

Committee Bay Resources Ltd.

Consolidated Financial Statements

Three and six months ended June 30, 2005 and 2004

(unaudited)

Committee Bay Resources Ltd.
Consolidated Balance Sheets

| | June 30, 2005 (unaudited) | December 31, 2004 (audited) |
|---|--|--|
| Assets | | |
| Current | | |
| Cash (note 3) | \$ 4,036,105 | \$ 4,727,361 |
| Accounts receivable | 1,023,843 | 820,619 |
| Guaranteed investment certificates (note 3) | 4,000,000 | 6,905,221 |
| | 9,059,948 | 12,453,201 |
| Investment in Indicator Minerals Inc. (note 4) | 210,000 | 400,000 |
| Equipment (note 5) | 337,376 | 261,508 |
| Mineral interests (note 6) | 7,665,193 | 2,830,436 |
| | \$ 17,272,517 | \$ 15,945,145 |
| Liabilities and shareholders' equity | | |
| Current | | |
| Accounts payable and accrued liabilities (note 11) | \$ 2,031,176 | \$ 894,272 |
| Future income taxes (note 7) | - | 219,608 |
| | 2,031,176 | 1,113,880 |
| Shareholders' equity | | |
| Share capital (note 8) | 15,601,472 | 14,822,604 |
| Contributed surplus (note 10) | 3,530,237 | 2,902,273 |
| Deficit | (3,890,368) | (2,893,612) |
| | 15,241,341 | 14,831,265 |
| | \$ 17,272,517 | \$ 15,945,145 |

Approved By The Board

Director (signed by) "John Williamson"

Director (signed by) "Sean Mager"

Committee Bay Resources Ltd.
Consolidated Statements of Loss and Deficit
(unaudited)

| Three and six months ended June 30 | 2005 (3 months) | 2004 (3 months) | 2005 (6 months) | 2004 (6 months) |
|---|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| Expenses | | | | |
| Amortization | \$ 13,877 | \$ 13,195 | \$ 29,529 | \$ 19,965 |
| Conferences and travel | 71,937 | 78,857 | 136,710 | 156,824 |
| Corporate filing fees | 6,595 | 9,530 | 18,093 | 19,087 |
| Interest and bank charges | - | 476 | - | 747 |
| Office and administration | 30,337 | 11,892 | 62,859 | 45,609 |
| Professional fees | 6,990 | 31,510 | 23,054 | 32,490 |
| Promotion and investor relations | 47,409 | 53,868 | 91,639 | 105,677 |
| Stock-based compensation | 283,482 | 131,100 | 632,964 | 262,200 |
| Wages and consulting fees (note 11) | 86,425 | 96,971 | 146,101 | 178,814 |
| | 547,052 | 427,399 | 1,140,949 | 821,413 |
| Operator recoveries | - | (83,775) | (2,226) | (152,524) |
| Loss from operations | (547,052) | (343,624) | (1,138,723) | (668,889) |
| Other income (expense) | | | | |
| Interest | 67,784 | 46,266 | 112,614 | 50,069 |
| Foreign exchange gain (loss) | (255) | - | (255) | - |
| Write down of investment | (190,000) | - | (190,000) | - |
| Total other income | (122,471) | 46,266 | (77,641) | 50,069 |
| Loss before income taxes | (669,523) | (297,358) | (1,216,364) | (618,820) |
| Future income taxes | 219,608 | - | 219,608 | - |
| Net loss for the period | (449,915) | (297,358) | (996,756) | (618,820) |
| Deficit, beginning of period | (3,440,453) | (1,118,554) | (2,893,612) | (797,092) |
| Deficit, end of period | \$ (3,890,368) | \$ (1,415,912) | \$ (3,890,368) | \$ (1,415,912) |
| Basic and diluted loss per share | \$ (0.01) | \$ (0.01) | \$ (0.03) | \$ (0.03) |
| Weighted average number of shares | 29,747,653 | 25,633,387 | 29,361,545 | 20,879,347 |

