

*Auditors' Report and Consolidated Financial Statements of*

**MANO RIVER RESOURCES INC.**

*January 31, 2006 and 2005*

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## **Auditors' Report**

To the Shareholders of  
Mano River Resources Inc.

We have audited the consolidated balance sheets of Mano River Resources Inc. as at January 31, 2006 and 2005 and the consolidated statements of loss 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at January 31, 2006 and 2005 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  
May 30, 2006

# MANO RIVER RESOURCES INC.

## Consolidated Balance Sheets

As at January 31

(Stated in U.S. Dollars)

	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
CURRENT		
Cash	\$ 2,781,260	\$ 1,375,639
Accounts receivable	47,634	63,328
Due from joint venture partners (Note 3)	371,843	171,432
	<u>3,200,737</u>	<u>1,610,399</u>
INVESTMENTS (Note 4)	184,090	218,586
RESOURCE PROPERTIES (Note 5)	3,955,000	3,955,000
DEFERRED EXPLORATION COSTS (Note 5)	14,947,593	10,656,216
	<u>\$ 22,287,420</u>	<u>\$ 16,440,201</u>
<b>LIABILITIES</b>		
CURRENT		
Accounts payable and accrued liabilities	\$ 80,530	\$ 15,283
Due to related parties (Note 8)	105,042	553,434
	<u>185,572</u>	<u>568,717</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 6)	28,643,487	21,461,793
Subscriptions (Note 6 (b)(ii))	-	894
Contributed surplus	1,201,101	803,272
Cumulative translation adjustment	(21,755)	(21,755)
Deficit	(7,720,985)	(6,372,720)
	<u>22,101,848</u>	<u>15,871,484</u>
	<u>\$ 22,287,420</u>	<u>\$ 16,440,201</u>

CONTINUING OPERATIONS (Note 1)

APPROVED BY THE BOARD

*(Signed) Tom G. Elder*

Tom G. Elder, Director

*(Signed) Guy E. Pas*

Guy E. Pas, Director

See accompanying notes to the consolidated financial statements.

**MANO RIVER RESOURCES INC.**  
**Consolidated Statements of Loss and Deficit**  
For the years ended January 31, 2006 and 2005  
(Stated in U.S. Dollars)

	<u>2006</u>	<u>2005</u>
REVENUE		
Interest income	\$ 117,927	\$ 50,640
EXPENSES		
Administrative and office expenses	7,420	7,139
Bank and interest charges	225	17,338
Directors fees	51,950	24,750
Foreign exchange loss (gain)	285,897	(155,569)
Management fees	111,000	99,000
Mine maintenance expenses	3,000	66,868
Professional fees	628,804	272,506
Recovered expenses	(7,372)	(29,855)
Stock-based compensation	397,829	585,317
Transfer agent and filing fees	79,452	50,410
Travel and promotion	1,709	2,100
	<u>1,559,914</u>	<u>940,004</u>
LOSS BEFORE UNDERNOTED ITEM	(1,441,987)	(889,364)
GAIN ON SALE OF INVESTMENTS	93,722	-
NET LOSS FOR THE YEAR	(1,348,265)	(889,364)
DEFICIT, BEGINNING OF YEAR	(6,372,720)	(5,483,356)
DEFICIT, END OF YEAR	\$ (7,720,985)	\$ (6,372,720)
BASIC AND DILUTED LOSS PER SHARE	\$ (0.006)	\$ (0.004)
BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	<u>242,021,058</u>	<u>212,718,246</u>

See accompanying notes to the consolidated financial statements.

**MANO RIVER RESOURCES INC.**  
**Consolidated Statements of Cash Flows**  
For the years ended January 31, 2006 and 2005  
(Stated in U.S. Dollars)

	<u>2006</u>	<u>2005</u>
<b>OPERATING ACTIVITIES</b>		
Net loss for the year	\$ (1,348,265)	\$ (889,364)
Items not involving cash:		
Stock-based compensation	397,829	585,317
Accretion of liability component of convertible debenture	-	12,255
Gain on sale of investments	(93,722)	-
Change in non-cash working capital items:		
Due from joint venture partners	(200,411)	(171,432)
Accounts receivable and prepaid expenses	15,694	59,503
Accounts payable	65,247	(95,905)
	<b>(1,163,628)</b>	<b>(499,626)</b>
<b>INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	132,676	-
Purchase of investments	(4,458)	(184,090)
Deferred exploration expenditures	(4,291,377)	(2,015,632)
	<b>(4,163,159)</b>	<b>(2,199,722)</b>
<b>FINANCING ACTIVITIES</b>		
Issuance of share capital, net of costs	7,180,800	33,650
Share subscriptions	-	894
Due to related parties	(448,392)	146,891
	<b>6,732,408</b>	<b>181,435</b>
<b>NET CASH INFLOW (OUTFLOW)</b>	<b>1,405,621</b>	<b>(2,517,913)</b>
<b>CASH, BEGINNING OF YEAR</b>	<b>1,375,639</b>	<b>3,893,552</b>
<b>CASH, END OF YEAR</b>	<b>\$ 2,781,260</b>	<b>\$ 1,375,639</b>

**SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING  
AND INVESTING ACTIVITIES:**

During the year ended January 31, 2006, the Company issued 12,500 common shares for proceeds of \$894. This was related to the exercise of share purchase warrants for which the subscription funds had been received on January 31, 2005.

