

RARE ELEMENT RESOURCES LTD.

CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended December 31, 2006 and 2005

(UNAUDITED)

**NOTICE OF NO AUDITOR REVIEW OF
INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by, and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Targeting Rare-Earth Elements
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RARE ELEMENT RESOURCES LTD.
CONSOLIDATED BALANCE SHEETS
(Expressed in US Dollars)

ASSETS	December 31, 2006	June 30, 2006
	(Unaudited)	(Audited)
CURRENT		
Cash	\$ 1,217,911	\$ 428,267
Accounts receivable	13,726	24,412
Prepaid expenses	11,155	23,205
	1,242,792	475,884
Equipment (Note 4)	804	-
Mineral properties and deferred exploration costs (Note 3)	657,899	608,856
Reclamation bond (Note 5)	10,000	10,000
	\$ 1,911,495	\$ 1,094,740
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 10,046	\$ 23,325
Due to related parties (Note 7)	12,420	9,556
	22,466	32,881
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 6)	4,653,842	3,463,293
CONTRIBUTED SURPLUS (Note 6)	290,379	116,579
DEFICIT	(3,055,192)	(2,518,013)
	1,889,029	1,061,859
	\$ 1,911,495	\$ 1,094,740

CONTINUANCE OF OPERATIONS (Note 1)

APPROVED BY THE BOARD OF DIRECTORS:

“William H. Bird”

William H. Bird

“Mark T. Brown”

Mark T. Brown

See accompanying notes to financial statements

RARE ELEMENT RESOURCES LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
(Expressed in US Dollars)
(Unaudited)

	For the three months ended December 31		For the six months ended December 31	
	2006	2005	2006	2005
EXPENSES				
Audit and legal	\$ 9,918	\$ 2,185	\$ 10,636	\$ 5,352
Accounting and administrative fees (Note 7)	17,792	22,074	45,744	36,622
Amortization	64	-	64	-
Bank charges	253	355	640	492
Foreign-exchange loss	49,282	2,525	52,752	1,094
Investor relations	74,271	38,073	142,057	58,252
Management fees (Note 7)	19,133	15,342	37,193	30,307
Office and miscellaneous	8,514	1,954	16,203	2,792
Rent (Note 7)	2,050	1,918	3,985	3,788
Stock-based compensation	106,247	11,015	194,982	94,305
Transfer and listing fees	13,732	6,279	21,229	9,676
Travel	8,565	4,131	11,694	6,978
NET LOSS FOR THE PERIOD	(309,821)	(105,851)	(537,179)	(249,658)
DEFICIT, BEGINNING OF PERIOD	(2,745,371)	(2,203,413)	(2,518,013)	(2,059,606)
DEFICIT, END OF PERIOD	\$ (3,055,192)	\$ (2,309,264)	\$ (3,055,192)	\$ (2,309,264)
LOSS PER SHARE	\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.02)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	20,788,751	15,114,636	19,672,588	14,770,862

See accompanying notes to financial statements

RARE ELEMENT RESOURCES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in US Dollars)
(Unaudited)

	For the three months ended December 31		For the six months ended December 31	
	2006	2005	2006	2005
CASH PROVIDED BY (USED IN) OPERATIONS				
Net loss for the period	\$ (309,821)	\$ (105,851)	\$ (537,179)	\$ (249,658)
Items not involving cash:				
Amortization	64	-	64	-
Stock-based compensation	106,247	11,015	194,982	94,305
	(203,510)	(94,836)	(342,133)	(155,353)
Changes in non-cash working-capital items:				
Accounts receivable	(6,963)	(6,454)	10,686	1,556
Prepaid expenses	12,636	(10,888)	12,050	(2,472)
Accounts payable and accrued liabilities	(3,231)	2,515	(13,279)	8,530
Due to related parties	12,420	952	2,864	10,669
	(188,648)	(108,711)	(329,812)	(137,070)
INVESTING ACTIVITIES				
Deferred exploration costs	(12,984)	(131,848)	(49,043)	(180,000)
Purchase of equipment	-	-	(868)	-
	(12,984)	(131,848)	(49,911)	(180,000)
FINANCING ACTIVITIES				
Cash received for common shares	197,950	240,171	1,169,367	240,171
Share subscription	-	9,009	-	9,009
	197,950	249,180	1,169,367	249,180
INCREASE (DECREASE) IN CASH	(3,682)	8,621	789,644	(67,890)
CASH, BEGINNING OF PERIOD	1,221,593	19,413	428,267	95,924
CASH, END OF PERIOD	\$ 1,217,911	\$ 28,034	\$ 1,217,911	\$ 28,034

