
MAWSON RESOURCES LIMITED

(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2006 AND 2005



AUDITORS' REPORT

To the Shareholders of
Mawson Resources Limited

We have audited the consolidated balance sheets of Mawson Resources Limited as at May 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 May 31, 2006 and 2005 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"D&H Group LLP"

Vancouver, B.C.
September 19, 2006

Chartered Accountants

D&H Group LLP

a B.C. Limited Liability Partnership of Corporations

member of BHD Association with affiliated offices across Canada and Internationally
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MAWSON RESOURCES LIMITED
(An Exploration Stage Company)
CONSOLIDATED BALANCE SHEETS
AS AT MAY 31

	2006	2005
	\$	\$
A S S E T S		
CURRENT ASSETS		
Cash	8,978,072	657,804
Amounts receivable	75,472	37,797
Prepaid expenses and deposits	<u>10,943</u>	<u>10,805</u>
	9,064,487	706,406
CAPITAL ASSETS , net of accumulated depreciation of \$2,971 (2005 - \$810)	19,043	7,551
UNPROVEN MINERAL INTERESTS (Note 3)	<u>1,907,785</u>	<u>870,011</u>
	<u><u>10,991,315</u></u>	<u><u>1,583,968</u></u>

L I A B I L I T I E S

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	<u>138,528</u>	<u>172,301</u>

S H A R E H O L D E R S ' E Q U I T Y

SHARE CAPITAL (Note 4)	12,010,640	1,733,491
CONTRIBUTED SURPLUS (Note 6)	912,467	264,465
DEFICIT	<u>(2,070,320)</u>	<u>(586,289)</u>
	<u>10,852,787</u>	<u>1,411,667</u>
	<u><u>10,991,315</u></u>	<u><u>1,583,968</u></u>

SUBSEQUENT EVENTS (Note 12)

APPROVED BY THE DIRECTORS

"Michael Hudson" , Director

"Nick DeMare" , Director

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

MAWSON RESOURCES LIMITED
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT
FOR THE YEARS ENDED MAY 31

	2006	2005
	\$	\$
EXPENSES		
Accounting and administrative	16,450	10,495
Audit	10,000	19,836
Corporate development	79,448	25,992
Depreciation	2,161	810
General exploration	24,725	42,971
Investor relations	110,729	22,500
Legal	8,550	24,833
Management fees	64,320	18,004
Office and sundry	35,745	16,058
Professional fees	220,171	36,600
Regulatory	9,895	3,093
Shareholder costs	16,776	6,442
Stock-based compensation (Note 5)	839,800	265,700
Transfer agent	11,648	15,997
Travel	64,743	60,159
	<u>1,515,161</u>	<u>569,490</u>
LOSS BEFORE OTHER ITEMS	<u>(1,515,161)</u>	<u>(569,490)</u>
OTHER ITEMS		
Interest and other income	39,372	3,594
Foreign exchange	(8,242)	(9,566)
	<u>31,130</u>	<u>(5,972)</u>
NET LOSS FOR THE YEAR	(1,484,031)	(575,462)
DEFICIT - BEGINNING OF YEAR	<u>(586,289)</u>	<u>(10,827)</u>
DEFICIT - END OF YEAR	<u><u>(2,070,320)</u></u>	<u><u>(586,289)</u></u>
 LOSS PER SHARE - BASIC AND DILUTED	 <u><u>\$(0.08)</u></u>	 <u><u>\$(0.05)</u></u>
 WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC AND DILUTED	 <u><u>19,114,532</u></u>	 <u><u>11,011,891</u></u>

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

MAWSON RESOURCES LIMITED
(An Exploration Stage Company)

