



cascadia
international resources inc.
(A Development Stage Company)
Financial Statements
July 31, 2006, and 2005

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

To the Shareholders of Cascadia International Resources Inc:

We have audited the balance sheets of Cascadia International Resources Inc. as at July 31, 2006 and 2005, 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. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at July 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.

Calgary, Alberta

September 25, 2006

Megus Norris Penny LLP

Chartered Accountants

Cascadia International Resources Inc.**Balance Sheets***As at July 31*

	2006	2005
Assets		
Current		
Cash	805,734	292,835
Accounts receivable	10,863	67,648
	816,597	360,483
Property and equipment (Note 3)	7,023	45,189
Mineral properties (Note 4)	6,990,247	8,922,570
	7,813,867	9,328,242
Liabilities		
Current		
Accounts payable and accruals	152,219	590,641
Future income tax liability (Note 5)	2,013,220	2,167,489
	2,165,439	2,758,130
Shareholders' Equity		
Share capital (Note 6)	9,676,502	9,906,037
Contributed surplus (Note 8)	1,117,387	1,028,543
Deficit	(5,145,461)	(4,364,468)
	5,648,428	6,570,112
	7,813,867	9,328,242

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</i>	2006	2005
Interest income	36,755	9,660	4,647
Expenses			
Arbitration fees	647,631	605,145	42,486
Bank charges	10,644	4,524	4,848
Depreciation	26,968	1,937	16,190
General corporate (Note 11)	115,758	(71,972)	82,422
Investors and shareholder relations	452,283	80,176	139,909
Interest	55,422	52,754	2,668
Professional fees	923,259	123,969	336,195
Transfer agent and regulatory fees	99,135	11,588	13,837
Travel and promotion	53,625	4,470	4,446
Stock-based compensation (Note 7)	782,447	65,480	70,955
Write-down of mineral properties	351,379	296,386	54,993
	3,518,551	1,174,457	768,948
Loss from operations before income taxes	(3,481,796)	(1,164,797)	(764,302)
Current income tax expense	-	-	-
Future income tax recovery (Note 5)	498,776	383,804	49,480
Net loss	(2,983,020)	(780,993)	(714,822)
Deficit, beginning of year	(2,162,441)	(4,364,468)	(3,649,646)
Deficit, end of year	(5,145,461)	(5,145,461)	(4,364,468)
Loss per share – basic and dilutive (Note 9)	-	(0.02)	(0.02)

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</i>	2006	2005
Cash provided by (used for) the following activities			
Operating			
Net loss	(2,983,020)	(780,993)	(714,822)
Depreciation	26,968	1,937	16,190
Non-cash stock-based compensation	782,447	65,480	70,954
Future income tax recovery	(498,776)	(383,804)	(49,480)
Write-down of mining property	351,379	296,386	54,993
	(2,321,004)	(800,994)	(622,165)
Changes in non-cash working capital			
Accounts receivable	(10,175)	56,785	(46,803)
Marketable securities	-	-	-
Prepaid expenses	625	-	-
Accounts payable and accruals	(294,239)	(438,422)	169,629
	(2,624,793)	(1,182,631)	(499,339)
Financing			
Issue of shares, net of share issue costs	9,867,701	-	2,047,194
Investing			
Proceeds on sale of property and equipment, net	(10,627)	59,593	(10,252)
Proceeds from tax credit	1,987,605	1,987,605	-
Purchase of, and expenditures on, mineral properties	(8,414,346)	(351,668)	(1,638,976)
	(6,437,368)	1,695,530	(1,649,228)
Increase (decrease) in cash	805,540	512,899	(101,373)
Cash, beginning of year	194	292,835	394,208
Cash, end of year	805,734	805,734	292,835

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 on July 18, 1983. 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.

The Company is in the process of exploring mineral properties and has not yet determined whether these properties contain deposits that are economically recoverable. The continuing operations of the Company to meet its commitments, as they become payable, including the development of the properties, securing and maintaining title and financing exploration and development of the properties, is dependent upon obtaining necessary financing through public and private share offerings.

The 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.

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.

	Method	Rate
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.

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).

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

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 on 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 cash 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.