Interest paid during six months ended December 31, 2006 and 2005: \$Nil

See accompanying notes to financial statements

RARE ELEMENT RESOURCES LTD.
CUMULATIVE SCHEDULE OF MINERAL PROPERTY COSTS
(Expressed in US Dollars)

	Balance June 30, 2005 (Audited)	Expenditures for the year	Balance June 30, 2006 (Audited)	Expenditures for the six month period	Balance December 31, 2006 (Unaudited)
Bear Lodge Property					
Property acquisition costs	\$ 17,721	\$ -	\$ 17,721	\$ -	\$ 17,721
Exploration expenditures					
Assays	3,528	4,109	7,637	-	7,637
Assessments and taxes	12,541	7,563	20,104	-	20,104
Drilling	132,013	118,396	250,409	-	250,409
Geological consulting	60,567	61,416	121,983	9,973	131,956
Geophysical	-	300	300	-	300
Metallurgical testing	-	-	-	38,530	38,530
Overhead expenses	7,684	805	8,489	540	9,029
Staking	816	17,133	17,949	-	17,949
Survey	34,338	-	34,338	-	34,338
Travel expenses	23,935	-	23,935	-	23,935
Wages	99,734	-	99,734	-	99,734
Total exploration expenditures on Bear Lodge property	392,877	209,722	602,599	49,043	651,642
Kipawa Property					
Exploration expenditures					
Geological consulting	-	4,949	4,949	-	4,949
Staking	-	1,308	1,308	-	1,308
Total exploration expenditures on Kipawa property	-	6,257	6,257	-	6,257
TOTAL EXPENDITURES	\$ 392,877	\$ 215,979	\$ 608,856	\$ 49,043	\$ 657,899

See accompanying notes to financial statements

RARE ELEMENT RESOURCES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

(Expressed in US Dollars)

1. NATURE OF OPERATIONS

Rare Element Resources Ltd. (“Rare Element” or “the Company”) was incorporated under the laws of the Province of British Columbia on June 3, 1999.

These consolidated financial statements have been prepared on a going-concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interim financial statements

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and follow the same accounting policies and methods of application as the annual financial statements. These interim consolidated financial statements do not include in all respects the annual disclosure requirements of generally accepted accounting principles and should be read in conjunction with the most recent annual statements.

Basis of presentation and principles of consolidation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and are inclusive of the accounts of the Company and Paso Rico, together with Paso Rico’s wholly-owned subsidiary Paso Rico (USA) Inc.

Use of estimates

The preparation of these consolidated financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results could differ from these estimates.

Foreign currency translation

The Company’s reporting currency is the US Dollar. The Company’s Canadian operations are considered to be integrated with foreign currency transactions translated into US Dollars as follows:

- monetary assets and liabilities at the rates of exchange prevailing at the balance sheet dates;
- other assets and liabilities at the applicable historical exchange rates;
- revenues and expenses at the average rates of exchange for the period, and;
- gains and losses arising from the conversion of foreign-currency balances and transactions are reported in income as they occur.

Financial instruments

The Company’s consolidated financial instruments include cash, accounts receivable and accounts payable and accrued liabilities. The fair market value of these financial instruments approximates their carrying value due to their short-term nature.

RARE ELEMENT RESOURCES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

(Expressed in US Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Mineral properties and deferred exploration costs

The cost of mineral properties and related exploration expenditures are deferred until the properties are placed into production, sold or abandoned. These deferred costs will be amortized over the estimated useful life of the properties following the commencement of production, or written-off if the properties, allowed to lapse, or abandoned.

Cost includes the cash consideration and the fair market value of shares issued for the acquisition of mineral properties. Properties acquired under option agreements are recorded in the accounts at such time as payments are made. Proceeds from options granted are applied to the cost of the related property and any excess is included in income for the period.

The recorded amounts of mineral claim acquisition costs and their related deferred exploration costs represent actual expenditures incurred and are not intended to reflect present or future values.

The Company reviews capitalized costs on its mineral properties periodically and will recognize an impairment in value based upon current exploration results and upon management's assessment of the future probability of profitable revenues from the property or from the sale of the property. Management's assessment of a property's estimated current fair market value may also be based upon a review of other property transactions that have occurred in the same geographic area as that of the property under review.

Administrative costs are expensed as incurred.

