

Interim Financial Statements of

**CHAPLEAU RESOURCES LTD.**

(An exploration stage company)

Unaudited

(prepared by management)

August 15, 2005

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Corporation discloses that its auditors have not reviewed the unaudited financials statements for the period ended August 15, 2005.



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James Stypula  
Chief Executive Officer



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Eric Wiltzen  
Chief Financial Officer

# CHAPLEAU RESOURCES LTD.

(An exploration stage company)

## SCHEDULE "A"

Consolidated Balance Sheets - Interim  
(Unaudited – prepared by management)

As at August 15, 2005, with comparative figures as at November 15, 2004

	2005	2004
<b>Assets</b>		
<b>Current assets</b>		
Cash and term deposits	\$ 825,490	\$ 645,514
Receivable	31,703	20,768
Tax credits recoverable	-	222,818
Prepaid expenses and deposits	111,023	110,657
	<b>968,216</b>	<b>999,757</b>
<b>Reclamation bond</b>	<b>25,000</b>	<b>25,000</b>
<b>Investment (Note 1)</b>	<b>2,362,124</b>	<b>2,559,448</b>
<b>Mineral properties and deferred exploration costs (Note 2)</b>	<b>5,629,173</b>	<b>4,540,581</b>
<b>Equipment</b>	<b>9,397</b>	<b>8,470</b>
	<b>\$ 8,993,910</b>	<b>\$ 8,133,256</b>

## Liabilities and Shareholders' Equity

### Current liabilities

Accounts payable and accrued liabilities	\$ 87,481	\$ 144,925
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### Shareholders' equity

Capital stock (Note 3, Note 10)	30,200,780	29,228,840
Contributed surplus	5,367,652	3,799,953
Deficit accumulated in the exploration stage	(26,662,003)	(25,040,462)
	<b>8,906,429</b>	<b>7,988,331</b>
	<b>\$ 8,993,910</b>	<b>\$ 8,133,256</b>

### Contingent liabilities (Note 8)

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

# CHAPLEAU RESOURCES LTD.

(An exploration stage company)

Consolidated Statements of Operations and Deficit - Interim  
(Unaudited – prepared by management)

<b>Nine months ended August 15</b>	<b>2005</b>	<b>2004</b>
<b>Administration expenses</b>		
Amortization	\$ 1,210	\$ 1,763
Insurance	3,018	31,202
Management fees (Note 7)	140,000	135,000
Office	49,503	37,433
Professional fees	275,824	112,994
Rent	16,366	8,947
Stock-based compensation (Note 6)	1,567,699	324,291
Transfer agent and filing fees	28,317	22,650
Travel	23,452	58,978
Wages and employee benefits	60,084	78,335
	<b>2,165,473</b>	<b>811,593</b>
<b>Exploration</b>		
Exploration (recovery)	(5,983)	66,067
Deferred exploration costs written off	-	82,565
	<b>(5,983)</b>	<b>148,632</b>
<b>Loss from operations</b>	<b>2,159,490</b>	<b>960,225</b>
<b>Other expenses (income)</b>		
Interest income	(7,301)	(988)
Foreign exchange gain	(6,154)	12,505
Gain on disposal of equipment	-	(368)
Gain on sale of investment	(546,700)	(257,195)
Tax on flow-through shares	22,206	
	<b>(537,949)</b>	<b>(246,046)</b>
<b>Loss for the period</b>	<b>1,621,541</b>	<b>714,179</b>
<b>Deficit</b> , accumulated in the exploration stage, beginning of the period	<b>25,040,462</b>	<b>19,239,633</b>
<b>Deficit</b> , accumulated in the exploration stage, end of the period	<b>\$26,662,003</b>	<b>\$19,953,812</b>
<b>Basic and diluted loss per share</b>	<b>\$ 0.023</b>	<b>\$ .01</b>
Weighted average shares outstanding	70,832,087	

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

# CHAPLEAU RESOURCES LTD.

(An exploration stage company)

Consolidated Statements of Operations and Deficit - Interim  
(Unaudited – prepared by management)

