

Cascadia International Resources Inc.
Financial Statements
July 31, 2005, 2004 and 2003

To the Shareholders of:

Cascadia International Resources Inc.

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian generally accepted accounting principles and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors exercises its responsibilities for financial controls through an Audit Committee. The Audit Committee is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Company's external auditors.

Meyers Norris Penny LLP, an independent firm of Chartered Accountants, is appointed by the shareholders to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the [Audit Committee](#) and management to discuss their audit findings.

Jim Evaskevich

Report of Independent Registered Public Accounting Firm

To the Shareholders of:

Cascadia International Resources Inc.

We have audited the balance sheets of Cascadia International Resources Inc. as at July 31, 2005 and 2004 and the statements of net 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 and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

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

Calgary, Alberta
October 14, 2005

Chartered Accountants

Comments for U.S. Readers

In the United States, reporting standards for auditors require the addition of an explanatory paragraph following the opinion paragraph when there are substantial uncertainties about the Company's ability to continue as a going-concern, as referred to in Note 1 to these financial statements. Our report to the directors dated October 14, 2005, is expressed in accordance with Canadian reporting standards, which do not permit a reference to such matters in the auditors' report when the facts are adequately disclosed in the financial statements.

Calgary, Alberta
October 14, 2005

Chartered Accountants

Cascadia International Resources Inc.

Balance Sheets

As at July 31

	2005	2004
Assets		
Current		
Cash	292,835	394,208
Accounts receivable	67,648	20,845
	360,483	415,053
Property and equipment (Note 3)	45,189	51,128
Mineral properties (Note 4)	8,922,570	7,237,198
	9,328,242	7,703,379
Liabilities		
Current		
Accounts payable and accruals	590,641	319,624
Future income tax liability (Note 5)	2,167,489	1,798,168
	2,758,130	2,117,792
Shareholders' Equity		
Share capital (Note 6)	9,906,037	8,277,645
Contributed surplus (Note 8)	1,028,543	957,588
Deficit	(4,364,468)	(3,649,646)
	6,570,112	5,585,587
	9,328,242	7,703,379

Approved on behalf of the Board:

"signed" Director
Jim Evaskevich

"signed" Director
Gordon Bowerman

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

Cascadia International Resources Inc.
Statements of Net Loss and Deficit
For the years ended July 31

	<i>Cumulative from inception (Note 13(e))</i>	2005	<i>2004</i>	<i>2003</i>
Interest income	27,095	4,647	16,187	6,262
Expenses				
Bank charges	6,120	4,848	821	241
Depreciation	25,031	16,190	8,841	-
General corporate	187,730	82,422	86,288	6,303
Investors and shareholder relations	374,775	142,577	168,558	32,394
Professional fees	841,776	378,681	331,500	107,510
Transfer agent and regulatory fees	87,547	13,837	19,624	41,321
Travel and promotion	49,157	4,446	16,611	28,100
	<i>1,572,136</i>	643,001	632,243	215,869
Loss from operations	<i>(1,545,041)</i>	(638,354)	(616,056)	(209,607)
Write-down of mineral property	<i>(54,993)</i>	(54,993)	-	-
Stock-based compensation <i>(Note 7)</i>	<i>(716,967)</i>	(70,955)	(646,012)	-
Loss from operations before income taxes	<i>(2,317,001)</i>	(764,302)	(1,262,068)	(209,607)
Future income tax recovery <i>(Note 5)</i>	<i>114,974</i>	49,480	65,494	-
Net loss	<i>(2,202,027)</i>	(714,822)	(1,196,574)	(209,607)
Deficit, beginning of year	<i>(2,162,441)</i>	(3,649,646)	(2,453,072)	(2,243,465)
Deficit, end of year	<i>(4,364,468)</i>	(4,364,468)	(3,649,646)	(2,453,072)
Loss per share – basic and dilutive <i>(Note 9)</i>	-	(0.02)	(0.04)	(0.03)

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

Cascadia International Resources Inc.
Statements of Cash Flows
For the years ended July 31,

	<i>Cumulative from inception (Note 13(e))</i>	2005	2004	2003
Cash provided by (used for) the following activities				
Operating				
Net loss	(2,202,026)	(714,822)	(1,196,574)	(209,607)
Depreciation	25,031	16,190	8,841	-
Non-cash stock-based compensation	716,966	70,954	646,012	-
Future income tax recovery	(114,974)	(49,480)	(65,494)	-
Write-down of mining property	54,993	54,993	-	-
	(1,520,010)	(622,165)	(607,215)	(209,607)
Changes in non-cash working capital				
Accounts receivable	(66,960)	(46,803)	(9,768)	628
Marketable securities	-	-	300,000	(300,000)
Prepaid expenses	625	-	-	-
Accounts payable and accruals	144,183	169,629	8,465	31,529
	(1,442,162)	(499,339)	(308,518)	(477,450)
Financing				
Finder's fee	(20,000)	-	-	-
Repayment of short-term debt	(5,812)	-	-	-
Issue of shares, net of share issue costs	9,893,513	2,047,194	4,479,570	3,166,749
	9,867,701	2,047,194	4,479,570	3,166,749
Investing				
Purchase of property and equipment	(70,220)	(10,251)	(59,969)	-
Purchase of and expenditures on mineral properties	(8,062,678)	(1,638,976)	(4,113,566)	(2,310,136)
	(8,132,898)	(1,649,227)	(4,173,535)	(2,310,136)
Increase (decrease) in cash	292,641	(101,372)	(2,483)	379,163
Cash, beginning of year	194	394,208	396,691	17,528
Cash, end of year	292,835	292,836	394,208	396,691

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

1. Incorporation, nature and continuance of operations

Cascadia International Resources Inc. (“the Company”) was incorporated under the laws of the Province of British Columbia as Craven Resources Inc. on July 18, 1983 and changed its name to Cascadia International Resources Inc. on April 7, 1997. The Company is in the process of acquiring, exploring and developing its mineral properties in Canada and is thus considered to be a development stage company.

These financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due.

The Company has a history of losses and has an accumulated deficit of \$4,364,468 (2004 - \$3,649,646). The ability of the Company to continue operating as a going concern is dependent upon, among other things, its ability to attain profitable operations and generate funds therefrom and to continue to obtain capital financing from investors sufficient to meet current and future obligations.

2. Accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and include the following significant accounting policies:

Property and equipment

Property and equipment are initially recorded at cost. Amortization is provided using methods and rates intended to amortize the cost of assets over their estimated useful lives.

	<i>Method</i>	<i>Rate</i>
Computer equipment	Declining balance	30%
Leasehold improvements	Straight line	3 years
Office equipment	Declining balance	20%

In the year of acquisition, amortization is taken at one-half of the above rates.

Mineral properties

The cost of resource properties and their related exploration costs are deferred until the properties are placed into production, sold or abandoned. These costs will be amortized on a unit-of-production basis following the commencement of production or written off if the properties are sold or abandoned. If the properties are considered to be impaired in value, an appropriate charge will be made at that time.

Costs include the cash consideration and the fair market value of shares and options issued on the acquisition of mineral properties. Properties acquired under option agreements or joint ventures, whereby payments are made at the sole discretion of the Company, are recorded in the accounts at such time as the payments are made.

The recorded cost of mineral claims and deferred exploration costs represents costs incurred and are not intended to reflect present or future values. The ultimate recovery of such capitalized costs is dependent upon the discovery and development of economic ore reserves or the sale of mineral rights.

2. Accounting policies *(continued from the previous page)*

Asset Retirement Obligations

The Company records the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development, and/or normal use of the long-lived assets. The Company also records a corresponding asset which is amortized over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation is adjusted at the end of each period to reflect the passage of time (accretion expense) and changes in the estimated future cash flows underlying the obligation (asset retirement cost).

Long-lived assets

Long-lived assets consist of property and equipment and mineral properties. Long-lived assets held for use are measured and amortized as described in the applicable accounting policies.

The Company performs impairment testing long-lived assets held for use wherever events or changes in circumstances indicate that the carrying value of an asset, or group of assets may not be recoverable. Impairment losses are recognized where undiscounted future costs flows from its use and disposal are less than the assets carrying amount. Impairment loss is measured as the amount by which the asset carrying value exceeds fair value. Any impairment is included in loss for the year.

Joint venture activities

Substantially all of the Company's mineral exploration and development activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

Flow-through shares

Income tax legislation permits the flow through to shareholders of income tax deductions relating to certain qualifies resource expenditures. The income tax benefits are reflected as a future income tax liability and deducted from share capital when the expenditures are renounced.

Per share amounts

Basic earnings per share are calculated using the weighted average number of shares outstanding during the year. Diluted earnings per share are calculated based on the treasury stock method which assumes that any proceeds obtained on the exercise of options and warrants would be used to repurchase common shares at the average price during the period.

Future income taxes

The Company follows the asset and liability method to account for income taxes. The asset and liability method requires that income taxes reflect the future tax consequences of temporary differences between the carrying amounts of assets or liabilities and their tax basis. Future income tax assets and liabilities are determined for each temporary difference based on enacted rates that are expected to be in effect when the underlying items of income and expenses are expected to be realized.

Cascadia International Resources Inc.
Notes to the Financial Statements
For the years ended July 31, 2005 and 2004

2. Accounting policies *(continued from the previous page)*

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. Significant areas requiring the use of estimates include the determination of impairment of mineral exploration costs, reclamation obligations and qualifying renouncements. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

Stock-based compensation

The fair value for each stock option granted is estimated on the date of the grant using the Black Scholes option pricing model. These fair values are recognized in current earnings with a corresponding increase to contributed surplus over the vesting period of the grant. As the options are exercised, the consideration paid, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

US GAAP

A summary of the differences between accounting principles generally accepted in Canada ("Canadian GAAP") and those generally accepted in the United States ("US GAAP") which affect the Company is contained in Note 13.

3. Property and equipment

	<i>Cost</i>	<i>Accumulated Depreciation</i>	<i>2005 Net Book Value</i>	<i>2004 Net Book Value</i>
Computer equipment	40,768	13,533	27,235	25,940
Leasehold improvements	19,771	8,787	10,984	16,476
Office equipment	9,680	2,710	6,970	8,712
	70,219	25,030	45,189	51,128

Cascadia International Resources Inc.
Notes to the Financial Statements
For the years ended July 31, 2005 and 2004

4. Mineral properties

	<i>Cost</i>	<i>Accumulated Depletion</i>	<i>2005 Net Book Value</i>	<i>2004 Net Book Value</i>
Raglan – deferred exploration payments (a)	6,884,950	-	6,884,950	6,458,177
Raglan – Thundermin acquisition (b)	88,651	-	88,651	88,651
McGarry – deferred exploration payments (c)	-	-	-	54,993
Norton Lake – deferred exploration payments (d)	1,502,170	-	1,502,170	439,573
Attwood & Ficht Lake – deferred exploration payments (e)	195,804	-	195,804	195,804
Raglan – True North properties (f)	76,396	-	76,396	-
Midway - deferred exploration payments (g)	74,704	-	74,704	-
Havoc - deferred exploration payments (h)	99,895	-	99,895	-
	8,922,570	-	8,922,570	7,237,198