During the year ended January 31, 2005, the Company issued 2,786,200 common shares on the conversion of a convertible debenture in the amount of \$200,000 due to a related party. In addition, on conversion an equity component recognized on initial issue of the debenture in the amount of \$96,000 was reclassified to the share capital account.

See accompanying notes to the consolidated financial statements.

# **MANO RIVER RESOURCES INC.**

## **Notes to the Consolidated Financial Statements**

**For the years ended January 31, 2006 and 2005**

**(Stated in U.S. dollars)**

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### **1. CONTINUING OPERATIONS**

The Company, which commenced operations on July 10, 1996, is engaged in the acquisition, exploration and development of gold and diamond properties. The Company is in the development stage and has no source of cash flows other than loans from related parties or equity offerings.

These consolidated financial statements are prepared on a going concern basis which assumes that the Company will be able to realize assets and discharge liabilities in the normal course of business. The Company's ability to continue on a going concern basis depends on its ability to successfully raise additional financing. If the Company cannot obtain additional financing, the Company may be forced to realize its assets at amounts significantly lower than the current carrying value.

Uncertainty also exists with respect to the recoverability of the carrying value of certain resource properties. The ability of the Company to realize on its investment in resource properties is contingent upon resolution of the uncertainties and continuing confirmation of the Company's title to the resource properties.

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**MANO RIVER RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
For the years ended January 31, 2006 and 2005  
(Stated in U.S. dollars)

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**2. SIGNIFICANT ACCOUNTING POLICIES**

These financial statements have been prepared in accordance with generally accepted accounting principles in Canada and reflect the following significant accounting policies. The United States dollar has been identified as the Company's currency of measurement and is used for external reporting purposes.

(a) *Principles of consolidation*

These financial statements include the accounts of Mano River Resources Inc. and its principal subsidiaries, Mano Gold Investments Ltd. (formerly Mano River Resources Ltd.) (including sub-group Mano River Iron Ore Holdings Ltd.), and Mano Diamonds Ltd. These financial statements also include a number of subsidiaries as detailed in the following list:

Company	Place of incorporation	Percentage ownership
Mano Gold Investments Limited (formerly Mano River Resources Limited) and its subsidiaries:	British Virgin Islands	100.0%
Golden Limbo Rock Resources Limited and its subsidiary:	Tortola, British Virgin Islands	93.0%
Golden Limbo Rock Ressources SA	Conakry, Guinea	100.0%
Golden Leo Resources Limited and its branch:	Tortola, British Virgin Islands	97.9%
Golden Leo Resources Limited (Sierra Leone Branch)	Freetown, Sierra Leone	100.0%
Mano Gold (Liberia) Ltd. (formerly Lofa Goldiam, Inc.) and its subsidiary:	Tortola, British Virgin Islands	98.8%
Bea Mountain Mining Corporation	Monrovia, Liberia	100.0%
Mano River Iron Ore Holdings Ltd. and its subsidiaries:	Mahe, Republic of Seychelles	100.0%
Mano River Iron Ore Ltd. and its subsidiary:	Mahe, Republic of Seychelles	100.0%
Mano River Iron Ore (Liberia) Inc.	Monrovia, Liberia	80.0%
Mano River Iron Ore (Guinea) Ltd.	Tortola, British Virgin Islands	100.0%
Mano Diamonds Limited and its subsidiaries:	Tortola, British Virgin Islands	100.0%
Western Mineral Resources Corporation Inc. and its subsidiary:	Tortola, British Virgin Islands	100.0%
Western Mineral Resources Corp. (Liberia)	Monrovia, Liberia	100.0%
Weasua Diamonds Ltd and its subsidiary:	Mahe, Republic of Seychelles	100.0%
Kpo Resources Inc.	Monrovia, Liberia	100.0%
Mano Diamonds (Liberia) Inc.	Monrovia, Liberia	100.0%
Basama Diamonds Ltd and its branch:	Mahe, Republic of Seychelles	100.0%
Basama Diamond Ltd Sierra Leone Branch	Freetown, Sierra Leone	100.0%
Sierra Diamonds Limited and its branch:	Tortola, British Virgin Islands	100.0%
Sierra Leone Diamonds Limited Sierra Leone Branch	Freetown, Sierra Leone	100.0%
Mano Diamonds Sierra Leone Ltd.	Freetown, Sierra Leone	100.0%
Guinean Diamond Corporation Ltd. and its subsidiary:	Mahe, Republic of Seychelles	100.0%
Mano River Diamants Guinee S.A.	Conakry, Guinea	100.0%

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**MANO RIVER RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(a) *Principles of consolidation (continued)*

Mano River Iron Ores (Liberia) Inc. is 80% owned by Mano, and is the operator of the licence. 10% of the remaining 20% is held by Eastbound Resources Ltd., a company controlled by a director of the Company.

