

Auditors' Report and Financial Statements of

ADOBE VENTURES INC.

May 31, 2005 and 2004

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Auditors' Report

To the Shareholders of
Adobe Ventures Inc.

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

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

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

(Signed) Deloitte & Touche LLP

Chartered Accountants
Vancouver, British Columbia
September 8, 2005

ADOBE VENTURES INC.

Balance Sheets

May 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 3,370,732	\$ 226,800
Short-term investments	-	10,000,000
Receivables	25,467	56,611
	<u>3,396,199</u>	<u>10,283,411</u>
DEFERRED ACQUISITION COSTS (Note 3)	314,398	4,773,790
	<u>\$ 3,710,597</u>	<u>\$ 15,057,201</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 584,063	\$ 100,122
SHAREHOLDERS' EQUITY		
Capital stock (Note 4)	17,406,024	17,404,172
Contributed surplus (Note 4)	273,600	273,600
Deficit	(14,553,090)	(2,720,693)
	<u>3,126,534</u>	<u>14,957,079</u>
	<u>\$ 3,710,597</u>	<u>\$ 15,057,201</u>

APPROVED BY THE BOARD

(Signed) Neil Woodyer

Neil Woodyer, Director

(Signed) Efrain Carrera

Efrain Carrera, Director

See accompanying notes to the financial statements.

ADOBE VENTURES INC.
Statements of Operations and Deficit
Years ended May 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
EXPENSES		
Business development costs	\$ -	\$ 129,463
Consulting fees	61,111	30,500
Directors' fees	57,550	-
Filing and transfer agent fees	10,936	21,456
Office and administration	18,483	21,694
Professional fees	41,763	67,621
Property evaluation	-	79,298
Shareholder services	8,477	-
Stock-based compensation	-	49,000
Travel and accommodation	52,331	-
	250,651	399,032
OTHER ITEMS		
Interest income	106,978	26,967
Foreign exchange (loss) gain	(21,649)	110,083
Write-off of deferred acquisition costs (Note 3(a))	(11,667,075)	-
	(11,581,746)	137,050
NET LOSS FOR THE YEAR	(11,832,397)	(261,982)
DEFICIT, BEGINNING OF YEAR	(2,720,693)	(2,458,711)
DEFICIT, END OF YEAR	\$ (14,553,090)	\$ (2,720,693)
BASIC AND DILUTED LOSS PER SHARE	\$ (0.48)	\$ (0.03)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	24,901,378	8,178,213

See accompanying notes to the financial statements.

ADOBE VENTURES INC.
Statements of Cash Flows
Years ended May 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
OPERATING ACTIVITIES		
Net loss for the year	\$ (11,832,397)	\$ (261,982)
Items not involving cash		
Stock-based compensation	-	49,000
Write-off of deferred acquisition costs	11,667,075	-
	(165,322)	(212,982)
Change in non-cash working capital items		
Receivables	31,144	(55,652)
Accounts payable and accrued liabilities	483,941	94,697
	349,763	(173,937)
INVESTING ACTIVITIES		
Redemption (purchase) of short-term investment	10,000,000	(10,000,000)
Deferred acquisition costs	(7,207,683)	(4,773,790)
	2,792,317	(14,773,790)
FINANCING ACTIVITIES		
Issuance of capital stock	-	15,037,866
Recovery of share issuance costs	1,852	-
	1,852	15,037,866
NET CASH INFLOW	3,143,932	90,139
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	226,800	136,661
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 3,370,732	\$ 226,800

SUPPLEMENTAL CASH FLOW INFORMATION:

Interest paid	\$ -	\$ -
Income taxes paid	\$ -	\$ -

NON-CASH TRANSACTION:

During the year ended May 31, 2004, 2,000,000 special warrants with a value of \$224,545 were converted into common shares for no additional cash consideration.

ADOBE VENTURES INC.

Notes to the Financial Statements

Years ended May 31, 2005 and 2004

1. NATURE OF OPERATIONS

Adobe Ventures Inc. (the “Company”) was incorporated under the laws of the Province of British Columbia. The Company’s principal business activity is the acquisition of mineral properties. To date, the Company has not generated significant revenues from operations and is considered to be in the development stage.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The principal accounting policies followed by the Company, which have been consistently applied, are outlined below:

(a) *Use of estimates*

The preparation of financial statements, in conformity with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of estimates and measurement uncertainty include assessment of impairment of the deferred acquisition costs and the determination of the tax value of assets and liabilities and the amount of loss carryforwards used to calculate future income tax assets and the related valuation allowance. Actual results could differ from those estimates.

