds of \$1,363,599.

On July 22, 2004, the Company issued 1,023,585 common shares to comply with its obligations under the agreement for proceeds of \$898,708.

The promissory note was also forgiven and was charged to the properties.

During fiscal 2005, the Company was in default in respect of certain work commitments and required payments under the agreement with Grupo Villacao CA in respect of the Botanamo, Incredible 14 and related concessions. Management has not received any notice of default from Grupo Villacao CA as contemplated by the agreement between the two parties. The Company has discussed these matters with Grupo Villacao CA.

On February 2, 2006, a termination agreement was signed between Grupo Villacao CA and PGM. No further work commitments are required by either party. As a result, Botanamo, Incredible 14 and related concessions have been written-off.

# PGM VENTURES CORPORATION

## Notes to Consolidated Financial Statements

December 31, 2005 and 2004

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### 7. Mining interests (continued)

(d) On February 24, 2004, the Company entered into an agreement to acquire the Nixon-Bartleman Property which consists of a group of four patented and fifteen unpatented claims which is a gold exploration property, located in Timmins Ontario. The terms of the agreement for the Company to earn its 100% interest in this property were as follows:

- (i) The Company paid \$10,000 upon signing of the formal agreement;
- (ii) The Company paid a further \$10,000 on the six month anniversary of the signing of the agreement;
- (iii) The Company issued 150,000 shares from treasury for proceeds of \$123,000;
- (iv) The Company will expend \$900,000 on the property over a three year period of which \$400,000 was expended prior to January 28, 2005.

After the above has been completed the Company will have earned its 100% participating interest subject to a 1.5% net smelter royalty by the vendor.

For the year ended December 31, 2005, the Company decided not to proceed with the Nixon-Bartleman Property and as a result, the property was written-off.

(e) During fiscal 2003, the Company entered into an option agreement with Nord Pacific Limited ("Nord Pacific") whereby the Company has the ability to purchase up to a 51% interest in a joint venture related to a gold deposit property located on Simberi Island, which is part of the Tabar Island Group. The Tabar Island Group is located in Papua New Guinea and forms part of an island chain. The Company paid US\$125,000 to enter into the option agreement.

The Company earned its initial 25% interest in the joint venture by exercising its option under the letter agreement referred to above and paying Nord Pacific the sum of US\$250,000. The Company increased its interest by a further 25% by spending US\$1,500,000 for pre-production activities by May 29, 2004. The Company could earn an additional 1%, thereby increasing its interest to 51%, if it procured project financing. Following the earn-in by the Company, Nord Pacific will be required to fund the project's capital requirements on a pro rata basis with the Company in accordance with each joint venture's interest. To the extent that Nord Pacific elected not to fund its pro rata share of capital requirements, it can be diluted to a 15% carried interest in the joint venture.

The joint venture agreement also covers the exploration of certain other Tabar Islands in Papua New Guinea. Provided that the Company has earned at least a 50% interest in the Simberi joint venture, it can also earn a 50% interest in the Tabar exploration joint venture, which includes the Tabar Islands and the extreme western portion of Simberi Island, by spending an aggregate of US\$2,000,000 in exploration expenditures by December 31, 2006.

During fiscal 2003 the Company entered into an arm's length letter of intent with Alive International Inc. ("Alive") to vend to Alive its interest in the Simberi Gold Project in exchange for approximately 60% of the outstanding shares of Alive and reimbursement to the Company of accumulated costs related to the acquisition of its interest in the joint venture. The transaction is dependent upon, among other things, satisfactory due diligence, regulatory approval and the approval of Alive's shareholders. This occurred and is more fully described in the next paragraph. Included are 33,333 shares for \$30,000 issued as compensation for finder's fees.

# PGM VENTURES CORPORATION

## Notes to Consolidated Financial Statements

December 31, 2005 and 2004

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### 7. Mining interests (continued)

(e) (continued) On April 13, 2004, the Company's subsidiary, 2034879 Ontario Limited ("2034879"), completed a reverse takeover transaction with Alive International Inc. ("Alive").

- (i) Alive was reorganized into a junior mining company;
- (ii) Alive changed its name to Simberi Gold Corporation;
- (iii) Simberi issued an aggregate of 60,000,000 common shares to holders of common shares and Class A Special shares of 2034879;
- (iv) Simberi issued an aggregate of 20,000,000 common share purchase warrants ("share purchase warrants") to holders of the Special Class A Special purchase warrants of 2034879. Each share purchase warrant entitles the holder thereof to acquire, at any time until December 8, 2005, one common share at an exercise price of \$0.40 per share;
- (v) Simberi issued 2,000,000 compensation options to holders of compensation options of 2034879. Each compensation option entitles the holder thereof to acquire, at any time until December 8, 2005, one common share and one share purchase warrant at an exercise price of \$0.25 per compensation option;
- (vi) Pursuant to the transaction Simberi also acquired all the issued and outstanding shares of Novaking Pty. Ltd. in exchange for the issue of 16,000,000 common shares of Simberi;
- (vii) Simberi paid Tory Ryan & Co. Inc. a finders fee of 2,000,000 shares in connection with the transaction.

The transaction is accounted for as a reverse takeover since the former shareholders of 2034879 hold the majority of the shares of Simberi after the transaction was completed. Accordingly the assets and liabilities of Simberi have been brought forward at their fair values and the assets, liabilities and shareholders equity of 2034879 have been brought forward at their book values.

On February 3, 2005, Simberi sold 75% of its 50% interest, (37.5% while maintaining a 12.5% free carried interest), in the Simberi Mining Joint Venture and its 1% interest in the Tabar Exploration Joint Venture located on Simberi Island, Tabar Island and Tatau Island, Papua New Guinea to Allied Gold Limited. As consideration for the sale Simberi received \$4,000,000 cash. The gain recognized on the sale was \$1,265,145.

On August 12, 2005, the Company decided to sell Simberi (see note 5).

(f) Management has decided not to continue with the Asia Project. As well, the Company has divested itself of the Novaking Properties through the sale of Simberi.

(g) The following is a summary of the mining interests written off during the year:

Venezuela Projects	\$	4,540,135
Asian Project		40,570
Nixon-Bartleman Property		1,164,696
Novaking Properties		-
Total	\$	<u>5,745,401</u>

### 8. Due to Simberi Gold Corporation

The amount due to Simberi Gold Corporation is non-interest bearing and due on demand. Subsequent to the year end, Simberi demanded that the amount be repaid.

# PGM VENTURES CORPORATION

## Notes to Consolidated Financial Statements

December 31, 2005 and 2004

### 9. Long-term debt

Year ended December 31,	2005
Social security debt (i)	\$ 506,726
Payments due arising from general creditors agreement (ii)	350,398
Finance leases (iii)	21,915
Government assistance (iv)	12,828
Fixed asset loan (v)	648,732
	1,540,599
Amounts payable within one year	(695,514)
	\$ 845,085

- (i) Social security debt in Matsa was negotiated prior to the general creditor's agreement reached during the suspension of the payment process, which preceded the Company's ownership of any interest in the project. This deferred payment plan consists of two social security debts with monthly payments at €7,574 (CDN \$10,454) and €4,740 (CDN \$6,543), respectively. The final installment will be paid in April 2008.
- (ii) The amounts due under the general creditor's agreement signed on March 12, 2003 during the suspension of the payment process is payable in four equal annual installments commencing on March 31, 2006 and finishing on March 31, 2009.
- (iii) The finance leases are with respect to the social security debt and will be amortized over the term of the debt.
- (iv) The government assistance are payable over a six month period at €3,098 (CDN \$4,276) per month. The final payment is due January 1, 2008.
- (v) The long-term portion of the fixed asset loan in the amount of €250,000 (CDN \$345,070) will begin to be repaid once production commences. The payments will be €50,000 (CDN \$ 69,014) and will be made at three month intervals which will continue until the loan is fully repaid. The current portion in the amount of €220,000 (CDN \$ 303,662) is due in the coming year and therefore is included in amounts payable within one year.

Principal repayment terms are approximately:

2006	\$ 695,514
2007	449,258
2008	338,000
2009	57,827
	\$ 1,540,599

# PGM VENTURES CORPORATION

## Notes to Consolidated Financial Statements

December 31, 2005 and 2004

### 10. Share capital

(a) Authorized - Unlimited number of common shares

(b) Common shares issued

	Number of common shares	Stated value
Balance, December 31, 2003	21,565,425	\$ 12,566,213
Exercise of stock options - cash	1,325,000	882,450
Black-Scholes fair value of 10,000 stock options	-	7,490
Asset acquisition - Nixon-Bartleman Property (note 7(d)(iii))	150,000	123,000
Finder's Fee - Simberi Gold Corporation acquisition (note 7(e))	33,333	30,000
Acquisition of Billi-Ven Syndicate Inc.'s Botanamo and Increible 14 concession rights (note 7(c))	1,553,072	1,363,599
Prominsur C.A. acquisition (1)	743,826	662,377
Botanamo and Increible 14 concessions property rights (note 7(c))	1,023,585	898,708
Private placement (2)	3,126,600	1,563,300
Warrant valuation (2)	-	(747,257)
Private placement (3)	9,090,909	4,000,000
Warrant valuation (3)	-	(1,918,182)
Private placement (3)	304,000	133,760
Warrant valuation (3)	-	(64,144)
Private placement (4)	700,000	350,000
Warrant valuation (4)	-	(89,250)
Private placement (5)(6)	4,614,000	2,306,960
Warrant valuation (5)(6)	-	(588,285)
Asset acquisition - Spain (note 6(i)(a) and note 6(i)(c))	8,082,386	3,984,617
Cost of issue	-	(957,802)
Balance, December 31, 2004	52,312,136	24,507,554
Private placement (7)	1,080,000	540,000
Warrant valuation (7)	-	(144,180)
Exercise of warrants - cash	2,472,226	1,322,485
Black-Scholes fair value of warrants	-	296,749
Private placement (8)	1,600,000	800,000
Warrant valuation (8)	-	(224,000)
Private placement (9)	13,426,909	7,384,800
Private placement (10)	1,877,846	1,220,600
Warrant valuation (10)	-	(235,670)
Debt settlement (11)	1,159,915	753,945
Warrant valuation (11)	-	(380,452)
Private placement (12)	4,700,000	3,995,000
Cost of issue - broker warrants	-	(322,939)
Cost of issue - cash	-	(1,114,081)
Share adjustment	(1)	-
Balance, December 31, 2005	78,629,031	\$ 38,399,811