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MAY 31

	2006	2005
	\$	\$
CASH PROVIDED FROM (USED FOR)		
OPERATING ACTIVITIES		
Net loss for the year	(1,484,031)	(575,462)
Adjustment for items not involving cash		
Depreciation	2,161	810
Stock-based compensation	839,800	265,700
Professional fee	19,400	-
	<u>(622,670)</u>	<u>(308,952)</u>
Increase in amounts receivable	(37,675)	(35,706)
Increase in prepaid expenses and deposits	(138)	(9,813)
Increase (decrease) in accounts payable and accrued liabilities	<u>(33,773)</u>	<u>88,262</u>
	<u>(694,256)</u>	<u>(266,209)</u>
INVESTING ACTIVITIES		
Purchase of capital assets	(13,653)	(8,361)
Expenditures on unproven mineral interests	<u>(1,037,774)</u>	<u>(782,617)</u>
	<u>(1,051,427)</u>	<u>(790,978)</u>
FINANCING ACTIVITIES		
Issuance of common shares	10,754,873	1,622,402
Share issue costs	<u>(688,922)</u>	<u>(249,366)</u>
	<u>10,065,951</u>	<u>1,373,036</u>
INCREASE IN CASH DURING THE YEAR	8,320,268	315,849
CASH - BEGINNING OF YEAR	<u>657,804</u>	<u>341,955</u>
CASH - END OF YEAR	<u><u>8,978,072</u></u>	<u><u>657,804</u></u>

SUPPLEMENTARY CASH FLOW INFORMATION (Note 11)

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

MAWSON RESOURCES LIMITED

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MAY 31, 2006 AND 2005

1. NATURE OF OPERATIONS

The Company is a junior resource company engaged in the acquisition and exploration of unproven mineral interests and is considered a development stage company as defined by Accounting Guidelines No. 11 of the Canadian Institute of Chartered Accountants ("CICA") Handbook.

The Company is in the process of exploring and evaluating its mineral properties. On the basis of information to date, it has not yet determined whether these properties contain economically recoverable ore reserves. The underlying value of the mineral properties and related deferred costs is entirely dependent on the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete development and upon future profitable production. The amounts shown as mineral properties and deferred exploration costs represent net costs to date, less amounts written off, and do not necessarily represent present or future values.

Management considers that the Company has adequate resources to maintain its core operations and planned exploration programs for the 2007 fiscal year. However, the Company recognizes that exploration expenditures may change with ongoing results and, as a result, it may be required to obtain additional financing. While the Company has been successful in securing financings in the past, there can be no assurance that it will be able to do so in the future.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and include the accounts of the Company and its wholly-owned Swedish subsidiaries, Mawson Sweden AB and Mawson Energi AB. Intercompany balances and transactions are eliminated on consolidation.

Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Significant areas requiring the use of management estimates relate to the determination of environmental obligations, impairment of mineral claims and deferred exploration expenditures and the related rates of depletion and amortization. Actual results could differ from these estimates.

Unproven Mineral Interests

Acquisition and exploration costs directly relating to unproven mineral interests are deferred until the mineral interests to which they relate is placed into production, sold or abandoned. The deferred costs will be amortized over the life of the orebody following commencement of production or written off if the property is sold or abandoned. Administration costs and other exploration costs that do not relate to any specific property are expensed as incurred.

MAWSON RESOURCES LIMITED
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2006 AND 2005

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

On a periodic basis, management reviews the carrying values of deferred unproven mineral interest acquisition and exploration expenditures with a view to assessing whether there has been any impairment in value. Management takes into consideration various information including, but not limited to, results of exploration activities conducted to date, estimated future metal prices, and reports and opinions of outside geologists, mine engineers and consultants. When it is determined that a project or interest will be abandoned or its carrying value has been impaired, a provision is made for any expected loss on the project or interest.

Although the Company has taken steps to verify title to mineral interests in which it has an interest, according to the usual industry standards for the stage of exploration of such interests, these procedures do not guarantee the Company's title. Such interests may be subject to prior agreements or transfers and title may be affected by undetected defects.

From time to time, the Company acquires or disposes of interests pursuant to the terms of option agreements. Options are exercisable entirely at the discretion of the optionee and, accordingly, are recorded as mineral interests costs or recoveries when the payments are made or received.

Capital Assets

Capital assets, which are comprised of a vehicle, equipment and tools, are recorded at cost less accumulated depreciation calculated using the straight-line method over its estimated useful life of five years.

Asset Retirement Obligations

The fair value of a liability for an asset retirement obligation is recognized when a reasonable estimate of fair value can be made. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost is allocated to expenses using a systematic and rational method and is adjusted to reflect period-to-period changes in the liability resulting from the passage of time and revisions to either timing or the amount of the original estimate of the undiscounted cash flow. As at May 31, 2006 the Company does not have any asset retirement obligations.