(b) *Cash and cash equivalents*

Cash and cash equivalents consists of cash on hand, deposits in banks and highly liquid investments with an original maturity of ninety days or less.

(c) *Short-term investments*

Short-term investments consists of highly liquid investments with an original maturity of greater than 90 days.

(d) *Loss per share*

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the year. The fully diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options, in the weighted average number of common shares outstanding during the year, if dilutive. For this purpose, the “treasury stock method” is used for the assumed proceeds upon the exercise of stock options and warrants that are used to purchase common shares at the average market price during the year. Options and warrants, as disclosed in Note 4, are anti-dilutive and, therefore, have not been taken into account in the per share calculations.

ADOBE VENTURES INC.
Notes to the Financial Statements
Years ended May 31, 2005 and 2004

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) *Income taxes*

The Company accounts for income taxes whereby future income tax assets and liabilities are computed based on differences between the carrying amount of assets and liabilities on the balance sheet and their corresponding tax values using the substantively enacted income tax rates at each balance sheet date. Future income tax assets also result from unused loss carryforwards and other deductions. The valuation of future income tax assets is reviewed annually and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount.

(f) *Stock-based compensation*

Stock-based awards made to non-employees and employees are measured and recognized using a fair value based method. Accordingly, the fair value of options at the date of grant is accrued and charged to operations, with an offsetting credit to contributed surplus, on a straight-line basis over the vesting period. If the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

(g) *Comparative figures*

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

3. DEFERRED ACQUISITION COSTS

	<u>2005</u>	<u>2004</u>
Carbosulcis acquisition (a)	\$ -	\$ 4,773,790
Colombian and Venezuelan coal acquisitions (b)	314,398	-
	<u>\$ 314,398</u>	<u>\$ 4,773,790</u>

(a) *Carbosulcis acquisition and proposed merger*

On November 27, 2003, the Company entered into an arm's length letter of intent with Sardegna Energy Limited ("SEL"), pursuant to which the Company and SEL agreed to jointly conduct due diligence investigations in respect of the proposed acquisition of the Carbosulcis coal mine in Sardegna, Italy. SEL entered into a non-binding letter of intent dated October 24, 2003 with the Regional Administration of Sardegna (the "Administration"), to acquire the Carbosulcis coal mine and to construct an adjacent electrical power plant (the "Carbosulcis Acquisition").

ADOBE VENTURES INC.
Notes to the Financial Statements
Years ended May 31, 2005 and 2004

3. DEFERRED ACQUISITION COSTS (Continued)

(a) Carbosulcis acquisition and proposed merger (continued)

SEL provided a feasibility study to the Administration establishing the ability to use gasification technology to convert the Carbosulcis coal into power. The Administration has publicly supported the Carbosulcis Acquisition and commenced the process of agreeing with the Government of Italy the process of awarding the concession for the Carbosulcis coal mine. The award process requires a tender but the process to date has not been defined.

Should SEL be successful in the tender and be awarded the concession, the Company and SEL intend to merge to form "MergeCo" (the "Merger"), pursuant to an amalgamation, take-over or such other method as may be determined between SEL and the Company. Pursuant to the letter of intent, the shareholders of SEL will receive, in aggregate, subject to adjustment, up to 20,000,000 common shares of MergeCo.

The Company advanced funds to SEL in stages as required to fund SEL's due diligence investigations in respect of the proposed Carbosulcis Acquisition. As at May 31, 2005, \$11,667,075 of costs had been incurred, comprising mostly of feasibility study fees, professional fees, consulting fees, and travel and accommodation.

In August 2005, due to political and administrative barriers and delays, the Company decided to write off to operations all costs related to the Carbosulcis Acquisition.

(b) Colombian and Venezuelan coal acquisitions

The Company is in advanced discussions for the acquisition of three coal properties and a port-loading facility in South America. Two of the properties are located in the Cesar region of Colombia, one of which is a producing mine. The other property is located in the Tachira region of Venezuela and is also a producing mine.