The financial statements of entities which are controlled by the Company through voting equity interests, referred to as subsidiaries, are consolidated. Variable interest entities ("VIEs"), which include, but are not limited to, special purpose entities, trusts, partnerships, and other legal structures, as defined by the Accounting Standards Board in Accounting Guideline ("AcG") 15, *Consolidation of Variable Interest Entities* ("AcG 15"), are entities in which equity investors do not have the characteristics of a "controlling financial interest" or there is not sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. VIEs are subject to consolidation by the primary beneficiary who will absorb the majority of the entities' expected losses and/or expected residual returns. As of January 31, 2006, the Company does not hold an interest in any VIEs.

All intercompany balances and transactions have been eliminated upon consolidation.

The shares not legally owned by the Company in the listed subsidiaries, other than Mano River Iron Ores (Liberia) Inc, are held by one third party company. This third party has no beneficial interest in the shares and is holding the shares for the Company's benefit until the Company and the third party agree on their ultimate distribution. As the Company retains the beneficial interest in these shares no non-controlling interest exists at January 31, 2006 or 2005.

During the year ended January 31, 2005, the Company sold to Advantage Real Estate for a total consideration of \$25,001, all of the issued and outstanding shares in the capital stock of its subsidiary, Equinox Resources (Wash.) Inc. ("Equinox"). The sole asset of Equinox is the Van Stone property near Colville in northern Washington State. During the year ended January 31, 2002, the Company wrote off the acquisition costs and had set up a \$340,610 reclamation provision. Advantage has assumed all reclamation responsibilities for the property and has also acquired the rights to reclamation bonds totalling \$340,610 held by the Department of Natural Resources, Washington State.

(b) *Cash*

Cash consists of cash on hand and deposits in banks with an original maturity of 90 days or less.

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**MANO RIVER RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(c) *Long-term investments*

Long-term investments are recorded at cost, subject to a provision for any impairment that is determined to be other than temporary.

(d) *Resource properties and deferred exploration costs*

The Company follows the method of accounting for its mineral properties whereby all costs related to acquisition, exploration and development are capitalized by property. The carrying value of pre-production and exploration properties is reviewed periodically and either written off when it is determined that the expenditures will not result in the discovery of economically recoverable ore reserves or transferred to producing mining property, plant and equipment when commercial development commences.

The recoverability of amounts shown for pre-production and exploration properties is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to finance the development of the properties and on the future profitable production or proceeds from the disposition thereof.

(e) *Measurement uncertainty*

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. Examples of significant estimates include stock-based compensation expense, valuation allowance with respect to future income tax assets and recoverability of resource properties and deferred exploration costs. Actual results could differ from those estimates.

(f) *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 diluted loss per share reflects the potential dilution by including other common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the year. Options and warrants as disclosed in Note 6 are anti-dilutive and therefore have not been taken into account in the per share calculations.

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**MANO RIVER RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
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(Stated in U.S. dollars)

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(g) *Foreign currency translation*

The Company's foreign currency transactions and the financial position and results of operations of the Company's integrated subsidiaries are translated into U.S. dollars using the temporal method. Under this method, monetary assets and liabilities are translated at the rate in effect at the balance sheet date. Other balance sheet items, revenues and expenses are translated at the rates prevailing on the respective transaction dates.

(h) *Stock-based compensation*

The Company follows Canadian Institute of Chartered Accountants Handbook Section 3870, *Stock-Based Compensation*, which requires that all stock-based awards made to non-employees and employees be 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 is transferred to share capital.

(i) *Joint ventures*

The Company has entered into certain joint venture agreements whereby the Company earns or allows a third party to earn an interest in certain mineral properties. These joint venture agreements generally provide for the acquiring party to incur exploration costs to earn an interest. Currently the joint ventures in which the Company has an interest are used to hold the property interest solely: no operations or exploration programs are conducted by the joint venture.

(j) *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 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.

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**MANO RIVER RESOURCES INC.**  
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(Stated in U.S. dollars)

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**3. DUE FROM JOINT VENTURE PARTNERS**

During the year ended January 31, 2006, the Company incurred exploration expenditures on behalf of joint venture partners who are required to fund the exploration expenditures to earn their interest in a group of gold and diamond properties in Sierra Leone and Liberia. As at January 31, 2006, the amount of \$371,843 (2005 - \$171,432) remained receivable from joint venture partners, of which \$99,989 was received subsequent to year end.

**4. INVESTMENTS**

	<u>2006</u>	<u>2005</u>
St. Andrew Goldfields Ltd.	\$ -	\$ 34,496
Mifergui-Nimba	<b>184,090</b>	184,090
	<b>\$ 184,090</b>	<b>\$ 218,586</b>

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During the year ended January 31, 2006, the Company disposed of its investment in St. Andrew Goldfields Ltd. for net proceeds of \$44,198 resulting in a gain of \$9,752.