Impairment of Long-Lived Assets

Long-lived assets are assessed for impairment when events and circumstances warrant. The carrying value of a long-lived asset is impaired when the carrying amount exceeds the estimated undiscounted net cash flow from use and fair value. In that event, the amount by which the carrying value of an impaired long-lived asset exceeds its fair value is charged to earnings.

Stock-Based Compensation

Stock-based compensation is accounted for at fair value as determined by the Black-Scholes option pricing model using amounts that are believed to approximate the volatility of the trading price of the Company's stock, the expected lives of awards of stock-based compensation, the fair value of the Company's stock and the risk-free interest rate. The estimated fair value of awards of stock-based compensation are charged to expense as awards vest, with offsetting amounts recognized as contributed surplus.

MAWSON RESOURCES LIMITED
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2006 AND 2005

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Translation of Foreign Currencies

Integrated foreign operations are translated using the temporal method. Under this method, the Company translates monetary items at the rate of exchange in effect at the balance sheet date. Non-monetary items are translated at average rates in effect during the period in which they were earned or incurred. Revenues and expenses are translated at average rates in effect during the period except for depreciation and amortization which are translated at historical rates. Gains and losses resulting from the fluctuation of foreign exchange rates have been included in the determination of income.

Income Taxes

Income tax liabilities and assets are recognized for the estimated income tax consequences attributable to differences between the amounts reported in the consolidated financial statements and their respective tax bases, using enacted income tax rates. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period that the change occurs. Future income tax assets are recognized to the extent that they are considered more likely than not to be realized.

Earnings (Loss) Per Share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the year. The computation of diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share by application of the treasury stock method.

3. UNPROVEN MINERAL INTERESTS

	2006			2005		
	Acquisition Costs \$	Exploration Expenditures \$	Total \$	Acquisition Costs \$	Exploration Expenditures \$	Total \$
Gold Projects						
Vargbäcken	-	882,562	882,562	-	552,991	552,991
Stenberget	5,916	399,779	405,695	5,916	18,945	24,861
Staked Claims	230,500	126,370	356,870	247,452	44,707	292,159
Uranium Projects	122,592	87,954	210,546	-	-	-
Base Metals Projects	37,716	14,396	52,112	-	-	-
	396,724	1,511,061	1,907,785	253,368	616,643	870,011

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MAY 31, 2006 AND 2005

3. UNPROVEN MINERAL INTERESTS (continued)

(a) Gold Projects

NAN Agreements

The Company has entered into various agreements with Sierra Peru Pty Ltd. ("Sierra Peru") and North Atlantic Natural Resources AB ("NAN"), whereby Sierra Peru's option interests over mineral permits held by NAN, were assigned for no consideration to the Company. The mineral permits are located in the Skellefte Mining District, Sweden. Sierra Peru is a private corporation whose principals are directors and officers of the Company. The option interests assigned are as follows:

Vargbäcken Mining Permit

The Company may acquire up to a 100% interest in a mining permit (the "Vargbäcken Mining Permit"), comprising 20.5 hectares, as follows:

- i) initial 51% interest by conducting Swedish kronor ("SEK") 4,000,000 (approximately \$610,000) in work expenditures on or before June 28, 2007. As at May 31, 2006, the Company has conducted the requisite amount and earned the initial 51% interest; and
- ii) an additional 29% interest by conducting a further SEK 8,000,000 (approximately \$1,220,000) in work expenditures on or before June 28, 2009.

Upon earning the 80% interest, NAN has the option to maintain its 20% interest by contributing its share of future costs, or dilute to a 2% net smelter return ("NSR") royalty.

Stenberget Exploration Permit

The Company may acquire up to a 100% interest in an exploration permit (the "Stenberget Exploration Permit"), comprising 645.5 hectares, as follows:

- i) initial 51% interest by conducting SEK 4,000,000 (approximately \$610,000) in work expenditures on or before June 28, 2007; and
- ii) an additional 29% interest by conducting a further SEK 8,000,000 (approximately \$1,220,000) in work expenditures on or before June 28, 2009.

Upon earning the 80% interest, NAN has the option to maintain its 20% interest by contributing its share of future costs, or dilute to a 2% NSR royalty.