Amortization

The Company provides for amortization on its computer equipment at 30% declining balance (one-half of the rate is taken in the year of acquisition and disposition).

Income taxes

The Company accounts for, and measures future tax assets and liabilities in accordance with the liability method, where future income-tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the future benefit is taken and no asset is recognized. Such an allowance applies fully to all potential income tax assets of the Company.

Loss per share

The loss per share is computed using the weighted average number of shares outstanding during the period. Diluted loss per share is not presented as the effect on the basic loss per share would be anti-dilutive.

RARE ELEMENT RESOURCES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

(Expressed in US Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Comparative figures

Certain of the prior period's figures have been reclassified to conform with the current period's financial statement presentation.

Stock-based compensation

The Company recognizes compensation expense for all stock options granted using the fair value based method of accounting. Any cash paid on the exercise of stock options is added to the stated value of common shares.

Asset retirement obligations

The Company recognizes a liability for an asset retirement obligation when it is determinable and calculates the liability based upon undiscounted future payments. A corresponding amount is added to the carrying amount of the related long-lived asset, and this amount is subsequently allocated to expenses over its expected life. Adjustments will also be made in subsequent periods to changes in asset retirement obligations due to changes in estimates. As at December 31, 2006, the Company does not have any asset retirement obligations.

Retirement of long-lived assets

Long-lived assets are assessed for impairment when events and circumstances warrant, when the carrying amounts of the assets exceeds its estimated undiscounted net cash flow from use or its fair value, at which time the impairment is charged to earnings.

3. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS

The amounts shown represent costs incurred to date, and do not necessarily represent present or future values as they are entirely dependent upon the economic recovery of current and future ore reserves. A breakdown of carrying values by period is as follows:

	December 31, 2006	June 30, 2006
Bear Lodge Property	\$ 651,642	\$ 602,599
Kipawa Property	6,257	6,257
	<u>\$ 657,899</u>	<u>\$ 608,856</u>

Bear Lodge Property

The Company, through its wholly owned subsidiary, Paso Rico (USA), Inc, holds a 100% interest in a group of unpatented mineral claims, known as the Bear Lodge Property. The property is situated in the Bear Lodge Mountains of northeast Wyoming. These claims were, in part, acquired from Phelps Dodge Exploration Company ("Phelps Dodge") by way of a "Mineral Lease and Option for Deed". Some of the claims and a portion of a defined area of influence surrounding the claims are subject to a production royalty of 2% of Net Smelter Returns ("NSR") payable to Phelps Dodge. Paso Rico (USA), Inc. owns a portion of the claim group outright and these claims are not subject to the NSR.

RARE ELEMENT RESOURCES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

(Expressed in US Dollars)

3. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS, Continued

In September 2005, the Company staked 20 additional claims at the property. The property now comprises 90 federal unpatented mineral claims and a 640-acre Wyoming state lease for a total of approximately 2,100 acres.

On June 1, 2006, the Company's wholly owned subsidiary, Paso Rico (USA) Inc. and Newmont North America Exploration Limited ("Newmont"), a subsidiary of Newmont Mining Corporation, signed an agreement to establish a gold-exploration venture on the Company's Bear Lodge, Wyoming property ("Venture"). Under the term sheet, Newmont has the right to earn a 65% participating interest in the Bear Lodge property, excluding any rights to the rare-earth elements and uranium, but including rights to gold and other metals, if Newmont spends \$5 million on property exploration by 2011.

Newmont also has the right to earn an additional 15% participating interest by completing a positive feasibility study. If the Company's interest is reduced to 20% for any reason, the Company shall have a financing option by which it may elect for Newmont to carry the Company's share of Venture expenditures, without further dilution to the Company, until commencement of mining on the property. The funds advanced by Newmont under the financing option, plus interest at LIBOR plus 3%, shall be recouped from 90% of the Company's portion of the proceeds from production.

Newmont has staked an additional 116 Federal lode mineral claims, which are included as part of the Venture's property.

Newmont is the operator of the gold-exploration program. The Company will continue to operate its rare-earth-element exploration program; however, if the two exploration programs conflict, the Venture, under Newmont, may choose to operate both programs.

All claims are located on federal lands and are subject to a \$125 annual maintenance fee payable to the United States Bureau of Land Management. These fees are now paid, and will continue to be paid by Newmont as long as the Newmont agreement remains in effect.

Kipawa Property

In April 2006, the Company acquired by staking 26 claims, totaling approximately 1531 hectares. The property is located in Quebec, 90 km northwest of North Bay, Ontario.