Three months ended August 15	2005	2004
<b>General and administrative expenses</b>		
Amortization	\$ 337	\$ 588
Insurance	835	10,508
Management fees	52,500	45,000
Office	13,403	6,201
Professional fees	107,968	37,802
Rent	6,937	1,482
Stock-based compensation (Note 6)	151,412	165,324
Transfer agent and filing fees	5,647	3,919
Travel	11,852	17,141
Wages and employee benefits	20,151	24,211
	371,042	312,176
<b>Exploration</b>		
Exploration (recovery)	-	32,136
Deferred exploration and development costs written off	-	-
	-	32,136
<b>Loss from operations</b>	<b>371,042</b>	<b>344,312</b>
<b>Other expenses (income)</b>		
Interest income	(200)	(12)
Foreign exchange (gain) loss	(16,202)	468
Gain on sale of investment	(527,484)	(91,533)
Tax on flow-through shares	22,206	-
	(521,680)	(91,077)
<b>(Income) loss for the period</b>	<b>(150,638)</b>	<b>253,235</b>
<b>Deficit</b> , accumulated in the exploration stage, beginning of the period	<b>26,812,641</b>	<b>19,700,577</b>
<b>Deficit</b> , accumulated in the exploration stage, end of the period	<b>\$26,662,003</b>	<b>\$19,700,577</b>
<b>Basic and diluted loss per share</b>	<b>\$ 0.021</b>	<b>\$ 0.01</b>
Weighted average shares outstanding	70,832,087	

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

# CHAPLEAU RESOURCES LTD.

(An exploration stage company)

Consolidated Statements of Operations and Deficit - Interim

(Unaudited – prepared by management)

Nine months ended August 15	2005	2004
<b>Cash provided by (used in)</b>		
<b>Operating</b>		
Loss for the period	\$(1,621,541)	\$(714,179)
Amortization which does not involve cash	1,210	1,763
Gain on sale of equipment		(368)
Gain on sale of investments	(546,700)	(257,195)
Stock based compensation	1,567,699	324,291
Mineral properties and deferred exploration and development costs written off	-	82,565
Change in non-cash operating working capital:		
Receivables	(10,935)	36,669
Prepaid expenses and deposits	(366)	(21,722)
Accounts payable and accrued liabilities	(57,444)	(47,831)
Tax credits recoverable	222,818	
	(445,259)	(596,007)
<b>Financing</b>		
Capital stock issued		449,000
Deposits on subscriptions	801,439	
<b>Investing</b>		
Proceeds from sale of equipment	-	15,500
Proceeds from sale of investments	977,799	338,642
Purchase of investments	(63,273)	(358,631)
Purchase of equipment	(2,138)	
Mineral properties and deferred exploration and development costs	(1,088,592)	(117,649)
	(176,204)	(122,138)
<b>Increase in cash and term deposits</b>	<b>179,976</b>	<b>(269,145)</b>
<b>Cash and term deposits, beginning of period</b>	<b>645,514</b>	<b>269,123</b>
<b>Cash and term deposits, end of period</b>	<b>\$ 825,490</b>	<b>\$ (22)</b>
<b>Supplementary Cash Flow Information</b>		
Non-cash investing and financing activities:		
Issuance of common shares for mineral property payments	\$ 170,500	\$ 22,500

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

# CHAPLEAU RESOURCES LTD.

(An exploration stage company)

Consolidated Statements of Operations and Deficit - Interim  
(Unaudited – prepared by management)

Three months ended August 15	2005	2004
<b>Cash provided by (used in)</b>		
<b>Operating</b>		
Income (loss) for the period	\$ 150,638	\$ (253,235)
Amortization which does not involve cash	337	588
Stock based compensation	151,412	165,324
Gain on sale of investments	(527,484)	(91,533)
Mineral properties and deferred exploration and development costs written off	-	
Change in non-cash operating working capital:		
Accounts receivable	(5,615)	6,055
Prepaid expenses	(15,642)	(11,180)
Accounts payable	(52,745)	24,342
	-	
	<b>(299,099)</b>	<b>(159,639)</b>
<b>Financing</b>		
Deposits on subscriptions	<b>801,439</b>	
<b>Investing</b>		
Purchase of equipment	(2,138)	
Proceeds from sale of investments	949,369	148,459
Purchase of investments	(50,000)	
Mineral properties and deferred exploration and development costs	(789,050)	(41,949)
	<b>108,181</b>	<b>(106,510)</b>
<b>Increase (Decrease) in cash</b>	<b>610,521</b>	<b>(53,129)</b>
<b>Cash and term deposits, beginning of period</b>	<b>214,969</b>	<b>53,107</b>
<b>Cash and term deposits, end of period</b>	<b>\$ 825,490</b>	<b>\$ (22)</b>
<b>Supplementary Cash Flow Information</b>		
Non-cash investing and financing activities:		
Issuance of common shares for mineral property payments	\$ -	\$ -