As at May 31, 2005, \$314,398 of deferred acquisition costs have been incurred on these projects.

There are currently no agreements in place with any of the potential acquisitions. If agreements are entered into, they may be subject to shareholder and regulatory approval. If no agreements are signed, the costs will be written off to operations.

ADOBE VENTURES INC.
Notes to the Financial Statements
Years ended May 31, 2005 and 2004

4. SHARE CAPITAL

(a) *Authorized*

Unlimited number of common shares without par value
 Unlimited number of preferred shares without par value

(b) *Issued*

	Number of common shares	Amount	Contributed surplus	Special warrants
Balance, May 31, 2003	1,000,759	\$ 2,366,361	\$ -	\$ 224,545
Issued pursuant to private placement (b) (i)	6,250,000	3,185,149	-	-
Issued pursuant to private placement (b) (ii)	13,823,000	11,282,617	224,600	-
Exercise of stock options (c)	10,000	5,500	-	-
Exercise of special warrants (d)	2,000,000	224,545	-	(224,545)
Exercise of share purchase warrants (d)	2,000,000	340,000	-	-
Stock based compensation (Note 3)	-	-	49,000	-
Escrow shares cancelled	(182,381)	-	-	-
Balance, May 31, 2004	24,901,378	17,404,172	273,600	-
Recovery of share issuance costs	-	1,852	-	-
Balance, May 31, 2005	24,901,378	\$17,406,024	\$ 273,600	\$ -

During the year ended May 31, 2004, the following common shares were issued:

- (i) On December 23, 2003, to fund its due diligence of the Carbosulcis Acquisition (Note 3 (a)), the Company completed a non-brokered private placement of 6,250,000 common shares at a price of US\$0.40 per common share for proceeds of \$3,212,587, net of expenses of \$27,438.
 - (ii) On March 30, 2004, the Company issued 13,823,000 units of the Company at a price of \$1.80 per unit. Each unit consisted of: (1) one common share in the capital of the Company and one-half of one common share purchase warrant; and (2) one subscription receipt which is exercisable, for no additional consideration, into one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder thereof to purchase one common share at a price of \$1.15 until March 30, 2006.
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ADOBE VENTURES INC.
Notes to the Financial Statements
Years ended May 31, 2005 and 2004

4. SHARE CAPITAL (Continued)

(b) *Issued (continued)*

(ii) (continued)

One-half of the gross proceeds from the sale of units were deposited in escrow with an escrow agent to be held and invested by it (the "Escrowed Funds"). The Escrowed Funds were to be released from escrow to the Company if the Company or SEL signed an agreement with the Administration for the acquisition of the shares of the Carbosulcis company, or a license to operate the Carbosulcis coal mine, on terms acceptable to GMP Securities Ltd. (the "Release Event") prior to July 28, 2004 (the "Release Deadline"). As the Release Event did not occur prior to the Release Deadline, each subscription receipt was automatically redeemed by the return of \$0.90 plus accrued interest, totalling \$12,521,744, from funds held in escrow.

Net proceeds to the Company from the issuance were \$11,507,217. Cash placed in escrow was \$12,440,700, agent's commissions were \$746,442 and expenses were \$187,041.

In connection with this transaction, the broker was granted 1,382,300 broker warrants with a value of \$224,600 and an exercise price of \$0.90. Each broker warrant entitles the holder to acquire one broker unit. Each broker unit consists of one common share of the Company and one half of one share purchase warrant. Each whole share purchase warrant is exercisable for one common share of the Company at a price of \$1.15 per common share until March 30, 2006.

As at May 31, 2005, 1,382,300 broker warrants with an exercise price of \$0.90 per warrant and an expiry date of March 30, 2006 were outstanding.

ADOBE VENTURES INC.
Notes to the Financial Statements
Years ended May 31, 2005 and 2004

4. SHARE CAPITAL (Continued)

(c) *Stock options*

The Company has a “rolling” Stock Option Plan (the “Plan”) in compliance with the TSX Venture Exchange’s policy for granting stock options. Under the Plan, the number of shares reserved for issuance may not exceed 10% of the total number of issued and outstanding shares and, to any one optionee, may not exceed 5% of the issued shares on a yearly basis. The exercise price of each option shall not be less than the market price of the Company’s stock at the date of grant.