Staked Claims

The Company has staked 14 exploration permits in Northern Sweden covering approximately 67,459 hectares.

On April 5, 2006, the Company signed an letter of understanding with First Fortune Investments Inc. ("First Fortune") giving First Fortune the right to explore and develop certain of the Company's exploration claims portfolio in the Skellefte mining district of Northern Sweden. A definitive option and joint venture agreement (the "First Fortune Option") was entered into by the Company and First Fortune on August 24, 2006. The First Fortune Option covers 53,197 hectares within eight individual

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3. UNPROVEN MINERAL INTERESTS (continued)

exploration claims. Under the terms of the First Fortune Option, First Fortune can earn a 70% interest in the subject claims by incurring \$2.5 million in exploration expenditures over four years, with minimum expenditures of \$300,000 in both years one and two. Upon incurring the \$2.5 million, First Fortune can then exercise the option for its 70% interest, for no additional consideration, following which a joint venture will be formed. Both parties must then contribute according to their equity interests. If either party elects not to contribute, its interest will be diluted accordingly. If a party's interest is diluted to a 5% interest then its interest will be converted to a 2% net smelter royalty ("NSR").

(b) Uranium Projects

The Company has staked 26 exploration permits in northern Sweden covering approximately 27,994 hectares.

(c) Base Metals Projects

The Company has staked 16 exploration permits in northern Sweden covering approximately 13,860 hectares.

On January 31, 2006, the Company signed a letter agreement (the "Storbodsund LA") with Independence Group NL ("Independence"). Under the terms of the Storbodsund LA, Independence may earn a 70% interest in two exploration permits covering 5,651 hectares (the "Storbodsund Project") by incurring expenditures of AUS \$2 million over four years. Upon incurring the AUS \$2 million, Independence can exercise the option by paying the Company AUS \$300,000, following which a joint venture will be formed. If either party elects not to contribute, its interest will be diluted accordingly. If a party's interest is diluted to a 5% interest, then its interest will be converted to a 1% NSR.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2006 AND 2005

4. SHARE CAPITAL

Authorized: unlimited common shares without par value

Issued:	2006		2005	
	Shares	Amount \$	Shares	Amount \$
Balance, beginning of year	13,799,817	1,733,491	6,650,000	66,500
Issued during the year				
For cash				
- initial public offering	-	-	3,625,000	1,450,000
- private placements	12,600,000	9,990,000	-	-
- exercise of warrants	787,433	364,773	368,317	169,802
- exercise of options	975,250	400,100	6,500	2,600
Conversion of special warrants	-	-	3,000,000	300,000
Reallocation from contributed surplus				
on exercise of options	-	191,798	-	1,235
Reallocation from contributed surplus				
on exercise of broker warrants	-	879	-	-
Professional fee	20,000	19,400	-	-
Finder's fee	-	-	150,000	60,000
	14,382,683	10,966,950	7,149,817	1,983,637
Less: share issue costs	-	(689,801)	-	(316,646)
	14,382,683	10,277,149	7,149,817	1,666,991
Balance, end of year	28,182,500	12,010,640	13,799,817	1,733,491

(a) During fiscal 2006, the Company completed the following private placements:

- i) 6,000,000 units at a price of \$0.40 per unit for gross proceeds of \$2,400,000. Each unit consisted of one common share and one-half purchase warrant. Each whole warrant entitles the holder to acquire one additional common share at a price of \$0.50 per share on or before September 29, 2007. The Company paid a finder's fee of \$144,400 and issued 10,500 broker warrants to acquire common shares at a price of \$0.50 per share on or before September 29, 2006. The Company also incurred \$12,500 of costs associated with the private placement.

The fair value of the broker warrants have been estimated using the Black-Scholes option pricing model. The assumptions used were: dividend yield - 0%; expected volatility - 79%; a risk-free interest rate of 3.04%; and an expected life of 6 months. The value assigned to the broker warrants was \$879; and

- ii) 6,600,000 units at a price of \$1.15 per unit for gross proceeds of \$7,590,000. Each unit consisted of one common share and one-half purchase warrant. Each whole warrant entitles the holder to acquire one additional common share at a price of \$1.50 per share on or before April 28, 2008. The Company paid a finder's fee of \$500,267 and incurred \$31,755 of costs associated with the private placement. A director of the Company purchased 45,001 units of the private placement.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2006 AND 2005

4. SHARE CAPITAL (continued)

- (b) During fiscal 2005, the Company completed an initial public offering (the "Offering") of 3,625,000 units, at \$0.40 per unit, for gross proceeds of \$1,450,000. Each unit comprised of one common share of the Company and one-half non-transferable share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at a price of \$0.50 per share on or before October 28, 2005.