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

# CHAPLEAU RESOURCES LTD.

(An exploration stage company)

Summary of Significant Accounting Policies  
(Unaudited – prepared by management)

August 15, 2005

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## Significant accounting policies

### Interim financial statements

All figures as at and for the periods ended August 15, 2005 and 2004 are unaudited. The financial statements included herein, presented in accordance with generally accepted accounting principles in Canada for interim financial statements and stated in Canadian dollars, have been prepared by the Company, without audit. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the company believes that the disclosures are adequate to make the information presented not misleading.

The statements reflect all adjustments, consisting of normal recurring adjustments, which, in the opinion of management, are necessary for the fair presentation of the information contained herein. These interim financial statements should be read in conjunction with the financial statements for the year ended November 15, 2004 and notes thereto included in the Company's Annual Report. The Company follows the same accounting principles in the preparation of interim reports.

Results of operations and mineral exploration activity for interim periods may not be indicative of annual results.

### Nature of business and ability to continue as a going concern

Chapleau Resources Ltd. is engaged in the mining industry at the exploration stage. At the exploration stage, a resource company has not determined whether its properties contain reserves that are economically recoverable, nor has it achieved significant revenue from production. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

These financial statements are prepared on the basis of accounting principles applicable to a "going concern", which assume that the Company will be able to realize its assets and discharge its liabilities and commitments in the normal course of operations.

The Company's continued existence is dependent upon raising additional financing, the discovery of economically recoverable ore reserves in its properties and the attainment of profitable operations. While the Company is expending its best efforts to achieve these plans, there is no assurance that any such activity will generate funds that will be sufficient for operations.

The financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate. If the going concern assumption was not appropriate for these financial statements, then adjustments would be required in the carrying value of assets.

# CHAPLEAU RESOURCES LTD.

(An exploration stage company)

Summary of Significant Accounting Policies (continued)  
(Unaudited – prepared by management)

August 15, 2005

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## **Significant accounting policies (continued)**

### **Stock-based compensation**

The Company has a stock-based compensation plan, which is described in Note 6. Effective November 16, 2003, the Company adopted the new transitional provision under Section 3870 which requires that all stock based awards to employees and directors that were previously accounted for using the intrinsic method, be accounted for using the fair value method. The fair value of stock-based payments that vest over a service period, are periodically re-measured until counterparty performance is completed, and any change therein is recognized over the service period. The cost of stock-based payments that are fully vested and non-forfeitable at the grant date is measured and recognized at that date. Compensation costs are charged to the Consolidated Statements of Operations and Deficit or capitalized to deferred exploration costs, depending on the nature of the award. As permitted under the transitional provisions of the amended Section 3870, the Company has applied the new standards prospectively.

# CHAPLEAU RESOURCES LTD.

(An exploration stage company)

Notes to Interim Financial Statements  
(Unaudited – prepared by management)

August 15, 2005

## 1. Investment

	August 15, 2005		November 15, 2004	
	Cost	Market Value	Cost	Market Value
Far West Mining Ltd. (2005 – 4,458,200; 2004 – 5,295,200)	\$ 2,312,124	\$ 13,820,420	\$ 2,559,448	\$ 9,531,360
Minera Aztec Silver Corporation	\$ 50,000	\$ 50,000		
	<b>\$ 2,362,124</b>	<b>\$ 5,845,660</b>	\$ 2,559,448	\$ 9,531,360

Market value is determined by multiplying the market price of the common shares owned on the balance sheet date by the number of shares held.

Far West Mining Ltd. is a public company listed on the TSX Venture exchange. The Company's investment represents an 11% ownership of Far West Mining Ltd.'s issued and outstanding common shares.

