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Auditors' Report

To the Shareholders
Anglo Minerals Ltd.

We have audited the consolidated balance sheets of Anglo Minerals Ltd. as at June 30, 2006 and 2005 and the consolidated statements of income and retained earnings 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 June 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.

(signed) "Collins Barrow Calgary LLP"
CHARTERED ACCOUNTANTS

Calgary, Alberta
October 18, 2006

Anglo Minerals Ltd.
Consolidated Balance Sheets
June 30, 2006 and 2005

	2006	2005
Assets		
Current assets		
Cash	\$ 8,061,445	\$ 4,562,989
Accounts receivable	608,730	10,054
Deposits	<u>28,000</u>	<u>20,000</u>
	8,698,175	4,593,043
Mineral properties and deferred costs (schedule and note 3)	<u>786,074</u>	<u>568,839</u>
	<u>\$ 9,484,249</u>	<u>\$ 5,161,882</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 381,778	\$ 59,935
Due to an officer and director (note 4)	4,359	1,521
Income taxes payable	274,767	-
Future income taxes (note 7)	<u>1,290,361</u>	<u>994,304</u>
	1,951,265	1,055,760
Future income taxes (note 7)	<u>205,350</u>	<u>162,599</u>
	<u>2,156,615</u>	<u>1,218,359</u>
Shareholders' Equity		
Share capital (note 5)	4,078,805	1,926,707
Contributed surplus	1,497,786	435,086
Retained earnings	<u>1,751,043</u>	<u>1,581,730</u>
	<u>7,327,634</u>	<u>3,943,523</u>
	<u>\$ 9,484,249</u>	<u>\$ 5,161,882</u>
Commitments (note 9)		

Approved by the Board,

(signed) "Todd Montgomery" _____, Director

(signed) "Randy Ludwar" _____, Director

Anglo Minerals Ltd.
Consolidated Statements of Income and Retained Earnings
Years Ended June 30, 2006 and 2005

	2006	2005
Revenue		
Gain on disposition of mineral properties (note 3)	\$ 1,966,912	\$ 4,259,018
Interest income	136,655	20,223
Foreign exchange gain	<u>72,000</u>	<u>-</u>
	<u>2,175,567</u>	<u>4,279,241</u>
Expenses		
Advertising and promotion	\$ 99,771	\$ 4,085
Bank charges and other	1,673	1,346
Cost of impaired loan written off	-	30,000
Office	39,325	27,940
Professional fees	129,090	59,271
Salaries and consulting fees	120,049	69,239
Stock-based compensation	1,102,500	-
Transfer agent costs	8,453	8,197
Travel	<u>-</u>	<u>1,608</u>
	<u>1,500,861</u>	<u>201,686</u>
Income before the following	674,706	4,077,555
Recovery of amount due from an officer and director (note 4)	<u>-</u>	<u>5,472</u>
Income before income taxes	<u>674,706</u>	<u>4,083,027</u>
Income taxes (note 7)		
Current	274,767	-
Future	<u>230,626</u>	<u>1,158,618</u>
	<u>505,393</u>	<u>1,158,618</u>
Net income	169,313	2,924,409
Retained earnings (deficit), beginning of year	<u>1,581,730</u>	<u>(1,342,679)</u>
Retained earnings, end of year	<u>\$ 1,751,043</u>	<u>\$ 1,581,730</u>
Net income per share - basic and diluted (note 5[f])	<u>\$ 0.01</u>	<u>\$ 0.15</u>

Anglo Minerals Ltd.
Consolidated Statements of Cash Flows
Years Ended June 30, 2006 and 2005