# PGM VENTURES CORPORATION

## Notes to Consolidated Financial Statements

December 31, 2005 and 2004

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### 10. Share capital (continued)

- (1) The Company entered into a credit facility on December 23, 2003 which was amended on February 19, 2004, with Prominsur, a legal entity incorporated in the State of Miranda, Venezuela. The credit facility will allow Prominsur to be advanced funds by the Company for exploration and development on 2 mining properties on which Prominsur holds the leases. In exchange for the advance, Prominsur will issue to the Company convertible interest bearing promissory notes. See Note 7(c) for a complete description. To comply with the credit facility, the Company must pay the shareholders of Prominsur US\$300,000 on signing the agreement (paid) plus a share certificate representing that number of common shares of the Company equal to the quotient of US\$500,000 and the average closing price of the Company's common shares over the last 20 trading days prior to issuance. As a result, 743,826 common shares for \$662,377 was paid.
- (2) The Company completed a private placement of 3,126,600 units, at a price of \$0.50 per unit for proceeds of \$1,563,300, each unit consists of one common share and one common share purchase warrant. Each whole share purchase warrant is exercisable into one common share of the Company at a price of \$0.65 for a period of two years from the date of closing. A commission of \$5,400 was paid to McFarlane Gordon Inc., who provided subscriptions for \$67,500. The fair value of the warrants was estimated using the Black-Scholes option pricing model with the following assumptions - expected volatility: 100%, risk-free interest rate: 4.50%, expected life of 2 years, and an expected dividend yield of 0%. As a result, the fair value has been estimated as \$747,257.
- (3) The Company completed a non-brokered private placement of 9,394,909 units for proceeds of \$4,133,760, each consisting of one common share and one common share purchase warrant. Each warrant can be exercised into a common share of the Company at a price of \$0.57 for a period of 24 months from the time of closing. The fair value of the warrants was estimated using the Black-Scholes option pricing model with the following assumptions - expected volatility: 100%, risk-free interest rate: 4.50%, and expected life of 2 years, and an expected dividend yield of 0%. The fair value has been estimated as \$1,982,326. 909,091 broker warrants were issued exercisable at \$0.57 per share and expired September 5, 2005. The fair value of the warrants was estimated using the Black-Scholes option pricing model with expected life of 1 year, and remaining assumption identical to the common share purchase warrants. The fair value has been estimated as \$127,273.
- (4) The Company closed on December 17, 2004 the first tranche of a flow-through private placement for aggregate gross proceeds of \$350,000. This flow-through private placement is part of a larger financing arrangement comprised of an offering of flow-through and non flow-through shares for gross proceeds of up to \$3,500,000. Pursuant to the first tranche of the flow-through private placement, the Company issued 700,000 units most of which was placed with two limited partnerships in the Mineral Fields Group of Toronto, at \$0.50 per unit. Each unit is comprised of one common share, to be issued as a "flow-through share" of the Company and one-half of one common share purchase warrant of the Company. Each whole common share purchase warrant entitles the purchaser to purchase one common share that is not a "flow-through share" at an exercise price of \$0.57 on the date that is 24 months from the date of issuance of the warrant. Limited Market Dealer Inc., acting as agent for the first tranche, received a fee of \$14,000 representing 4% of the gross proceeds of the private placement and a warrant to purchase up to 70,000 common shares of the Company. The flow-through common shares, the common share purchase warrants and the underlying common shares issued in the first tranche have a hold period of four months which expired on April 18, 2005. The fair value of the warrants was estimated using the Black-Scholes option pricing model with the following assumptions - expected volatility: 100%, risk-free interest rate: 4.50%, expected life of 2 years, and an expected dividend yield of 0%. The fair value of the 350,000 warrants and 70,000 brokers warrants was estimated to be \$89,250 and \$17,850, respectively.

# PGM VENTURES CORPORATION

## Notes to Consolidated Financial Statements

December 31, 2005 and 2004

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### 10. Share capital (continued)

- (5) The Company closed the second tranche of the flow-through private placement for proceeds of \$910,000 on December 30, 2004. Pursuant to the second tranche of the flow-through private placement, the Company issued 1,820,000 units on December 30, 2004, most of which was placed with two limited partnerships in the Mineral Fields Group of Toronto, at \$0.50 per unit. Each unit is comprised of one common share, to be issued as a "flow-through share" of the Company and one-half of one common share purchase warrant of the Company. Each whole common share purchase warrant entitles the purchaser to purchase one common share that is not a "flow-through share" at an exercise price of \$0.57 on the date that is 24 months from the date of issuance of the warrant. Limited Market Dealer Inc., acting as agent for the brokered portion of the placement, received a finder's fee in the amount of \$26,000 representing 4% of the gross proceeds of the brokered portion of the private placement, a due diligence fee in the amount \$50,000 representing 5% of the proceeds raised in both the first and second tranches and a warrant to purchase up to 130,000 common shares of the Company on the same terms as the warrants forming part of the units. The flow-through common shares, the common share purchase warrants and the underlying common shares issued in the second tranche have a hold period of four months expiring on May 1, 2005. The fair value of the warrants was estimated using the Black-Scholes option pricing model with the following assumptions - expected volatility: 100% risk-free, interest rate: 4.50%, expected life of 2 years, and an expected dividend yield of 0%. As a result the fair values of the 910,000 warrants and the 130,000 brokers warrants were estimated as \$232,050 and \$33,150, respectively.
- (6) Additionally, the Company issued 2,794,000 units at \$0.50 per unit on December 30, 2004 on a non flow-through and non-brokered basis for gross proceeds of \$1,397,000. Each unit consists of one common share of the Company and one-half of one common share purchase warrant of the Company. Each whole common share purchase warrant entitles the purchaser to purchase one common share at an exercise price of \$0.57 at any time on or before the date that is 24 months from the date of issuance of the warrant. Both the common shares and the common share purchase warrants have a hold period of four months expiring on May 1, 2005. The fair value of the warrants was estimated using the Black-Scholes option pricing model with the following assumptions - expected volatility: 100%, risk-free interest rate: 4.50%, expected life of 2 years, and an expected dividend yield of 0%. As a result, the fair value was estimated as \$356,235.
- (7) The Company closed the third tranche of a private placement for gross proceeds of \$540,000 on February 2, 2005. The Company issued 1,080,000 units on February 2, 2005 on a non flow-through basis at \$0.50 per unit. Each unit consists of one common share of the Company and one-half of one common share purchase warrant of the Company. Each whole common share purchase warrant entitles the holder thereof to purchase one common share at an exercise price of \$0.57 at any time on or before 5:00 p.m. (Eastern time) on the date that is 24 months from the date of issuance of the warrant.

McFarlane Gordon Inc., acting as agent for the brokered portion of this tranche of the placement, received a finder's fee in the amount of \$51,000 representing marking up 10% of the gross proceeds of the brokered portion of the private placement and a warrant to purchase up to 102,000 common shares of the Company "broker warrants" on the same terms as the warrants forming part of the units.

The fair values of the common share purchase warrants and broker warrants were estimated using the Black-Scholes option pricing model based on the following assumptions: dividend yield 0%; volatility 107.40%; risk-free interest rate 2.95%; and an expected life of 24 months. As a result, the fair values of the private placement warrants and broker warrants were estimated as \$144,180 and \$27,234, respectively.

# PGM VENTURES CORPORATION

## Notes to Consolidated Financial Statements

December 31, 2005 and 2004

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### 10. Share capital (continued)

- (8) On March 14, 2005, the Company closed a private placement for gross proceeds of \$800,000. Pursuant to this private placement, the Company issued 1,600,000 units on a non flow-through basis at \$0.50 per unit. Each unit consists of one common share of the Company and one-half of one common share purchase warrant of the Company. Each whole common share purchase warrant entitles the holder thereof to purchase one common share at an exercise price of \$0.57 at any time on or before 5:00 p.m. (Eastern time) on the date that is 24 months from the date of issuance of the warrant. The fair value of the common share purchase warrants was estimated using the Black-Scholes option pricing model based on the following assumptions: dividend yield 0%; expected volatility 113.06%; risk-free interest rate 3.16%; and an expected life of 24 months. As a result, the fair value of the private placement warrants was estimated as \$224,00.

Canaccord Capital Corporation, acting as agent for the brokered portion of this tranche of the placement, received a finder's fee in the amount of \$27,500 representing 10% of the gross proceeds of the brokered portion of the private placement and broker warrants to purchase up to 55,000 common shares of the Company on the same terms as the warrants forming part of the units, for a 12 month period. The fair value of the broker warrants was estimated using the Black-Scholes option pricing model based on the following assumptions: dividend yield 0%; expected volatility 114.30%; risk-free interest rate 2.75%; and an expected life of 12 months. As a result, the fair value of the broker warrants was estimated as \$11,055.