# CHAPLEAU RESOURCES LTD.

(An exploration stage company)

Notes to Interim Financial Statements  
(Unaudited – prepared by management)

August 15, 2005

## 2. Mineral properties and deferred exploration costs

### Properties

	Balance November 15, 2004	Option payments during the period	Expenditures during the period	Written-off during the period	Balance August 15, 2005
Cruz, BC	\$ 547,396	\$ -	\$ 21,433	\$ -	\$ 568,829
Indian Ranch, NV	3,128,987	-	-	-	3,128,987
Zinger, BC	746,404	32,500	1,821	-	780,725
La Pampa Copper, Argentina	67,070	-	533,511	-	600,581
Hoarfrost, NWT	36,666	-	-	-	36,666
Horsefly, BC	89,014	-	240,069	-	329,083
San Javier, Bolivia	-	80,000	101,161	-	181,161
Madryn Rift, Argentina	-	68,000	6,216	-	74,216
San Lorenzo, Chile	7,191	-	3,881	-	11,072
	4,622,728	180,500	908,092	-	5,711,320
Less BC mining exploration tax credits claimed	(82,147)	-	-	-	(82,147)
	\$ 4,540,581	\$ 180,500	\$ 908,092	\$ -	\$ 5,629,173

# CHAPLEAU RESOURCES LTD.

(An exploration stage company)

Notes to Interim Financial Statements  
(Unaudited – prepared by management)

August 15, 2005

## 2. Mineral properties and deferred exploration costs (continued)

### Properties (continued)

	Balance November 15, 2003	Option payment during the period	Expenditures during the period	Written-off during the period	Balance August 15, 2004
Cruz, BC	\$ 545,385	\$ -	\$ 2,011	\$ -	\$ 547,396
Indian Ranch, NV	3,132,153	-	(3,166)	-	3,128,987
Quartz Creek, BC	47,028	-	-	47,028	-
Bar 19, BC	833,697	-	1,478	-	835,175
Zinger, BC	627,505	55,000	23,556	-	706,061
Super Group					
Gold, BC	638,125	-	45,156	-	683,281
Cranbrook					
Gold, BC	202,212	-	1,920	-	204,132
La Pampa Copper, Argentina	-	-	24,929	-	24,929
Hoarfrost, NWT	24,997	-	11,669	-	36,666
Other	35,441	-	96	35,537	-
	\$6,086,543	\$ 55,000	\$ 107,649	\$ 82,565	6,166,627
Less BC mining Exploration tax Credits claimed					(420,564)
					\$ 5,746,063

### Option payments (Note 3)

On December 1, 2004, the Company paid \$32,500 in option payments. The payments consisted of one \$10,000 cash payment and the issuance of 50,000 shares valued at \$22,500.

On February 28, 2005, the Company paid \$80,000 in option payments. The payments consisted of the issuance of 250,000 shares.

# CHAPLEAU RESOURCES LTD.

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Notes to Interim Financial Statements  
(Unaudited – prepared by management)

August 15, 2005

## Properties (continued)

On March 7, 2005, the Company paid \$68,000 in option payments. The payments consisted of the issuance of 200,000 shares.

On April 1, 2004, the Company paid \$32,500 in option payments. The payments consisted of one \$10,000 cash payment and the issuance of 50,000 shares valued at \$22,500.

## Exploration costs recovered

During the nine month period ended August 15, 2005, the Company recognized a \$5,983 recovery of exploration costs related to geological and geochemical work performed on mineral claims that have not been pursued.