	2006	2005
Operating activities		
Net income	\$ 169,313	\$ 2,924,409
Items not involving cash		
Future income taxes	230,626	1,158,618
Cost of impaired loan written off	-	30,000
Stock-based compensation	1,102,500	-
Recovery of amount due from an officer and director	-	(5,472)
Gain on disposition of mineral properties	<u>(1,966,912)</u>	<u>(4,259,018)</u>
	(464,473)	(151,463)
Changes in non-cash working capital balances relating to operating activities (note 11)	<u>272,363</u>	<u>(43,646)</u>
	<u>(192,110)</u>	<u>(195,109)</u>
Financing activities		
Repayment of loans payable	-	(3,500)
Advances from an officer and director	2,838	1,521
Proceeds on issuance of shares	2,311,200	487,500
Share issuance costs	<u>(90,720)</u>	<u>(4,500)</u>
	<u>2,223,318</u>	<u>481,021</u>
Investing activities		
Repayment of advances to an officer and director	-	5,472
Additions to mineral properties and deferred costs, net of recoveries	(2,104,883)	(574,105)
Proceeds on disposition of mineral properties and deferred costs, net of transaction costs	3,854,560	4,841,732
Changes in non-cash working capital balances relating to investing activities (note 11)	<u>(282,429)</u>	<u>(11,840)</u>
	<u>1,467,248</u>	<u>4,261,259</u>
Cash inflow	3,498,456	4,547,171
Cash, beginning of year	<u>4,562,989</u>	<u>15,818</u>
Cash, end of year	<u>\$ 8,061,445</u>	<u>\$ 4,562,989</u>

Anglo Minerals Ltd.

Consolidated Schedule of Mineral Properties and Deferred Costs Years Ended June 30, 2006 and 2005

	2006	2005
Potash Project		
Mineral properties		
Balance, beginning of year	\$ 83,476	\$ -
Additions	-	83,476
Applications approved-transferred from deposits on permit applications	342,102	-
Disposal	<u>(300,471)</u>	<u>-</u>
Balance, end of year	<u>125,107</u>	<u>83,476</u>
Deferred costs		
Balance, beginning of year	96,639	-
Additions	2,046,732	96,639
Disposal	<u>(1,513,220)</u>	<u>-</u>
Balance, end of year	<u>630,151</u>	<u>96,639</u>
Deposits on permit applications		
Balance, beginning of year	388,724	-
Additions	58,151	388,724
Applications approved-transferred to mineral properties and exploration expenses	(342,102)	-
Disposal	<u>(73,957)</u>	<u>-</u>
Balance, end of year	<u>30,816</u>	<u>388,724</u>
Total costs	<u>\$ 786,074</u>	<u>\$ 568,839</u>
Firebag Coal Project		
Mineral properties		
Balance, beginning of year	\$ -	\$ 327,010
Disposal	<u>-</u>	<u>(327,010)</u>
Balance, end of year	<u>-</u>	<u>-</u>
Deferred costs		
Balance, beginning of year	-	250,437
Additions	-	5,268
Disposal	<u>-</u>	<u>(255,705)</u>
Balance, end of year	<u>-</u>	<u>-</u>
Total costs	<u>\$ -</u>	<u>\$ -</u>
Total Project Costs for the Year		
Mineral properties and exploration expenses	\$ 125,107	\$ 83,476
Deferred costs	630,151	96,639
Deposits on permit applications	<u>30,816</u>	<u>388,724</u>
Total costs	<u>\$ 786,074</u>	<u>\$ 568,839</u>

Anglo Minerals Ltd.
Notes to Consolidated Financial Statements
June 30, 2006 and 2005

1. Nature of operations

The company is engaged in the business of mineral exploration and development. Since inception, the efforts of the company have been devoted to exploration of natural resources and acquisition of mineral rights. On December 29, 2004, the shareholders voted in favour of a change in business to include the energy sector.

2. Significant accounting policies

Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for the year necessarily involves the use of estimates and approximations which have been made using careful judgment. By their nature, these estimates and approximations are subject to measurement uncertainty, and the effect on the financial statements from changes in these estimates and approximations in future periods could be significant. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below:

(a) Principles of consolidation

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiary.

(b) Joint venture accounting

The company's mineral exploration and development activities are conducted jointly with others, and accordingly, these accounts reflect only the company's proportionate interest in such activities.