During the year ended January 31, 2006, the Company purchased 100,000 shares of Afren Plc for \$4,458. The investment was subsequently sold for net proceeds of \$88,478 within the same year resulting in a gain of \$84,020.

The Mifergui-Nimba investment consists of 8,654 shares representing a 3.7% interest in a Guinean company that holds an interest in a mining licence over a Guinean iron ore property. The company is a private company with no available market value. Management has reviewed the carrying value at January 31, 2006 and do not consider that there has been any indication of impairment.

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**MANO RIVER RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
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(Stated in U.S. dollars)

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**5. RESOURCE PROPERTIES AND DEFERRED EXPLORATION COSTS**

	<u>2006</u>	<u>2005</u>
Acquisition costs		
Liberia		
Bea	\$ 210,000	\$ 210,000
Kpo	110,000	110,000
Guinea		
Missamana/Gueliban	1,940,000	1,940,000
Sierra Leone		
Pampana, Sonfon and Nimini South	1,695,000	1,695,000
Closing balances	<u>\$ 3,955,000</u>	<u>\$ 3,955,000</u>
Deferred exploration costs		
Liberia		
Bea	\$ 6,880,153	\$ 4,258,130
Kpo	1,759,011	1,731,291
MCA	1,722,621	749,826
Putu	80,170	-
Other	35,414	-
Guinea		
Missamana/Gueliban	1,843,003	1,705,988
Guinea Iron Ore	39,830	10,378
Bouro	172,868	-
Sierra Leone		
Yengema, Njaiama and Nimini Central	1,190,753	1,074,812
Pampana, Sonfon and Nimini South	1,192,027	1,094,048
REPL	31,743	31,743
Closing balances - see Schedule	<u>\$ 14,947,593</u>	<u>\$ 10,656,216</u>

(a) *Liberia, West Africa*

The Company holds two mineral development agreements (“MDA”) in Liberia for gold and diamond development. These MDAs are in Western Liberia and consist of the Bea Mountains and Kpo Range and are valid for 25 years with an option to renew for another 25 years. Both these MDAs are dated November 28, 2001 and were approved on March 14, 2002. The MDAs will allow the Company to start pre-feasibility work and bankable feasibility work including, if required, pilot mining.

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**MANO RIVER RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
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(Stated in U.S. dollars)

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**5. RESOURCE PROPERTIES AND DEFERRED EXPLORATION COSTS (Continued)**

(a) *Liberia, West Africa (continued)*

On April 22, 2004 the Company executed a Mineral Cooperation Agreement with the Ministry of Lands Mines and Energy granting exploration rights over a 15,000 square kilometers licence in western Liberia. The effective operational date for the three year licence was January 22, 2005.

The Company acquired one Mineral Exploration Agreement (“MEA”) licence on May 18, 2005, which is valid for three years and covers a 425 square kilometers area centered over the Putu iron ore prospect in eastern Liberia.

(i) *Trans-Hex Joint Venture*

On June 6, 2002, the Company signed a heads of agreement for the creation of a diamond exploration and development joint venture (“JV”) in Liberia with Trans Hex Group Limited (“THG”) of South Africa.

The JV will focus on advancing the diamondiferous cluster of kimberlite pipes discovered by Mano within the area designated in its 25 year mineral development agreement (“MDA”), which covers a 200 square kilometer area of the Kpo Range in western Liberia. THG can earn a 50% interest in the MDA, by completing over a period of three years Phases 1 and 2 of an exploration program involving a total expenditure of approximately \$2 million. Assuming a positive outcome to the Phase 1 and Phase 2 work program and agreement between the parties to proceed further, they will co-fund Phase 3, comprising a feasibility study and mine construction. Alternatively, at Mano’s option, THG may be granted the right to sole fund the feasibility study and construction, to the start of production from one or more kimberlites, in order to earn an additional 19% equity in the MDA.

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**MANO RIVER RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
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(Stated in U.S. dollars)

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**5. RESOURCE PROPERTIES AND DEFERRED EXPLORATION COSTS (Continued)**

(a) *Liberia, West Africa (continued)*

(ii) *AAR Joint Venture*

On March 23, 2005, the Company signed a Joint Venture (“JV”) agreement with African Aura Resources (“AAR”) targeting diamonds over an area of 400 square kilometers held by AAR in western Liberia.

The JV agreement entitles Mano to earn up to a 78% interest in the diamond rights of the property through the completion of a four-year, four-phase exploration program comprising:

Phase 1: Mano will commit to a minimum expenditure of \$112,500 and make a cash payment to AAR of \$12,500, and upon completion of this phase of work will have earned the right to proceed to Phase 2.

Phase 2: Within a period of 12 months complete an exploration program involving minimum expenditure of \$500,000 and make a cash payment to AAR of \$25,000. Upon completion of this phase, Mano will have earned a 46% equity interest in the diamond rights of the property.

Phase 3: Mano may elect to increase its interest in the diamond rights of the property to 64% through financing the completion of a bulk sampling program within a further period of 12 months and make a cash payment to AAR of \$25,000.