Committee Bay Resources Ltd.
Consolidated Statements of Cash Flows
(unaudited)

| Three and six months ended June 30 | 2005 (3 months) | 2004 (3 months) | 2005 (6 months) | 2004 (6 months) |
|---|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| Cash flows from operating activities | | | | |
| Net loss | \$ (449,915) | \$ (297,358) | \$ (996,756) | \$ (618,820) |
| Adjustments for: | | | | |
| Amortization | 13,877 | 13,195 | 29,529 | 19,965 |
| Stock-based compensation | 283,482 | 131,100 | 632,964 | 262,200 |
| Future income taxes | (219,608) | - | (219,608) | - |
| | (372,165) | (153,063) | (553,871) | (336,655) |
| Change in non-cash working capital items | | | | |
| Accounts receivable | 250,861 | (315,816) | (203,224) | (403,791) |
| Accounts payable | 217,468 | (131,909) | (157,785) | 513,578 |
| Advances from Gold Fields | - | (748,200) | - | 145,314 |
| | 96,164 | (1,348,988) | (914,880) | (81,554) |
| Cash flows from investing activities | | | | |
| Guaranteed investment certificates | 1,000,000 | (8,355,765) | 2,905,221 | (8,405,765) |
| Purchase of equipment | (37,982) | (49,430) | (134,730) | (150,382) |
| Expenditures on mineral interests | (3,726,608) | 1,943 | (4,805,424) | (53,465) |
| Change in non-cash working capital items | 1,294,689 | - | 1,294,689 | - |
| Write-down in investment (note 4) | 190,000 | - | 190,000 | - |
| | (1,279,901) | (8,403,252) | (550,244) | (8,609,612) |
| Cash flows from financing activities | | | | |
| Issuance of share capital | (56,666) | 6,877,614 | 815,932 | 8,082,341 |
| Share issue costs | (33,439) | - | (42,064) | - |
| | (90,105) | 773,868 | 773,868 | 773,868 |
| Net increase (decrease) in cash | (1,273,842) | (2,874,626) | (691,256) | (608,825) |
| Cash, beginning of period | 5,309,946 | 4,165,547 | 4,727,361 | 1,899,746 |
| Cash, end of period | \$ 4,036,105 | \$ 1,290,921 | \$ 4,036,105 | \$ 1,290,921 |
| Other information | | | | |
| Interest received | \$ 189,720 | \$ 19,121 | \$ 234,550 | \$ 19,915 |

Committee Bay Resources Ltd.
Notes to the Consolidated Financial Statements
(unaudited)

June 30, 2005 and December 31, 2004

1. Nature of operations

Committee Bay Resources Ltd. ("CBR" or the "Company") is a development stage enterprise and is currently exploring its mineral interests in Nunavut, Canada in order to bring the properties to the extraction and processing stage.

The Company is in the process of exploring its mineral properties which have the potential of being economically recoverable. The measurement of certain assets and liabilities is dependent on future events therefore the preparation of these financial statements requires the use of estimates, which may vary from actual results. In particular, the recoverability of the amounts shown for mineral interests is dependent upon the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the mineral interests, the ability of the Company to obtain necessary financing to complete development, and upon the future profitable production or proceeds from disposition of the mineral interests. The amounts shown for mineral interests represent net costs incurred to date and do not necessarily represent present or future values. Such estimates have been made using careful judgments, which, in management's opinion, are within reasonable limits of materiality and conform to the significant accounting policies summarized below.

2. Basis of presentation

The accompanying unaudited consolidated financial statements have been prepared by the Company following the same accounting policies and methods as those disclosed in the audited consolidated financial statements for the year ended December 31, 2004. Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles ("GAAP") in Canada have been omitted. These interim consolidated financial statements should be read in conjunction with the December 31, 2004 audited consolidated financial statements and the notes thereto. In the opinion of management, all adjustments of a normal and recurring nature that are necessary for a fair presentation of the balance sheet, results of operations, and cash flows of those interim periods have been included.

3. Cash and guaranteed investment certificates

The Company has provided \$250,000 of cash as security to the Company's bank for electronic funds transfer services and corporate MasterCard liabilities. The Company has provided \$35,000 of cash as security for an irrevocable letter of credit of the same amount expiring March 7, 2006, renewable annually, with respect to the performance of a third party under a land use license. The letter of credit was provided as a guarantee for possible reclamation work in order to facilitate exploration in the area by third party geological consultants.