- (9) The Company issued 13,426,909 common shares at a price per share of CDN \$0.55 for gross proceeds of US \$6,000,000 (CDN \$7,384,000). For its services as agent in connection with this placement, M&A Advisors Ltd. received a cash fee of US\$600,000 and warrants to purchase up to 1,342,690 common shares at any time for a period of twelve months from the date of issue at an exercise price per share of \$0.63. Both the shares and warrants issued in connection with this placement are subject to hold periods that expired on October 25, 2005. The fair value of the warrants were estimated using the Black-Scholes option pricing model based on the following assumptions: dividend yield 0%; expected volatility 109.69%; risk-free interest rate 2.58%; and an expected life of 12 months. As a result, the fair value of the warrants was estimated as \$284,650.
- (10) Investec Bank (UK) Ltd ("Investec") has subscribed for 1,877,846 units in at a total cost of \$1,220,600 (US\$1,000,000). Each unit is priced at \$0.65 and consists of one common share and one-half common share purchase warrant. Each whole warrant is exercisable at a price of \$0.72 for a period of 12 months. Both the common shares and the common share purchase warrants have a hold period of four months which expired on November 27, 2005. The fair value of the warrants was estimated using the Black-Scholes option pricing model based on the following assumptions: dividend yield 0%; expected volatility 107.39%; risk-free interest rate 2.77%; and an expected life of 12 months. As a result, the fair value of the warrants was estimated as \$235,670.
- (11) The Company and Richview have also completed the conversion of a loan in the principal amount of \$700,000 currently owed to Richview. Pursuant to the terms of the agreement, the Company has issued to Richview units at an issue price of \$0.65 per unit. The number of units is equal to the principal amount of the loan plus all accrued interest divided by \$0.65. As a result, 1,159,915 common shares were issued for a total of \$753,945. Each unit consists of one common share and one common share purchase warrant, each warrant entitling Richview to acquire one additional common share at a price of \$0.75 for a period of two years. The fair value of the warrants was estimated using the Black-Scholes option pricing model based on the following assumptions: dividend yield 0%; expected volatility 100.28%; risk-free interest rate 3.81%; and an expected life of 2 years. As a result, the fair value of the warrants was estimated as \$380,452.
- (12) Trafigura has invested \$3,995,000 in the Company, consisting of 4,700,000 shares at a price of \$0.85 per share.

# PGM VENTURES CORPORATION

## Notes to Consolidated Financial Statements

December 31, 2005 and 2004

### 11. Stock options

The Company maintains an employee stock option plan under which the Board of Directors, or a committee appointed for such purpose, may from time to time grant to employees, officers, directors of, or consultants of the Company, options to acquire common shares in such numbers, for such terms and at such exercise prices, as may be determined by the Board of Directors or such committee.

The stock option plan provides that the maximum number of common shares in the capital of the Company that may be reserved for issuance for all purposes under the stock option plan shall be equal to 10% of the total issued and outstanding common shares and that the maximum number of common shares which may be reserved for issuance to any one optionee pursuant to share options may not exceed 5% of the common shares outstanding at the time of grant.

The options are valid for a maximum of 5 years from the date of issue. There are two different vesting terms which are as follows:

- 1) 1/7th immediately and 1/7th after 3, 6, 9, 12, 15 and 18 month anniversaries of the date of the grant;
- 2) 1/4 after 3, 6, 9, 12 month anniversaries of the date of grant.

The changes in stock options for each of the years ended December 31, 2005 and 2004 are as follows:

	Number of common shares	Weighted Average Exercise Price
Balance, December 31, 2003	2,890,000	\$ 0.59
Grant of stock options	4,420,000	0.61
Exercise of stock options	(1,325,000)	0.67
Balance, December 31, 2004	5,985,000	0.58
Grant of stock options (1)(2)(3)(4)	470,000	0.79
Stock options cancelled (5)	(895,000)	0.58
Balance, December 31, 2005	5,560,000	\$ 0.60

(1) The Company has entered into an investor communications agreement with Michael Baybak and Company Inc. Pursuant to this agreement, Michael Baybak and Company Inc. were awarded a stock option of 300,000 shares at a price of \$0.87 per share. These options have an estimated value of \$179,700 which will be expensed as they vest. The fair value was estimated using the Black-Scholes option pricing model based on the followings assumptions: dividend yield 0%; expected volatility 112.87%; risk-free interest rate 3.48%; and an expected life of 3 years.

(2) In February 2005, the Company granted 20,000 stock options under the Company's stock option plan to Bryan Wilson in compensation for consulting fees on the acquisition of the Simberi Gold Project. These options are exercisable at \$0.50 per share, expire on February 3, 2010 and have an estimated value of \$6,100 which will be expensed as they vest. The fair value was estimated using the Black-Scholes option pricing model based on the followings assumptions: dividend yield 0%; expected volatility 107.52%; risk-free interest rate 3.10%; and an expected life of 2.41 years.

(3) The Company granted Babak Vahebzadeh, a director of the Company, 150,000 stock options from the Company's stock option plan. The options may be exercised at \$0.61 per share in accordance with the terms of the Company's existing stock option plan and will expire on February 24, 2010. These options have an estimated value of \$58,560 which will be expensed as they vest. The fair value was estimated using the Black-Scholes option pricing model based on the followings assumptions: dividend yield 0%; expected volatility 114.89%; risk-free interest rate 3.14%; and an expected life of 2.41 years.

(4) For fiscal 2005, the weighted-average grant date fair value of the options in (1)(2) and (3) was \$0.52 per share.

# PGM VENTURES CORPORATION

## Notes to Consolidated Financial Statements

December 31, 2005 and 2004

### 11. Stock options (continued)

(5) The Company cancelled 895,000 stock options at the year end.

As of December 31, 2005, the following stock options were outstanding and exercisable:

Expiry Date	Options Outstanding			Options Exercisable	
	Number of Options	Weighted average remaining contractual life	Weighted average exercise price	Number of Options	Weighted average exercise price
July 16, 2006	190,000	0.54 years	\$ 0.65	150,000	\$ 0.65
May 27, 2007	80,000	1.41	0.67	35,000	0.67
November 12, 2007	165,000	1.87	0.50	165,000	0.50
(f) March 16, 2008	300,000	2.21	0.87	237,500	0.87
(a) August 27, 2008	590,000	2.66	0.40	540,000	0.40
(b) October 10, 2008	500,000	2.78	0.60	375,000	0.60
(c) February 11, 2009	1,415,000	3.11	0.80	1,335,000	0.80
(d) April 14, 2009	100,000	3.29	0.86	100,000	0.86
(e) October 12, 2009	2,905,000	3.78	0.50	2,063,115	0.50
(g) February 3, 2010	20,000	4.09	0.50	13,250	0.50
(h) February 24, 2010	150,000	4.15	0.61	94,427	0.61
	6,455,000	3.20	\$ 0.60	5,108,292	\$ 0.61

As of December 31, 2004, the following stock options were outstanding:

	NUMBER OF OPTIONS	EXERCISE PRICE	EXPIRY DATE
	190,000	\$0.65	July 16, 2006
(j)	80,000	\$0.67	May 27, 2007
(i)	40,000	\$0.75	June 27, 2007
	165,000	\$0.50	November 12, 2007
(a)	590,000	\$0.40	August 27, 2008
(b)	500,000	\$0.60	October 10, 2008
(c)	1,415,000	\$0.80	February 11, 2009
(d)	100,000	\$0.86	April 14, 2009
(e)	2,905,000	\$0.50	October 12, 2009
	5,985,000		

# PGM VENTURES CORPORATION

## Notes to Consolidated Financial Statements

December 31, 2005 and 2004

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### 11. Stock options (continued)

Stock options have been expensed as follows:

	Number of options valued/remaining	Cumulative expense from inception of stock options	Amount expensed	Remainder to be expensed	Exercise of stock options	Total stock option compensation
(a)	540,000	\$ 56,314	\$ 8,045	\$ -	\$ -	\$ 56,314
(b)	375,000	46,858	13,388	-	-	46,858
(c)	1,335,000	865,980	371,134	-	-	865,980
(d)	100,000	65,800	37,600	-	-	65,800
(e)	2,390,000	801,401	664,866	126,977	-	928,378
(f)	300,000	142,263	142,263	37,437	-	179,700
(g)	20,000	4,041	4,041	2,059	-	6,100
(h)	150,000	36,921	36,921	21,729	-	58,650
	5,210,000	\$ 2,019,578	\$ 1,278,258	\$ 188,202	\$ -	\$ 2,207,780

Stock-option compensation for December 31, 2005:

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Stock-option compensation from above	\$ 1,278,258
Stock-option compensation from former subsidiary	232,620
December 31, 2005	\$ 1,510,878

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# PGM VENTURES CORPORATION

## Notes to Consolidated Financial Statements

December 31, 2005 and 2004

### 12. Contributed surplus

The following is a continuity of contributed surplus for December 31, 2005 and 2004:

Balance, December 31, 2003	\$	92,671
Exercise of stock options		(7,490)
Stock-option compensation		722,949
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Balance, December 31, 2004		808,130
Stock-option compensation		1,510,878
Expired warrants		304,408
Application of loss on disposition of Simberi (see note 5)		(1,717,254)
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Balance, December 31, 2005	\$	906,162