(c) Mineral properties and deferred costs

Mineral properties and deferred costs includes initial property acquisition costs, related property option payments, exploration and development costs, an allocation of salaries based on time spent and other costs directly related to specific properties. All costs related to the exploration and development of mineral properties are deferred until commencement of commercial production.

When properties are developed to the stage of commercial production, mineral properties and deferred costs will be amortized on a unit-of-production basis over economically recoverable reserves.

If a mineral property is abandoned or it is determined that its carrying value cannot be supported by future production or sale, the related costs are charged against operations in the year of abandonment or determination of impairment of value. The amounts recorded as mineral properties and deferred costs represent unamortized costs to date and do not necessarily reflect present or future values.

Anglo Minerals Ltd.
Notes to Consolidated Financial Statements
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Management periodically reviews the carrying values of mineral properties and deferred costs with external mining professionals. A decision to abandon, reduce or expand activity on a specific project is based upon many factors including general and specific assessments of mineral reserves, anticipated future mineral prices, anticipated costs of developing and operating a producing mine, the expiration date of mineral property leases and permits, and the general likelihood that the company will continue exploration on the project. The company does not set a pre-determined holding period for properties with unproven reserves. However, based on the results at the conclusion of each phase of an exploration program, properties that are not suitable as prospects are re-evaluated to determine if future exploration is warranted and that carrying values are appropriate.

(d) Option payments received

Option payments received from third parties for the right to explore mineral properties are recorded first as a reduction of the specific mineral property and deferred exploration costs to which the payments relate, and any excess is included on the statement of income and retained earnings.

(e) Asset retirement obligations

Effective July 1, 2004, the company adopted retroactively the recommendations of CICA Handbook Section 3100, "Asset Retirement Obligations". This standard requires liability recognition for retirement obligations associated with long-lived assets, such as mineral properties, and includes returning such properties to their original condition.

The standard requires the company to recognize the fair value of the liability for an asset retirement obligation in the period in which it is incurred and record a corresponding increase in the carrying value of the related long-lived asset. Fair value is determined through a review of engineering studies, industry guidelines, and management estimates. Fair value is estimated using the present value of the estimated future cash outflows to abandon the asset at the company's credit-adjusted risk-free interest rate. The liability is subsequently adjusted for the passage of time, and is recognized as accretion expense in the consolidated statement of income. The liability is also adjusted due to revisions in either the timing or the amount of the original estimated cash flows associated with the liability. The increase in the carrying value of the asset is amortized using the unit-of-production basis over economically recoverable reserves.

To July 1, 2004 and June 30, 2006, no significant asset retirement obligations have been incurred. As a result, this change in accounting policy had no impact on the consolidated financial statements.

Anglo Minerals Ltd.
Notes to Consolidated Financial Statements
June 30, 2006 and 2005

(f) Foreign exchange

Monetary assets and liabilities in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date. Non-monetary assets are translated into Canadian dollars at the historical rates in effect when the assets were acquired. Revenues and expenses, except amortization, are translated into Canadian dollars at the average exchange rate for the period. Amortization will be translated into Canadian dollars at the same rate as the related assets. Exchange gains and losses arising on translation are included in determining current earnings.

(g) Stock-based compensation

Stock options granted to directors, officers, management, consultants and employees are accounted for using the fair value method. The compensation cost for options granted is determined based on the estimated fair value of the stock options at the time of the grant. The compensation cost is recognized over the vesting periods of the respective options as an expense or capitalized to mineral properties and deferred exploration costs.

(h) Income taxes

Income taxes are accounted for using the liability method of income tax allocation. Under the liability method, income tax assets and liabilities are recorded to recognize future income tax inflows and outflows arising from the settlement or recovery of assets and liabilities at their carrying values. Income tax assets are also recognized for the benefits from tax losses and deductions that cannot be identified with particular assets or liabilities, provided those benefits are more likely than not to be realized. Future income tax assets and liabilities are determined based on the tax laws and rates that are anticipated to apply in the period of realization.