A summary of the changes in stock options is presented below.

	<u>2005</u>		<u>2004</u>	
	<u>Number of options</u>	<u>Weighted average exercise price</u>	<u>Number of options</u>	<u>Weighted average exercise price</u>
Balance outstanding, June 1	270,000	\$ 0.55	-	\$ -
Options granted	-	-	280,000	0.55
Options exercised	-	-	(10,000)	0.55
Options cancelled	(12,500)	0.55	-	-
Balance outstanding, May 31	257,500	\$ 0.55	270,000	\$ 0.55

The following table summarizes information concerning outstanding and exercisable options at May 31, 2005:

<u>Options outstanding and exercisable</u>		
<u>Number of options</u>	<u>Expiry date</u>	<u>Weighted average exercise price</u>
257,500	September 8, 2008	\$ 0.55

ADOBE VENTURES INC.
Notes to the Financial Statements
Years ended May 31, 2005 and 2004

4. SHARE CAPITAL (Continued)

(d) *Special warrants*

During the year ended May 31, 2003, the Company completed a non-brokered private placement consisting of 2,000,000 special warrants issued at a price of \$0.12 per special warrant for net proceeds of \$224,545. Each special warrant entitled the holder to receive, upon exercise, one common share of the Company and one non-transferable share purchase warrant for no additional consideration. Each share purchase warrant entitled the holder to acquire one additional common share at a price of \$0.17 per share until February 4, 2004 and thereafter at a price of \$0.22 per share until February 4, 2005. During the year ended May 31, 2004, the 2,000,000 special warrants were exercised at no additional cost and the 2,000,000 share purchase warrants were exercised for proceeds of \$340,000.

(e) *Warrants*

The following share purchase warrants were outstanding and exercisable at May 31, 2005:

Number of warrants	Expiry date	Weighted average exercise price
6,911,500	March 30, 2006	\$ 1.15

During the year ended May 31, 2004, 8,911,500 share purchase warrants were issued and 2,000,000 share purchase warrants were exercised. There were no changes in share purchase warrants during the year ended May 31, 2005.

(f) *Stock-based compensation*

No stock-based compensation was recorded during the year ended May 31, 2005.

Comparatively, for the year ended May 31, 2004, the Company recorded a charge to earnings of \$49,000 for stock options granted to directors, employees and consultants using the fair value method for stock-based compensation. This amount was determined using Black-Scholes assuming no dividends were paid, a weighted average volatility of 31%, a weighted average annual risk free interest rate of 2.71% and a weighted average expected life of five years.

ADOBE VENTURES INC.
Notes to the Financial Statements
Years ended May 31, 2005 and 2004

5. RELATED PARTY TRANSACTIONS

The Company incurred the following expenses with companies and individuals related by way of directors and/or officers in common:

	Years ended May 31,	
	<u>2005</u>	<u>2004</u>
Consulting fees	\$ 30,000	\$ 30,000
Rent	12,000	12,000
Professional fees	-	24,087

The deferred acquisition costs written off during the year ended May 31, 2005 included an amount of \$422,961 (2004 - \$66,684) that was paid to a company related by way of a common director.

As at May 31, 2005, the Company had \$Nil (2004 - \$23,447) due to a company related by way of a common director.

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

6. INCOME TAXES

The provision for income taxes reported differs from the amounts computed by applying the cumulative Canadian federal and provincial income tax rates to the loss before tax provision due to the following:

	<u>2005</u>	<u>2004</u>
Statutory tax rate	35.62%	35.62%
Recovery of income taxes computed at standard rates	\$ 4,214,700	\$ 93,318
Non-deductible expenses	(1,038,953)	-
Benefit of income tax losses not recognized	(3,175,747)	(93,318)
	<u>\$ -</u>	<u>\$ -</u>

ADOBE VENTURES INC.
Notes to the Financial Statements
Years ended May 31, 2005 and 2004

6. INCOME TAXES (Continued)

The approximate tax effect of each type of temporary difference that gives rise to the Company's future income tax assets are as follows:

	<u>2005</u>	<u>2004</u>
Future income tax assets		
Mineral property exploration and development	\$ 510,900	\$ 510,900
Eligible capital expenditures	3,116,859	-
Non-capital loss carryforwards	322,138	266,643
Other	4,853	4,853
	<u>3,954,750</u>	782,396
Valuation allowance	<u>(3,954,750)</u>	<u>(782,396)</u>
Net future income tax asset	\$ -	\$ -

At May 31, 2005, the Company had non-capital losses carried forward of approximately \$904,000 for income tax purposes. The losses may be utilized to reduce future years' taxable income and expire between 2006 and 2012. The Company also had Canadian exploration and development expenditures of approximately \$1,434,000 and eligible capital expenditures of approximately \$8,750,000. These expenditures may be utilized to reduce future years' taxable income and do not expire.

7. FINANCIAL INSTRUMENTS

The Company's financial assets and liabilities are cash and cash equivalents, receivables and accounts payable and accrued liabilities. The fair values of these financial instruments are estimated to approximate their carrying values due to their immediate or short-term nature. Due to the nature of the Company's operations, there is no significant credit or interest rate risk.

8. SEGMENTED INFORMATION

The Company operates in one reportable operating segment, being the acquisition of mineral properties.

ADOBE VENTURES INC.
Notes to the Financial Statements
Years ended May 31, 2005 and 2004

9. SUBSEQUENT EVENTS

- (a) In September 2005, the Company arranged for a bridge loan facility of up to US\$2,500,000 from arm's length parties. The unsecured loan will be for a period of up to one year and will bear interest at 1.0% per month, payable monthly. The Company has also agreed to pay a draw down fee to the lenders of 500,000 warrants, with each warrant entitling the lender to purchase one common share of the Company at an exercise price of \$0.60 for a period of three years.
 - (b) Subsequent to May 31, 2005, 90,000 stock options with an exercise price of \$0.55 were cancelled.
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ADOBE VENTURES INC.

MANAGEMENT DISCUSSION AND ANALYSIS

September 27, 2005

Form 51-102F1 – Quarterly Report
Year ended May 31, 2005

General

The following discussion is management's assessment and analysis of the results and financial condition of Adobe Ventures Inc. (the "**Company**") and should be read in conjunction with the accompanying audited financial statements for the year ended May 31, 2005 and related notes. The preparation of financial data is in accordance with Canadian generally accepted accounting principles and all figures are reported in Canadian dollars unless otherwise indicated.

Additional information relating to the Company is available on SEDAR at www.sedar.com.

Forward Looking Statements

Certain information included in this discussion may constitute forward-looking statements. Forward looking statements are based on current expectations and entail various risks and uncertainties. These risks and uncertainties could cause or contribute to actual results that are materially different from those expressed or implied.

Description of Business

The Company was incorporated under the laws of the Province of British Columbia. The Company's principal business activity is the acquisition of mineral properties. To date, the Company has not generated revenues from operations and is considered to be in the development stage.

Industry

The Company is engaged in the acquisition of mineral properties, an inherently risky business, and there is no assurance that an economic mineral deposit will ever be discovered and subsequently put into production. Most exploration projects do not result in the discovery of commercially mineable ore deposits. The geological focus of the Company is on areas in which the geological setting is well understood by management.

Environmental

The Company's acquisition and development activities are subject to extensive laws and regulations governing environmental protection. Although the Company closely follows and believes it is operating in compliance with all applicable environmental regulations, there can be no assurance that all future requirements will be achievable on reasonable terms. Failure to comply may result in enforcement actions causing operations to cease or be curtailed and may include corrective measures requiring capital expenditures.

Foreign Countries and Laws and Regulations

The Company's acquisition activities are subject to local laws and regulations governing prospecting, development, production, exports, taxes, labour standards, occupational health and safety, mine safety and other matters. Such laws and regulations are subject to change, can become more stringent and compliance can therefore become more costly. The Company applies the expertise of its management, its advisors, its employees and contractors to ensure compliance with current laws.

Competition

There is competition from other mining exploration companies with operations similar to those of the Company. Many of the mining companies with which the Company competes have operations and financial resources greater than those of the Company.