### 13. Warrants

The following table sets out the warrant activity during the year ended December 31, 2005 and 2004:

	Number of warrants	Value
Balance, December 31, 2003	3,954,907	\$ 473,884
Private placement (note 10(b)(2))	3,126,600	747,257
Private placement (note 10(b)(3))	9,090,909	1,918,182
Private placement (note 10(b)(3))	304,000	64,144
Private placement (note 10(b)(3))	909,091	127,273
Private placement (note 10(b)(4))	350,000	89,250
Private placement (note 10(b)(4))	70,000	17,850
Private placement (note 10(b)(5) and note 10(b)(6))	2,307,000	588,285
Private placement (note 10(b)(5))	130,000	33,150
Expired warrants	(242,500)	-
<hr/>		
Balance, December 31, 2004	20,000,007	4,059,275
Private placement (note 10(b)(7))	102,000	27,234
Private placement (note 10(b)(7))	540,000	144,180
Private placement (note 10(b)(8))	55,000	11,055
Private placement (note 10(b)(8))	800,000	224,000
Private placement (note 10(b)(9))	1,342,690	284,650
Private placement (note 10(b)(10))	938,923	235,670
Private placement (note 10(b)(11))	1,159,915	380,452
Exercised during fiscal 2005	(2,472,226)	(296,749)
Expired warrants	(2,149,272)	(304,408)
<hr/>		
Balance, December 31, 2005	20,317,037	\$ 4,765,359

# PGM VENTURES CORPORATION

## Notes to Consolidated Financial Statements

December 31, 2005 and 2004

### 13. Warrants (continued)

As of December 31, 2005, the following warrants were outstanding:

Number of Warrants	Black-Scholes value	Exercise price (\$)	Expiry
1,342,690	\$ 284,650	0.63	June 25, 2006
938,923	235,670	0.72	July 26, 2006
3,126,600	747,257	0.65	July 29, 2006
9,090,909	1,918,182	0.57	September 3, 2006
304,000	64,144	0.57	September 24, 2006
70,000	17,850	0.57	December 17, 2006
350,000	89,250	0.57	December 17, 2006
130,000	33,150	0.57	December 30, 2006
2,307,000	588,285	0.57	December 30, 2006
102,000	27,234	0.57	February 2, 2007
540,000	144,180	0.57	February 2, 2007
55,000	11,055	0.57	March 14, 2006
800,000	224,000	0.57	March 14, 2007
1,159,915	380,452	0.75	December 21, 2007
20,317,037	\$ 4,765,359		

As of December 31, 2004, the following warrants were outstanding:

Number of Warrants	Black-Scholes value	Exercise price (\$)	Expiry
540,541	\$ 65,946	0.45	March 14, 2005
1,250,142	131,265	0.40	September 11, 2005
449,543	86,762	0.60	November 7, 2005
1,472,181	189,911	0.65	December 16, 2005
909,091	127,273	0.57	September 5, 2005
9,090,909	1,918,182	0.57	September 5, 2006
3,126,600	747,257	0.65	August 8, 2006
304,000	64,144	0.57	September 24, 2006
70,000	17,850	0.57	December 17, 2006
350,000	89,250	0.57	December 17, 2006
130,000	33,150	0.57	December 30, 2006
2,307,000	588,285	0.57	December 30, 2006
20,000,007	\$ 4,059,275		

# PGM VENTURES CORPORATION

## Notes to Consolidated Financial Statements

December 31, 2005 and 2004

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### 14. Commitments and contingencies

- (a) On November 17, 2005, the Company and Matsa agreed to the following with Piritas de Huelva SL ("Piritas"):
- i) Matsa will purchase a total of 140 hectares (346 acres) of surface rights from Piritas. This property is located directly above and around the main Aguas Tenidas mineralised system.
  - ii) The total purchase price of the 140 hectares of surface rights, before taxes, is €550,000 (Can \$770,000). An amount of 10%, or €55,000, has been paid as a deposit and the 90% balance is due on or before May 16, 2006.
  - iii) An option to acquire a minimum additional 35 hectares (86 acres) for a price of €3,928 per hectare (Can \$5,500 per acre), plus applicable taxes.
- (b) The Company has entered into a formal management services agreement with Billiken Management Services Inc. ("Billiken"). Billiken has provided similar services to the Company over the past twelve months pursuant to a verbal agreement. The current written agreement reflects the prior understanding between the parties. Pursuant to the management services agreement, Billiken shall provide administrative and general reception services to the Company, as well as providing office space, telephone and other related services. The consideration for these services is \$2,000 per month. Billiken shall also provide investor relations services and any other services over and above administrative and office space to the Company for 10% in excess of Billiken's cost of providing the same. The term of the agreement is for twelve months and may be renewed at the option of the Company for a further twelve months. Billiken is not at arm's-length to the Company.
- (c) The Company will pay KALWEA \$232,500, should it decide to exercise its option of increasing its interest in the Sangold property.
- (d) The Company's activities are subject to various government laws and regulations relating to the protection of the environment. These environmental regulations are continually changing and generally becoming more restrictive. The Company believes that its operations comply in all material respects with all applicable past and present laws and regulations.

### 15. Related party transactions

The Company has entered into management agreements with two directors whereby each director receives annual fees of US\$80,000. During fiscal 2004 this amount was changed to CDN \$120,000. Total consulting fees in the amount of \$240,000 (2004 - \$208,000) were paid to the directors during the year and were recorded in general and administration expenses. The Company also paid to directors and a company controlled by a director a total of \$508,844 (2004 - \$369,950) in consulting fees for services provided to Simberi, Nixon Bartleman, Sangold and exploration projects. The amounts paid were capitalized to mining interests.

As at December 31, 2005, the Company paid an amount of \$Nil (2004 - \$4,686) which was included in prepaids expenses and sundry receivables. As at December 31, 2005 a balance due to a director, related to out of pocket expenses incurred on behalf of the Company, totaled \$18,303 (2004 - \$76,587) and is included in accounts payable and accrued liabilities.

The Company has an agreement with Billiken, a private company that is controlled by the spouses of two directors to manage the Thierry Mine, Nixon Bartleman, Sangold and exploration projects. This company charges a fee of 10% of expenses incurred on behalf of the Company plus additional service charges. In 2005, this fee totaled \$131,586 (2004 - \$727,340). This Company also paid rent in the amount of \$12,000 (2004 - \$4,500) and consulting fees of \$16,000 (2004 - \$Nil).

# PGM VENTURES CORPORATION

## Notes to Consolidated Financial Statements

December 31, 2005 and 2004

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### 15. Related party transactions (continued)

The Company also paid legal fees of \$316,672 (2004 - \$44,108) to a law firm where a partner of law firm is the corporate secretary of the Company.

The sale of the equity in Simberi was a related party transaction and is described in note 5.

Directors and related companies were also reimbursed for out of pocket expenses that occurred in the normal course of operations.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

### 16. Income taxes

(a) The components of the provision for income taxes are as follows:

(b) The reconciliation of the combined Canadian federal and provincial statutory income tax rate to the effective income tax rate is as follows:

Year ended December 31,	2005	2004
Net (loss)	\$ (9,291,506)	\$ (2,770,928)
Income tax provision at the combined Canadian federal and provincial statutory rates of 36.12 %	(3,356,092)	(1,000,859)
Non-taxable gain on dilution of interest in subsidiary	-	42,174
Non-controlling interest's share of the loss	157,655	292,571
Non-deductible loss on disposal of investments	-	15,370
Non-deductible write-down of investment	-	9,084
Non-deductible write-down of mining assets	2,075,239	-
Non-deductible stock-option compensation	545,729	373,159
Taxable capital gain	196,893	-
Non-taxable gain on sale of marketable securities	(1,250)	-
Non-taxable loss on sale of mining interests	294,437	-
Deferred share issued costs deducted	(249,672)	-
Miscellaneous	370	(69,241)
Taxable benefits not recognized	336,691	337,742
Provision for income taxes	\$ -	\$ -

# PGM VENTURES CORPORATION

## Notes to Consolidated Financial Statements

December 31, 2005 and 2004

### 16. Income taxes (continued)

(b) (continued)

The Company has non-capital loss carryforwards of approximately \$7,461,000 and capital loss carryforwards of approximately \$2,341,842. The Company also has Canadian Exploration and Development Expenditures of approximately \$1,984,600 and Foreign Resource Expenditures of \$21,715,100 which can be used to reduce taxable income in future years. No benefit from these amounts has been recorded in these financial statements. The non-capital losses will expire as follows:

2006	\$	246,000
2007		629,000
2008		667,000
2009		1,530,000
2010		987,000
2014		1,895,000
2015		1,508,000
	\$	7,462,000

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for tax purposes.

The Company has no future tax liabilities.

The Company has the following future tax assets:

Year ended December 31,	2005	2004
Future income tax assets		
Resource tax pools	\$ 2,351,892	\$ 18,979,521
Non-capital loss carryforwards	2,695,036	1,813,389
Capital loss carryforwards	422,937	810,349
Cumulated eligible capital	-	101,016
Deferred financing costs	679,534	788,506
Total future tax assets	6,149,399	22,492,781
Valuation allowance	(6,149,399)	(22,492,781)
Net future income tax assets	\$ -	\$ -

The Company provided a valuation allowance equal to the future tax assets as it is not presently more likely than not that they will be realized. The Company's income tax expense for each of the years ended is \$Nil as follows:

Year ended December 31,	2005	2004
Current income tax expense	\$ -	\$ -
Future income tax expense	-	-
Total income tax expense	\$ -	\$ -

# PGM VENTURES CORPORATION

## Notes to Consolidated Financial Statements

December 31, 2005 and 2004

### 17. Supplementary cash flow information

The Company did not pay any income taxes during either of the two years ended December 31, 2005 and 2004.