In conjunction with the Offering, the Company paid or granted to its agent the following:

- i) \$108,750 cash commission and \$10,000 administration fee;
- ii) non-transferable warrants to purchase 435,000 common shares of the Company, at \$0.40 per share, on or before October 28, 2005; and
- iii) corporate finance fee of 150,000 units, at a fair value of \$60,000, having the same terms as the units sold under the Offering.

The Company also incurred \$137,896 for legal, filing and other costs associated with the Offering.

- (c) A summary of the number of common shares reserved pursuant to the Company's outstanding warrants at May 31, 2006 and 2005 and the changes for the years ending on those dates is as follows:

	2006	2005
Balance, beginning of year	1,954,183	-
Issued	6,310,500	2,322,500
Exercised	(787,433)	(368,317)
Expired	<u>(1,606,000)</u>	<u>-</u>
Balance, end of year	<u><u>5,871,250</u></u>	<u><u>1,954,183</u></u>

The following table summarizes information about the warrants outstanding and exercisable at May 31, 2006:

Exercise Price \$	Number	Expiry Date
0.50	2,571,250	September 29, 2007
1.50	<u>3,300,000</u>	April 28, 2008
	<u><u>5,871,250</u></u>	

- (d) As at May 31, 2006, 3,006,000 common shares are held in escrow and are released in equal semi-annual instalments of 1,002,000 common shares ending on October 29, 2007.
- (e) See also Note 12.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2006 AND 2005

5. STOCK OPTIONS AND STOCK-BASED COMPENSATION

The Company has established a rolling stock option plan (the "Plan"), in which the maximum number of common shares which can be reserved for issuance under the Plan is 10% of the issued and outstanding shares of the Company. The exercise price of the options is set at the Company's closing share price on the day before the grant date, less allowable discounts in accordance with the policies of the TSX Venture Exchange.

During fiscal 2006, the Company granted 1,730,000 (2005 - 1,330,000) stock options to the Company's directors, employees and consultants and recorded compensation expense of \$839,800 (2005 - \$265,700).

The fair value of stock options granted to directors, employees and consultants is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for the grants made during fiscal 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Risk-free interest rate	3.24% - 3.72%	1.23% - 3.07%
Estimated volatility	79% - 101%	81% - 99%
Expected life	1.5 years	1.5 - 2.5 years
Expected dividend yield	0%	0%

The weighted average fair value of all stock options granted during the period to the Company's directors, employees and consultants was \$0.49 (2005 - \$0.20) per share.

Option-pricing models require the use of estimates and assumptions including the expected volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide reliable measure of the fair value of the Company's stock options.

A summary of the Company's stock options at May 31, 2006 and 2005, and the changes for fiscal 2006 and 2005, is presented below:

	<u>2006</u>		<u>2005</u>	
	Options Outstanding	Weighted Average Exercise Price \$	Options Outstanding	Weighted Average Exercise Price \$
Balance, beginning of year	1,323,500	0.42	-	-
Granted	1,730,000	0.87	1,330,000	0.42
Exercised	<u>(975,250)</u>	0.41	<u>(6,500)</u>	0.40
Balance, end of year	<u>2,078,250</u>	0.80	<u>1,323,500</u>	0.42

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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5. STOCK OPTIONS AND STOCK-BASED COMPENSATION (continued)

The following table summarizes information about the stock options outstanding and exercisable at May 31, 2006:

Number Outstanding	Number Exercisable	Exercise Price \$	Expiry Date
50,000	50,000	0.60	April 1, 2008
405,000	405,000	0.40	September 29, 2008
270,000	170,000	0.50	November 9, 2008
313,250	313,250	0.40	July 15, 2009
<u>1,040,000</u>	<u>965,000</u>	1.15	February 2, 2009
<u><u>2,078,250</u></u>	<u><u>1,903,250</u></u>		

See also Note 12.

