

Interim Financial Statements of

**CHAPLEAU RESOURCES LTD.**

(An exploration stage company)  
Unaudited (prepared by management)

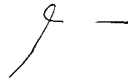
May 15, 2005

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



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James Stypula  
Chief Executive Officer



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Eric Wiltzen  
Chief Financial Officer

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## Notice from Management

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### To the Shareholders of Chapleau Resources Ltd.

In accordance with National Instrument 52-102, Part 4, subsection 4.3(3) (a), we report that the accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these interim consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by the entity's auditor.

**"Jim Stypula"**

Chief Executive Officer

**"Eric Wiltzen"**

President and Chief Financial Officer

Cranbrook, BC

July 14, 2005

# CHAPLEAU RESOURCES LTD.

(An exploration stage company)

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

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

	2005	2004
<b>Assets</b>		
<b>Current assets</b>		
Cash and term deposits	\$ 214,969	\$ 645,514
Receivable	26,088	20,768
Tax credits recoverable	-	222,818
Prepaid expenses and deposits	95,381	110,657
	<u>336,438</u>	<u>999,757</u>
<b>Reclamation bond</b>	<b>25,000</b>	25,000
<b>Investment</b> (Note 1)	<b>2,563,507</b>	2,559,448
<b>Mineral properties and deferred exploration costs</b> (Note 2)	<b>5,010,623</b>	4,540,581
<b>Equipment</b>	<b>7,597</b>	8,470
	<u>\$ 7,943,165</u>	<u>\$ 8,133,256</u>

## Liabilities and Shareholders' Equity

### Current liabilities

Accounts payable and accrued liabilities	\$ 140,226	\$ 144,925
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### Shareholders' equity

Capital stock (Note 3)	29,399,340	29,228,840
Contributed surplus	5,216,240	3,799,953
Deficit accumulated in the exploration stage	(26,812,641)	(25,040,462)
	<u>7,802,939</u>	<u>7,988,331</u>
	<u>\$ 7,943,165</u>	<u>\$ 8,133,256</u>

### 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)

Six months ended May 15	2005	2004
<b>Administration expenses</b>		
Amortization	\$ 873	\$ 1,175
Insurance	2,183	20,694
Management fees (Note 7)	87,500	90,000
Office	36,100	31,232
Professional fees	167,856	75,192
Rent	9,429	7,465
Stock-based compensation (Note 6)	1,416,287	158,967
Transfer agent and filing fees	22,670	18,731
Travel	11,600	41,837
Wages and employee benefits	39,933	54,124
	1,794,431	499,417
<b>Exploration</b>		
Exploration (recovery)	(5,983)	33,931
Deferred exploration costs written off	-	82,565
	(5,983)	116,496
<b>Loss from operations</b>	1,788,448	615,913
<b>Other expenses (income)</b>		
Interest income	(7,101)	(976)
Foreign exchange loss	10,048	12,037
Gain on disposal of equipment	-	(368)
Gain on sale of investment	(19,216)	(165,662)
	(16,269)	(154,969)
<b>Loss for the period</b>	1,772,179	460,944
<b>Deficit</b> , accumulated in the exploration stage, beginning of the period	25,040,462	19,239,633
<b>Deficit</b> , accumulated in the exploration stage, end of the period	\$26,812,641	\$19,700,577
<b>Basic and diluted loss per share</b>	\$ 0.025	\$ 0.007
<b>Weighted average shares outstanding</b>	70,832,087	66,910,270

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 May 15	2005	2004
<b>General and administrative expenses</b>		
Amortization	\$ 436	\$ 856
Insurance	-	10,531
Management fees	50,000	35,000
Office	25,703	12,525
Professional fees	92,688	42,121
Rent	5,456	1,537
Stock-based compensation (Note 6)	1,416,287	-
Transfer agent and filing fees	10,397	6,490
Travel	5,985	5,852
Wages and employee benefits	18,600	27,936
	1,625,552	142,848
<b>Exploration</b>		
Exploration (recovery)	227	29,246
Deferred exploration and development costs written off	-	96
	227	29,342
<hr/>		
<b>Loss from operations</b>	<b>1,625,779</b>	<b>172,190</b>
<hr/>		
<b>Other expenses (income)</b>		
Interest income	(6,978)	(642)
Foreign exchange (gain) loss	11,789	(882)
	4,811	(1,524)
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<b>Loss for the period</b>	<b>1,630,590</b>	<b>170,666</b>
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<b>Deficit</b> , accumulated in the exploration stage, beginning of the period	<b>25,182,051</b>	<b>19,529,911</b>
<hr/>		
<b>Deficit</b> , accumulated in the exploration stage, end of the period	<b>\$26,812,641</b>	<b>\$19,700,577</b>
<hr/>		
<b>Basic and diluted loss per share</b>	<b>\$ 0.023</b>	<b>\$ 0.005</b>
<hr/>		
<b>Weighted average shares outstanding</b>	<b>70,832,087</b>	<b>66,910,270</b>
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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)