Dependence on Management

The Company strongly depends on the business and technical expertise of its small management team and there is little possibility that this dependence will decrease in the near term.

Overview of Performance

(a) Carbosulcis Acquisition and Proposed Merger

On November 27, 2003, the Company entered into an arm's length letter of intent with Sardegna Energy Limited ("**SEL**"), pursuant to which the Company and SEL have agreed to jointly conduct due diligence investigations in respect of the proposed acquisition of the Carbosulcis coal mine in Sardegna, Italy. SEL has entered into a non-binding letter of intent dated October 24, 2003 with the Regional Administration of Sardegna (the "**Administration**"), to acquire the Carbosulcis coal mine and to construct an adjacent electrical power plant (the "**Carbosulcis Acquisition**").

(a) *Carbosulcis Acquisition and Proposed Merger* (continued)

SEL provided a feasibility study to the Administration establishing the ability to use gasification technology to convert the Carbosulcis coal into power. The Administration has publicly supported the Carbosulcis Acquisition and is now in the process of agreeing with the Government of Italy the process of awarding the concession for the Carbosulcis coal mine. The award process requires a tender but the process to date has not been defined.

Should SEL be successful in the tender and be awarded the concession, the Company and SEL intend to merge to form "MergeCo", pursuant to an amalgamation, take-over or such other method as may be determined between SEL and the Company. Pursuant to the letter of intent, the shareholders of SEL will receive, in aggregate, subject to adjustment, up to 20,000,000 common shares of "MergeCo".

The Company advanced funds to SEL in stages as required to fund SEL's due diligence investigations in respect of the proposed Carbosulcis Acquisition. As at May 31, 2005, \$11,667,075 of costs had been incurred, comprising mostly of feasibility studies, professional fees, consulting fees and travel and accommodation.

In August 2005, due to political and administrative barriers and delays, the Company decided to write off to operations all costs related to the Carbosulcis Acquisition.

(b) *Colombian and Venezuelan Coal Acquisitions*

On August 16, 2005, the Company announced that it is in advanced discussions for the acquisition of three coal properties and a port-loading facility in South America. Two of the properties are located in the Caesar region of Colombia, one of which is a producing mine. The other property is located in the Tachira region of Venezuela and is also a producing mine.

As at May 31, 2005, \$314,398 of deferred acquisition costs have been incurred on these projects.

There are currently no agreements in place with any of the potential acquisitions. If agreements are entered into, they may be subject to shareholder and regulatory approval.

Selected Quarterly Information

Selected financial information for each of the eight most recently completed quarters are as follows:

	Q4 2005	Q3 2005	Q2 2005	Q1 2005
Interest income	\$ 18,327	\$ 27,351	\$ 29,421	\$ 31,879
Expenses	<u>81,404</u>	<u>84,217</u>	<u>27,343</u>	<u>79,336</u>
Net income (loss) for the period prior to write-off of deferred acquisition costs	(63,077)	(56,866)	2,078	(47,457)
Write-off of deferred acquisition costs	<u>(11,667,075)</u>	-	-	-
Net income (loss) for the period	(11,730,152)	(56,866)	2,078	(47,457)
Basic and diluted income (loss) per share	<u>\$ (0.47)</u>	<u>\$ (0.00)</u>	<u>\$ 0.00</u>	<u>\$ (0.00)</u>
	Q4 2004	Q3 2004	Q2 2004	Q1 2004
Income	\$ 26,967	\$ -	\$ -	\$ -
Expenses (recovery of costs)	<u>(120,792)</u>	<u>359,995</u>	<u>36,187</u>	<u>13,559</u>
Net income (loss) for the period	147,759	(359,995)	(36,187)	(13,559)
Basic and diluted income (loss) per share	<u>\$ 0.01</u>	<u>\$ (0.04)</u>	<u>\$ (0.02)</u>	<u>\$ (0.01)</u>

Results of Operations

The majority of interest income from Q4, 2004 to Q3, 2005 consisted of interest on the Company's GIC investments. The interest income in Q4, 2005 consisted exclusively of interest from the Company's bank accounts. During Q3, 2004, the Company expensed \$305,409 of costs relating to the Carbosulcis Acquisition. In Q4, 2004, these expenses were reversed and capitalized as deferred acquisition costs on the balance sheet, giving rise to an apparent recovery of costs of \$120,792 in Q4, 2004.