Discounted cash flows are used to measure fair value of long lived assets.

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

Expenditure deductions for income tax purposes related to exploratory activities funded by flow-through equity instruments are renounced to investors in accordance with income tax legislation. The Company provides for the future effect on income taxes related to flow-through equity instruments as a reduction of share capital and an increase in future income tax liabilities when the renouncement documents are filed with taxation authorities.

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. Diluted earnings per share are not disclosed where the effect of options and warrants is anti-dilutive.

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.

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

Stock-based compensation expense is based on the estimated fair value of options granted at the time of the grant. The fair value is recognized in current earnings as stock-based compensation expense with a corresponding increase to contributed surplus over the vesting period of the options. Upon the exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase in share capital. In the event that vested options expire, previously recognized compensation expense associated with such stock options is not reversed. In the event that unvested options are cancelled, previously recognized compensation expense associated with such stock options is reversed.

Cascadia International Resources Inc.
Notes to the Financial Statements
For the years ended July 31, 2006 and 2005

3. Property and equipment

	<i>Cost</i>	<i>Accumulated Depreciation</i>	<i>2006 Net Book Value</i>	<i>2005 Net Book Value</i>
Computer equipment	7,276	2,183	5,093	27,235
Leasehold improvements	-	-	-	10,984
Office equipment	3,350	1,420	1,930	6,970
	10,626	3,603	7,023	45,189

During the year, the Company sold certain property and equipment to Yangarra Resources Ltd. ("Yangarra"), a related company for \$59,593 based on the original cost of the property and equipment. As the sale was not in the normal course of operations, it was recorded at the Company's carrying value. The \$23,364 difference between the exchange amount of \$59,593 and the carrying value of \$36,229 has been recorded as a credit to contributed surplus.

4. Mineral properties

	<i>Cost</i>	<i>Accumulated Depreciation</i>	<i>2006 Net Book Value</i>	<i>2005 Net Book Value</i>
Northern Quebec Properties				
Raglan – Original Option Property exploration payments (a)	6,797,557	-	6,797,557	6,884,950
Raglan – Thundermin Property (b)	88,651	-	88,651	88,651
Raglan – True North Property (c)	177,708	-	177,708	76,396
Investment tax credits	(1,987,605)	-	(1,987,605)	-
Ontario Properties				
Norton Lake – exploration payments (d)	1,813,228	-	1,813,228	1,502,170
Attwood & Ficht – exploration payments (e)	-	-	-	195,804
Midway - exploration payments (f)	100,707	-	100,707	74,704
Havoc - exploration payments (g)	-	-	-	99,895
	6,990,247	-	6,990,247	8,922,570

During the year, mineral property expenditures and acquisitions totaled \$351,668 (2005 - \$1,740,364) of which \$nil (2005 - \$101,388) were accrued in accounts payable and accruals, and \$351,668 (2005 - \$1,638,976) 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 could earn a 50% interest in the Novawest Raglan Ni-Cu-PGM-Co Assemblage 660 sq. km. (161,500 acre) situated in northern Quebec (the "Raglan Claims").

Year 1 and Year 2 exploration contemplated by the Option Agreement was undertaken by the parties with Cascadia earning a 25% interest in the original Raglan block. The Company paid or arranged committed exploration expenditures of \$3.2 million in year one, and \$4.3 million in year two. On February 7, 2005 the Company deferred its election to participate in the third year of the Raglan Option Agreement.

The parties have been involved in arbitration over various disagreements since mid 2005; consequently, there was no exploration project in 2005 or 2006.

Cascadia International Resources Inc.

Notes to the Financial Statements

For the years ended July 31, 2006 and 2005

4. Mineral properties (continued from the previous page)

On September 29, 2005, the Company and Novawest 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.

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 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. The Company has been sued by D. Baker Capital for the second year Finders Fee and is defending its position that the finders fee for year two is unearned; as essential provisos tied to the Finders Fee Agreement have not been fulfilled.