Phase 4: Mano can increase its interest in the diamond rights of the property to 78% through sole funding a feasibility study over one or more kimberlites considered to have economic potential, within a further period of 12 months and make a cash payment to AAR of \$25,000.

Upon completion of the feasibility study, AAR may grant Mano the option to sole fund mine construction, which will result in Mano’s interest in the diamond rights of the property rising to 90%. The Government of Liberia will have a 10% free carried interest in the mining venture, as stipulated by the mining law, and AAR will retain a 2.25% gross profits royalty on project diamond sales.

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**MANO RIVER RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
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(Stated in U.S. dollars)

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**5. RESOURCE PROPERTIES AND DEFERRED EXPLORATION COSTS (Continued)**

(b) *Guinea, West Africa*

The Company holds 498 square kilometers of exploration permits in eastern Guinea through the contiguous Missamana and Gueliban properties.

The Company acquired three contiguous exclusive exploration licences on May 6, 2005, which are valid for three years and cover a total of 405 square kilometers area centered over the diamond producing town of Bouro in the Kerouane district of south eastern Guinea.

(i) *SearchGold Joint Venture*

On January 26, 2006, the Company entered into a Joint Venture (“JV”) with SearchGold Resources (“SearchGold”) in Guinea. The objective of the JV is to rapidly establish alluvial diamond production on the Mandala property of SearchGold, whilst conducting bulk sampling to determine the economic potential of Mano’s adjacent high-grade Bouro kimberlite dykes. A budget of \$3 million has been assigned for the first year program, to be funded 50/50 by Mano and SearchGold.

Under the JV, a two-pronged program will be undertaken consisting of systematic delineation and bulk sampling of the Bouro kimberlite dykes, with particular priority emphasis on the Bouro North dyke, which Mano considers to have the highest grade potential based on work to date. This dyke has a strike length of 5 kilometers, established by field mapping, drilling and geophysics.

(ii) *Navasota Joint Venture*

On July 27, 2004, the Company and its subsidiary signed a Letter of Agreement with Navasota Resources Ltd., for Navasota to acquire up to a 60% interest in Mano’s Missamana and Gueliban gold properties.

Pursuant to the Letter of Agreement between Navasota and Mano, Navasota may earn an initial 51% interest in the properties by spending \$125,000 over the first 12 months which Mano will match (Phase 1) and spending additional \$1,375,000 over a 24 month period following the completion of Phase 1 (Phase 2). Navasota may, at its option, acquire a further 9% by:-spending a further \$500,000 over a 12 month period following the completion of Phase 2 (Phase 3).

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**MANO RIVER RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
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(Stated in U.S. dollars)

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**5. RESOURCE PROPERTIES AND DEFERRED EXPLORATION COSTS (Continued)**

(c) *Sierra Leone, West Africa*

The Company holds nine prospecting licences for diamonds, gold and base metals. The licences are located throughout the eastern and northern provinces of the country and consist of Sonfon, Sierra Leone South East, Pampana South, Pampana North, Pampana North East, Nimini Central, Nimini South, Njaiama and Yengema.

(i) *Petra Diamonds Joint Venture*

On September 10, 2004, the Company and Petra Diamonds (“Petra”) entered into a joint venture for the production of diamonds from the underground mining of diamond-bearing kimberlite dykes (the “Lion” dykes) defined within Mano’s three contiguous licence areas (Yengema, Njaiama and Nimini South) that cover 260 square kilometers the Kono diamond district (“Kono Licences”) of Sierra Leone.

Under the terms of the agreement Petra will earn a 51% interest in Mano’s 100% owned subsidiary, Basama Diamonds Ltd., by spending \$3 million over three years.

Thereafter Mano has the option to co-fund to maintain its interest at the 49% level. The agreement between Mano and Petra envisages Petra as operator.

(ii) *BHP Billiton Joint Venture*

On May 7, 2004, the Company signed a memorandum of agreement (“MoA”) with BHP Billiton to explore for diamonds and other minerals over its 9,700 square kilometers Regional Exclusive Prospecting Licence (“REPL”) in the South Eastern quadrant of Sierra Leone.

The MoA commits the partners to concluding a full joint venture agreement once the first phase of a four-phase exploration and development program has been completed as follows:

Phase 1: Commit to a minimum expenditure of \$800,000 to earn the right to proceed to Phase 2.

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**MANO RIVER RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
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**5. RESOURCE PROPERTIES AND DEFERRED EXPLORATION COSTS (Continued)**

(c) *Sierra Leone, West Africa (continued)*

(ii) *BHP Billiton Joint Venture (continued)*

Phase 2: A minimum expenditure of \$2,572,000. Upon completion of this phase BHP Billiton will earn a 51% equity interest in the project.

Phase 3: Subject to satisfactory results, BHP Billiton may elect to earn an additional 19% through financing the completion of a pre-agreed feasibility program, over one or more kimberlites considered to have economic potential, within three years of completion of Phase 2.

Phase 4: At Mano's option, BHP Billiton can earn an additional 10% through financing to completion of mine construction. Mano may elect, however, to co-finance Phase 4 and maintain the project equity at BHP Billiton 70% and Mano 30%.