During the year, mineral property expenditures and acquisitions totaled \$1,740,364 (2004 - \$4,702,536) of which \$101,388 (2004 - \$175,317) were accrued in accounts payable, and accruals, \$nil (2004 - \$413,652) were acquired through issue of common shares and \$1,638,976 (2004 - \$4,113,566) were acquired with cash.

a) *Raglan, Ungava Bay Properties in Quebec, Canada*

During 2003, the Company entered into an Option Agreement (“Agreement”) with NovaWest Resources Inc. (“Novawest”) of Vancouver, Canada, whereby the Company may earn a 50% interest in the NovaWest’s 660 sq. km. (161,500 acre) Raglan Ni-Cu-PGM-Co Assemblage situated in northern Quebec (the “Raglan Claims”).

Under the Agreement, the Company may earn its 50% interest in the Raglan Claims by paying Novawest \$300,000 in cash and 1,500,000 in common shares of the Company over a three-year term as follows:

Cash payment schedule:

- i) \$50,000 upon execution of the Agreement;
- ii) \$100,000 on or before February 15, 2004; and
- iii) \$150,000 on or before February 15, 2005.

Share payment schedule:

- i) 250,000 shares upon execution of the Agreement;
- ii) 500,000 shares on or before February 15, 2004; and
- iii) 750,000 shares on or before February 15, 2005.

Associated with the completion of the share and cash payments and exploration expenditure advances under the Agreement, the Company will be required to pay a finder’s fee, payable as common shares of the Company, in year two and three of the Agreement. This finder’s fee is calculated as a percentage of the required exploration commitment and the market value of the common share payment based on the common share closing prices at April 30, 2004 and April 30, 2005. Essential provisos tied to the Finders Fee Agreement have not been fulfilled therefore the Company does not plan to pay year two or year three finder’s fees.

The Company has committed to exploration expenditures of \$3.2 million in year one, \$4.3 million in year two, and \$4.5 million in year three. The Company’s interest will vest 25% after meeting the first and second year’s combined commitments and a further 25% after meeting the third year’s commitments. On February 7, 2005 the Company deferred its election to participate in the third year of the Raglan Option Agreement. The Company currently owns 25% of the original Raglan assemblage, 35% of the True North block and 50% of the Thunder block.

4. Mineral properties *(continued from previous page)*

As part of an agreement for the Company to arrange a private placement for Novawest, the Company's exploration commitment for year one was reduced by \$1.0 million. The year two commitment of \$4.3 million can be reduced by \$1.5 million if warrants associated with the private placement are fully exercised.

Under the Agreement, Novawest will be the Operator. A Management Committee will be formed which is made up of five individuals, three from Novawest and two from the Company.

Expenses, such as advance royalties, claim renewal fees, etc. incurred to maintain the Raglan Claims will be shared equally by both the companies. An agreed area of influence will cover the entire Cape Smith/Raglan Belt extending from Ungava Bay to the east and Hudson Bay to the west. The Company has been provided with the right to accelerate its earn-in, at its discretion, any time within the first two years, as well as an additional acceleration provision whereby the Company may accelerate its 50% earn-in immediately upon paying Novawest all unpaid cash, stock and exploration commitments. This second provision is intended to cover the Company should a third party wish to simultaneously buy-out the interests of both parties.

Subsequent to the year end, the Company and Novawest have consented to the issuance of a partial award by the arbitrator in the arbitration proceedings

A summary of the partial award agreed upon by the Company and Novawest is as follows:

- 1) The Company is the owner of an undivided 25% interest in the remaining original Raglan Assemblage.
- 2) There are no continuing rights, obligations or duties whatsoever arising from any fiduciary relationship, any joint venture relationship, or any contract or any agreement between Novawest and the Company, including without limitation, any option rights, rights of first refusal, area of influence obligations, or joint venture obligations.
- 3) The Option Agreement dated April 10, 2003 is terminated as of February 16, 2005.

b) Thunder Project, Raglan, Ungava Bay Property in Quebec, Canada

During 2003, the Company and Novawest acquired a 100% interest in the 35-claim Thunder Project situated on the "Main" Raglan Trend just north-northeast of the present Raglan Claims.

The Company's consideration is comprised of \$25,000 cash and 129,900 common shares at a price of \$0.49 per share for a total of \$63,652 (*Note 6*).

c) McGarry Township Property, Kirkland Lake, Ontario, Canada

The Company and Consolidated PPM Development Corp. ("CPM") have an option agreement pertaining to the 16 mining claims located in McGarry Township ("the Property") east of Kirkland Lake, Ontario. Under the terms of the option agreement, the Company has agreed to spend not less than \$500,000 on the Property over a period of forty-eight months. CPM completed the Phase 1 drilling program in 2001 and the Company resumed the Phase 2 drilling program and spent \$4,857 during the prior year. The minimum expenditure requirement for the Phase 2 drilling program is \$50,000. During the year, the Company has decided to abandon this project and has expensed all associated expenditures.