Alberta Treasury Branches ("ATB") guaranteed investment certificates ("GICs") bear interest at rates ranging from 2.82% to 4.05% maturing between April 25, 2006 and April 23, 2009. The repayment by ATB of money on deposit and interest payable on that money is guaranteed by the Crown in right of Alberta.

4. Investment in Indicator Minerals Inc.

The Company's investment of 1,000,000 shares in Indicator Minerals Inc. (Cost - \$400,000) does not represent a significant influence and consequently is carried at cost. The cost of the investment has been adjusted in the period for a decline in value that has been determined to be other than temporary. The market value at June 30, 2005 is \$210,000 (2004 - \$320,000).

Committee Bay Resources Ltd.
Notes to the Consolidated Financial Statements
(unaudited)

June 30, 2005 and December 31, 2004

5. Equipment

| | 2005 | | |
|--------------------------------|-------------------|-------------------------------------|-------------------|
| | Cost | Accumulated Amortization | Net |
| Furniture and office equipment | \$ 38,669 | \$ 7,150 | \$ 31,519 |
| Leasehold improvements | 12,724 | 2,545 | 10,179 |
| Computer equipment | 97,872 | 29,229 | 68,643 |
| Computer software | 71,021 | 52,971 | 18,050 |
| Mobile construction equipment | 186,675 | 34,982 | 151,693 |
| Camp and field equipment | 80,197 | 22,905 | 57,292 |
| | \$ 487,158 | \$ 149,783 | \$ 337,376 |
| | 2004 | | |
| | Cost | Accumulated Amortization | Net |
| Furniture and office equipment | \$ 37,752 | \$ 3,775 | \$ 33,977 |
| Leasehold improvements | 12,724 | 1,272 | 11,452 |
| Computer equipment | 78,142 | 18,139 | 60,003 |
| Computer software | 68,729 | 39,180 | 29,549 |
| Mobile construction equipment | 78,571 | 11,786 | 66,785 |
| Camp and field equipment | 76,510 | 16,768 | 59,742 |
| | \$ 352,428 | \$ 90,920 | \$ 261,508 |

Amortization of camp and field equipment in the amount of \$29,333 (2004 - \$11,745) has been capitalized in mineral interest - field costs.

Committee Bay Resources Ltd.
Notes to the Consolidated Financial Statements
(unaudited)

June 30, 2005 and December 31, 2004

6. Mineral interests

| | 2005 | | |
|---|-------------------------------|-------------------------|---------------------|
| | Balance, beginning of year | Current period costs | Balance, June 30 |
| <i>Committee Bay Greenstone Belt (45% interest)</i> | | | |
| Acquisition costs | \$ 68,928 | \$ - | \$ 68,928 |
| Claims and staking | 67,160 | 268,075 | 335,235 |
| Fieldwork | 2,762,951 | 4,260,471 | 7,023,422 |
| Geological consulting | 427,725 | 108,813 | 536,538 |
| Option and other income | (399,999) | - | (399,999) |
| Operator recoveries | (546,056) | (3,000) | (549,056) |
| Total | 2,380,709 | 4,634,359 | 7,015,068 |
| <i>Boothia Peninsula</i> | | | |
| Fieldwork | 165,079 | 971 | 166,066 |
| Geological consulting | 35,075 | - | 35,075 |
| Total | 200,154 | 971 | 201,141 |
| <i>Baffin Island</i> | | | |
| Geological consulting | 11,668 | - | 11,668 |
| <i>Argentina</i> | | | |
| Fieldwork | 80,688 | 110,646 | 191,334 |
| Geological consulting | 100,704 | 137,655 | 238,359 |
| Total | 181,392 | 248,301 | 429,693 |
| <i>Prospective Properties</i> | | | |
| Fieldwork | 19,104 | (19,104) | 0 |
| Geological consulting | 37,389 | (29,786) | 7,603 |
| Total | 56,493 | (48,890) | 7,603 |
| Total | \$ 2,830,416 | \$ 4,834,741 | \$ 7,665,193 |

Committee Bay Resources Ltd.
Notes to the Consolidated Financial Statements
(unaudited)