The majority of the expenses of \$272,300 for the year ended May 31, 2005 consisted of consulting fees of \$61,111 (2004: \$30,500), travel and accommodation of \$52,331 (2004: \$Nil), directors' fees of \$57,550 (2004: \$Nil) and professional fees of \$41,763 (2004: \$67,621). The consulting fees consisted of \$30,000 (2004: \$30,000) to Endeavour Financial Ltd., a company related by a director and officer in common and \$31,111 to other consultants. Travel and accommodation consisted of costs not directly related to any of the acquisition projects. The professional fees consisted of \$34,850 in accounting and audit fees and \$6,913 in legal fees.

Selected Annual Information

Selected financial information for each of the last three fiscal years is as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Total Assets, May 31	<u>\$ 3,710,597</u>	<u>\$ 15,057,201</u>	<u>\$ 137,620</u>
Interest income	106,978	26,967	-
Expenses before deferred acquisition write-offs	<u>272,300</u>	<u>288,949</u>	<u>127,253</u>
Net loss before deferred acquisition write-offs	(165,322)	(261,982)	(127,253)
Deferred acquisition write-offs	<u>(11,667,075)</u>	<u>-</u>	<u>-</u>
Net loss for the year	<u>\$ (11,832,397)</u>	<u>\$ (261,982)</u>	<u>\$ (127,253)</u>
Basic and diluted loss per share	<u>\$ (0.47)</u>	<u>\$ (0.03)</u>	<u>\$ (0.13)</u>
Weighted average number of common shares outstanding	<u>24,901,378</u>	<u>8,178,213</u>	<u>1,000,755</u>

Total assets decreased from \$15,057,201 at May 31, 2004 to \$3,710,597 at May 31, 2005, a difference of \$11,346,604. The majority of the decrease was a result of a decrease of \$10,000,000 in short-term investments from \$10,000,000 at May 31, 2004 to \$Nil at May 31, 2005 and a decrease of \$4,459,392 in deferred acquisition costs, from \$4,773,790 at May 31, 2004 to \$314,398 at May 31, 2005. This was partially offset by an increase of \$3,143,932 in cash and cash equivalents, from \$226,800 at May 31, 2004 to \$3,370,732 at May 31, 2005.

The Company redeemed \$10,000,000 of Guaranteed Investment Certificates (“GICs”) during 2005 in order to fund the Carbosulcis Acquisition and general operations. The decrease in deferred acquisition costs was a result of the Company spending \$7,207,683 on the Carbosulcis Acquisition and the Colombian and Venezuelan projects, offset by the Company writing off all deferred acquisition costs associated with the Carbosulcis Acquisition.

Total assets increased significantly in 2004 as a result of net proceeds of \$14,467,766 from two private placements completed during fiscal 2004. An additional \$340,000 was received pursuant to the exercise of 2,000,000 warrants.

Cash Flow Analysis

The most significant reasons for the increase in cash and cash equivalents of \$3,143,932 during the year ended May 31, 2005 were proceeds of \$10,000,000 on the redemption of its GICs and net cash of \$349,763 provided by operating activities. This increase was partially offset by cash payments on deferred acquisition costs of \$7,207,683.

Liquidity and Capital Resources

As at May 31, 2005, the Company had working capital of \$2,812,136 which is sufficient to cover ongoing obligations as they become due.

The Company currently has no revenues from operations. If the Company is successful in acquiring the Colombian or Venezuelan prospects, substantial additional capital would be required to put them into commercial production. The sources of funds available to the Company for the acquisition are debt financing and the sale of equity capital. Although the Company presently has sufficient financial resources to undertake its currently planned acquisition program and has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

Off-balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Related Party Transactions

During the years ended May 31, the Company incurred the following expenses with companies and individuals related by way of directors and/or officers in common:

	<u>2005</u>	<u>2004</u>
Consulting fees	\$ 30,000	\$ 30,000
Rent	12,000	12,000
Professional fees	-	24,087

The deferred acquisition costs written off during the year ended May 31, 2005 included an amount of \$422,961 (2004: \$66,684) that was paid to a company related by way of a common director.