4. Mineral properties *(continued from previous page)*

d) Norton Lake Property, Thunder Bay, Ontario

In October 2003, the Company optioned a 164 and 152 claim unit group in the Norton Lake area, Thunder Bay from East West Resource Corp. ("East West") and Canadian Golden Dragon Resources Ltd. Under the terms of the option agreement, the Company has agreed to spend a minimum of \$150,000 on drilling within 12 months of the agreement. During the prior year, the Company spent \$173,864 thereby exceeding this requirement. The Company may earn the following interests in both claims groups:

- 51% by spending \$1.5 million by November 1, 2010;
- 60% by completing a feasibility study to the standards of the Toronto Stock Exchange ("TSX") by November 1, 2011;
- 70% by financing the property to production.

Option payments are to be made in stages, totaling \$125,000 over 7 years commencing November 1, 2004. An option payment of \$25,000 was paid upon the signing of the agreement.

e) Attwood & Ficht Lake Property, Armstrong, Ontario

In October 2003, the Company optioned a 290 claim unit property located 60 miles north of Armstrong, Ontario that covers 10 miles (16 km) of a greenstone belt containing numerous copper nickel-cobalt showings. The property is presently held 100% by East West subject to a 3% NSR to the original prospector vendors. Under the terms of the option agreement, the Company has agreed to spend a minimum of \$100,000 drilling in the winter. During the prior year, the Company spent \$461,513 thereby exceeding this requirement. The Company may earn the following interests in both groups:

- 51% by spending \$1.0 million by November 1, 2010;
- 60% by completing a feasibility study to the standards of the TSX by November 1, 2011;
- 70% by financing the property to production.

Option payments to East West are to be made in stages, totaling \$95,000 over 7 years. Payments to the underlying vendor, are to be made in stages, totaling \$90,000 over 4 years. During the prior year, \$30,000 was paid under these arrangements. Presently the Company has suspended exploration on this property.

4. Mineral properties (continued from previous page)

f) True North Project, Ungava Bay Properties in Quebec, Canada

In April 2004, the Company acquired a 35% interest in the 30,774 acre True North Project on the north Raglan Trend in partnership with NovaWest Resources Inc. The acquisition of the True North property from Minera Capital is on condition of spending a minimum of \$440,000 over 3 years split 50/50 between the Company and NovaWest. During the year, \$76,396 (2004 - \$nil) has been spent on this property.

g) Midway Project, Thunder Bay, Ontario, Canada

An airborne EM survey was flown over the entire property which traced a number of basement conductors and the westward extent of conductors that occur on the adjoining Havoc claim group. These conductors form the primary uranium exploration targets that will determine future lease acquisitions. The Company intends to participate in this area with 100% ownership.

h) Havoc Project, English Bay, Ontario, Canada

During February 2005, the Company entered into an option agreement to earn an interest in this property by carrying out the following exploration work and option payments. It is understood that this agreement is only an option and the optionee may abandon all or part of the property subject to the terms and conditions set out in the agreement. The Company plans to perform a minimum work program of 1,100m of diamond drilling within 12 months of this agreement and spend a total of \$0.75 million by February 22, 2011 to earn a 51% interest in all or part of the two claim groups within this area. The optionee may earn a 60% interest in the property by completing a feasibility study to the standards of the TSE (TSX) by February 22, 2012 and may earn a 70% interest by financing the property to production. The optionee will be the operator of the work program. The optionee will keep the claims in good standing and may return all or part of the property at any time with the claims in good standing for 90 days from the time of abandonment. The optionee will provide the optionor copies of all technical reports on work done on the property upon completion of each phase of work and will file all work for assessment credit on the claims with the Ontario Mining Recorder and Assessment office in Sudbury, Ontario. The optionee will comply with regulations of the governing securities authorities in releasing data and will provide the optionor a copy of any proposed news releases 24 hours prior to any release. Parties will enter into a Joint Operating Agreement (“JOA”) for the property

Option Payments are as follows:

\$ 12,500	February 22, 2006
<u>\$ 12,500</u>	November 1, 2010
<u>\$ 25,000</u>	Total

Cascadia International Resources Inc.
Notes to the Financial Statements
For the years ended July 31, 2005 and 2004

5. Future income taxes

	2005	2004
<i>Future income tax liabilities</i>		
Mineral properties	2,167,489	1,798,168
<i>Future income tax assets</i>		
Property and equipment	8,415	3,059
Non-capital loss carry forwards	682,736	497,513
Share issuance costs	88,791	105,217
	802,710	605,789
Valuation allowance	(779,942)	(605,789)
	-	-
Future income tax liability	2,167,489	1,798,168

The income tax recovery differs from the amount that would be expected by applying the current tax rates for the following reasons:

	2005	2004	2003
Loss before taxes	(764,302)	(1,262,068)	(209,607)
Expected tax recovery at 38.00% (2004 – 34.60%; 2003 – 38%)	290,435	436,675	79,650
Tax effect of expenses not deductible for tax purposes:			
Stock-based compensation	(26,963)	(223,520)	-
Rate differential	8,239	26,163	-
Change in valuation allowance	(174,154)	(109,420)	-
Resource allowance	(41,100)	(43,825)	(14,041)
Tax effect of expired losses	(6,132)	-	-
Other	(845)	(20,579)	(65,609)
Future income tax recovery	49,480	65,494	-

Cascadia International Resources Inc.
Notes to the Financial Statements
For the years ended July 31, 2005 and 2004

5. Future income taxes *(continued from the previous page)*

At year end, the Company has the following estimated tax pools available for deduction against future taxable income:

	<i>2005</i>	<i>2004</i>	<i>2003</i>
Mining exploration depletion base	17,653	17,000	17,000
Canadian development expense	86,500	86,500	86,500
Canadian exploration expense	2,237,507	1,802,000	2,699,000
Foreign exploration and development expense	133,887	133,900	133,900
Undepreciated capital cost	70,220	60,000	-
Share issuance costs	264,103	304,000	12,000
Non-capital losses	2,030,744	1,419,000	890,000

The non-capital losses will expire as follows:

2006	122,514
2007	157,943
2008	133,065
2009	122,714
2010	123,483
2011	162,607
2015	597,335
2016	611,083

Cascadia International Resources Inc.
Notes to the Financial Statements
For the years ended July 31, 2005 and 2004

6. Share capital

Authorized

Unlimited number of common shares, without nominal or par value
 Unlimited number of non-voting common shares, without nominal or par value
 Unlimited number of preferred shares, without nominal or par value

Issued

Common shares	Number	Value
<i>Balance ending, July 31, 2003</i>	21,045,387	4,790,159
Flow through shares private placement (i)	4,000,000	2,000,000
Flow through shares private placement (ii)	1,000,000	500,000
Private placement (iii)	833,334	500,000
Warrants exercised	7,555,000	1,654,500
Options exercised	180,000	54,000
Thundermin payment (iv)	129,900	63,652
Raglan Claims option agreement – 2 nd payment (<i>Note 4</i>)	500,000	270,000
Agent's commission shares (i)	160,000	80,000
Share issue costs	-	(228,930)
Share issue costs – agent's commission options	-	(311,575)
Effect of future income taxes on share issue costs	-	144,345
Effect of future income taxes on flow-through expenditures	-	(1,238,506)
<i>Balance ending, July 31, 2004</i>	35,403,621	8,277,645
Flow through shares private placement (iv)	3,262,500	1,305,000
Flow through shares private placement (v)	3,166,000	791,500
Warrants exercised	100,000	10,000
Share issue costs	-	(59,306)
Effect of future income taxes on share issue costs	-	19,939
Effect of future income taxes on flow-through expenditures	-	(438,741)
<i>Balance ending, July 31, 2005</i>	41,932,121	9,906,037

6. Share capital *(continued from the previous page)*

- i) On September 19, 2003, the Company completed a private placement of 4,000,000 units at a price of \$0.50 per unit for gross proceeds of \$2,000,000 through its agent, First Associates, pursuant to a short-form offering document. Each unit consisted of one common share, issued on a “flow-through” basis under the *Income Tax Act* (Canada) and one share purchase warrant. Each share purchase warrant entitles the holder to acquire one additional common share at a price of \$0.60 per share until September 2005. The Agent received 600,000 unit options at \$0.50 per unit, and commissions of \$80,000 cash and 160,000 common shares valued at \$80,000. The proceeds will be used to incur eligible Canadian Exploration Expenses at Norton and Lindsay Bay in Northern Ontario.
- ii) On December 23, 2003, the Company completed a private placement of 1,000,000 units at a price of \$0.50 per unit for gross proceeds of \$500,000. Each unit consisted of one common share to be issued on a “flow-through” basis under the *Income Tax Act* (Canada) and one common share purchase warrant. Each share purchase warrant entitles the holder to acquire one additional common share at a price of \$0.60 per share until December 2005. The proceeds will be used to incur eligible Canadian Exploration Expenses at Norton and Lindsay Bay in Northern Ontario.
- iii) On June 21, 2004, the Company completed a private placement with SIDEX of 833,334 shares at \$0.60 per unit for gross proceeds of \$500,000. Each unit will consist of one common share and one share purchase warrant. Each share purchase warrant entitles SIDEX to acquire one additional common share at a price of \$0.75 per share until June 2006.
- iv) On December 31, 2004, the Company completed a non-brokered private placement of 3,262,500 units at \$0.40 per unit for gross proceeds of \$1,305,000. Each unit consists of one common share issued on a “flow-through” basis under the *Income Tax Act* (Canada) and one-half of one common share purchase warrant, with each whole warrant exercisable for a period of 12 months at \$0.60 per share. The flow through shares and warrants are subject to a four month hold period, expiring on May 1, 2005.
- v) During the year, a private placement of 3,166,000 units occurred at \$0.25 per unit for gross proceeds of \$791,500. Each unit consisted of one common share of the Company issued on a “flow-through” basis under the *Income Tax Act* (Canada) and one non-transferable common share purchase warrant. Each warrant is exercisable into a flow through share on or before December 15, 2006 at \$0.40 per flow through share. The flow through shares are subject to a four month hold period from the respective closing dates. The future income tax relating to the issue of the flow through shares will be recorded when the qualifying expenditures are all renounced.

Cascadia International Resources Inc.

Notes to the Financial Statements

For the years ended July 31, 2005 and 2004

6. Share capital (continued from the previous page)

Stock options

The Company has a stock option plan under which the Board of Directors may grant options to directors, officers, other employees and key consultants. The purpose of the plan is to advance the interests of the Company by encouraging these individuals to acquire shares in the Company and thereby remain associated with, and seek to maximize the value of the Company. The options expire not more than five years from the date of grant, or earlier if the individual ceases to be associated with the Company.

	<i>Number of Options</i>	<i>Price Range (\$)</i>	<i>Weighted Average Price (\$)</i>	<i>Expiry Date</i>
Balance ending, July 31, 2003	2,069,538	0.30	0.30	2008
Issued	1,573,000	0.59	0.54	2008
Exercised	(180,000)	0.30	0.30	2008
Balance ending, July 31, 2004	3,462,538	0.30 – 0.59	0.41	2008
Issued	407,000	0.29 – 0.40	0.38	2010
Cancelled	(100,000)	0.59	0.59	-
Balance ending, July 31, 2005	3,769,538	0.30 - 0.59	0.40	2008 - 2010

Subsequent to the year end, the Company granted 400,000 stock options that are exercisable at \$0.25 per share and expiring 2010.