# CHAPLEAU RESOURCES LTD.

(An exploration stage company)

Notes to Interim Financial Statements  
(Unaudited – prepared by management)

August 15, 2005

## 2. Mineral properties and deferred exploration costs (continued)

Detail of expenditures during the nine month period ended August 15, 2005 with comparative figures for the year ended November 15, 2004:

Additions during the period	Horsefly, BC	San Javier, Bolivia	La Pampa, Argentina	Other	2005	2004
Drilling	\$ -	\$ -	\$ -	\$ 36,361	\$ 36,361	\$ 18,325
Geochemical	1,482	40,344	-	-	41,826	5,618
Geology	70	54,420	20,731	14,028	89,249	52,267
Geophysics	210,180	-	401,243	405	611,827	4,701
Staking	-	-	-	350	350	1,000
Tenure payments	-	6,396	64,089	-	70,485	25,738
Linecutting	57,993	-	-	-	57,993	-
	\$269,725	\$101,160	\$ 486,063	\$ 51,144	\$ 908,092	\$ 314,773

Detail of expenditures during the nine-month period ended August 15, 2004 with comparative figures for the year ended November 15, 2003:

Additions during the period	La Pampa, Argentina	Zinger, Super Group, BC	Gold, BC	Other	2004	2003
Drilling	\$ 262	\$ 6,517	\$ 9,625	\$ 1,919	\$ 18,325	\$ 870,471
Geochemical	-	-	5,330	289	5,618	206,260
Geology	20,675	16,419	13,936	1,237	52,267	265,844
Geophysics	3,992	621	-	88	4,701	2,145
Staking	-	-	1,000	-	1,000	171,524
Trenching	-	-	-	-	-	-
Tenure payments	-	-	15,265	10,473	25,738	36,457
	\$ 24,929	\$ 23,557	\$ 45,156	\$ 14,007	\$ 107,649	\$ 1,552,701

# CHAPLEAU RESOURCES LTD.

(An exploration stage company)

Notes to Interim Financial Statements  
(Unaudited – prepared by management)

August 15, 2005

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## 2. Mineral properties and deferred exploration costs (continued)

### New Property Agreements Entered Into During the Nine Month Period ended August 15, 2005:

#### San Lorenzo, Chile

On January 21, 2005, the Company entered into an option agreement with Peregrine Diamonds Ltd. (Peregrine) to acquire a 50% interest in Peregrine's San Lorenzo Project.

To exercise the option, the Company must:

- i) complete a minimum of 500 metres of drilling on the property prior to December 31, 2005;
- ii) complete cumulative expenditures of US\$1,500,000 on or before the 48 month anniversary date of the signing of the definitive Option Agreement between Peregrine and the underlying owners; and
- iii) complete minimum expenditures of US\$100,000 in any given 12 month period from the anniversary date of the signing of the definitive Option Agreement between Peregrine and the underlying owners.

#### San Javier, Bolivia

On February 28, 2005, the Company entered into an option agreement with Magellan Minerals Ltd. regarding an option to acquire an undivided 51% interest in the San Javier properties located in eastern Bolivia.

To exercise the option, the Company must:

- i) issue 250,000 shares on the commencement date (issued),
- ii) issue 2,350,000 shares in the capital stock of Chapleau Resources Ltd. over a period of 4 years;
- iii) complete a minimum Firm Commitment of US\$200,000 in exploration expenditures, including a total of 1,000 metres of drilling, within 12 months from commencement date;
- iv) failure to complete both the Firm Commitment and the drilling requirement will terminate the letter of intent and the Company will repay Magellan Minerals Ltd. any unspent portion of the Firm Commitment exploration expenditures; and
- v) the Company must spend a minimum of US\$300,000 in Years 2, 3 and 4 of the agreement.

# CHAPLEAU RESOURCES LTD.

(An exploration stage company)

Notes to Interim Financial Statements  
(Unaudited – prepared by management)

August 15, 2005

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## 2. Mineral properties and deferred exploration costs (continued)

### New Property Agreements Entered Into During the Nine Month Period ended August 15, 2005 (continued):

#### Madryn Rift, Argentina

On March 7th, 2005, the Company entered into an option agreement with Teck Minera de Argentina S.A. whereby, through a subsidiary incorporated under the laws of Argentina, Chapleau Resources Ltd. will have an option to acquire a 100% undivided interest in Teck Cominco's Madryn properties located in Argentina.