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 to earn a 50% interest 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) True North Project, Ungava Bay Properties in Quebec, Canada

In April 2004, the Company acquired an option to earn 35% interest in the 30,774 acre True North Project on the north Raglan Trend in partnership with NovaWest. The acquisition of the True North property from Coronado Resources Ltd. (formerly Minera Capital Corporation) is on condition of spending a minimum of \$440,000 over 3 years split between the Company and NovaWest.

On January 16, 2006, the arbitrator issued a partial award, and on August 15, 2006 issued a clarification regarding Cascadia's interest in the project. The arbitrator ruled that the Company has a 25% vested interest in the True North Property. Subsequent to year end, Novawest and Coronado have amended the option agreement, extending the time frame by two years to March 2009, within which the Optionees may carry out required exploration programs in order to earn their respective interest.

4. Mineral properties *(continued from the 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 agreed to spend a minimum of \$150,000 on drilling within 12 months of the agreement. 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.

As of July 31, 2006 the Company has spent \$1,813,228 thereby exceeding the requirement, and earning the Company 51% interest. Option payments are to be made in stages, totaling \$125,000 over 7 years commencing November 1, 2004. Option payments totaling \$40,000 have been made to date.

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 presently held 100% by East West. Under the terms of the option agreement, the Company may earn 51% interest 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; and 70% by financing the property to production. During the year, the Company decided to suspend exploration on this property, and has expensed all associated expenditures to July 31, 2006 totaling \$195,804.

f) Midway Project, Thunder Bay, Ontario, Canada

The Company owns the Midway Project area 100%. An airborne EM survey was flown in early 2005, 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.

An exploration program for this area is planned for late 2006 / early 2007.

g) Havoc Project, English Bay, Ontario, Canada

During February 2005, the Company entered into an option agreement with East West Resource Corporation to earn a 51% interest in this property by completing 1,100m of diamond drilling and spending a total of \$750,000 by February 22, 2011. The optionee may earn a 60% interest in the property by completing a feasibility study to the standards of the TSX by February 22, 2012 and may earn a 70% interest by financing the property to production. Option Payments are \$25,000. During the year, the Company decided to suspend exploration on this property, and has expensed all associated expenditures to July 31, 2006 totaling \$100,582.

Cascadia International Resources Inc.
Notes to the Financial Statements
For the years ended July 31, 2006 and 2005

5. Future income taxes

	2006	2005
<i>Future income tax liabilities</i>		
Mineral properties	2,013,220	2,167,489
<i>Future income tax assets</i>		
Property and equipment	1,045	8,415
Non-capital loss carry forwards	786,556	682,736
Share issuance costs	47,869	88,791
	835,470	779,942
Valuation allowance	(835,470)	(779,942)
	-	-
Future income tax liability	2,013,220	2,167,489

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

	2006	2005
Loss before taxes	(1,164,797)	(764,302)
Expected tax recovery at 34.79% (2005 – 38.0%)	405,232	290,435
Tax effect of expenses not deductible for tax purposes:		
Stock-based compensation	(22,780)	(26,963)
Rate differential	129,257	8,239
Change in valuation allowance	(55,528)	(174,154)
Resource allowance	(32,171)	(41,100)
Tax effect of expired losses	(35,529)	(6,132)
Other	(4,677)	(845)
Future income tax recovery	383,804	49,480

At July 31, 2006, the Company has the following estimated tax pools available for deduction against future taxable income:

	2006	2005
Canadian development expense	86,500	86,500
Canadian exploration expense	249,902	2,237,507
Foreign exploration and development expense	134,000	134,000
Mining exploration depletion base	17,653	17,653
Undepreciated capital cost	10,600	70,200
Share issuance costs	165,000	260,000
Non-capital losses	2,712,000	1,908,000

The non-capital losses will expire as follows:

2009	158,000
2010	133,000
2011	123,000
2012	123,000
2013	163,000
2014 and thereafter	2,012,000

Cascadia International Resources Inc.**Notes to the Financial Statements**

For the years ended July 31, 2006 and 2005

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, 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 (<i>Note 4(b)</i>)	129,900	63,652
Raglan Claims option agreement – 2 nd payment	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, 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 (iv)	-	(438,741)
<i>Balance, July 31, 2005</i>	41,932,121	9,906,037
Effect on future income taxes on flow-through expenditures (v)	-	(229,535)
Balance, July 31, 2006	41,932,121	9,676,502