As at May 31, 2005, the Company owed \$Nil (2004: \$23,447) to a company related by way of a common director.

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

Critical Accounting Policies and Estimates

A detailed summary of all of the Company's critical accounting policies is included in Note 2 to the annual financial statements for the year ended May 31, 2005.

Stock-based compensation

The Company uses the Black-Scholes Option Pricing Model ("**Black-Scholes**") in determining the fair value of options granted for stock-based compensation. Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective price assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options granted/vested during the year.

Financial Instruments and Other Instruments

The carrying values of cash and cash equivalents, receivables and accounts payable and accrued liabilities as reflected in the balance sheet approximate their fair values. The Company has no significant concentrations of interest or credit risk.

Other MD&A Requirements

Authorized

Unlimited common shares without par value
Unlimited preference shares without par value

Issued and Fully Paid Common Shares

	<u>Number of Common Shares</u>	<u>Amount</u>	<u>Contributed Surplus</u>
Balance, May 31, 2003	1,000,759	\$ 2,366,361	\$ -
Issued pursuant to private placements	20,073,000	14,467,766	224,600
Exercise of stock options, warrants and special warrants	4,010,000	570,045	-
Stock-based compensation	-	-	49,000
Escrow shares cancelled	<u>(182,381)</u>	<u>-</u>	<u>-</u>
Balance, May 31, 2004	24,901,378	17,404,172	273,600
Recovery of share issue costs	<u>-</u>	<u>1,852</u>	<u>-</u>
Balance, May 31, 2005	<u><u>24,901,378</u></u>	<u><u>\$ 17,406,024</u></u>	<u><u>\$ 273,600</u></u>

There have been no changes in share capital to the date of this report.

Stock Options, Warrants and Broker Warrants

The following tables summarize information about the changes in stock options and share purchase warrants.

	<u>Number of Options</u>	<u>Exercise price</u>
Balance, May 31, 2003	-	\$ -
Granted	280,000	0.55
Exercised	<u>(10,000)</u>	0.55
Balance, May 31, 2004	270,000	0.55
Cancelled	<u>(12,500)</u>	0.55
Balance, May 31, 2005	257,500	0.55
Cancelled	<u>(90,000)</u>	0.55
Balance, September 27, 2005	<u><u>167,500</u></u>	<u><u>\$ 0.55</u></u>

Other MD&A Requirements (continued)

Stock Options, Warrants and Broker Warrants (continued)

The options outstanding at May 31, 2005 have an expiry date of September 8, 2008.

	<u>Number of warrants</u>	<u>Exercise price</u>
Balance, May 31, 2003	-	\$ -
Issued	8,911,500	1.15
Exercised	<u>(2,000,000)</u>	1.15
Balance, May 31, 2004 and 2005	<u>6,911,500</u>	<u>\$ 1.15</u>

The warrants outstanding at May 31, 2005 have an expiry date of March 30, 2006.

In addition to the above warrants, there were 1,382,300 broker warrants outstanding at May 31, 2005. Each broker warrant entitles the holder to acquire one broker unit at an exercise price of \$0.90 per unit. The broker warrants expire on March 30, 2006. Each broker unit consists of one common share of the Company and one half of a share purchase warrant. Each whole share purchase warrant is exercisable for one common share of the Company at a price of \$1.15 per common share until March 30, 2006.

There have been no changes in warrants or broker warrants to the date of this report.

Investor Relations

No investor relations activities occurred during the year ended May 31, 2005. The annual general meeting of the shareholders for the year ended May 31, 2005 is scheduled for November 1, 2005.

Subsequent Events

- a) In September 2005, the Company arranged for a bridge loan facility of up to USD\$2,500,000 from an arms-length party. The unsecured loan will be for a period of up to one year and will bear interest at 1.0% per month, payable monthly. The Company has also agreed to pay a draw down fee of 500,000 warrants to the lender, with each warrant entitling the lender to purchase one common share of the Company at an exercise price of \$0.60 for a period of three years.
- b) Subsequent to May 31, 2005, 90,000 stock options with an exercise price of \$0.55 were cancelled.

Outlook

The Company is continuing to pursue the acquisitions of the Colombian and Venezuelan projects. Presently, the Company has sufficient cash resources to settle its liabilities.