To exercise the option, the Company must:

- i) issue to Teck Cominco 200,000 Units (issued) comprising of one common share and one non-transferable share purchase warrant;
- ii) issue an additional 200,000 Units, as defined in i), in annual increments of 50,000, by December 31, 2008;
- iii) incur expenditures of at least US\$250,000 by December 31, 2005, including a commitment to complete a minimum of 2,000 metres of drilling;
- iv) if the first year work commitment fails, the Company will pay Teck Cominco an amount equivalent to US\$250,000 less expenditures actually incurred and if a minimum of 2,000 metres of drilling has not been completed, an additional amount estimated by Teck Cominco to be required to completed an aggregate of 2,000 metres of drilling; and
- v) complete cumulative expenditures of US\$1,500,000, in annual increments of US\$250,000 for the first two years and US\$500,000 for the following two years, on or before December 31, 2008.

Where the Company has entered into option agreements to acquire interests in mineral properties that provide for periodic payments, amounts unpaid are not recorded as liabilities since they are payable entirely at the Company's option.

# CHAPLEAU RESOURCES LTD.

(An exploration stage company)

Notes to Interim Financial Statements  
(Unaudited – prepared by management)

August 15, 2005

## 3. Capital stock

### Authorized

150,000,000 common shares without par value

### Issued and outstanding

	Number of Shares	Amount
Balance, November 15, 2003	66,327,951	\$ 27,738,165
Private placement – Net of issuance costs of \$67,325	4,210,949	1,481,675
Exercise of options	25,000	6,500
Issuance in exchange for properties	50,000	22,500
Return to treasury	(20,000)	(20,000)
Balance, November 15, 2004	70,593,900	29,228,840
Issuance in exchange for properties (a)	500,000	170,500
Deposits on subscriptions (Note 10)		801,439
Balance, August 15, 2005	71,093,900	\$ 30,200,780

(a) On December 1, 2004, the Company issued 50,000 shares in accordance with the requirements of the Zinger Property Agreement. The fair value of the shares issued was determined on the basis of the closing market price on that day of \$0.45 per share.

On February 28, 2005, the Company issued 250,000 shares in accordance with the requirements of the San Javier Property Agreement. The fair value of the shares issued was determined on the basis of the closing market price on that day of \$0.32 per share.

On March 7, 2005, the Company issued 200,000 shares in accordance with the requirements of the Madryn Rift Property Agreement. The fair value of the shares issued was determined on the basis of the closing market price on that day of \$0.34 per share.

# CHAPLEAU RESOURCES LTD.

(An exploration stage company)

Notes to Interim Financial Statements  
(Unaudited – prepared by management)

August 15, 2005

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## 4. Stock options

A summary of the status of stock options issued in connection with the Company's fixed stock option plan as of August 15, 2005 and changes during the period is presented below:

	<b>Options</b>	<b>Weighted-Average Exercise Price</b>
Outstanding and exercisable at beginning of period	<b>12,053,898</b>	<b>\$ 0.44</b>
Cancelled	<b>(12,053,898)</b>	<b>0.44</b>
Granted	<b>13,460,000</b>	<b>0.31</b>
Outstanding and exercisable at end of period	<b>13,460,000</b>	<b>\$ 0.31</b>

Incentive stock options for employees, directors, officers and service providers outstanding and exercisable at August 15, 2005, are as follows:

Number of Options	Exercise Price	Expiry Date
12,160,000	\$ 0.30	April 2015
1,300,000	\$ 0.35	August 2015

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# CHAPLEAU RESOURCES LTD.

(An exploration stage company)  
Notes to Interim Financial Statements  
(Unaudited – prepared by management)

August 15, 2005

## 5. Share purchase warrants

A summary of the status of share purchase warrants outstanding and exercisable as of August 15, 2005 is presented below:

	<b>Warrants</b>	<b>Weighted-Average Exercise Price</b>
Outstanding and exercisable at beginning of period	<b>9,999,877</b>	<b>\$ 0.60</b>
expired during period	<b>(717,500)</b>	<b>1.45</b>
issued during period	<b>200,000</b>	<b>0.34</b>
Outstanding and exercisable at end of period	<b>9,482,377</b>	<b>\$ 0.53</b>

<b>Number of Warrants Outstanding</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
785,713	\$ 0.95	December 2005
200,000	\$ 0.34	March 2006
3,496,664	\$ 0.50	November 2006
5,000,000	\$ 0.50	December 2007
<b>9,482,377</b>		

# CHAPLEAU RESOURCES LTD.

(An exploration stage company)

Notes to Interim Financial Statements  
(Unaudited – prepared by management)

August 15, 2005

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## **6. Stock based compensation plan**

At August 15, 2005, the Company has one stock-based compensation plan, which is described below.