(i) Per share amounts

Basic per share amounts are calculated using the weighted average number of common shares outstanding during the year. For the purpose of the per share calculation, the non-voting shares were converted into voting shares. Diluted per share amounts are calculated based on the treasury stock method, whereby the effect of in-the-money instruments such as stock options affect the calculation. The treasury stock method uses proceeds received on the exercise of in-the-money options plus the unamortized portion of stock-based compensation to purchase common shares at the average price during the year. The weighted average number of shares outstanding is then adjusted by the net change.

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Notes to Consolidated Financial Statements
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(j) Flow-through shares

The company, from time to time, issues flow-through shares to finance a portion of its capital exploration and development activities. The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. The estimated values of the tax pools foregone is reflected as a reduction in share capital with a corresponding increase in future income tax liability when the income tax deductions are renounced.

3. Mineral properties and deferred costs

- (a) During the year ended June 30, 2006, the company obtained nine (2005 - two) potash exploration and development permits from the Province of Saskatchewan. Subsequent to year-end, two additional exploration and development permits were approved for a total of thirteen.
- (b) During the year ended June 30, 2005, the company disposed of its interest in the Firebag Coal Project ("Firebag") which involved the development and extraction of Lignite A coal in Fort McMurray, Alberta, Canada.
- (c) During the year ended June 30, 2006, the company sold a 60% interest in its Potash Project to BHP Billiton Diamonds Inc. ("BHPB") for cash consideration of \$4,184,560 (US\$3.8 million). After selling costs of \$330,000, which were paid to officers, directors, and employees, the company recorded a gain of \$1,966,912. This sale reduced the company's interest in the project from 85% to 25%.

4. Due to an officer and director

The amounts due to an officer and director at June 30, 2006 and 2005 are due on demand, unsecured, non-interest bearing and have no specified terms of repayment. Prior to July 1, 2004, due to the uncertainty of the collectibility of an amount due from an officer and director, the company had written the amount due down to a net realizable value of \$1. As repayment occurred in 2005, a recovery of \$5,472 was included in income.

Anglo Minerals Ltd.
Notes to Consolidated Financial Statements
June 30, 2006 and 2005

5. Share capital

(a) Authorized

Unlimited number of voting common shares
 Unlimited number of non-voting common shares
 Unlimited number of preferred shares issuable in series with such rights and restrictions as the directors may determine prior to issuance

(b) Issued

	2006		2005	
	Number	Stated Value	Number	Stated Value
Common shares - voting				
Balance, beginning of year	23,121,832	\$ 2,051,729	16,326,832	\$ 1,516,997
Private placements (note 5[c])	2,539,093	1,888,700	4,500,000	487,500
Exercise of stock options (note 6)	3,200,000	422,500	-	-
Reallocation of contributed surplus relating to stock options exercised	-	65,000	-	-
Tax benefits renounced on flow-through shares (note 5[d])	-	(138,682)	-	-
Common shares exchanged for common shares non-voting (note 5[e])	-	-	<u>2,295,000</u>	<u>47,232</u>
Balance, end of year	<u><u>28,860,925</u></u>	<u><u>4,289,247</u></u>	<u><u>23,121,832</u></u>	<u><u>2,051,729</u></u>
Common shares - non-voting				
Balance, beginning of year	-	-	22,950,000	472,318
Exchanged for common shares and cancellation (note 5[e])	-	-	(22,950,000)	(47,232)
Allocated to contributed surplus	-	-	-	<u>(425,086)</u>
Balance, end of year	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
		<u><u>4,289,247</u></u>		<u><u>2,051,729</u></u>
Less: Share issuance costs				
Balance, beginning of year		125,022		122,237
Additions, net of income taxes of \$30,500 (2005 - \$1,713)		<u>85,420</u>		<u>2,785</u>
Balance, end of year		<u><u>210,442</u></u>		<u><u>125,022</u></u>
		<u><u>\$ 4,078,805</u></u>		<u><u>\$ 1,926,707</u></u>

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June 30, 2006 and 2005

- (c) During the year ended June 30, 2006, pursuant to various private placements, the company issued 750,000 common shares at \$0.50 per share for proceeds of \$375,000, 750,000 flow-through common shares at \$0.55 per share for proceeds of \$412,500, and 1,039,093 shares at \$1.06 per share for proceeds of \$1,101,200 (US\$1.0 million) (note 8).