### 18. Financial instruments

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. If the Company locates a mineral deposit, it will be subject to commodity price risk. It is the opinion of management that the Company is not exposed to significant interest rate, foreign exchange, or credit risks.

The carrying value of the financial instruments that are classified as current approximate their fair value given their immediate or short-term maturity. Information regarding the fair value of long-term debt is disclosed in note 9.

### 19. (Loss) per share

Year ended December 31,	2005	2004
(Loss) to common shareholders and on assumed conversions	\$ (9,291,506)	\$ (2,770,928)
Weighted average shares outstanding - basic	63,170,337	28,790,281
Weighted average shares outstanding - diluted	63,170,337	28,790,281

Basic earnings per share is computed by dividing net income or loss (the numerator) by the weighted average number of outstanding common shares for the year (the denominator). In computing diluted earnings per share, an adjustment is made for the dilutive effect of outstanding stock options and other convertible instruments. As of December 31, 2005, basic and diluted earnings are the same as the effect of any convertible share, options or warrants would be anti-dilutive.

### 20. Segmented information

Segmented assets

December 31, 2005				
	Canada	Spain	Other areas	Consolidated
Current assets	\$ 4,848,937	\$ 1,647,072	\$ -	\$ 6,496,009
Long-term assets	4,221,191	24,201,216	-	28,422,407
	\$ 9,070,128	\$ 25,848,288	\$ -	\$ 34,918,416
December 31, 2004				
	Canada	Spain	Other areas	Consolidated
Current assets	\$ 2,351,127	\$ -	\$ -	\$ 2,351,127
Long-term assets	5,188,815	9,327,855	8,423,017	22,939,687
	\$ 7,539,942	\$ 9,327,855	\$ 8,423,017	\$ 25,290,814

# PGM VENTURES CORPORATION

## Notes to Consolidated Financial Statements

December 31, 2005 and 2004

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### 21. Comparative figures

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

### 22. Subsequent events

(a) On January 20th the Company announced that it had received a positive bankable feasibility study on the Aguas Tenidas project. As such the Company now has a property that can be developed and the Company has entered the Development Stage. Beginning with the next interim statements the Company will be applying Accounting Guideline 11 "Enterprises in the Development Stage".

(b) On February 1, 2006 the Company granted stock options to members of its management team and certain employees: Options to acquire 670,000 common shares at an exercise price of \$0.70 per share for a period of 5 years from the date of grant; Options to acquire 1,500,000 common shares exercisable at a price per common share of \$0.80 until December 31, 2006 and \$1.00 until December 31, 2007.

The first option group has an estimated value of \$269,340 which will be expensed as they vest. The fair value was estimated using the Black-Scholes option pricing model based on the followings assumptions: dividend yield 0%; expected volatility 98.05%; risk-free interest rate 3.86%; and an expected life of 2.41 years.

The second option group has an estimated value of \$498,000 which will be expensed as they vest. The fair value was estimated using the Black-Scholes option pricing model based on the followings assumptions: dividend yield 0%; expected volatility 96.79%; risk-free interest rate 3.86%; and an expected life of 23 months.

(c) On March 23, 2006 the Company completed a private placement for the sale of 9,252,200 common shares at \$0.70 per share for gross proceeds of \$6,476,540. The shares are subject to a four-month hold period expiring on July 24, 2006.

In addition, under an agency agreement dated March 23, 2006 entered into between the Company and Haywood Securities Inc. ("Haywood"), Haywood, together with the selling group members, Canaccord Capital Corporation and MGI Securities Inc., received a cash commission of \$526,509 and agent's option certificates, which will entitle Haywood, Canaccord and MGI at any time until September 23, 2007 to subscribe for an aggregate of up to 925,220 shares.

These options have an estimated value of \$274,790 which will be expensed as they vest. The fair value was estimated using the Black-Scholes option pricing model based on the followings assumptions: dividend yield 0%; expected volatility 87.21%; risk-free interest rate 3.96%; and an expected life of 18 months.

(d) On April 28, 2006 the Company announced that MGI Securities Inc., Orion Securities Inc. and Cannacord Capital Corp. have agreed to act as underwriters of a private placement for 10 million units of the Company at price of \$3.00 per unit, for gross proceeds of \$30 million. Each unit will consist of one common share of the Company and three subscription receipts of the Company. Each subscription receipt will entitle the holder to receive one additional common share without payment of any additional consideration. The subscription receipts, which are exercisable by the holders at any time, will be exercised for shares. On closing, 75% of the gross proceeds will be held by an escrow agent and the balance of the proceeds, less underwriters' commissions and expenses, will be released to the Company. The escrowed proceeds will be released to the Company, upon receipt by MATSA of permits from the applicable Spanish authorities for: restart of the exploitation at the Aguas Tenidas mine; and (ii) expansion of the activity at the Aguas Tenidas mine, with a construction of an ore treatment plant and tailings deposit. If such permits are not received on or before the six-month anniversary of the closing of the offering, PGM will be required to repurchase the outstanding subscription receipts for cancellation at a price of \$0.75 plus a pro rata share of accrued interest. The underwriters will receive cash commission of 6% and broker warrants entitling them to acquire up to 2.4 million common shares of the Company at an exercise price per common share of \$0.75 at any time for a period of 12 months from the date of closing the placement.

# PGM VENTURES CORPORATION

## Notes to Consolidated Financial Statements

December 31, 2005 and 2004

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### 22. Subsequent events (continued)

(d) (continued)

The Company will use the net proceeds of the private placement for working capital purposes and to begin the construction of the Aguas Tenidas mine in Southern Spain.

The offering is subject to certain conditions, including the approval of the TSX Venture Exchange.

The Company also announced that it received a letter from Northcote Holdings Limited ("Northcote") a shareholder that holds approximately 11% of the outstanding shares of the Company. Northcote indicated in the letter that the above offering is dilutive and they do not support it. Northcote further indicated that if the Company proceeds with the offering, it intends to requisition a meeting of shareholders and prepare a dissident's proxy circular to change the composition of the Board of the Company and oppose the financing.

# **PGM VENTURES CORPORATION – MANAGEMENT’S DISCUSSION AND ANALYSIS**

## **FISCAL YEAR ENDED DECEMBER 31, 2005**

### **Introduction**

This management discussion and analysis (“MD&A”) of results, operations and financial condition of PGM Ventures Corporation (“PGM” or the “Company”), and formerly called Icelandic Gold Corporation describes the operating and financial results of the Company for the year ended December 31, 2005. The MD&A supplements, but does not form part of the financial statements of the Company, and should be read in conjunction with PGM’s audited consolidated financial statements and related notes for the fiscal year ended December 31, 2005, as well as the results of fiscal years 2004 and 2003. The Company prepares and files its financial statements in accordance with Canadian generally accepted accounting principles (“GAAP”). The currency referred to in this document is the Canadian Dollar, all holdings in foreign currencies by PGM or its’ subsidiaries have been converted to Canadian Dollars at the prevailing conversion rates at the time of reporting. The Company’s wholly owned subsidiary, Minas de Aguas Tenidas S.A.U. (“MATSA”) maintains its accounts, converts foreign currency transactions and reports according to Canadian GAAP.

### **Overview of 2005**

During fiscal 2005 numerous corporate developments took place which should serve to better focus the Company’s mandate of adding value through the exploration for and the evaluation of its mineral assets, specifically the Company’s wholly owned Aguas Tenidas project located in Huelva Province, Southwest Spain. Notably, during fiscal 2005 the Company completed a number of transactions which allowed the Company to first acquire control, and then subsequently, through further transactions, acquire the remaining interest in MATSA, so that the Company is now the sole owner of the Aguas Tenidas project. In Spain, the Company focused on the rehabilitation of the existing mine infrastructure, further definition and exploration drilling to better define and extend the mineral occurrence, and the Company commissioned a feasibility study from SRK Consulting of Cardiff, UK (“SRK”). Subsequent to the fiscal year end the Company received a positive feasibility study, which was announced on January 20, 2006. Additionally, the Company secured an offtake agreement and financing facility with Trafigura Beheer BV, and signed an initial mandate letter to obtain a project financing facility with Investec Bank (UK).

In the course of 2005, the Company divested itself of its interests in Simberi Gold Corporation, its Venezuelan assets, and the Thierry Project. The Company decided to do no further work on the Nixon-Bartleman project, not to pursue its initiative in Asia and is entitled to receive \$500,000 USD as part of the divestiture of certain of its Venezuelan assets.

Currently the Company holds the mining interests defined below:

<b>Mineral project</b>	<b>Location</b>	<b>Principle metals</b>	<b>PGM interest</b>	<b>Project information</b>
Aguas Tenidas	Huelva Province, Spain	Copper, zinc, lead & silver	100%	VMS deposit in Spain's Northern Pyrite Belt
Various Investigation Licenses	Huelva Province, Spain	VMS	100%	VMS exploration licenses in Spain's Pyrite Belt
Sangold	Keith Township, Ontario	Gold	Option to earn 80%	Gold Exploration Project
Nixon-Bartleman	Keifer Township, Ontario	Gold	100%	Gold Exploration Project, no further work intended

### **Additional Information**

Additional information relating to the Corporation is available on the Internet at the SEDAR website at [www.sedar.com](http://www.sedar.com).