Agent options

	<i>Number of Options</i>	<i>Price Range (\$)</i>	<i>Weighted Average Price (\$)</i>	<i>Expiry Date</i>
Balance ending, July 31, 2003	1,200,000	0.30	0.30	2008
Issued	600,000	0.50	0.50	2008
Balance ending, July 31, 2004	1,800,000	0.30 – 0.50	0.36	2008
Expired	(1,200,000)	0.30	0.30	
Balance ending, July 31, 2005	600,000	0.50	0.50	2008

The 1,800,000 agent options previously granted had an estimated fair value of \$311,576 recognized as an increase to share issue costs. The fair value of these options granted was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

Cascadia International Resources Inc.

Notes to the Financial Statements

For the years ended July 31, 2005 and 2004

6. Share capital (continued from the previous page)

	2004
Risk free interest rate (%)	4.73%
Expected volatility (%)	100.00%
Expected life (years)	1 to 2

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

Warrants

In relation to private placements, the Company has the following warrants outstanding:

	<i>Number of Warrants</i>	<i>Price Range(\$)</i>	<i>Weighted Average Price (\$)</i>	<i>Expiry Date</i>
Balance ending, July 31, 2003	13,750,000	0.10 – 0.40	0.26	2004 – 2005
Issued	6,593,334	0.60 - 0.75	0.62	2005 – 2006
Exercised	(7,555,000)	0.10 – 0.40	0.22	
Balance ending, July 31, 2004	12,788,334	0.10 – 0.75	0.51	2004 – 2006
Issued	4,797,250	0.40 – 0.60	0.47	2006
Exercised	(100,000)	0.10	0.10	
Expired	(6,095,000)	0.40	0.40	
Balance ending, July 31, 2005	11,390,584	0.40 - 0.75	0.56	2005 – 2006

7. Stock-based compensation

The Company accounts for stock options granted to directors, officers, employees and consultants using the “fair value method”, whereby compensation is recorded equal to the fair value of the option granted over the term of vesting. During 2004, 1,573,000 options with an estimated fair value of \$646,012 were granted. During 2005, 407,000 (2004 – 1,573,000) options with an estimated fair value of \$70,955 (2004 - \$646,012) were granted. The fair value of options granted was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2005	2004
Risk free interest rate (%)	4.50%	4.73%
Expected volatility (%)	100.00%	100.00%
Expected life (years)	2	5

Had the fair value method been used since August 1, 2002, the Company's proforma net loss for 2003 would have been \$729,607 or \$0.12 per share - basic.

Cascadia International Resources Inc.

Notes to the Financial Statements

For the years ended July 31, 2005 and 2004

7. Stock-based compensation (continued from previous page)

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

8. Contributed surplus

The following provides a summary of the changes to the contributed surplus balances:

	2005	2004
Balance, beginning of year	957,588	-
Stock-based compensation (Note 7)	70,955	646,012
Fair value of agent options granted (Note 6)	-	311,576
Balance, end of year	1,028,543	957,588

9. Per share amounts

Basic loss per share is calculated using the weighted average number of shares outstanding for the period. For purposes of the calculation, the weighted average number of shares outstanding was 37,425,659 (2004 - 29,095,468; 2003 - 6,319,617).

Diluted per common share amounts have not been presented, as any effect is antidilutive.

10. Financial instruments

The Company, as part of its operations, carries a number of financial instruments. It is management's opinion that the Company is not exposed to significant interest, credit or currency risks arising from these financial instruments.

Fair value of financial instruments

The fair value of cash, accounts receivable, accounts payable and accruals approximates their carrying value due to the short-term maturities of these financial instruments.

11. Credit facilities

The Company has access to a revolving term loan with a maximum available credit of \$500,000, bearing interest at prime plus two percent per annum, requiring repayment of interest only. As at July 31, 2005 no amount has been drawn on this credit facility.

12. Related party transactions

During 2005, the Company paid Yangarra Resources Inc. ("Yangarra") of \$117,725 (2004 - \$144,628; 2003 - \$6,000) for rent, office services and for its share of leasehold improvements and office equipment. At year-end, included in accounts payable and accruals are \$19,964 (2004 - \$75,273) relating to transactions with Yangarra. Yangarra is a public oil and gas company based in Calgary, Alberta. James G. Evaskevich, the President and a director of the Company is also the President, Chief Executive Officer and a director of Yangarra Resources Inc.

12. Related party transactions *(continued from previous page)*

During 2005, the Company had transactions related to administration and consulting of \$107,768 (2004 - \$61,070; 2003 - \$25,000) with companies controlled by certain of the Company's officers and directors. Of this amount, \$29,141 (2004 - \$4,135) is in accounts payable and accruals at year-end. An aggregate of \$29,141 (2004 - \$2,268) currently in accounts payable and accruals will be paid to Burstall Winger LLP for legal fees and disbursements. A director of the Company is a partner of Burstall Winger LLP. Legal fees to Burstall Winger were \$44,809 (2004 - \$52,247; 2003 - \$nil).