June 30, 2005 and December 31, 2004

6. Mineral interests, continued

| | 2004 | | |
|---|-------------------------------|-----------------------|------------------------|
| | Balance, beginning of year | Current year costs | Balance end of year |
| <i>Committee Bay Greenstone Belt (45% interest)</i> | | | |
| Acquisition costs | \$ 53,707 | \$ 15,221 | \$ 68,928 |
| Claims and staking | 45,116 | 22,044 | 67,160 |
| Fieldwork | 1,254,665 | 1,508,286 | 2,762,951 |
| Geological consulting | 167,018 | 260,707 | 427,725 |
| Option income | (56,785) | (343,214) | (399,999) |
| Operator recoveries | (114,231) | (431,825) | (546,056) |
| Total | 1,349,490 | 1,031,219 | 2,380,709 |
| <i>Committee Bay Diamond</i> | | | |
| Fieldwork | 62,873 | - | 62,873 |
| Assaying | - | 5,845 | 5,845 |
| Geological consulting | 11,687 | - | 11,687 |
| Option Income | - | (80,405) | (80,405) |
| Total | 74,560 | (74,560) | - |
| <i>Boothia Peninsula</i> | | | |
| Fieldwork | - | 165,079 | 165,079 |
| Geological consulting | 11,687 | 23,388 | 35,075 |
| Total | 11,687 | 188,467 | 200,154 |
| <i>Baffin Island</i> | | | |
| Geological consulting | 11,688 | - | 11,688 |
| <i>Argentina</i> | | | |
| Fieldwork | - | 80,688 | 80,688 |
| Geological consulting | - | 100,704 | 100,704 |
| Total | - | 181,392 | 181,392 |
| <i>Boothia Peninsula</i> | | | |
| Fieldwork | - | 19,104 | 19,104 |
| Geological consulting | - | 37,389 | 37,389 |
| Total | - | 56,493 | 56,493 |
| | \$ 1,447,425 | \$ 1,383,011 | \$ 2,830,436 |

Committee Bay Resources Ltd.
Notes to the Consolidated Financial Statements
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June 30, 2005 and December 31, 2004

6. Mineral interests, continued

The Company has taken steps to verify title to resource properties in which it has an interest. However, these procedures do not guarantee the Company's title as property title may be subject to unregistered prior agreements and potential non-compliance with exploration expenditure and reporting requirements.

a) *Committee Bay Greenstone Belt*

The Company had mineral interests at December 31, 2004 of 1,620,854 acres (2003 - 528,824) near Committee Bay, Nunavut, consisting of 539,002 acres (2003 - 304,956) of mineral claims and 1,081,851 acres (2003 - 223,868) of prospecting permits. Each acre of mineral claims requires expenditures of \$2.00 per acre per year over the ten year life of the claim. The claims held by the Company have a weighted average remaining life of 7.6 years. The work program summaries reporting the expenditures incurred in 2004 have been filed and management estimates that such expenditures will contribute towards the overall expenditure commitment. In order to keep the prospecting permits in good standing, the Company must incur \$261,144 in expenditures during 2005 and \$343,193 in 2006. Portions of the property are subject to a 1% net smelter royalty ("NSR").

On April 1, 2003 the Company entered into an Option Agreement with Gold Fields Exploration BV ("Gold Fields") to grant Gold Fields an option to earn up to a 55% interest in the Committee Bay Gold property by funding exploration expenditures of US\$1,750,000 by April 1, 2004, US\$1,000,000 by April 1, 2005 and US\$2,250,000 by April 1, 2007. During 2004, Gold Fields reached the required US\$5,000,000 of expenditures and earned a 55% interest in the property. Gold Fields will retain a 1% diamond royalty on the property.