#### **1.1 Date of MD&A**

This MD&A was prepared on April 28, 2006.

#### **1.2 Overall Performance**

In 2005 the Company elected to focus its attention on the advancement of the Aguas Tenidas project. In order to better do so, the Company elected to divest itself of various non-core assets, and in doing so incurred a write-down charge of \$5,745,401, and recorded a loss on the sale of the Company's equity in Simberi of \$1,717,254 which was applied to contributed surplus as this was a related party transaction. All of these are non-recurring and exceptional charges, which do not appear in previous years' statements. Funds received and freed up, by these dispositions, both at present and in the future, will be used towards carrying out the Company's mandate in Spain.

The General and Administrative expenses for the year decreased significantly to \$1,578,325, from \$2,183,008 in 2004. This decrease can be largely attributed to the sale of non-core assets and the commensurate decrease in public relations costs of approximately \$125,000, the decrease in travel costs of approximately \$300,000 and the decrease in professional fees of \$424,000. The Company has capitalized a majority of the travel and professional costs in 2005 that can be directly related to the acquisition of MATSA while these costs were expensed in 2004. Stock option compensation was \$1,510,878 for the year ended December 31, 2005, compared with \$1,033,110 in the

previous year. This increase is due to the timing of the vesting of stock options and their corresponding treatment as expense items for accounting. Foreign exchange expense also increased sharply in 2005 to \$510,497 from \$5,385 in 2004 due to the increased exposure of the Company to the fluctuations in the value of the Euro. The net loss for the year ended December 31, 2005 was \$9,291,506 compared with a loss of \$2,770,928 in 2004, with the majority of the difference being related to the unusual expenses noted above and partially offset by the above-noted unusual gains.

The effect on the Company of the writing-off of various assets, and the sale of the Thierry Mine and the Simberi interest, aside from the one time impact on the financial statements, is to allow the management of the Company to concentrate the available resources of the Company on the Aguas Tenidas property in Spain. The Company now owns a 100% interest in the Aguas Tenidas project, and with the positive Feasibility Study received subsequent to December 31, 2005, will focus in the coming year on the construction and financing required to bring this asset into production in late 2007/early 2008. With the offtake agreement for the project in place, the Company has secured the future sale of concentrates to be produced from the project. The economic valuation of the project is based on conservative discounts of metal prices as agreed by SRK and MATSA in January 2006 when compared with current metal prices, so if the present rising trend in metal prices were to slow or halt the Company would not be immediately vulnerable.

### 1.3 Selected Annual Information

	Year ended December 31, 2005	Year ended December 31, 2004	Year ended December 31, 2003
Revenue (including Interest Income)	\$ 36,629	\$ 2,687	\$ 4,290
Income (loss) before extraordinary items	(3,559,611)	(3,697,688)	(1,204,258)
Income (loss) per share before extraordinary items (basic)	(\$0.06)	(\$0.13)	(\$0.06)
Income (loss) per share before extraordinary items (diluted)	(\$0.06)	(\$0.13)	(\$0.06)
Net income (loss)	(9,291,506)	(2,770,928)	2,069,405
Net income (loss) per share (basic)	(\$0.15)	(\$0.10)	\$0.11
Net income (loss) per share (diluted)	(\$0.15)	(\$0.10)	\$0.08
Total assets	34,918,416	25,290,814	11,278,097
Total long-term liabilities	845,085	1,804,657	0
Dividends	0	0	0

Revenue increased \$33,942 over December 2004 (\$2,687) due to an increased cash on hand balance as a result of private placements during fiscal 2004, which created higher deposits held with banks in 2005 and which in turn, resulted in higher interest income. In fiscal 2005, the loss per share before extraordinary items seems to decrease, however there was stock issued pursuant to financing activities, so while this number is lower,

there is dilution of the common stock between fiscal 2005 and fiscal 2004. The net loss increased to \$9,291,506 in 2005 from a loss of \$2,770,928 in 2004 due to the write-down in mineral interests as discussed above, and the acquisition of the minority interest in MATSA with the result that net loss per share increased by \$0.05 over the year ended December 2004. The increase to total assets is due in large part to the acquisition of MATSA against the disposition of the mineral assets as described above. Long term liabilities decreased by \$959,572 primarily due to the conversion into common shares of the \$700,000 principal promissory note in favour of Richview Resources Corporation.

## 1.4 Results of Operations

### 2005 Financing Activities

Date	Amount Raised	Stated Use of Proceeds	Actual Use of Proceeds
Feb 2005	\$540,000	-work in Spain -general working capital	In accordance with stated use
Mar 2005	\$800,000	-work in Spain -general working capital	In accordance with stated use
Jun 2005	\$7,384,000	-acquisition of remaining MATSA shares -completion of bankable feasibility -general working capital	In accordance with stated use
July 2005	\$1,220,600	-general working capital	In accordance with stated use
Dec 2005	\$3,995,000	-general working capital	In accordance with stated use

### 2005 Project Summaries

#### 1 - Aguas Tenidas

In 2005 the Company completed an exploration and confirmation drilling program and completed a positive feasibility study subsequent to the year-end, negotiated and continues to negotiate an initial mandate letter and credit agreement regarding a bank financing facility, signed an offtake agreement regarding the sales of the concentrate to be produced, negotiated utility agreements, rehabilitated the underground workings and mechanical systems, and instigated the grant application and the required permitting processes for the project.

#### 2 - Various Investigation licenses

The Company acquired a portfolio of exploration licenses in 2005 which represent 358 km<sup>2</sup> in Spain. The Company intends to continue to evaluate the ground covered by these licenses over the course of the next year, but this is not the focus of

the Company. There were no expenditures in 2005 in conjunction with these licenses aside from the acquisition costs and the Company does not foresee any significant expenses regarding these licenses in the coming year.

### 3 - Sangold Project

In fiscal 2005, the Company made expenditures on the Sangold property in order to earn an interest in the property in accordance with the option agreement it holds with Kalwea Financial Corporation. Accordingly, the Company spent \$1,173,191 and carried out a 24 hole drilling program on the property, and commissioned a technical report regarding this property. In order to earn a 51% interest in the Sangold property, the Company was required to spend \$800,000 on the property, which it did prior to December 31, 2005. The Company is presently considering its course of action with regard to this project in 2006.

### 4 - Nixon-Bartleman Project

During fiscal 2005, the Company elected to write-down the value of this project with regard to the financial statements and determined that no further work will be carried out on this property. In the past, the Company did do sufficient work to obtain 100% ownership of this project. No further work is intended and, therefore, the Company spent a non-material amount of money on this project in fiscal 2005 and does not anticipate any further spending.

### 5 - Thierry Mine Project

Pursuant to an agreement dated December 23, 2005, the Company completed an agreement with Richview Resources Corporation ("Richview") to sell the balance of the Thierry Mine ("Thierry") located near Pickle Lake, Patricia Mining Division, Ontario. Richview has issued to the Company 5,700,000 units in the capital of Richview, each unit consisting of one common share and one-half share purchase warrant. Each whole warrant entitles the Company to acquire an additional common share of Richview at a price of \$0.90 for a period of two years from the date of completion of the transaction. Richview now owns a 100% beneficial interest in Thierry. The total proceeds were calculated as \$2,166,000 which was the fair value of the units received on the date of the transaction.

The Company recorded a loss on the sale of Thierry, net of selling costs in the amount of \$815,162 in 2005.

The Company spent non-material amounts in 2005 and 2004 which included care and maintenance of the property before the sale occurred to Richview.

### 6 - Venezuelan Properties

During the year, the Company spent non-material amounts on the Venezuelan projects. Since the Company has changed its focus to its projects in Spain as discussed above, the Company has decided not to continue with these projects. In particular, the Company wrote-off the Incredible 14 Concession, the Acarigua Concession and the Botanamo Concession in full during fiscal 2005.

With respect to the Choco 6 and Incredible 16 concessions, the Company settled on consideration of \$500,000 US to be paid to it in connection with the disposition of its interest in these properties to unrelated parties, who were the original vendors of the properties to the Company. The first installment of \$250,000 is payable to the Company on June 15, 2006, and the second installment of \$250,000 is due December 15, 2006. This amount was credited to the carrying value of the properties and then the remaining carrying value was charged to the consolidated statement of earnings and deficit.

### **Risks and Uncertainties**

PGM is a junior exploration company, and accordingly, is subject to a number of risks and uncertainties, any of which could have a material effect on its business, operations or future performance, including but not limited to: permitting risks, reliance on capital markets in order to meet its funding requirements both to continue as a going concern as well as to raise the significant amounts of capital required to develop the Aguas Tenidas project, commodity price and capital market volatility, possible challenges to the title to its properties, exploration and exploitation risks, country risk, uninsurable risks, environmental risks, changes in the legal or political environment in which it operates, currency fluctuations and dilution. A summary of these risks and uncertainties has been included beginning on page 9 of this document and the reader is encouraged to read this section carefully, and is reminded that these risks are not exhaustive.