(iii) *Golden Star Joint Venture*

On November 24, 2003, the Company signed a comprehensive letter of agreement ("LoA") with Golden Star Resources ("GSR"), which contains all the main terms of a proposed joint venture covering three licence packages ("the Joint Venture Licences") within the highly prospective greenstone gold bearing belts in Sierra Leone.

Under the terms of the LoA, GSR can earn a 51% interest in the gold rights of the licences currently held by Mano through its subsidiary, Golden Leo Resources Limited, as follows:

1. Pampana North, Pampana South and Pampana North East Licences;
2. Sonfon North and Sonfon South Licences; and
3. Nimini Central and Nimini South Licences.

The LoA provides for a 60 day period for due diligence and the completion of the full joint venture agreement. Under the proposed joint venture, GSR will make an investment of \$6 million over a staged five year period in order to earn a 51% interest in the Joint Venture Licences, earning a final equity of up to either 71% or 85% if Mano does not co-fund respectively the feasibility study nor mine development.

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**5. RESOURCE PROPERTIES AND DEFERRED EXPLORATION COSTS (Continued)**

(c) *Sierra Leone, West Africa (continued)*

(iii) *Golden Star Joint Venture (continued)*

The main terms of the LoA are as follows:

Stage 1: GSR commits to spend a minimum \$1,000,000 by December 31, 2004, to earn the right to proceed to Stage 2. No interest is earned by GSR at the end of this stage. A decision to proceed with the next stage was made by December 31, 2004.

Stage 2: GSR commits to spend up to \$1,750,000 on the project by December 31, 2006, with Mano operating an agreed program. No equity earned by GSR. A decision to proceed with the next stage must be made by December 31, 2006.

Stage 3: GSR is committed to spend a further \$2,500,000 on the project and may elect to manage and operate at the beginning of this stage. The expenditure must be completed by December 31, 2007.

Upon completion of this stage GSR will have earned a 51% interest in the Nimini and Sonfon Licences, subject to having expended a minimum of \$2 million and \$1.5 million, respectively, on these two projects.

Stage 4: GSR may spend a further \$750,000 on the Pampana Licences by December 31, 2008 to earn a 51% interest. A decision to proceed with this stage must be made by December 31, 2007. At the end of this stage GSR will have earned a 51% interest in the Pampana Licences.

Within 120 days of completing Stage 3 in the case of the Nimini and Sonfon Licences, and Stage 4 in the case of the Pampana Licences, GSR may elect to proceed to a feasibility study ("FS") for any or all of the projects. Mano has the right to elect to contribute pro rata to the FS to retain its 49% equity. If it decides not to do so, GSR may sole-fund the FS to earn a further 14% interest, thereby taking its equity to 65%.

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**MANO RIVER RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
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**5. RESOURCE PROPERTIES AND DEFERRED EXPLORATION COSTS (Continued)**

(c) *Sierra Leone, West Africa (continued)*

(iii) *Golden Star Joint Venture (continued)*

Upon completion of a positive FS on any or all of the projects GSR may elect to proceed to mine development. Mano has the right to contribute pro rata to any mine development to retain its 49% equity or dilute to either a 15% or 29% free carried interest depending on its earlier elections to co-fund the feasibility study and mine construction. Mano will retain a 2% net smelter return (“NSR”) royalty on production in excess of the first 1 million ounces of gold from each project.

**6. SHARE CAPITAL**

(a) *Authorized*

Unlimited number of common shares without par value

(b) *Issued*

	<u>Shares</u>	<u>Amounts</u>
Balance at January 31, 2004	210,489,618	\$ 21,132,143
Shares issued on conversion of convertible debenture	2,786,200	296,000
Shares issued on exercise of stock options	130,000	33,650
Balance at January 31, 2005	213,405,818	21,461,793
Shares issued on private placement (net of costs)	40,000,000	7,180,800
Shares issued on exercise of warrants	12,500	894
Balance at January 31, 2006	253,418,318	\$ 28,643,487

(i) During the year ended January 31, 2006, the Company concluded a brokered private placement of 40,000,000 common shares at £0.10 each for gross proceeds of £4,000,000 (\$7,480,000). A commission of 4% (\$299,200) of the gross proceeds was paid to the broker on closing of the placement.

(ii) During the year ended January 31, 2006, the Company issued 12,500 common shares on exercise of warrants. Cash subscription of \$894 for exercise of these warrants was received by the Company on January 31, 2005 and recorded as subscriptions under shareholders’ equity.

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**MANO RIVER RESOURCES INC.**  
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**6. SHARE CAPITAL (Continued)**

(b) *Issued (continued)*

- (iii) During the year ended January 31, 2005 the \$200,000 principal amount of a convertible debenture maturing April 30, 2004 was converted into 2,786,200 common shares of the Company at a price of £0.04 (\$0.07) per share. In addition, the equity component recognized on initial issue of the debenture in the amount of \$96,000 was reclassified to share capital on conversion.
- (iv) During the year ended January 31, 2005, 130,000 stock options were exercised for proceeds of \$33,650.