On April 20, 2005, the Company reached an agreement with Gold Fields to convert Gold Fields 55% interest in the Committee Bay Greenstone Belt joint venture mineral interest ("CBJV") into 7,000,000 common shares of the Company at a deemed price of \$1.25 per share. At the earlier of two years or the Company providing notice of having incurred \$10,000,000 in project expenditures ("Trigger Date"), Gold Fields will have a one time right to forego the equity conversion and retain its undivided interest in the CBJV by committing to fund new project expenditures of 150% of the project expenditures incurred by the Company. Gold Fields may elect to trigger the acquisition at any time before the Trigger Date and will have the right to maintain its post acquisition interest in the Company by participating in certain future financings to the extent that its post placement holdings remain less than 20% of the outstanding common shares. The right to participate will terminate if there is a change of control of Gold Fields ultimate holding company or if Gold Fields holdings fall below 10% of the outstanding common shares.

b) *Committee Bay Diamond*

Costs related to diamond exploration work on the Committee Bay Gold property are recorded as a separate area of interest. Shares of Indicator Minerals Inc. ("Indicator") valued at \$400,000 received under the letter of intent have been recorded as option income thereby reducing Committee Bay Diamond property by \$80,405 and Committee Bay Greenstone Belt by \$319,595.

Committee Bay Resources Ltd.
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June 30, 2005 and December 31, 2004

6. Mineral interests, continued

c) *Boothia Peninsula*

The Company received prospecting permits for 958,043 acres in the area of interest north of the Committee Bay Greenstone belt. The related deposits of \$0.10 per acre are recoverable if the Company spends a minimum of \$0.10 per acre on exploration within one year and have been reimbursed by Indicator.

d) *Baffin Island*

The Company received prospecting permits for 622,173 acres in this area of interest. The related deposits of \$0.10 per acre have been reimbursed by Indicator.

e) *Argentina*

Subsequent to year end, the Company commenced filing of mineral claims but is not yet able to determine its annual expenditure requirements.

7. Income taxes

a) The components of future income tax balances are as follows:

| | 2005 | 2004 |
|--|------------|--------------|
| Future income tax asset (liability) | | |
| Non-capital loss carry-forwards | \$ 531,000 | \$ 372,000 |
| Share issue costs | 379,000 | 365,000 |
| Other | 9,000 | 2,392 |
| Mineral interests in excess of tax basis | (916,000) | (959,000) |
| Valuation allowance | 3,000 | (219,608) |
| | \$ - | \$ (219,608) |

For income tax purposes, the Company has losses carried forward from prior years which can be applied to reduce future years' taxable income. These losses expire as follows:

| | |
|------|--------------|
| 2006 | 63,000 |
| 2007 | 89,000 |
| 2008 | 67,000 |
| 2009 | 180,000 |
| 2010 | 584,000 |
| 2011 | 92,000 |
| 2012 | 481,000 |
| | \$ 1,556,000 |

Committee Bay Resources Ltd.
Notes to the Consolidated Financial Statements
(unaudited)

June 30, 2005 and December 31, 2004

8. Share capital

Authorized

Unlimited number of common shares

Common shares issued

| | Number | Amount |
|--|-------------------|----------------------|
| Balance December 31, 2002 | 10,339,520 | \$ 1,471,076 |
| Common shares on private placement (a) | 2,005,000 | 701,750 |
| Common shares on private placement (b) | 1,333,333 | 399,999 |
| Common shares on private placement (c) | 2,500,000 | 1,875,000 |
| Common shares on exercise of share options | 264,300 | 66,075 |
| Common shares on exercise of agents warrants | 238,560 | 56,820 |
| Common shares on exercise of share purchase warrants | 2,048,498 | 764,924 |
| Common shares issued for finder's fees | 435,216 | 148,565 |
| Share issue costs | - | (535,715) |
| <hr/> | | |
| Balance December 31, 2003 | 19,164,427 | 4,948,494 |
| Flow through common shares on exercise of warrants | 1,400,000 | 350,000 |
| Common shares on private placement (d) | 3,515,000 | 7,381,500 |
| Flow through common shares on private placement (e) | 1,750,000 | 3,150,000 |
| Common shares on exercise of warrants | 2,199,883 | 928,901 |
| Common shares on exercise of share options | 510,894 | 157,284 |
| Common shares on exercise of agents warrants | 216,000 | 160,300 |
| Stock-based compensation on exercised options and warrants | - | 159,613 |
| Share issue costs | - | (1,219,288) |
| Tax effect on flow through expenditures | - | (1,194,200) |
| <hr/> | | |
| Balance December 31, 2004 | 28,756,204 | 14,822,604 |
| Common shares on exercise of share options | 44,667 | 11,167 |
| Common shares on exercise of agents warrants | 10,000 | 8,500 |
| Common shares on exercise of warrants | 936,782 | 796,265 |
| Stock-based compensation on exercised options and warrants | | 5,000 |
| Share issue costs | | (42,064) |
| <hr/> | | |
| Balance June 30, 2005 | 29,747,653 | \$ 15,601,472 |

