Karmin Exploration Inc.

(an exploration company)

Consolidated Financial Statements

April 30, 2006 and 2005

(expressed in Canadian dollars)

July 31, 2006

Management's Responsibility for Financial Reporting

The annual report and consolidated financial statements have been prepared by management who, when necessary have made informed judgments and estimates of the outcome of events and transactions. Management acknowledges its responsibility for the fairness, integrity and objectivity of all information contained in the annual report, including the consolidated financial statements.

As a means of fulfilling its responsibility, management relies on the Company's system of internal control. This system has been established to ensure, within reasonable limits, that the assets are safeguarded, transactions are properly recorded an executed with management's authorization and that the accounting records provide a solid foundation from which to prepare the consolidated financial statements.

The Board of Directors carries out its responsibility for the annual and interim consolidated financial statements principally through its Audit Committee and ongoing discussion with management who prepare these consolidated financial statements. Based on these discussions, the Board of Directors approves the consolidated financial statements.

(signed)

William J. Fisher
Chief Executive Officer

PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.
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Auditors' Report

To the Shareholders of
Karmin Exploration Inc.

We have audited the consolidated balance sheets of **Karmin Exploration Inc.** (an exploration company) as at April 30, 2006 and 2005 and the consolidated statements of earnings, 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 April 30, 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.

PricewaterhouseCoopers LLP

Chartered Accountants

Quebec, Quebec, Canada
July 25, 2006

Karmin Exploration Inc.
(an exploration company)
Consolidated Balance Sheets
As at April 30, 2006 and 2005

(expressed in Canadian dollars)	**2006 (note 1) $**	2005 $
Assets		
Current		
Cash	**11,500**	53,435
Accounts receivable	**1,860**	5,627
Investment in a public company (quoted market value: $22,500)	**2,500**	-
	15,860	59,062
Property, plant and equipment *(note 3)*	**100,125**	104,184
Mining property *(note 4)*	**864,301**	864,301
	980,286	1,027,547
Liabilities		
Current		
Accounts payable and accrued liabilities	**231,230**	174,246
Due to a shareholder, bearing interest at 9%	**1,141,097**	1,000,000
	1,372,327	1,174,246
Shareholders' equity (deficiency)		
Share capital *(note 6)*	**14,659,295**	14,659,295
Stock options *(note 7)*	**112,741**	102,146
Deficit	**(15,164,077)**	(14,908,140)
	(392,041)	(146,699)
	980,286	1,027,547

Nature of business and going concern *(note 1)*

Approved by the Board of Directors

"signed" William J. Fisher, C.E.O.
Director

"signed" John A. Iannozzi, C.F.O.
Director

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

Karmin Exploration Inc.
(an exploration company)
Consolidated Statements of Operations and Deficit
For the years ended April 30, 2006 and 2005

(expressed in Canadian dollars)	**2006** **(note 1)** **$**	2005 $
Expenses		
Exploration and prospecting costs	**19,956**	15,981
General and administrative (note 7)	**141,335**	234,826
Finance charges	**91,097**	77,697
Depreciation	**4,059**	4,059
	256,447	332,563
Interest income	**(510)**	(395)
Loss for the year	**255,937**	332,168
Deficit, beginning of year	**(14,908,140)**	(14,575,972)
Deficit, end of year	**15,164,077**	14,908,140
Basic and diluted loss per share	**0.008**	0.010

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

Karmin Exploration Inc.

(an exploration company)

Consolidated Statements of Cash Flows

For the years ended April 30, 2006 and 2005

(expressed in Canadian dollars)	**2006 (note 1) $**	2005 $
Cash provided by (used in)		
Operating activities		
Loss for the year	**(255,937)**	(332,168)
Items not affecting cash:		
Depreciation	**4,059**	4,059
Stock options	**10,595**	102,146
Interest capitalized on due to a shareholder	**91,097**	77,697
	(150,186)	(148,266)
Net change in non-cash working capital items:		
Accounts receivable	**3,767**	(454)
Accounts payable and accrued liabilities	**56,983**	60,063
	60,750	59,609
	(89,435)	(88,657)
Investing Activities		
Change in the investment in a public company	**(2,500)**	-
Financing Activities		
Due to a shareholder	**50,000**	65,103
Net change in cash during the year	**(41,935)**	(23,554)
Cash, beginning of year	**53,435**	76,989
Cash, end of year	**11,500**	53,435
Supplemental information		
Income taxes paid	**-**	-
Interest paid	**-**	-

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

(expressed in Canadian dollars)

1 Nature of business and going concern

The company was incorporated on February 3, 1995 under the Business Corporation Act of Ontario to engage in mineral exploration and development of base metals and gold opportunities in Brazil.