(c) *Stock options*

During the year ended January 31, 2006, the Company granted stock options to certain directors, officers, consultants and employees to purchase up to 2,620,000 common shares of the Company at an exercise price of Cdn\$0.22 per share exercisable until July 25, 2010. In addition, 100,000 options expired unexercised during the year ended January 31, 2006.

The changes in stock options were as follows:

	<u>2006</u>	<b>Weighted average exercise price (Cdn\$)</b>	<u>2005</u>	<b>Weighted average exercise price (Cdn\$)</b>
Balance outstanding, beginning of year	<b>10,610,000</b>	<b>\$ 0.15</b>	10,380,000	\$ 0.18
Activity during the year				
Options granted	<b>2,620,000</b>	<b>0.22</b>	2,770,000	0.24
Options exercised	-	-	(130,000)	0.34
Options lapsed	<b>(100,000)</b>	<b>0.34</b>	(2,410,000)	0.34
Balance outstanding, end of year	<b>13,130,000</b>	<b>\$ 0.16</b>	10,610,000	\$ 0.15

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**MANO RIVER RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
For the years ended January 31, 2006 and 2005  
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**6. SHARE CAPITAL (Continued)**

(c) *Stock options (continued)*

As at January 31, 2006, the following stock options were outstanding:

<u>Number of common shares</u>	<u>Exercise price per share</u> (Cdn\$)	<u>Expiry date</u>
990,000	\$ 0.22	May 1, 2006
845,000	0.10	February 21, 2007
5,000,000	0.11	March 21, 2007
905,000	0.10	August 14, 2008
2,770,000	0.24	March 23, 2009
2,620,000	0.22	July 25, 2010
<u>13,130,000</u>		

The weighted average grant date fair value per share of stock options granted in the year ended January 31, 2006 was \$0.16 (2005 - \$0.28) and total stock-based compensation expense for the year was \$397,829 (2005 - \$585,317). The fair value of these options were determined on the date of grant using the Black-Scholes option pricing model with the following assumptions: no dividends were paid (2005 - no dividends), a weighted average volatility of the Company's share price of 137.8% (2005 - 145%), a weighted average annual risk free rate of 3.35% (2005 - 3.14%) and an expected life of five years (2005 - five years).

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**MANO RIVER RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
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(Stated in U.S. dollars)

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**7. 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>2006</u>	<u>2005</u>
Statutory tax rate	<b>35.35%</b>	35.6%
Recovery of income taxes computed at standard rates	\$ (476,612)	\$ (316,614)
Non-deductible expenses	<b>140,633</b>	208,373
Tax losses not recognized in the period that the benefit arose	<b>335,979</b>	108,241
	<b>\$ -</b>	<b>\$ -</b>

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

	<u>2006</u>	<u>2005</u>
Operating loss carryforwards	\$ <b>1,283,054</b>	\$ 1,142,987
Less: Valuation allowance	<b>(1,283,054)</b>	(1,142,987)
	<b>\$ -</b>	<b>\$ -</b>

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The Company has reduced the value of the potential future income tax asset to \$Nil through the application of a valuation allowance as the Company does not have any current source of income to which the tax losses can be applied. Further, the Company has not included losses or benefits available in the United States as the Company has no United States assets and does not currently have any intention to commence operations in the United States.

At January 31, 2006, the Company had the following loss carryforwards available for tax purposes:

	<u>Amount</u>	<u>Expiry</u>
Country		
Canada	\$ 3,623,648	2007 - 2016

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**MANO RIVER RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
For the years ended January 31, 2006 and 2005  
(Stated in U.S. dollars)

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**8. RELATED PARTY TRANSACTIONS**

The following table summarizes the Company's related party transactions for the year:

	<u>2006</u>	<u>2005</u>
(a) incurred management services fees with a company related by a director in common	\$ 111,000	\$ 90,000
(b) incurred directors fees	51,950	24,750
(c) incurred management services fees with a company associated with a director of the Company	-	12,000
	<u>\$ 162,950</u>	<u>\$ 126,750</u>
(d) incurred professional services with a law firm in which a director of the Company is a partner	\$ 158,959	\$ 57,588

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.

At the end of the year, the amounts due to related parties are as follows:

	<u>2006</u>	<u>2005</u>
Director's company	\$ 40,927	\$ 375,285
Various directors	26,000	171,072
Director's law firm	38,115	7,077
	<u>\$ 105,042</u>	<u>\$ 553,434</u>

These balances are payable on demand and have arisen from the provision of services referred to the above.

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**MANO RIVER RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
For the years ended January 31, 2006 and 2005  
(Stated in U.S. dollars)

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**9. SEGMENTED INFORMATION**

(a) *Industry information*

The Company operates in one reportable operating segment, being the acquisition and exploration of resource properties.

(b) *Geographic information*

Revenues from operations in the year ended January 31, 2006 were derived from interest income of which \$378 (2005 - \$2,424) was earned in Canada and \$117,549 (2005 - \$48,216) was earned in the United Kingdom.