## 1.5 Summary of Quarterly Results

	<b>Fourth Quarter</b> December 31, 2005	<b>Third Quarter</b> September 30, 2005	<b>Second Quarter</b> June 30, 2005	<b>First Quarter</b> March 31, 2005
Revenue (including Interest Income)	\$12,552	\$11,058	\$13,019	\$0
Income (loss) before extraordinary items	(977,873)	(900,400)	(790,385)	(890,953)
Income (loss) per share before extraordinary items (basic)	(\$0.02)	(\$0.01)	(\$0.01)	(\$0.02)
Income (loss) per share before extraordinary items (diluted)	(\$0.02)	(\$0.01)	(\$0.01)	(\$0.02)
Net income (loss)	(2,593,826)	(6,946,391)	(759,408)	1,008,119
Net income (loss) per share (basic)	(\$0.04)	(\$0.12)	(\$0.01)	\$0.02
Net income (loss) per share (diluted)	(\$0.04)	(\$0.12)	(\$0.01)	\$0.02

	<b>Fourth Quarter</b> December 31, 2004	<b>Third Quarter</b> September 30, 2004	<b>Second Quarter</b> June 30, 2004	<b>First Quarter</b> March 31, 2004
Revenue (including Interest Income)	\$2,687	\$0	\$0	\$0
Income (loss) before extraordinary items	(1,161,956)	(1,057,355)	(778,495)	(699,882)
Income (loss) per share before extraordinary items (basic)	(\$0.04)	(\$0.03)	(\$0.03)	(\$0.03)
Income (loss) per share before extraordinary items (diluted)	(\$0.04)	(\$0.03)	(\$0.03)	(\$0.03)
Net income (loss)	(1,373,729)	(914,896)	(703,498)	221,195
Net income (loss) per share (basic)	(\$0.05)	(\$0.03)	(\$0.03)	\$0.01
Net income (loss) per share (diluted)	(\$0.05)	(\$0.03)	(\$0.03)	\$0.01

Revenue increased quarter over quarter from the quarter ending March 2005, due to interest earned on term deposits. The loss before extraordinary items is relatively stable over the last 8 quarters and the primary contributors thereto include: maintaining the Company's status as a reporting issuer, paying management fees and salaries of employees, maintaining an office for operations in Toronto and the vesting of stock options. Over the 8 quarters shown above, the Company records a net loss after extraordinary items each quarter, with the exception of the quarter ended March 31, 2005. During the 1<sup>st</sup> quarter of 2005 Simberi Gold Corporation sold 75% of its 50% interest in the Simberi mining joint venture for cash proceeds of \$4 million. When Simberi was consolidated with PGM (March 31, 2005), the gain of the proceeds of \$4 million dollars,

net of costs of approximately \$2.7 million dollars (property costs), created a gain of \$1.2 million on PGM's consolidated financial statements. After the Company incurred normal costs of operations, a gain of \$1,008,119 remained and was reflected. The loss in the 3<sup>rd</sup> quarter of 2005 is due mainly to the write down of mineral interests, specifically approximately \$3 million was written down in relationship to Venezuela, and a loss related to the disposition of Simberi of approximately \$3.6 million. This loss in Simberi was reversed in the 4<sup>th</sup> quarter as part of the Auditors' year-end adjustments, with the recalculated loss of \$1.7m being offset against Contributed Surplus, rather than being included in the Statement of Operations due to it being a related party transaction. The impact of these events is also seen in the loss per share after extraordinary items.

## **1.6 Liquidity**

PGM reported a deficiency in working capital of \$654,960 at December 31, 2005 (compared with working capital of \$382,465 as at December 31, 2004), and cash and cash equivalents of \$762,081 at the end of 2005 (\$2,055,700 at year end 2004.) These variances are largely related to the amount raised and timing of closing the various equity financings on which the Company relies.

During fiscal 2005, PGM raised significantly higher amounts of capital from financings than it has in previous years (\$13,940,400 in 2005; \$8,354,020 in 2004). These higher amounts are indicative of the trend of increasing capital intensiveness of PGM's business as it anticipates beginning the construction of the Aguas Tenidas project during fiscal 2006.

Management estimates the required capital cost would be approximately USD\$168 million to place the Aguas Tenidas mine into commercial production. In order to meet these requirements the Company is in the process of negotiating a bank loan of up to USD\$110,000,000 principal amount and has reached an agreement with Trafigura Beheer which will provide the Company with a financing package of up to USD\$20,000,000 by way of a combination of equity, subordinated debt and cost-override arrangements. Further, as a subsequent event announced on April 28, 2006, the Company has signed an engagement letter with McFarlane Gordon Inc. to underwrite the sale of a \$30,000,000 private placement equity financing, and the Company anticipates raising additional funds as needed in the equity markets.

The Company does not anticipate any required exploration costs for Aguas Tenidas which are not already included in the \$168 million budget noted above. The various Spanish exploration licenses do not require any immediate work to be done on them, nor does the Company anticipate doing any, and the Company is presently evaluating its course of action with reference to the Sangold project. As stated, there will be no work done on the Nixon-Bartleman project or funds required.

PGM anticipates revenue from operations in 2008 at the earliest, and it currently does not have any credit facilities with financial institutions. In order to continue work toward

bringing its mineral property projects into commercial production, additional capital resources will be required in 2006 as discussed above.

## **1.7 Capital Resources**

At the end of 2005 the Company had the following capital requirements under existing arrangements:

- (a) on or before May 16<sup>th</sup>, 2006 the Company is obligated to make the final payment of €495,000 in conjunction with the purchase of 140 hectares of surface rights above and around the Aguas Tenidas mineralized system from Piritas de Huelva SL;
- (b) accounts payable in the normal course of business; and
- (c) the Company, though it has not made commitments for the construction phase of the project, plans to do so during fiscal 2006 and will require funds for this accordingly. The sources of these funds will include those defined above.

## **1.8 Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

## **1.9 Transactions With Related Parties**

The Company has the following transactions with related parties:

The Company has management agreements with Peter Miller and Norman Brewster for their services as President and CEO, and Chairman and Vice President respectively whereby each receives annual fees of CDN \$120,000, for aggregate fees for fiscal 2005 of \$240,000 (2004 - \$208,000).

Additionally the Company paid a total of \$508,844 to directors as consulting fees capitalized to properties as disclosed in the financial statements as per the following: Peter Miller \$182,905, Norm Brewster \$216,750, Peter Gleeson \$49,189, Porphyry Inc., controlled by Michael Newbury \$60,000. Non-material fees and reimbursed, expenses not disclosed in the financial statement notes, were paid to the following directors: Jack Gunther \$845, Babak Vahebzadeh \$22,064 and John Maguire \$8,173.

During fiscal 2005 the Company paid to Billiken Management Services Inc., a company which is controlled by the spouses of Norm Brewster and Peter Miller, a total of \$131,586 (2004 - \$727,340), incurred in conjunction with the management of the Company's exploration program pursuant to a management agreement. The year over year decrease in fees is due to the cessation of exploration activities and costs connected to Venezuela, Thierry and Nixon-Bartleman. Additionally the Company paid rent to Billiken in the amount of \$12,000 (2004 - \$4,500) and consulting fees of \$16,000 (2004 - \$0).

The Company also paid legal fees of \$316,672 (2004 - \$44,108) to McMillan Binch Mendelsohn, a firm in which Carmen Diges is a partner. Ms. Diges also acts as the corporate secretary of the Company. The reason for the substantial increase from 2004 to 2005 is that Ms. Diges joined the firm in the 3<sup>rd</sup> quarter of 2004. The fees represent legal costs incurred in conjunction with the Company's business over the course of the year.

All directors and officers of the Company and its subsidiaries were reimbursed for out of pocket expenses that occurred in the normal course of operations.

The Company sold its equity stake in Simberi Gold Corporation in a related party transaction to a group of purchasers including Michael Newbury and Porphyry Inc. The sale to Porphyry Inc. is a related party transaction as this company is controlled by Michael Newbury, a director of the Company, the details of which are discussed above in section 1.5.

In 2005 the Company carried out no private placement transactions in which related parties to PGM participated.

#### **1.10 Fourth Quarter**

PGM recorded unusual expenses during the three months ended December 31, 2005 including \$2,713,831 of write-off of mining interest. This compares with unusual expenses incurred during the previous quarter ended September 30, 2005, which included a write-off of mining interests totaling \$3,031,570, including \$2,941,893 for its Venezuela projects. General and administration expenses for the quarter, \$1,160,158 with \$418,167 for the previous three month period. The Company reported a net loss for the fourth quarter of \$2,593,826 compared with a net loss the third quarter of \$6,946,391 and had cash and equivalents at the end of the period of \$762,081 compared with \$3,087,784 at the end of the third quarter.

#### **1.11 Proposed Transactions**

The Company presently has no planned or proposed business or asset acquisitions or dispositions.

#### **1.12 Critical Accounting Estimates**

PGM did not rely on any critical accounting estimates in the most recent quarter.

#### **1.13 Changes in Accounting Policies Including Initial Adoption**

Pursuant to Canadian GAAP, when a subsidiary is acquired such as MATSA, the company used the purchase method to record the transaction. As a result of this, as previously discussed above, the Company purchased the net assets of MATSA in the amount of \$43,341,427 for \$16,015,220 which created negative goodwill of \$27,326,207.

As a subsequent event, and in light of the receipt by the Company of the positive Feasibility Study in respect of Aguas Tenidas received in January 2006, and its decision to put the project into production, the Company has adopted Accounting Guideline 11 – Enterprises in the Development Stage as of January 20, 2006.

#### 1.14 Financial Instruments and Other Instruments

The Company’s current financial instruments consist of cash and cash equivalents, funds held in trust, mineral property settlement, accounts receivable, accounts payable and accrued liabilities, promissory notes and due to Simberi Gold Corporation. The carrying values approximate the fair values of these financial instruments due to the short-term maturity of these items.

The long-term investment, at cost is in shares of Richview Resources Inc. which the Company is holding for the long term. The fair value at December 31,2005 is the same as its carrying amount of \$2,166,000.