Effective June 14, 1999, the company was continued under the Business Corporations Act of Alberta. Effective August 15, 1999, the company changed its name from Ambrex Mining Corporation (Ambrex) to Karmin Exploration Inc. (Karmin). Effective September 15, 1999, the company also consolidated its common shares on the basis of one new share for every three common shares previously issued and outstanding. Karmin's common shares trade publicly on the TSX Venture exchange under the symbol "KAR" (formerly YKA).

Karmin directly and through an agreement as described below, is in the process of exploring its mining properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for mining properties is dependent upon the existence of economically recoverable reserves, the securing and maintenance of the interests in the properties, future production or proceeds from the disposition thereof, and the ability of the company to obtain necessary financing to continue these operations. As at April 30, 2006 and for the year then ended, the company reported a loss of $255,937 and an accumulated deficit of $15,164,077. The company has a loan payable to a related party in the amount of $1,141,097 and there currently is no financing in place to address this liability. The cash position at April 30, 2006 of $11,500 is not sufficient to continue exploration of the property or to satisfy the loan payable amount. This condition casts significant doubt as to the ability of the company to continue as a going concern and meet its obligations as they come due.

Management intends to secure new capital from related parties and to reduce expenses by joint venture in order to continue its operations. While it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future. Without such funding being available, the company may be unable to continue its operations, and amounts realized for assets may be less than amounts reflected in these financial statements.

Although management has taken steps to verify title to mining properties in which the company has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the company's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

These financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern, and do not reflect the adjustments to the carrying values of assets and liabilities, the reported revenue and expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate. These adjustments could be material.

(expressed in Canadian dollars)

2 Summary of significant accounting policies

New accounting standards

In July 2003, the Canadian Institute of Chartered Accountants (CICA) issued Sections 1100 and 1400 "Generally Accepted Accounting Principles" and "General Standards of Financial Statement Presentation". These new sections define generally accepted accounting principles (GAAP), establish the relative authority of various types of CICA Accounting Standards Board pronouncements, and clarify the role of industry practice in setting GAAP. The company adopted these sections on May 1, 2004 and their adoption had no impact on the company's consolidated financial statements.

On May 1, 2004, the company also adopted the new recommendations of the CICA relating to the impairment of long-lived assets. Pursuant to these new standards, a long-lived asset should be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss should be recognized when the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. The adoption of these new recommendations did not have any impact on the company's financial statements.

In January 2005, the CICA issued four new accounting standards in relation with financial instruments: Section 3855, "Financial Instruments – Recognition and Measurement", Section 3865, "Hedges", Section 1530, "Comprehensive Income", and Section 3251, "Equity".

Section 3855 expands on Section 3860, "Financial Instruments – Disclosure and Presentation", by prescribing when a financial instrument is to be recognized on the balance sheet and at what amount. It also specifies how financial instrument gains and losses are to be presented in the financial statements.

Section 3865 provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline AcG-13, "Hedging Relationships", and the hedging guidance in Section 1650, "Foreign Currency Translation", by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

Section 1530 "Comprehensive Income" introduces a new requirement to temporarily present certain gains and losses outside net income.

Consequently, Section 3250 "Surplus" has been revised as Section 3251 "Equity".

Sections 1530, 3251, 3855 and 3865 apply to fiscal years beginning on or after October 1, 2006. The company will adopt these new standards on January 1, 2007, and has not yet determined their impact on its financial statements.

(expressed in Canadian dollars)

Basis of presentation and consolidation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include the accounts of Karmin, Karmin Holdings Ltda., a wholly owned Brazilian holding company, and its 95% owned subsidiary, Mineracao Rio Aripuana Ltda. All significant intercompany accounts and transactions have been eliminated.

The company primarily operates in one operating segment as all its property and equipment are located in Brazil, and may be subject to government regulations relating to mining, currency fluctuations, inflation and other economic and political risks, any of which may result in impairment of the company's net assets. The company's corporate headquarters in Canada serve administrative functions and are not a reportable segment.