6. CONTRIBUTED SURPLUS

The Company's contributed surplus at May 31, 2006 and 2005, and the changes for fiscal 2006 and 2005 is presented below:

	2006 \$	2005 \$
Balance, beginning of year	264,465	-
Stock-based compensation on stock options (Note 5)	839,800	265,700
Stock-based compensation on broker warrants (Note 4(a))	879	-
Broker warrants exercised	(879)	-
Stock options exercised	<u>(191,798)</u>	<u>(1,235)</u>
Balance, end of year	<u><u>912,467</u></u>	<u><u>264,465</u></u>

7. RELATED PARTY TRANSACTIONS

During fiscal 2006, the Company:

- i) incurred a total of \$16,450 (2005 - \$17,145) for accounting and administration and professional fees provided by certain directors of the Company;
- ii) incurred \$164,000 (2005 - \$75,000) for management and professional fees provided by Sierra Peru, of which \$99,680 (2005 - \$56,996) was capitalized to unproven mineral interests and \$64,320 (2005 - \$18,004) charged to management fees; and
- iii) incurred \$12,000 (2005 - \$12,550) for shared administration and other costs with Tumi Resources Limited, a public company with common directors and officers.

As at May 31, 2006, \$15,116 (2005 - \$12,068) was outstanding to the related parties and was included in accounts payable and accrued liabilities.

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7. RELATED PARTY TRANSACTIONS (continued)

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.

See also Notes 3(a) and 4(a).

8. INCOME TAXES

Future income tax assets and liabilities of the Company as at May 31, 2006 and 2005 are as follows:

	2006 \$	2005 \$
Future income tax assets		
Losses carried forward	409,100	130,600
Other	<u>68,700</u>	<u>90,200</u>
	477,800	220,800
Valuation allowance	<u>(477,800)</u>	<u>(220,800)</u>
Net future income tax asset	<u><u>-</u></u>	<u><u>-</u></u>

The recovery of income taxes shown in the consolidated statements of operations and deficit differs from the amounts obtained by applying statutory rates to the loss before provision for income taxes due to the following:

	2006 \$	2005 \$
Income tax rate reconciliation		
Combined federal and provincial income tax rate	<u>34.12%</u>	<u>35.62%</u>
Expected income tax recovery	506,400	205,000
Foreign income tax rate differences	(1,600)	(3,300)
Non-deductible stock-based compensation	(286,500)	(94,600)
Other	65,900	19,200
Unrecognized benefit of income tax losses	<u>(284,200)</u>	<u>(126,300)</u>
Actual income tax recovery	<u><u>-</u></u>	<u><u>-</u></u>

As at May 31, 2006, the Company has non-capital losses of approximately \$1.1 million carried forward for Canadian income tax purposes and are available to reduce taxable income of future years. The non-capital losses expire commencing in 2014 through 2016. The Company's subsidiaries in Sweden have losses for income tax purposes of approximately \$72,000 (SEK 471,000) which may be carried forward indefinitely.

MAWSON RESOURCES LIMITED
(An Exploration Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2006 AND 2005

9. SEGMENTED INFORMATION

The Company is involved in mineral exploration and development activities in Sweden. The Company is in the exploration stage and accordingly, has no reportable segment revenues or operating results for fiscal 2006 and 2005.

The Company's total assets are segmented geographically as follows:

	<u>2006</u>		
	Corporate (Canada) \$	Mineral Operations (Sweden) \$	Total \$
Current assets	8,869,683	194,804	9,064,487
Capital assets	-	19,043	19,043
Unproven mineral interests	-	1,907,785	1,907,785
	<u>8,869,683</u>	<u>2,121,632</u>	<u>10,991,315</u>
	<u>2005</u>		
	Corporate (Canada) \$	Mineral Operations (Sweden) \$	Total \$
Current assets	419,767	286,639	706,406
Capital assets	-	7,551	7,551
Unproven mineral interests	-	870,011	870,011
	<u>419,767</u>	<u>1,164,201</u>	<u>1,583,968</u>

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of financial instruments at May 31, 2006 and 2005, were estimated based on relevant market information and the nature and terms of financial instruments. Management is not aware of any factors which would significantly affect the estimated fair market amounts, however, such amounts have not been comprehensively revalued for purposes of these financial statements. Disclosure subsequent to the balance sheet dates and estimates of fair value at dates subsequent to May 31, 2006 and 2005, may differ significantly from that presented.