4. EQUIPMENT

	December 31, 2006	June 30, 2006
Computer equipment	\$ 868	\$ -
Accumulated amortization	(64)	-
Net book value	<u>\$ 804</u>	<u>\$ -</u>

RARE ELEMENT RESOURCES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

(Expressed in US Dollars)

5. RECLAMATION BOND

The Company was required to post a reclamation bond which covers the cost to reclaim the ground disturbed during its exploration programs at the Bear Lodge Property. On July 23, 2004, \$10,000 was transferred to the Wyoming Department of Environmental Quality for the bond required to cover the exploration program. The Company must complete certain reclamation work for these funds to be released, but may leave the bond in place for future exploration programs, even if such work is completed.

In August 2006, an additional bond of \$10,000 was set up in the name of Paso Rico (USA), Inc., but it was paid by Newmont and covers Newmont's gold-exploration reclamation work. It will revert to Newmont, if and when Newmont completes its reclamation.

6. SHARE CAPITAL

Authorized – unlimited number of common shares without par value.

Issued and outstanding:	Number of Shares	Amount	Contributed Surplus
Balance as at June 30, 2005	14,430,825	\$ 2,501,243	\$ 64,640
Issued for cash:			
Private placement (Note 6a)	1,147,600	196,928	-
Exercise of warrants (Notes 6a and b)	2,685,000	761,852	-
Exercise of options (Note 6c)	10,000	2,233	-
Fair value of the options exercised	-	1,037	(1,037)
Stock-based compensation	-	-	52,976
Balance as at June 30, 2006	18,273,425	3,463,293	116,579
Issued for cash:			
Private placement (Note 6d)	1,666,698	897,917	-
Exercise of warrants (Note 6a)	947,600	252,118	-
Exercise of options (Note 6e)	85,000	19,332	-
Fair value of the options exercised	-	21,182	(21,182)
Stock-based compensation	-	-	194,982
Balance as at December 31, 2006	<u>20,972,723</u>	<u>\$ 4,653,842</u>	<u>\$ 290,379</u>

RARE ELEMENT RESOURCES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

(Expressed in US Dollars)

6. SHARE CAPITAL, Continued

- (a) During the year ended June 30, 2006, the Company completed a non-brokered private placement of 1,147,600 units at a price of \$0.20 CDN for gross proceeds of \$196,928 (\$229,520 CDN). Each unit is comprised of one common share and one 12-month non-transferable share purchase warrant. The share purchase warrants are exercisable into one common share at a price of \$0.30 CDN per share. 200,000 warrants were exercised in fiscal 2006 and the remaining 947,600 warrants were exercised during the six months ended December 31, 2006.
- (b) During the year ended June 30, 2006, 950,000 warrants were exercised at a price of \$0.35 CDN per share and 1,535,000 warrants were exercised at a price of \$0.30 CDN per share.
- (c) During the year ended June 30, 2006, 10,000 stock options were exercised at a price of \$0.25 CDN per share. A fair value of \$1,037 was recognized on these exercised options.
- (d) During the six months ended December 31, 2006, the Company closed a non-brokered private placement of 1,666,698 units at \$0.60 CDN per unit for gross proceeds of \$897,917 (\$1,000,021 CDN). Each unit comprises one common share and one-half of a non-transferable share purchase warrant. A whole warrant may be exercised to purchase one additional common share of the Company, at \$0.75 CDN per share until March 22, 2008.
- (e) During the six months ended December 31, 2006, 10,000 options at \$0.35 CDN and 75,000 options at \$0.25 CDN were exercised. A fair value of \$21,182 was recognized on these exercised options.

Stock Options

The following table summarizes the Company's stock option activity:

	Number of Shares	Weighted Average Exercise Price (CDN\$)
Outstanding, June 30, 2005	860,000	\$ 0.34
Granted	1,740,000	0.39
Expired	(10,000)	0.35
Exercised	(10,000)	0.25
Outstanding, June 30, 2006	2,580,000	0.37
Exercised	(85,000)	0.26
Outstanding, December 31, 2006	2,495,000	\$ 0.38

RARE ELEMENT RESOURCES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

(Expressed in US Dollars)

6. SHARE CAPITAL, Continued

Stock Options, Continued

Expiry Date	Number of Options	Exercise Price (CDN\$)
October 31, 2008	790,000	0.35
August 10, 2009	50,000	0.25
July 24, 2010	525,000	0.25
November 1, 2010	300,000	0.20
April 28, 2011	830,000	0.55
	2,495,000	

Stock-based compensation

The fair value of options reported as compensation expense has been estimated using the Black-Scholes Option Pricing Model using the following assumptions: a risk-free interest rate of 3.37-3.89%, expected life of 4 years; an expected volatility of 86.97-87.74% and no expectation of the payment of dividends. Based on these variables, stock-based compensation expense for the options vested during the six months ended December 31, 2006 was \$194,982 (six months ended December 31, 2005 – \$94,305).