Income taxes

The asset and liability method is used for determining income taxes. Under this method, future income tax assets and liabilities are recognized for the estimated income taxes recoverable or payable that would arise if assets and liabilities were recovered and settled at the financial statement carrying amounts. Future income tax assets and liabilities are measured using the substantively enacted income tax rates expected to be in effect when the tax assets and liabilities are recovered or settled, respectively. Changes to these amounts are recognized in income in the period in which the changes occur. Valuation allowances are provided to the extent that future income tax assets, including the income tax benefit of losses carried forward, are not more likely than not to be realized.

Investment in a public company

The investment in a public company is valued at the lower of cost and market value.

Property, plant and equipment and depreciation

Property, plant and equipment are recorded at cost and depreciated on a straight-line basis over their estimated economic lives mentioned in note 3.

Mining property

Exploration and prospecting costs are expensed as incurred. When a property is determined to have development potential, development and exploration costs related to that property are capitalized. These assets will be amortized on a unit of production basis once the property is brought into production. The company assesses annually whether an impairment condition may exist.

All administrative costs that do not directly relate to and are not necessary for development activity are expensed as incurred.

(expressed in Canadian dollars)

Foreign currency translation

Foreign subsidiary

As the company considers all of its foreign operations to be fully integrated, all items denominated in foreign currencies have been translated using the temporal method. Under this method, monetary assets and liabilities and non-monetary items carried at market values are translated into Canadian dollars at exchange rates prevailing at the balance sheet dates. Other non-monetary assets and liabilities are translated at historical exchange rates applicable at the transaction date. Revenues and expenses are translated at the average exchange rate for the year.

Foreign currency exchange

Foreign exchange gains and losses on transactions during the year and on the year-end translation of the accounts are reflected in the statement of operations.

Use of estimates

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 and expenses included in the financial statements during the reporting period. Actual results could differ from management's estimates.

Basic and diluted earnings per share

Basic earnings per share are determined using the weighted average number of participating shares outstanding during the year.

Diluted earnings per share are determined using the weighted average number of participating shares outstanding during the year, plus the effects of dilutive potential participating shares outstanding during the year. The calculation of diluted earnings per share is made using the treasury stock method, as if all dilutive potential shares had been exercised at the later of the beginning of the year or the date of issuance, as the case may be, and that the funds obtained thereby be used to purchase participating shares of the company at the average market value of the participating share during the year.

Share capital

Share capital issued for non-monetary consideration is generally recorded at the quoted market price of the shares over a reasonable period of time before and after the agreement to issue shares was announced. Share issue expenses are applied against share capital.

(expressed in Canadian dollars)

Stock-based compensation plan

The company maintains a stock option plan, which is described in note 7. In accordance with Canadian generally accepted accounting principles, the company uses the fair value method to account for options granted to employees. Accordingly, all stock-based compensation awards are expensed in the financial statements. Any consideration received from plan participants upon the exercise of stock options is credited to share capital.

3 Property, plant and equipment

				2006	2005
	Depreciation period	Cost $	Accumulated depreciation $	Net $	Net $
Office equipment	10 years	9,391	4,226	5,165	6,104
Building	25 years	78,000	21,840	56,160	59,280
Land	-	38,800	-	38,800	38,800
		126,191	26,066	100,125	104,184

Office equipment is held in Canada. Building and land are held in Brazil.

4 Mining property

	2006 $	2005 $
Aripuana property	864,301	864,301

The Aripuana property is located approximately 20 kilometers from the town of Aripuana in the State of Mato Grasso, Brazil.

In 1996, Karmin acquired the Aripuana 2000 hectare property. Initially focusing on the gold, the company discovered a large volcanogenic massive sulphide (VMS) showing, called the Valley Deposit.

In 1999, Karmin formed a joint venture with UK-based mining company Anglo American PLC (“Anglo”) and an unrelated third party to explore Karmin’s property and Anglo’s adjoining ground, where a similar VMS discovery had been made. Anglo was committed to spend US$3.25 million by December 31, 2003 to earn a 70% interest in the joint venture.

In 2004, Karmin and Anglo amended the agreement to allow a new partner [Votorantim S.A.] to earn into the 70% position of the Aripuana property held by Anglo. Votorantim has earned its position by spending US$1.6 million by December 2005, of which a minimum of US$500,000 was spent by December 2004. Karmin’s 28.5% interest will remain unchanged.

(expressed in Canadian dollars)

5 Related party balances and transactions

The company entered into the following transactions with related parties:

	2006	2005
	$	$
Shareholder		
Interest on advance	91,097	77,697
Company controlled by a shareholder		
Management fees	40,000	40,000
Rent	10,000	10,000
Director		
Consulting fees	-	11,000

The amount payable with respect to these and earlier years' management fees and rent included in accounts payable and accrued liabilities are respectively $171,200 and $32,100 (2005 - $128,400 and $21,400). The basis used to measure the related party transactions was the exchange amount based on the negotiated value between the parties.