During the year ended June 30, 2005, pursuant to various private placements, the company issued 1,000,000 shares at \$0.05 per share for proceeds of \$50,000, and 3,500,000 shares at \$0.125 per share for proceeds of \$437,500.

- (d) During the year ended June 30, 2006, pursuant to certain provisions of the Income Tax Act, the company renounced, for income tax purposes, exploration expenditures in the amount of \$412,500 (note 5[c]). By June 30, 2006, all required amounts had been expended.
- (e) On December 29, 2004, the shareholders voted in favour of a resolution converting 2,295,000 non-voting common shares into 2,295,000 voting common shares, and the cancellation of the remaining 20,655,000 non-voting shares.
- (f) Net income per share

Basic net income per share has been calculated using the weighted average number of common shares outstanding during the year of 24,419,077 (2005 - 19,260,188). Diluted net income per share has been calculated using the weighted average number of common shares of 26,477,499 (2005 - 19,310,188) after giving effect to dilutive stock options. There was no change to the numerator in calculating diluted net income per share.

6. Stock-based compensation

- (a) The company has a stock option plan under which directors, officers, management, consultants and employees of the company are eligible to receive stock options. Options granted under the plan generally have a term of five years but may not exceed five years and vest immediately upon granting. The exercise price of each option shall be determined by the directors at the time of grant but shall not be less than the price permitted by the stock exchange(s) on which the company's common shares are then listed.

The company records stock-based compensation expense upon vesting of options issued. When stock options are exercised, the amount originally credited to contributed surplus for these options is reallocated to share capital.

Anglo Minerals Ltd.
Notes to Consolidated Financial Statements
June 30, 2006 and 2005

A summary of the status of the company's stock option plan as at June 30, 2006 and 2005 is as follows:

	2006		2005	
	Number of Options	Weighted- Average Exercise Price	Number of Options	Weighted- Average Exercise Price
Outstanding, beginning of year	3,200,000	\$ 0.13	2,550,000	\$ 0.13
Granted	2,500,000	0.56	650,000	0.14
Exercised	<u>(3,200,000)</u>	0.13	<u>-</u>	-
Outstanding, end of year	<u>2,500,000</u>	\$ 0.56	<u>3,200,000</u>	\$ 0.13
Exercisable, end of year	<u>2,500,000</u>	\$ 0.56	<u>2,550,000</u>	\$ 0.13

The options outstanding at June 30, 2006 have a remaining contractual life of 4.65 years.

The weighted average fair value of each of the options granted during the year was estimated on the dates of grant to be \$0.40 (2005 - \$0.10) using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2006	2005
Expected life (years)	5.00	5.00
Risk-free interest rate (%)	4.10	3.58
Expected volatility (%)	90	85
Expected dividends (\$/share)	-	-

The options granted during the year ended June 30, 2006 are valued at \$1,000,000 (2005 - \$65,000). As the 2,500,000 stock options vest immediately upon granting, \$1,000,000 in stock-based compensation costs has been recorded with a corresponding increase in contributed surplus.

During the year ended June 30, 2006, stock-based compensation costs of \$65,000 (2005 - \$NIL) have been expensed, relating to options issued in the year ended June 30, 2005 but not vesting until the year ended June 30, 2006, resulting in the recognition of \$65,000 in contributed surplus.

During the year ended June 30, 2006, a resolution was passed to enable all remaining stock options of the 3,200,000 outstanding stock options to immediately vest. On exercise of these stock options, \$65,000 was transferred from contributed surplus to share capital.