- a) In a private placement on April 15, 2003, the Company issued 2,005,000 units at \$0.35 per unit. Each unit comprised one common share and one-half warrant. Each whole warrant entitles the holder to purchase one common share at \$0.45 per share expiring October 15, 2003. All warrants were exercised prior to expiry.
- b) In private placements on May 5 and June 4, 2003, the Company issued an aggregate 1,333,333 units to Gold Fields at \$0.30 per unit. Each unit comprised one common share and one warrant to purchase one common share at \$0.40 per share. 1,000,000 warrants expire on May 30, 2004 and 333,333 warrants expire June 30, 2004. The Company paid finders fees of 395,216 shares at \$0.30 per share. All warrants were exercised prior to expiry.

Committee Bay Resources Ltd.
Notes to the Consolidated Financial Statements
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8. Share capital, continued

- c) On September 26, 2003, the Company issued 2,500,000 units at \$0.75 per unit. Each unit comprised one common share and one-half warrant. Each whole warrant entitles the holder to purchase one common share at \$0.85 per share expiring March 26, 2005. The Company paid finders fees of 40,000 units and 200,000 warrants to purchase 200,000 common shares at \$0.75 per share expiring March 26, 2005.
- d) On April 16, 2004, the Company issued 3,515,000 units at \$2.10 per unit. Each unit comprised one common share and one-half common share warrant. Each whole warrant entitles the holder to purchase one common share at \$2.75 per share expiring April 16, 2005 (subsequently extended to April 16, 2006). The Company paid underwriters commission of \$514,500 cash and 15,000 units as well as 350,000 warrants to purchase 350,000 common shares at \$2.25 per share expiring April 16, 2005 (subsequently extended to April 16, 2006).
- e) On October 28, 2004, the Company issued 1,750,000 flow through common shares at \$1.80 per share. The Company paid underwriters commissions of \$189,000 cash, legal fees of \$12,000 and 140,000 warrants to purchase 140,000 common shares at \$2.25 per share expiring October 29, 2005

An aggregate of 449,858 (2004 – 899,716) common shares are subject to escrow restrictions and held on deposit with Olympia Trust Company, pursuant to an escrow agreement. These shares are to be released in semi-annual installments over the course of the 36-month period beginning August 8, 2002. The final release will be in August, 2005.

Share purchase warrants

| | Warrants | Weighted avg. exercise price |
|---|-------------|---------------------------------|
| Outstanding warrants, December 31, 2002 | 3,066,000 | \$ 0.28 |
| Issued | 3,585,831 | 0.57 |
| Exercised | (2,048,498) | 0.37 |
| | | |
| Outstanding warrants, December 31, 2003 | 4,603,333 | 0.46 |
| Issued | 1,757,500 | 2.75 |
| Exercised | (3,599,883) | 0.36 |
| | | |
| Outstanding warrants, December 31, 2004 | 2,760,950 | 2.06 |
| Expired | (66,668) | 0.85 |
| Exercised | (936,782) | 0.85 |
| | | |
| Outstanding Warrants, June 30, 2005 | 1,757,500 | \$ 2.75 |

| Exercise Price | Number of Warrants | Weighted average remaining contractual life in years |
|----------------|--------------------|---|
| 2.75 | 1,757,500 | 0.80 |

Committee Bay Resources Ltd.
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8. Share capital, continued

Right to participate agreement

During 2003, the Company granted Gold Fields the right to participate in any issue of common shares, securities convertible into common shares and preference shares, except for issuances related to the exercise of stock options, acquisitions of mineral interests or take over of another entity. Gold Fields may participate in accordance with its then percentage equity interest in the Company as calculated in accordance with the agreement to a maximum participation level of 9.9% provided their interest remained 5% or more of the then issued common shares as defined by the agreement. During the year ended December 31, 2004, Gold Fields' interest decreased below 5% and therefore it no longer has a right to participate under this agreement. However, during the year ended December 31, 2004, the Company granted a new right to participate (note 6 (a)).