6 Share capital

Authorized

The company's authorized share capital consists of an unlimited number of common shares.

Issued and outstanding

	Number of shares	Amount $
Balance – Beginning and End of year April 30, 2005, 2006	33,190,434	14,659,295

The weighted average number of common shares in 2006 and 2005 was 33,190,434.

7 Stock options

The company established a stock option plan under which key employees, officers, directors and consultants of the company and its subsidiaries may be granted stock options for shares of the company. A maximum of 3,000,000 shares may be granted (maximum of 5% in favor of one person).

Options granted under the plan expire after the maximum period of ten years following the date of grant and vest over variable periods determined by the Board of Directors upon granting.

(expressed in Canadian dollars)

The following tables present the stock option activity:

	2006		2005	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Outstanding - Beginning of year	**1,800,000**	**0.20**	1,650,000	0.22
Granted	**100,000**	**0.30**	1,800,000	0.20
Matured	**-**	**-**	(1,650,000)	0.22
Outstanding - End of year	**1,900,000**	**0.21**	1,800,000	0.20

Holders	**Options as at April 30, 2006**	**Weighted average remaining contractual life (years)**	**Weighted average exercice price $**
Directors and officers - outstanding	1,900,000	3.62	0.21
- Exercisable	1,850,000	3.59	0.20

Accounting for the stock-based compensation plan

The fair value of options granted for the years ended April 30, 2006 and 2005 was estimated using the Black-Scholes options pricing model with the following weighted average assumptions:

	2006	2005
Risk-free interest rate	3.38%	3.9%
Expected volatility	136%	110%
Dividend yield	Nil	Nil
Weighted average expected life	2 years	2.5 years
Weighted average fair value of options granted	$0.145	$0.057

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the stock options granted to officers and directors have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide an accurate single measure of the fair value of stock options granted to officers and directors.

(expressed in Canadian dollars)

The company recognizes, as a compensation cost arising from awards to officers and directors, the fair value of the shares at the date of grant. The fair value of stock options granted during the year ended April 30, 2006 is $14,485 ($102,146 in 2005) of which $10,595 ($102,146 in 2005) has been included in the statement of earnings under the item "General and administrative" and has been included in Shareholders' Equity under the item "Stock options". The residual amount of $3,890 for the options granted in 2006 will be recorded over the residual vesting period.

8 Income taxes

As at April 30, 2006, the company has available tax losses for Canadian income tax purposes, which may be carried, forward to reduce taxable income derived in future years. A summary of these losses is provided below.

Non-capital losses expiring in:

	$
2007	56,000
2008	157,000
2009	226,000
2010	200,000
2014	185,000
2015	312,000
2016	246,000
	1,382,000

The potential income tax benefits of these carry-forward, non-capital losses have been fully subject to a valuation allowance in the consolidated financial statements. In addition, the company has loss carry forwards arising in Brazil of approximately $1 million, which have been subject to a valuation allowance in the consolidated financial statements. The tax value of the mining property and its capital cost exceeds the carrying value by approximately $223,000 at the federal level and $196,000 at the provincial level.

9 Segmented Disclosures

Operating segment

The Company has one reportable operating segment, being exploration of mineral properties in Brazil as described in note 2.

Geographical information

The building, land and mining property are held in Brazil and the equipment is held in Canada, as disclosed in notes 3 and 4.

(expressed in Canadian dollars)

10 Financial instruments

Fair value

Cash, accounts receivable, accounts payable and accrued liabilities, and due to a shareholder are financial instruments whose fair value approximates their carrying value due to their short-term maturity.

Interest rate risk

As at April 30, 2006 and 2005, the company's exposure to interest rate risk is as follows:

Cash	Variable interest rate
Accounts receivable	Non-interest bearing
Investment in a public company	Variable yield
Accounts payable and accrued liabilities	Non-interest bearing
Due to a shareholder	9%

Foreign exchange risk

The company is subject to a variety of currency risks, including the risks that currencies will not be convertible at satisfactory rates, that the official conversion rates between the different currencies in which the company operates may not accurately reflect the relative value of goods and services available or required in the foreign jurisdictions in which the company operates and that inflation will lead to the devaluation of the currencies in the foreign countries in which the company has operations.