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- (b) During the year ended June 30, 2006, the company entered into a one-year services contract with a consultant under which the consultant would supply investor relations services. The consultant was granted options to purchase 250,000 common shares of the company from the company's directors and officers at an exercise price of \$0.40 per share. The options vested in increments of 25% every three months from the date of issuance and expire on the later of two years from the date of grant or 90 days from termination of the contract. The contract was terminated after 75% of the options had vested and the vested options were exercised subsequent to June 30, 2006.

Although these options were not issued by the company, the company receives a benefit equal to the value of these payments.

The weighted-average fair value of each of these stock options was estimated on the date of grant to be \$0.20 using the Black-Scholes option-pricing model with the following weighted-average assumptions:

Expected life (years)	2.00
Risk-free interest rate (%)	3.15
Expected volatility (%)	90
Expected dividends (\$/share)	-

During the year ended June 30, 2006, stock-based compensation costs of \$37,500 (2005 - \$NIL) have been expensed, relating to options issued by directors and officers, vesting in the year, resulting in the recognition of \$37,500 (2005 - \$NIL) in contributed surplus.

- (c) During the year ended June 30, 2006, the company granted options to Union Securities, the underwriter of one of the private placements, to purchase \$65,000 common shares of the company at an exercise price of \$0.50 per share. The options vested upon granting on March 23, 2006 and expire on March 23, 2007.

The weighted-average fair value of each of these stock options was estimated on the date of grant to be \$0.24 using the Black-Scholes option-pricing model with the following weighted-average assumptions:

Expected life (years)	1.00
Risk-free interest rate (%)	4.00
Expected volatility (%)	90
Expected dividends (\$/share)	-

Anglo Minerals Ltd.
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June 30, 2006 and 2005

A summary of the status of the agent's stock options as at June 30, 2006 is as follows:

	Number of Options	Weighted- Average Exercise Price
Granted during the year and outstanding and exercisable, end of year	<u>105,000</u>	\$ 0.50

The options outstanding have a remaining contractual life of 0.73 years.

During year ended June 30, 2006, share issue costs of \$25,200 have been recorded, relating to options issued by the company, vesting in the year, resulting in the recognition of \$25,200 in contributed surplus.

7. Income taxes

- (a) Income tax expense differs from that which would be expected from applying the combined effective Canadian federal and provincial income tax rates of 36.24% (2005 - 38.12%) to income before income taxes as follows:

	Years Ended June 30,	
	2006	2005
Expected tax expense	\$ 244,513	\$ 1,556,450
Stock-based compensation	399,546	-
Resource allowance	17,176	12,733
Other	943	138
Non-taxable portion of capital gain	(13,046)	-
Expiry of loss carryforward	-	22,777
Tax rate adjustments	(130,693)	(58,970)
Future taxes not previously recognized	<u>(13,046)</u>	<u>(374,510)</u>
	<u>\$ 505,393</u>	<u>\$ 1,158,618</u>

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- (b) Significant components of the future tax liability as at June 30, 2006 and 2005 are as follows:

	2006	2005
Temporary differences related to mineral properties and deferred costs	\$ (1,519,563)	\$ (1,158,461)
Net capital loss carryforwards	28,782	40,886
Non-capital loss carryforwards	6,095	6,095
Share issuance costs	23,852	1,558
Valuation allowance	<u>(34,877)</u>	<u>(46,981)</u>
	<u>\$ (1,495,711)</u>	<u>\$ (1,156,903)</u>

- (c) The amounts and expiry date of the non-capital loss carryforwards in the consolidated financial statements:

Expiry Date	Canada	U.S. <i>(in Cdn \$)</i>
2013	\$ -	\$ 17,397
2024	-	209
2025	<u>-</u>	<u>525</u>
	<u>\$ -</u>	<u>\$ 18,131</u>

During the year ended June 30, 2005, \$65,792 in non-capital loss carryforwards expired unused.

The company has a net capital loss carryforward of \$85,611 which can be carried forward indefinitely and applied against future capital gains in Canada.