Fair value approximates the amounts reflected in the financial statements for cash, amounts receivable and accounts payable and accrued liabilities.

The Company may be subject to currency risk due to the fluctuations of exchange rates between the Canadian dollar and other foreign currencies. However, the Company is not subject to significant interest and credit risks arising from these instruments.

MAWSON RESOURCES LIMITED*(An Exploration Stage Company)***NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED MAY 31, 2006 AND 2005****11. SUPPLEMENTARY CASH FLOW INFORMATION**

Non-cash operating and financing activities were conducted by the Company as follows:

	2006 \$	2005 \$
Financing activities		
Common shares issued for non-cash consideration	212,077	-
Share issue costs financed through broker warrants	(879)	61,235
Contributed surplus	(191,798)	(1,235)
Share issue costs	-	(60,000)
	<u>19,400</u>	<u>-</u>
Operating activity		
Professional fees	<u>(19,400)</u>	<u>-</u>
Other supplementary cash flow information:		
	2006 \$	2005 \$
Interest paid in cash	<u>-</u>	<u>-</u>
Income taxes paid in cash	<u>-</u>	<u>-</u>

12. SUBSEQUENT EVENTS

Subsequent to May 31, 2006, the Company:

- i) issued 95,000 common shares for proceeds of \$40,500 from the exercise of warrants (25,000 shares) and stock options (70,000 shares);
- ii) granted stock options to the Company's directors, employees and consultants to acquire a total of 770,000 common shares for a period of three years at \$0.80 per share (720,000 shares) and \$0.88 per share (50,000 shares); and
- iii) see also Note 3(a).

MAWSON RESOURCES LIMITED
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CONSOLIDATED SCHEDULE OF UNPROVEN MINERAL INTERESTS
FOR THE YEARS ENDED MAY 31

	2006					2005	
	Gold Projects			Uranium Projects	Base Metals Projects	Total	Total
	Vargbäcken	Stenberget	Staked Claims				
	\$	\$	\$	\$	\$	\$	
BALANCE -							
BEGINNING OF YEAR	552,991	24,861	292,159	-	-	870,011	87,394
EXPENDITURES							
Assays	(4,093)	2,866	13,450	-	-	12,223	9,962
Camp costs	14,608	16,249	-	655	653	32,165	15,238
Consulting	2,798	226	3,207	7,288	8,534	22,053	49,048
Database	-	1,630	2,744	4,361	738	9,473	2,879
Depreciation	-	-	-	-	-	-	559
Drilling	107,424	185,710	4,572	-	-	297,706	220,746
Equipment rental	2,983	3,875	-	594	-	7,452	-
Exploration office	4,804	8,683	288	1,810	38	15,623	4,380
Freight	886	1,086	-	8,046	158	10,176	8,810
Fuel	5,428	5,379	889	1,356	145	13,197	8,418
Geochemical	47,014	46,177	8,774	4,059	-	106,024	100,387
Geological	74,866	67,298	38,083	35,417	1,687	217,351	98,090
Logging	4,836	1,367	-	-	-	6,203	-
Maps	-	-	4,233	5,915	820	10,968	5,005
Permit fees	-	-	-	-	-	-	21,145
Salaries	28,502	20,155	2,690	-	-	51,347	-
Supplies	4,826	7,074	1,131	1,446	183	14,660	28,242
Surveying	-	-	-	-	-	-	4,577
Travel	20,503	8,371	1,542	15,902	754	47,072	22,419
Vehicle rental	14,186	4,688	60	1,105	686	20,725	16,738
	329,571	380,834	81,663	87,954	14,396	894,418	616,643
ACQUISITION COSTS	-	-	(16,952)	122,592	37,716	143,356	165,974
	329,571	380,834	64,711	210,546	52,112	1,037,774	782,617
BALANCE - END OF YEAR	<u>882,562</u>	<u>405,695</u>	<u>356,870</u>	<u>210,546</u>	<u>52,112</u>	<u>1,907,785</u>	<u>870,011</u>