9. Stock options and agents warrants

Stock options

The Company has established a stock option plan (the "Plan") for directors, employees, and consultants of the Company. From time to time, shares may be reserved by the Board, in its discretion, for options under the Plan, provided that at the time of the grant, the total number of shares so reserved for issuance by the Board shall not exceed the greater of 20% of the issued and outstanding listed shares (on a non-diluted basis) and 5,245,230 shares; the aggregate number of options granted to any one consultant shall not exceed 2% of the outstanding listed shares; and the aggregate number of shares so reserved for issuance to any one optionee that is an officer, director or employee shall not exceed 5% of the outstanding shares (on a non-diluted basis). The shares so reserved by the Board under the Plan shall be authorized but unissued shares.

The options are non-transferable and will expire, if not exercised, 90 days following the date the optionee ceases to be a director, officer, manager, consultant or employee of the corporation for reasons other than death, one year after the death of an optionee and on the fifth anniversary of the date the option was granted. Pursuant to the policies of the TSX Venture Exchange ("TSXV"), options granted pursuant to the Plan in excess of 10% of the issued and outstanding Common Shares at the time of the grant must be subject to vesting.

| | Number | Weighted avg. exercise price |
|-------------------------------|-----------|---------------------------------|
| Outstanding December 31, 2002 | 1,405,000 | \$ 0.24 |
| Granted | 1,100,000 | 0.51 |
| Exercised | (264,300) | 0.25 |
| Outstanding December 31, 2003 | 2,240,700 | 0.38 |
| Granted | 2,830,000 | 1.80 |
| Exercised | (510,894) | 0.31 |
| Outstanding December 31, 2004 | 4,559,806 | 1.27 |
| Exercised | (44,667) | 0.25 |
| Outstanding June 30, 2005 | 4,515,139 | \$ 1.28 |

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9. Stock options and agents warrants continued

Options granted in the first Quarter of 2004 vest at a rate of 35,000 options per Quarter beginning in the first quarter of 2004. Of the 2,620,000 options granted in the third Quarter of 2004, 1,465,091 vested immediately and the remainder vest at a rate of 192,484 every three months and will be fully vested by January 23, 2006.

The fair value of each option and warrant granted is estimated on the date of grant or vesting using the Black-Scholes option pricing model with weighted average assumptions for grants as follows:

| December 31 | 2004 | | 2003 | |
|--|---------|----------|---------|----------|
| | Options | Warrants | Options | Warrants |
| Risk free interest rate | 3.99% | 1.5% | 3.91% | 2.83% |
| Expected hold period prior to exercise (years) | 5 | 1 | 5 | 1.5 |
| Expected volatility | 91.5% | 100% | 115% | 115% |
| Dividend yield per share | 0% | 0% | 0% | 0% |

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.

| Exercise prices | Number outstanding | Weighted average remaining contractual life in years | Number exercisable |
|-----------------|--------------------|--|--------------------|
| \$ 0.20 | 105,000 | 1.10 | 105,000 |
| 0.25 | 616,208 | 2.30 | 616,208 |
| 0.42 | 28,215 | 3.10 | 28,215 |
| 0.52 | 935,716 | 3.10 | 935,716 |
| 1.80 | 210,000 | 3.50 | 210,000 |
| 1.80 | 2,620,000 | 4.10 | 2,042,542 |
| \$ 1.28 | 4,515,139 | 3.54 | 3,937,681 |

The options expire between August 3, 2006 and July 23, 2009. The weighted average exercise price of options exercisable at December 31, 2004 is \$1.13.