Option pricing models require the input of highly subjective assumptions, particularly as to the expected price volatility of the stock. Changes in these assumptions can materially affect fair value estimates and, therefore, it is management's view that the existing models do not necessarily provide a single reliable measure of the fair value of the Company's stock-option grants.

Warrants

The following table summarizes the Company's warrant activity:

	Number of Shares	Weighted Average Exercise Price (CDN\$)
Outstanding, June 30, 2005	4,310,589	\$ 0.33
Expired	(1,825,589)	0.35
Exercised	(2,685,000)	0.32
Granted	1,147,600	0.30
Outstanding, June 30, 2006	947,600	0.30
Exercised	(947,600)	0.30
Granted	833,349	0.75
Outstanding, December 31, 2006	833,349	\$ 0.75

At December 31, 2006, the following warrants were outstanding:

Expiry Date	Number of Warrants	Exercise Price (CDN\$)
March 22, 2008	833,349	\$ 0.75

RARE ELEMENT RESOURCES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

(Expressed in US Dollars)

6. SHARE CAPITAL, Continued

Escrowed shares

1,000,000 shares were placed in escrow in accordance with the escrow agreement dated August 25, 1999 and amended on July 17, 2003. 550,000 shares were released in fiscal 2005, 300,000 in fiscal 2006, and 150,000 in July 2006.

1,336,000 shares were placed in escrow in accordance with escrow agreements dated December 10, 2002. 734,800 shares were released in 2005, 400,800 in fiscal 2006, and 200,400 shares in July 2006.

As of December 31, 2006, there were no shares in escrow.

7. RELATED PARTY TRANSACTIONS

During the six months ended December 31, 2006, \$37,193 (2005 - \$30,307) was charged for management fees by a private company controlled by the president. As at December 31, 2006, \$6,367 (June 30, 2006 - \$Nil) was owed to this private company.

During the six months ended December 31, 2006, \$49,729 (2005 - \$40,410) was charged by a private company controlled by one of the directors for accounting, administrative fees and rent. As at December 31, 2006, \$6,053 (June 30, 2006 - \$9,556) was owed to this private company.

During the six months ended December 31, 2006, \$Nil (2005 - \$1,724) was capitalized in deferred exploration costs for geological consulting work performed by a director. As at December 31, 2006, \$Nil (June 30, 2006 - \$Nil) was owed to this director.

Related party transactions are measured at the fair value amount as determined by management. The amounts bear no interest and are unsecured with no repayment terms.

8. COMMITMENTS AND CONTINGENCIES

Potential environmental contingency

The Company's mining and exploration activities are subject to various federal, provincial and state laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment, and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations. The ultimate amount of reclamation and other future site-restoration costs to be incurred for existing mining interests is uncertain.

RARE ELEMENT RESOURCES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

(Expressed in US Dollars)

9. SEGMENTED INFORMATION

The Company operates in a single reportable operating segment, being exploration and development of mineral properties.

Summarized financial information for the geographic segments the Company operates in are as follows:

	Canada	United States	Total
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<u>As at September 30, 2006</u>			
Assets	\$ 1,249,853	\$ 661,642	\$ 1,911,495
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<u>As at June 30, 2006</u>			
Assets	\$ 482,141	\$ 612,599	\$ 1,094,740
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	Canada	United States	Total
<hr/>			
<u>For the six months ended</u>			
<u>December 31, 2006</u>			
Loss for the period	\$ (536,889)	\$ (290)	\$ (537,179)
Capital expenditures	\$ 868	\$ 49,403	\$ 49,911
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<u>For the six months ended</u>			
<u>December 31, 2005</u>			
Loss for the period	\$ (249,368)	\$ (290)	\$ (249,658)
Capital expenditures	\$ -	\$ 180,000	\$ 180,000
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10. SUBSEQUENT EVENT

Subsequent to December 31, 2006, the Company granted 440,000 stock options at an exercise price of \$0.55 CDN. The options expire on January 10, 2012.