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

13. Differences between Canadian and U.S. generally accepted accounting principles

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles (GAAP) in Canada. Significant differences between GAAP in Canada and the United States that would have an effect on these financial statements are as follows:

a) Interest in Exploration Properties and Deferred Exploration Costs

In March 2002, the Emerging Issues Committee of the CICA issued EIC 126 - "Accounting by Mining Enterprises for Exploration Costs" which affects mining companies with respect to the deferral of exploration costs. EIC 126 refers to CICA Handbook Section 3061 "Property, Plant and Equipment", paragraph .21 which states that for a mining property, the cost of the asset includes exploration costs if the enterprise considers that such costs have the characteristics of property, plant and equipment. EIC 126 then states that a mining enterprise that has not established mineral reserves objectively, and therefore does not have a basis for preparing a projection of the estimated cash flow from the property is not precluded from considering the exploration costs to have the characteristics of property, plant and equipment. EIC 126 also sets forth the Committee's consensus that a mining enterprise in the exploration stage is not required to consider the conditions regarding impairment in determining whether exploration costs may be initially capitalized. With respect to impairment of capitalized exploration costs, if an enterprise has not established mineral reserves objectively, and therefore does not have a basis for preparing a projection of the estimated cash flow from the property it is not obliged to conclude that capitalized costs have been impaired. However, such an enterprise should consider the conditions set forth in CICA Handbook Section 3061 in determining whether subsequent write-down of capitalized exploration costs related to mining properties is required. The Company considers that exploration costs have the characteristics of property, plant and equipment and, accordingly, defers such costs. Furthermore, pursuant to EIC 126, deferred exploration costs would not automatically be subject to regular assessment of recoverability, unless certain conditions exist.

Under U.S. GAAP, exploration costs are not considered to have the characteristics of property, plant and equipment and accordingly are expensed prior to the Company determining that proven or provable mineral reserves exist, after which time all such costs are capitalized.

b) Stock-based Compensation

For the years ending July 2004 and 2005, the Company adopted the fair value method of accounting for stock options for both Canadian and US GAAP purposes. The effect of this change was that stock-based compensation is recorded as an expense instead of disclosing the effect of granting options as proforma information in the notes to the financial statements.

13. Differences between Canadian and U.S. generally accepted accounting principles *(continued from previous page)*

For the company, the Company accounted for its stock based compensation under US GAAP in accordance with APB 25 (intrinsic value method) of employees and FAS No. 123 (fair value method) for non-employees. Under Canadian GAAP, stock options granted to employees continue to be accounted for as capital transactions and stock options granted to non-employees are accounted for using the fair value method. If the Company had accounted for its stock-based compensation plan for employees under FAS No. 123, the pro forma impact on the July 2003 financial statements would have been to increase the net loss by \$520,000 (\$0.08 per share).

c) Asset Retirement Obligation

Under US GAAP, Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143") requires companies to record the fair value of the liability for closure and removal costs associated with the legal obligations upon the retirement or removal of any tangible long-lived assets effective August 1, 2003. Under this standard, the initial recognition of the liability is capitalized as part of the asset cost and amortized over its estimated useful life.

For Canadian GAAP purposes, effective August 1, 2004, the Company adopted the provisions of CICA HB 3110 which are substantially similar to those of SFAS 143.

The Company has determined that there were no material differences in the measurement and presentation of asset retirement obligations between Canadian GAAP and US GAAP as at July 31, 2005 and 2004.

d) Flow-through Shares

Under Canadian income tax legislation, the Company is permitted to issue shares whereby the Company agrees to incur Canadian Exploration Expenditures (as defined in the Canadian Income Tax Act) and renounce the related income tax deductions to the investors. Under Canadian GAAP, the full amount of funds received from flow-through share issuances are recorded as share capital. Under U.S. GAAP, the premium paid for the flow-through shares in excess of market value is credited to liabilities and included in income when the related tax benefits are renounced by the Company.

Furthermore, under U.S. GAAP, and notwithstanding that there is not a specific requirement to segregate the funds pursuant to the flow-through share agreements, the flow-through funds which are unexpended at the balance sheet date are separately classified as restricted cash. As at July 31, 2005, unexpended flow-through funds totaled \$ 394,208 (July 31, 2003 - \$ 394,208).

e) Under US GAAP, development stage enterprises are required to provide cumulative-from-inception information relating to income statements, statements of cash flows, and statements of changes in shareholders' equity. Inception has been deemed to be August 1, 2001. This date represents the beginning of the fiscal year in which the Company refocused its efforts and commenced to acquire properties that are currently being approved. For the two years prior to the 2002 fiscal year, the Company was inactive and did not have ownership of any mineral properties.

Cascadia International Resources Inc.

Notes to the Financial Statements

For the years ended July 31, 2005 and 2004

13. Differences between Canadian and U.S. generally accepted accounting principles *(continued from previous page)*

If these financial statements were prepared in accordance with US GAAP, the impact on the statement of loss would be as follows:

Statement of (loss) income:	<i>Cumulative from inception (Note 13(e))</i>	2005	2004	2003
Net loss for the year based on Canadian GAAP	(2,121,003)	(714,822)	(1,196,574)	(209,607)
Deferred exploration costs prior to the establishment of proven and probable mineral reserves <i>(a)</i>	(8,922,570)	(1,685,372)	(4,702,536)	(2,534,662)
Flow-through share premium paid in excess of market value <i>(d)</i>	651,000	261,000	390,000	-
Net loss for the year based on U.S. GAAP	(10,392,573)	(2,139,194)	(5,509,110)	(2,744,269)
Loss per share, basic	-	(0.06)	(0.19)	(0.43)

In addition, the impact on the balance sheet would be as follows:

Interest in exploration properties and deferred exploration expenditures

	2005	2004
Canadian GAAP	8,922,570	7,237,198
Deferred exploration costs prior to the establishment of proven and probable mineral reserves <i>(a)</i>	(8,922,570)	(7,237,198)
U.S. GAAP	-	-

Capital stock

	2005	2004
Canadian GAAP	9,639,935	8,277,645
Flow-through common shares <i>(d)</i>	(261,000)	(390,000)
U.S. GAAP	9,378,935	7,887,645

Shareholders' equity:

	2005	2004
Shareholders' equity based on Canadian GAAP	6,304,009	5,585,587
Deferred exploration costs prior to the establishment of proven and probable mineral reserves <i>(a)</i>	(8,922,570)	(7,237,198)
Shareholders' deficit based on U.S. GAAP	(2,618,561)	(1,651,611)

Cascadia International Resources Inc.

Notes to the Financial Statements

For the years ended July 31, 2005 and 2004

13. Differences between Canadian and U.S. generally accepted accounting principles *(continued from previous page)*

Common shares		
<i>Balance ending, July 31, 2001</i>	9,116,374	2,077,035
Consolidation 4:1	(6,837,280)	-
Private placement	2,000,000	100,000
Private placement	1,000,000	100,000
Finder's fee	-	(20,000)
<hr/>		
<i>Balance ending, July 31, 2002</i>	5,279,094	2,257,035
Consolidation 2:1	(2,639,547)	-
Private placement (i)	2,000,000	200,000
Private placement (ii)	7,500,000	1,125,000
Private placement (iii)	6,000,000	1,800,000
Warrants exercised	1,850,007	185,000
Agent's commission shares	150,000	45,000
Raglan Claims option agreement - 1 st payment <i>(Note 3)</i>	250,000	37,500
Raglan Claims finders fee agreement - 1 st payment <i>(Note 3)</i>	655,833	98,375
Share issue costs	-	(188,251)
Effect of future income taxes on flow-through expenditures	-	(769,500)
<hr/>		
<i>Balance ending, July 31, 2003</i>	21,045,387	4,790,159
Flow through shares private placement (i)	4,000,000	2,000,000
Flow through shares private placement (ii)	1,000,000	500,000
Private placement (iii)	833,334	500,000
Warrants exercised	7,555,000	1,654,500
Options exercised	180,000	54,000
Thundermin payment (iv)	129,900	63,652
Raglan Claims option agreement – 2 nd payment <i>(Note 4)</i>	500,000	270,000
Agent's commission shares (i)	160,000	80,000
Share issue costs	-	(228,930)
Share issue costs – agent's commission options	-	(311,575)
Effect of future income taxes on share issue costs	-	144,345
Effect of future income taxes on flow-through expenditures	-	(1,238,506)
<hr/>		
<i>Balance ending, July 31, 2004</i>	35,403,621	8,277,645
Flow through shares private placement (iv)	3,262,500	1,305,000
Flow through shares private placement (v)	3,166,000	791,500
Warrants exercised	100,000	10,000
Share issue costs	-	(59,306)
Effect of future income taxes on share issue costs	-	19,939
Effect of future income taxes on flow-through expenditures	-	(438,741)
<hr/>		
<i>Balance ending, July 31, 2005</i>	41,932,121	9,906,037

Cascadia International Resources Inc.

Notes to the Financial Statements

For the years ended July 31, 2005 and 2004

13. Differences between Canadian and U.S. generally accepted accounting principles (continued from previous page)

Also, the impact on the statement of cash flows would be as follows:

As a result of the treatment of mining interests under item (a) above, cash expended for the exploration costs would have been classified under US GAAP as an operating activity rather than an investing activity.

The Company estimates the fair value of options granted using the Black-Scholes option price model using the following weighted average assumptions:

	2005	2004	2003
Risk-free interest rate	4.50	4.73	4.73
Expected life of options	2 years	5 years	5 years
Expected volatility of the Company's share price	100 %	100 %	100 %
Expected dividend yield	Nil	Nil	Nil
Weighted average fair value of options granted	\$ 70,954	\$ 646,012	\$ 520,000

Impact of recent United States accounting pronouncements:

Stock-based compensation

During 2004, FASB issued revised Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" ("SFAS123R"). This amended statement eliminates the alternative to use the intrinsic value method of accounting pursuant to APB 25 as was provided in the original issue of SFAS 123. Accordingly, public entities are required to use the fair value method of accounting for stock-based compensation and other share-based payments. As disclosed in note 7(c), the Company currently applies a fair value based methodology to stock-based compensation. The adoption of this amended US standard is not expected to result in a material difference Canadian GAAP and US GAAP.

Non-monetary exchanges

During 2004, FASB issued SFAS 153 "Exchanges of Non-monetary Assets", which amends APB 29, "Accounting for Non-monetary Transactions", to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges on non-monetary assets that do not have commercial substance. Adoption of this standard is not expected to have a material effect on the Company's consolidated financial statements.

Variable interest entities

At June 1, 2005, for US GAAP purposes, the Company adopted FIN 46R, "Consolidation of Variable Interest Entities". Pursuant to FIN 46R, under US GAAP the Company is required to consolidate variable interest entities ("VIEs") where the Company is the entity's Primary Beneficiary. A VIE is an entity in which equity investors do not have the characteristics of a controlling financial interest nor have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The Primary Beneficiary is the party that has exposure to a majority of the expected losses and/or expected residual returns of the VIE. There has been no impact on the Company's consolidated financial statements from the adoption of FIN 46R.