Cascadia International Resources Inc.
Notes to the Financial Statements

For the years ended July 31, 2006 and 2005

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 Linsey 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 Linsey 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 consists of one common share and one share purchase warrant. Each share purchase warrant entitled 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 were subject to a four month hold period, which expired on May 1, 2005.
- v) On June 30, and July 28, 2005, 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. As a result of applying amendments to CICA EIC 146 Flow-Through Shares, future income tax relating to the issue of these flow-through shares will be recorded when the qualifying expenditures are renounced.

Cascadia International Resources Inc.
Notes to the Financial Statements

For the years ended July 31, 2006 and 2005

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, 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, 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, July 31, 2005	3,769,538	0.30 - 0.59	0.40	2008 - 2010
Issued	400,000	0.25	0.25	2010
Cancelled	(553,500)	0.25-0.59	0.40	2008 - 2010
Balance, July 31, 2006	3,616,038	0.25 - 0.59	0.39	2008 - 2010

Agent options

	<i>Number of Options</i>	<i>Price Range (\$)</i>	<i>Weighted Average Price (\$)</i>	<i>Expiry Date</i>
Balance, July 31, 2003	1,200,000	0.30	0.30	2008
Issued	600,000	0.50	0.50	2008
Balance, July 31, 2004	1,800,000	0.30 – 0.50	0.36	2008
Expired	(1,200,000)	0.30	0.30	-
Balance, July 31, 2005	600,000	0.50	0.50	2008
Expired	(600,000)	0.50	0.50	-
Balance, July 31, 2006	-	-	-	-

Cascadia International Resources Inc.
Notes to the Financial Statements
For the years ended July 31, 2006 and 2005

6. Share capital (continued from the previous page)

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, 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, 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, July 31, 2005	11,390,584	0.40 - 0.75	0.56	2005 – 2006
Expired	(6,593,334)	0.60-0.75	0.62	
Balance, July 31, 2006	4,797,250	0.40-0.60	0.47	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 2006, 400,000 options (2005 – 407,000) with an estimated fair value of \$65,480 (2005 - \$70,955) 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:

	<u>2006</u>	<u>2005</u>
Risk free interest rate (%)	4.18%	4.50%
Expected volatility (%)	100.00%	100.00%
Expected life (years)	5	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.

8. Contributed surplus

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

	2006	2005
Balance, beginning of year	1,028,543	957,588
Stock-based compensation (Note 7)	65,480	70,955
Related party transaction (Note 3)	23,364	
Balance, end of year	1,117,387	1,028,543

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For the years ended July 31, 2006 and 2005

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 41,932,121 (2005 – 37,425,659).

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. Related party transactions

During 2006, the Company had a net receivable from Yangarra Resources Ltd. (“Yangarra”) \$110,710 (2005-\$117,725 payable) for repayment of past rent, office services and its share of leasehold improvements and office equipment. At year-end, included in accounts payable and accruals are \$nil (2005-\$19,964) 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 Ltd.

A director of the Company is a partner of the Company’s legal firm. Legal fees to that firm were \$29,926 (2005 - \$44,809). An aggregate of \$6,662 (2005 - \$29,141) is currently in accounts payable and accruals relating to these legal fees.

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.

12. Subsequent events and contingency

The Company and Novawest Resources Inc. (“Novawest”) have been engaged in arbitration proceedings to settle various matters relating to the Raglan Area Option Agreements between the two companies. An arbitrator has determined that both the Company and Novawest are entitled to damages which, if satisfied, would result in an increase in current liabilities of approximately \$298,455 plus \$18,271 GST payable to Novawest. However, management has appealed three of the arbitrator’s rulings on the basis that the arbitrator erred in law. As the likely outcome of this litigation cannot be determined no provision has been made in these financial statements.

There is a second independent claim against the Company for amounts alleged to be owing to an unrelated third party under a Finders Fee Agreement. The amount claimed by the third party is \$117,000 and Cascadia has filed a counterclaim. The full amount of the claim has been accrued in accounts payable and accruals.