8. BHPB Agreements

Pursuant to certain agreements dated June 5, 2006, BHPB purchased 60% interest in the company's Potash Project by paying the company \$4,184,560 (US\$3.8 million) (note 3[c]) and subscribing for 1,039,093 common shares of the company for gross proceeds of \$1,101,200 (US\$1.0 million) (note 5[c]).

In addition, BHPB has agreed to:

- (a) spend up to US\$40 million over the next approximately 66 months in order to keep the Potash Project in good standing and to complete a feasibility study; and

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- (b) contingent upon satisfactory results of the feasibility study, pay the company a further US\$10 million within 66 months of closing.

If BHPB fails to complete the feasibility study or expend the US\$40 million or make the US\$10 million contingent payment, up to a 56% interest in the Potash Project is subject to relinquishment back to the company.

9. Commitments

- (a) Pursuant to a contract with a corporation wholly-owned by the president of the company, the company has committed to pay that corporation \$6,000 a month for management consulting services for the period from January 1, 2005 to December 31, 2007. Subsequent to June 30, 2006, the Board of Directors passed a resolution to amend the contract to increase compensation to \$8,000 per month effective July 1, 2006. The total commitment remaining on the contract is \$144,000.
- (b) Pursuant to the potash exploration and development permits, the company is committed to spend certain amounts to maintain the permits in good standing. As a result of BHPB agreeing to incur 100% of the costs to a maximum of US\$40 million, of the Potash Project, the company's commitments will be covered by expenditures made by BHPB.

10. Related party transactions

- (a) During the year, the company paid consulting fees of \$NIL (2005 - \$15,000) to the president of the company. The company also paid management fees totalling \$72,000 (2005 - \$36,000) to a corporation wholly-owned by the president of the company. The total amount owing to the president's corporation of \$7,061 (2005 - \$2,112) is included in accounts payable and accrued liabilities.
- (b) During the year, a director provided the company with accounting services of \$9,188 (2005 - \$9,814). The total amount owing to the director of \$5,009 (2005 - \$6,795) is included in accounts payable and accrued liabilities.
- (c) During the year, a legal practice owned by a director provided the company with legal services of \$65,575 (2005 - \$13,868). The total amount owing to the director's legal practice of \$NIL (2005 - \$209) is included in accounts payable and accrued liabilities.

Management is of the opinion that these transactions and those disclosed in (note 3) 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.

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11. Statement of cash flows

(a) Changes in non-cash working capital

	Years Ended June 30,	
	2006	2005
Operating activities		
Decrease (increase) in accounts receivable	\$ 852	\$ (7,880)
Decrease in accounts payable	(3,256)	(35,766)
Increase in income tax payable	<u>274,767</u>	<u>-</u>
	<u>\$ 272,363</u>	<u>\$ (43,646)</u>
Investing activities		
Increase in accounts receivable	\$ (599,528)	\$ -
Increase in accounts payable	325,099	8,160
Increase in deposits	<u>(8,000)</u>	<u>(20,000)</u>
	<u>\$ (282,429)</u>	<u>\$ (11,840)</u>

(b) Non-cash transactions

The following non-cash transactions have been excluded from the consolidated statements of cash flows:

	Years Ended June 30,	
	2006	2005
Settlement of share issuance costs in exchange for stock options	\$ <u>25,200</u>	\$ <u>-</u>
Contributed surplus transferred to share capital upon option exercise	\$ <u>65,000</u>	\$ <u>-</u>
Tax effect on share issuance costs	\$ <u>30,500</u>	\$ <u>1,713</u>
Tax effect of renouncement of flow-through shares	\$ <u>138,682</u>	\$ <u>-</u>

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12. Financial instruments

(a) Fair values

The fair values of accounts receivable, deposits, accounts payable and accrued liabilities and due to an officer and director approximate their carrying due to their short-term nature.

(b) Credit risk

The company's maximum credit risk exposure is limited to carrying value of accounts receivable of \$608,730 (2005 - \$10,054).

(c) Foreign currency exchange risk

A substantial portion of the company's cash is denominated in U.S. dollars. Consequently, the company is subject to the risk of fluctuating exchange rates.