In accordance with the policies of the TSX Venture Exchange regarding stock option plans, the Board of Directors of the Company adopted a new stock option plan effective March 23, 2003. The company, as a tier 1 company is able to grant options without vesting provisions and hold periods, provided that the grant is made at market price.

The purpose of the new plan is to allow the Company to grant options to directors, officers, employees and consultants, as additional compensation. Options will be exercisable over periods of up to ten years as determined by the board of directors and are required to have an exercise price no less than the discounted market price prevailing on the day that the option is granted.

The new plan provides that the number of common shares together with all of the Company's other previously established or proposed share compensation arrangements, may not exceed 20% of the total number of issued and outstanding common shares. In addition, the number of shares that may be reserved for issuance to any one individual may not exceed 5% of the issued shares on a yearly basis.

# CHAPLEAU RESOURCES LTD.

(An exploration stage company)

Notes to Interim Financial Statements  
(Unaudited – prepared by management)

August 15, 2005

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## 6. Stock-based compensation plan (continued)

On April 22, 2005, the Company announced that as a consequence of refocusing its primary exploration activities from North America to South America, the duties and responsibilities of the Company's directors, officers, employees and consultants have changed and new personnel have been added. As a result of the foregoing, the Company and all option holders have agreed to cancel all outstanding options as of April 22, 2005 and grant new options to directors, officers, employees and consultants who will further the business objectives of the Company. In this respect the Company cancelled 12,053,898 stock options and issued 12,160,000 stock options. All of these options are fully vested and have an exercise price of \$0.30 for a ten-year period. Compensation expense is determined using the Black-Scholes option pricing model. Weighted average assumptions used in calculating compensation expense in respect of options granted to consultants are as follows:

	<u>August 15, 2005</u>
Risk-free rate	5.0%
Dividend yield	Nil%
Volatility factor of the expected market price of the Company's shares	107%
Weighted average expected life of the options	10.0 years

The application of the Black-Scholes option-pricing model resulted in a stock option compensation of \$1,416,287 on 12,160,000 stock options, which was charged to operating expense and a fair value per option of \$0.24 for each new option granted. Stock option compensation for options granted during the three months ended August 15, 2005 has been estimated on a consistent basis.

## 7. Related party transactions

During the periods ended August 15, 2005 and August 15, 2004, management fees of \$140,000 and \$135,000 respectively, were paid to two directors.

Such related party transactions are recorded at the exchange amount, being the amount established and agreed to by the related parties.

# CHAPLEAU RESOURCES LTD.

(An exploration stage company)

Notes to Interim Financial Statements  
(Unaudited – prepared by management)

August 15, 2005

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## 8. Contingent liabilities

- a) The Company has been named the defendant in a lawsuit and a claim has been filed in the amount of \$242,000. In the opinion of management, these matters are without substantial merit and no provision has been made for them in the accounts. However, should any loss result from the resolution of this claim, such loss would be recognized in the period the loss becomes likely.

## 10. Subsequent share transactions

On August 23, 2005 the Company closed a non-brokered private placement announced on July 20, 2005 in the amount of 4,000,000 units at the price of \$0.24 per unit. Each unit is comprised of one common share and one transferable common share purchase warrant exercisable until August 23, 2010 at an exercise price of \$0.24. All of the shares, warrants and any shares issued upon exercise of the warrants are subject to a hold period and may not be traded until December 24, 2005 except as permitted by applicable securities laws and the TSX Venture Exchange.

On August 25, 2005, the company closed a non-brokered private placement announced on August 5, 2005 in the amount of 440,000 units at the price of \$0.30 per unit. Each unit is comprised of one common share and one transferable common share purchase warrant exercisable until August 25, 2007 at an exercise price of \$0.40. All of the shares, warrants and any shares issued upon exercise of the warrants are subject to a hold period and may not be traded in British Columbia until December 26, 2005 except as permitted by applicable securities laws and the TSX Venture Exchange.

## 9. Comparative figures

Certain comparative figures have been reclassified to conform to the current period's presentation.