The long term debt is related to payments of the Spanish subsidiary. The fair value of this long-term debt is not readily determinable.

#### 1.15 Other MD&A Requirements

##### Additional Disclosure for Venture Issuers without Significant Revenue Exploration

(a) Property, plant and equipment

Property, plant and equipment	\$ 55,217,308
Less: Capital grant	(4,742,851)
Application of negative goodwill	(27,326,207)
Interest income	(103,331)
Capitalization of MATSA operating expenditures	<u>1,156,297</u>
TOTAL	\$ 24,201,216

(b) General and administrative

	<u>Amount</u>
Expenses	
Accounting & corporate services	321,519
Office expenses	69,483
Professional & consulting fees	541,617
Transfer agent, listing & filing fees	107,375
Shareholders’ information	56,859
Travel	186,627
Salaries, benefits & other compensation	171,498
Advertising, promotion & public relations	73,628
Insurance	2,421

Occupancy costs	12,000
Interest expense	35,298
<b>TOTAL GENERAL &amp; ADMINISTRATIVE</b>	<b><u>1,578,325</u></b>

(c) Sangold Project

Please refer to Note 7(a) in the December 31, 2005 Audited Financial Statements for a breakdown of the project to comply with section 5.3 of NI 51-102.

**Disclosure of Outstanding Share Data**

PGM is traded on the TSX Venture Exchange under the symbol PPG. On April 28, 2006 there were 87,936,231 shares issued, 7,730,000 stock options outstanding expiring from July 2006 to February 2011, and 21,242,257 warrants outstanding expiring from September 2006 to December 2007.

**RISKS AND UNCERTAINTIES**

The business of PGM is subject to a number of risks and uncertainties commensurate with its status as a junior exploration company. In addition to considering the information disclosed in the financial statements and in the other publicly filed documentation regarding the Company available at [www.sedar.com](http://www.sedar.com), the reader should carefully consider the following information. Any of these risk elements could have material adverse affects on the business of the Company.

**Permitting Requirements**

The Company is required to obtain certain permits for the construction and operation of the Aguas Tenidas project. In particular, the Company has applied to the Spanish authorities for a permit to recommence commercial production at the mine. This is required in lieu of an initial production permit due to the previous operations carried out on the property by its predecessor in interest. The Company has also applied for a construction permit for the plant and the tailings installations. There is, however, no guarantee as to when or that permits, licenses or consents required by the Company for its business will be granted or renewed as applicable.

**Additional Funding Requirements**

In spite of the recently announced \$30 million underwritten private placement, the up to USD\$110 million banking loan arrangement being negotiated, the up to USD\$20 million available from Trafigura, and the potential of the Company being successful in its grant applications with the relevant Spanish authorities, the Company does have limited financial resources. There is no assurance that sufficient additional financing will be available to the Company on acceptable terms or at all. Failure to obtain such additional financing could result in a delay or the indefinite postponement of the Aguas Tenidas Project.

## **Commodity Price Volatility**

The price of various commodities which the Company intends to exploit and subsequently market can fluctuate drastically, and is beyond the Company's control. The Company is specifically concerned with the price of Copper, Lead, Zinc, Silver and Gold. While the Company would benefit from an increase in the value of these metals, the Company could be adversely affected by a decrease in the value of these metals. Were the prices of these metals to descend below the prices used for the determination of the positive feasibility study authored by SRK the economic viability of the project could be affected. The details of the pricing can be found in the feasibility study which is available within the Company's filings at [www.sedar.com](http://www.sedar.com).

## **Title to Mineral Properties**

Acquisition of title to mineral properties is a very detailed and time-consuming process. Title to, and the area of, mineral properties may be disputed or impugned. Although the Company has investigated its title to the mineral properties for which it holds concessions or mineral leases or licenses, there can be no assurance that the Company has valid title to such mineral properties or that its title thereto will not be challenged or impugned. For example, mineral properties sometimes contain claims or transfer histories that examiners cannot verify; and transfers under foreign law often are complex. The Company does not carry title insurance with respect to its mineral properties. A successful claim that the Company does not have title to a mineral property could cause the Company to lose its rights to mine that property, perhaps without compensation for its prior expenditures relating to the property.

## **Mineral Exploration and Exploitation**

Mineral exploration and exploitation involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. Unusual or unexpected formations, formation pressures, fires, power outages, labour disruptions, flooding, explosions, tailings impoundment failures, cave-ins, landslides and the inability to obtain adequate machinery, equipment or labour are some of the risks involved in mineral exploration and exploitation activities. The Company has relied on and may continue to rely on consultants and others for mineral exploration and exploitation expertise. Substantial expenditures are required to establish mineral reserves and resources through drilling, to develop metallurgical processes to extract the metal from the ore and, in the case of some properties, to develop the mining and processing facilities and infrastructure at any site chosen for mining, or to upgrade existing infrastructure. There can be no assurance that the funds required to exploit any mineral reserves and resources discovered by the Company will be obtained on a timely basis or at all. The economics of exploiting mineral reserves and resources discovered by the Company are affected by many factors, many outside the control of the Company, including the cost of operations, variations in the grade of ore mined and metals recovered, price fluctuations in the metal markets, costs of processing equipment, and other factors such as government

regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection. There can be no assurance that the Company's mineral exploration and exploitation activities will be successful.

## **Country Risk**

### *Political and Economic Instability*

The Company's mineral exploration and exploitation activities may be adversely affected by political instability and legal and economic uncertainty in the countries where the Company has operations. The risks associated with the Company's foreign operations may include political unrest, labour disputes, invalidation of governmental orders and permits, corruption, war, civil disturbances and terrorist actions, arbitrary changes in laws, regulations and policies, taxation, price controls, exchange controls, delays in obtaining or the inability to obtain necessary permits, opposition to mining from environmental or other non-governmental organizations, limitations on foreign ownership, limitations on the repatriation of earnings, limitations on mineral exports and increased financing costs. These risks may limit or disrupt the Company's projects or operations, restrict the movement of funds or result in the deprivation of contractual rights. The Company presently holds assets in Ontario, which it considers to be extremely low risk with reference to the above stipulated potential risks, and in Spain, in which the Company does not foresee country risk as problematic, but country risk is out of the control of the Company.

## **Uninsurable Risks**

Mineral exploration and exploitation activities involve numerous risks, including unexpected or unusual geological operating conditions, rock bursts, cave-ins, fires, floods, earthquakes and other environmental occurrences and political and social instability. It is not always possible to obtain insurance against all such risks and the Company may decide not to insure against certain risks as a result of high premiums or other reasons. Should such liabilities arise, they could negatively affect the Company's profitability and financial position and the value of the common shares of the Company. The Company does not maintain insurance against environmental risks.

## **Environmental Regulation and Liability**

The Company's activities are subject to laws and regulations controlling not only mineral exploration and exploitation activities themselves but also the possible effects of such activities upon the environment. Environmental legislation may change and make the mining and processing of ore uneconomic or result in significant environmental or reclamation costs. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mineral exploitation activities, such as seepage from tailings disposal areas that could result in environmental pollution. A breach of environmental legislation may result in the imposition of fines and penalties or the suspension or closure of operations. In addition,

certain types of operations require the submission of environmental impact statements and approval thereof by government authorities.

Environmental legislation is evolving in a manner which may mean stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their directors, officers and employees. Permits from a variety of regulatory authorities are required for many aspects of mineral exploitation activities, including closure and reclamation. Future environmental legislation could cause additional expense, capital expenditures, restrictions, liabilities and delays in the development of the Company's properties, the extent of which cannot be predicted. In the context of environmental permits, including the approval of closure and reclamation plans, the Company must comply with standards and laws and regulations which may entail costs and delays depending on the nature of the activity to be permitted and how stringently the regulations are implemented by the permitting authority. The Company does not maintain environmental liability insurance.

### **Regulations and Permits**

The Company's activities are subject to wide variety of laws and regulations governing health and worker safety, employment standards, waste disposal, protection of the environment, protection of historic and archaeological sites, mine development and protection of endangered and protected species and other matters. The Company is required to have a wide variety of permits from governmental and regulatory authorities to carry out its activities. These permits relate to virtually every aspect of the Company's exploration and exploitation activities. Changes in these laws and regulations or changes in their enforcement or interpretation could result in changes in legal requirements or in the terms of the Company's permits that could have a significant adverse impact on the Company's existing or future operations or projects. Obtaining permits can be a complex, time-consuming process. There can be no assurance that the Company will be able to obtain the necessary permits on acceptable terms, in a timely manner or at all. The costs and delays associated with obtaining permits and complying with these permits and applicable laws and regulations could stop or materially delay or restrict the Company from continuing or proceeding with existing or future operations or projects. Any failure to comply with permits and applicable laws and regulations, even if inadvertent, could result in the interruption or closure of operations or material fines, penalties or other liabilities.

### **Currency Fluctuations**

Currency fluctuations may affect costs at the Company's operations.

### **Dependence on Key Employees**

The Company's business and operations are dependent on retaining the services of a small number of key employees. The success of the Company is, and will continue to be,

to a significant extent, dependent on the expertise and experience of these employees. The loss of one or more of these employees could have a materially adverse effect on the Company. The Company does not maintain insurance on any of its key employees.

### **Potential Dilution**

The issue of common shares of the Company upon the exercise of the options and warrants will dilute the ownership interest of the Company's current shareholders. The Company may also issue additional option and warrants or additional common shares from time to time in the future. If it does so, the ownership interest of the Company's then current shareholders could also be diluted.