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9. Stock options and agents warrants continued

Agents Warrants

| | Number | Weighted avg. exercise price |
|---|----------------|---------------------------------|
| Outstanding warrants, December 31, 2002 | 244,560 | \$ 0.24 |
| Granted | 220,000 | 0.76 |
| Exercised | (238,560) | 0.24 |
| Outstanding warrants, December 31, 2003 | 226,000 | 0.75 |
| Granted | 490,000 | 2.25 |
| Exercised | (216,000) | 0.74 |
| Outstanding warrants, December 31, 2004 | 500,000 | 2.22 |
| Exercised | (10,000) | 0.85 |
| Outstanding warrants, June 30, 2005 | <u>490,000</u> | <u>\$ 2.25</u> |

| Exercise Price | Number of Warrants | Weighted average remaining contractual life in years |
|----------------|--------------------|---|
| \$ 2.25 | 350,000 | 0.80 |
| 2.25 | 140,000 | 0.30 |
| <u>\$ 2.25</u> | <u>490,000</u> | <u>0.66</u> |

10. Contributed surplus

The following table reconciles the company's contributed surplus.

| | June 30, 2005 | December 31, 2004 |
|----------------------------------|----------------------------|----------------------|
| Balance, beginning of period | \$ 2,902,273 | \$ 246,000 |
| Stock options granted (note 9) | 632,964 | 2,463,086 |
| Agents warrants granted (note 9) | - | 352,800 |
| Exercise of options and warrants | (5,000) | (159,613) |
| Balance, end of period | <u>\$ 3,530,237</u> | <u>\$ 2,902,273</u> |

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11. Related party transactions

During the year, the Company incurred consulting expenses of \$72,250 (2004 - \$84,500) and capitalized mineral interest - geological consulting services of \$31,600 (2004 - \$21,500) related to management services provided by companies controlled by directors. Of this amount, \$56,710 (2004 - \$35,368) was unpaid at the period end and included in accounts payable and accrued liabilities.

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

12. Lease commitments

The Company has entered into a lease agreement expiring January 31, 2011 as a tenant in common with another company for its Vancouver office space. The Company has agreed to pay 33% of the total lease commitment but, in the event of default by the other tenant, would be responsible for the entire amount of the lease. The minimum annual commitment for the entire lease contract, exclusive of operating costs is as follows:

| | |
|------|-------------------|
| 2005 | \$ 47,616 |
| 2006 | 47,616 |
| 2007 | 47,616 |
| 2008 | 54,891 |
| 2009 | 55,552 |
| 2010 | 55,552 |
| 2011 | <u>4,629</u> |
| | <u>\$ 313,472</u> |

13. Financial instruments

Financial instruments consist of recorded amounts of accounts receivable, guaranteed investment certificates and investment in Indicator Minerals Inc. which will result in future cash receipts, as well as accounts payable and accrued liabilities, which will result in future cash outlays.

- a) **Credit Risk**
Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company is exposed to a significant concentration of credit risk as virtually all of the accounts receivable at the year end are for goods and services tax recoverable.
- b) **Fair Value**
The carrying values of the financial instruments noted above approximate their fair values due to their short term nature.
- c) **Foreign currency exchange risk**
A portion of the Company's cash and accounts payable is denominated in U.S dollars, consequently the Company is subject to the risk of fluctuating exchange rates.

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15. Subsequent events

- a) On July 12, 2005, the Company and Matador Exploration Inc. ("MXN") agreed to a business combination whereby the Company will acquire all of MXN's 9,043,474 issued and outstanding shares in exchange for shares of the company at a rate of 0.72 shares of the company for each share of MXN. The company and MXN also signed a letter of agreement whereby the company has agreed, subject to conditions, to provide financing to Matador by way of a \$6,000,000 debenture convertible to shares of MXN on a basis of one common share of MXN for each \$0.55 of principal converted, bearing interest at 5% and secured by certain assets located in the Coolgardie gold district of Western Australia as well as shares held in and guarantees provided by an MXN subsidiary.

- b) On July 29, 2005, the Company announced the closing of a brokered private placement, receiving gross proceeds of \$8-million through the sale of 8,000,000 flow-through common shares at a price of \$0.75 per share, and 2,666,666 non-flow-through units at \$0.75 per unit. Each unit is comprised of one common share and one transferable common share purchase warrant, exercisable into one additional common share at a price of \$1.00 per share and expiring on July 29, 2007. The costs of the offering included agent's cash commissions of \$560,000, agent's warrants to purchase 1,066,666 common shares at a price of \$0.80 per share expiring July 29, 2007, and a corporate finance fee payable in 33,333 corporate finance units, each of which consists of one common share and one common share purchase warrant exercisable into one common share at \$1.00 per share until July 29, 2007.

16. Comparative figures

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year earnings.