The Company's non-current assets by geographic location are as follows:

	<u>2006</u>	<u>2005</u>
Canada	\$ -	\$ 34,496
Liberia	<b>10,797,369</b>	7,059,247
Guinea	<b>4,179,791</b>	3,840,456
Sierra Leone	<b>4,109,523</b>	3,895,603
	<b>\$ 19,086,683</b>	<b>\$ 14,829,802</b>

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**10. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Company's financial assets and liabilities are cash, accounts receivable, investments, accounts payable and amounts due to related parties. The fair values of these financial instruments are estimated to approximate their carrying values due to their immediate or short-term nature except for investments whose fair value is described in Note 4. Due to the nature of the Company's operations, there is no significant credit or interest rate risk. As at January 31, 2006, the Company held approximately \$1,957,140 cash in bank accounts denominated in U.K. pounds. The Company has taken no action to reduce its exposure to foreign currency risk.

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**MANO RIVER RESOURCES INC.**  
**Consolidated Schedules of Deferred Exploration Costs**  
As at January 31  
(Stated in U.S. Dollars)

	Bea	MCA	Missamana/ Gueliban	Bouro	Yengema, Njaiama and Nimini Central	Other	Total 2006
Assays and geochemical	\$ 34,370	\$ 53,540	\$ 6,396	\$ -	\$ 605	\$ 1,301	\$ 96,212
Communications	64,819	16,043	128	-	11,920	10,297	103,207
Community relations	22,616	2,631	-	-	2,204	9,446	36,897
Consultants	140,115	76,252	5,446	10,453	9,469	23,498	265,233
Data, images, reports and maps	9,149	3,989	4,477	-	199	170	17,984
Drilling	1,204,464	-	86,988	-	51	43	1,291,546
Geologists' support	170,899	29,277	3,838	-	9,191	13,024	226,229
Geophysics, including imagery	11,877	12,697	-	161,651	-	-	186,225
Infrastructure	99,027	4,079	-	-	214	182	103,502
Licenses and permit fees	(46,231)	212,731	-	-	4,340	64,260	235,100
Project/field office costs, other	188,927	99,566	18,197	34	15,384	30,410	352,518
Reconnaissance and geochemical	127,149	42,959	-	-	9,136	8,408	187,652
Recovered expenses	(19,062)	-	-	-	(552)	-	(19,614)
Salaries and wages	307,176	343,232	5,870	325	44,176	72,675	773,454
Subsistence	56,426	18,433	-	-	1,796	1,876	78,531
Transportation, including vehicles	250,302	57,366	5,675	405	7,808	35,145	356,701
NET EXPENDITURES DURING THE YEAR	2,622,023	972,795	137,015	172,868	115,941	270,735	4,291,377
BALANCE, BEGINNING OF YEAR	4,258,130	749,826	1,705,988	-	1,074,812	2,867,460	10,656,216
BALANCE, END OF YEAR	\$ 6,880,153	\$ 1,722,621	\$ 1,843,003	\$ 172,868	\$ 1,190,753	\$ 3,138,195	\$ 14,947,593

	Bea	MCA	Missamana/ Gueliban	Bouro	Yengema, Njaiama and Nimini Central	Other	Total 2005
Assays and geochemical	\$ 60,292	\$ (1,365)	\$ -	\$ -	\$ 10,226	\$ 45,950	\$ 115,103
Communications	13,732	15,689	235	-	39,385	2,595	71,636
Community relations	21,140	20,673	-	-	2,556	3,709	48,078
Consultants	17,813	65,501	5,723	-	-	30,526	119,563
Data, images, reports and maps	(533)	(279)	-	-	39	10,251	9,478
Drilling	182,051	-	-	-	(73,136)	-	108,915
Geologists' support	18,089	19,946	-	-	-	-	38,035
Geophysics, including imagery	-	-	-	-	-	-	-
Infrastructure	(36,061)	(45,951)	-	-	-	84,892	2,880
Licenses and permit fees	(45,480)	135,096	36,267	-	156,396	-	282,279
Project/field office costs, other	114,440	168,461	3,281	-	2,923	37,034	326,139
Reconnaissance and geochemical	183	7,329	-	-	25,853	10,220	43,585
Recovered expenses	(7,389)	(2,580)	-	-	-	-	(9,969)
Salaries and wages	87,002	186,183	4,204	-	2,910	177,679	457,978
Subsistence	15,170	19,907	8,069	-	-	10,446	53,592
Transportation, including vehicles	136,400	161,216	14,564	-	(37,960)	74,120	348,340
NET EXPENDITURES DURING THE YEAR	576,849	749,826	72,343	-	129,192	487,422	2,015,632
BALANCE, BEGINNING OF YEAR	3,681,281	-	1,633,645	-	945,620	2,380,038	8,640,584
BALANCE, END OF YEAR	\$ 4,258,130	\$ 749,826	\$ 1,705,988	\$ -	\$ 1,074,812	\$ 2,867,460	\$ 10,656,216

See accompanying notes to the consolidated financial statements.