Six months ended May 15	2005	2004
<b>Cash provided by (used in)</b>		
<b>Operating</b>		
Loss for the period	\$(1,772,179)	\$ (460,944)
Amortization which does not involve cash	873	1,175
Gain on sale of equipment	-	(368)
Gain on sale of investments	(19,216)	(165,662)
Stock based compensation	1,416,287	158,967
Mineral properties and deferred exploration and development costs written off	-	82,565
Change in non-cash operating working capital:		
Receivables	(5,320)	30,614
Prepaid expenses and deposits	15,276	10,542
Accounts payable and accrued liabilities	(4,699)	(72,173)
Tax credits recoverable	222,818	-
	<b>(146,160)</b>	<b>(436,368)</b>
<b>Financing</b>		
Capital stock issued	-	449,000
<b>Investing</b>		
Proceeds from sale of equipment	-	15,500
Proceeds from sale of investments	28,430	190,183
Purchase of investments	(13,273)	(358,727)
Mineral properties and deferred exploration and development costs	(299,542)	(75,604)
	<b>(284,385)</b>	<b>(228,648)</b>
<b>Decrease in cash and term deposits</b>	<b>(430,545)</b>	<b>(216,016)</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>\$ 214,969</b>	<b>\$ 53,107</b>
<b>Supplementary Cash Flow Information</b>		
Non-cash investing and financing activities:		
Issuance of common shares for mineral property payments	<b>\$ 170,500</b>	<b>\$ 22,500</b>

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 May 15	2005	2004
<b>Cash provided by (used in)</b>		
<b>Operating</b>		
Loss for the period	\$(1,630,590)	\$ (170,666)
Amortization which does not involve cash	436	856
Stock based compensation	1,416,287	-
Mineral properties and deferred exploration and development costs written off	-	96
Change in non-cash operating working capital:		
Accounts receivable	(187)	38,602
Prepaid expenses	(60,737)	153
Accounts payable	(107,967)	1,736
Tax credits recoverable	222,818	-
	<b>(159,940)</b>	<b>(129,223)</b>
<b>Investing</b>		
Purchase of equipment	-	(5,375)
Mineral properties and deferred exploration and development costs	(30,340)	(26,294)
	<b>(30,340)</b>	<b>(31,669)</b>
<b>Decrease in cash</b>	<b>(190,280)</b>	<b>(160,892)</b>
<b>Cash and term deposits, beginning of period</b>	<b>405,249</b>	<b>213,999</b>
<b>Cash and term deposits, end of period</b>	<b>\$ 214,969</b>	<b>\$ 53,107</b>
<b>Supplementary Cash Flow Information</b>		
Non-cash investing and financing activities:		
Issuance of common shares for mineral property payments	\$ 148,000	\$ 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)

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

May 15, 2005

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## Significant accounting policies

### Interim financial statements

All figures as at and for the periods ended May 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)

May 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)

May 15, 2005

## 1. Investment

2004	May 15, 2005		November 15,	
	Cost	Market Value	Cost	Market Value
Far West Mining Ltd. (2005 – 5,286,200; 2004 – 5,295,200)	\$ 2,563,507	\$ 6,343,440	\$ 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.

## 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 May 15, 2005
Cruz, BC	\$ 547,396	\$ -	\$ 5,153	\$ -	\$ 552,549
Indian Ranch, NV	3,128,987	-	-	-	3,128,987
Zinger, BC	746,404	32,500	38,182	-	817,086
La Pampa Copper, Argentina	67,070	-	83,712	-	150,782
Hoarfrost, NWT	-	36,666	-	-	36,666
Horsefly, BC	89,014	-	130,726	-	219,740
San Javier, Bolivia	-	80,000	21,672	-	101,672
Madryn Rift, Argentina	-	68,000	6,216	-	74,216
San Lorenzo, Chile	7,191	-	3,881	-	11,072
	4,622,728	180,500	289,542	-	5,092,770
Less BC mining exploration tax credits claimed	(82,147)	-	-	-	(82,147)
	\$ 4,540,581	\$ 180,500	\$ 289,542	\$ -	\$ 5,010,623

# CHAPLEAU RESOURCES LTD.

(An exploration stage company)

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

May 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 May 15, 2004
Cruz, BC	\$ 545,385	\$ -	\$ -	\$ -	\$ 545,385
Indian Ranch, NV	3,132,153	-	-	-	3,132,153
Quartz Creek, BC	47,028	-	-	47,028	-
Bar 19, BC	833,697	-	1,478	-	835,175
Zinger, BC	627,505	32,500	9,645	-	669,650
Super Group Gold, BC	638,125	-	42,976	-	681,101
Cranbrook Gold, BC	202,212	-	1,919	-	204,131
La Pampa Copper, Argentina	-	-	9,537	-	9,537
Hoarfrost, NWT	-	24,997	-	49	-
Other	35,441	-	96	35,537	-
	\$6,086,543	\$ 32,500	\$ 65,700	\$ 82,565	6,102,178
Less BC mining Exploration tax Credits claimed					(490,358)
					\$ 5,611,820

25,046

### 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.

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 six month period ended May 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)

May 15, 2005

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

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

Additions during the period	Horsefly, BC	Zinger, BC	La Pampa, Argentina	Other	2005	2004
Drilling	\$ -	\$ 36,361	\$ -	\$ -	\$ 36,361	\$ 40,931
Geochemical	1,482	-	-	-	1,482	26,858
Geology	165	1,540	19,623	30,177	51,505	135,090
Geophysics	129,078	-	-	-	129,078	19,897
Staking	-	-	-	350	350	76,795
Tenure payments	-	281	64,089	6,396	70,766	15,202
	\$130,725	\$ 38,182	\$ 83,712	\$ 36,923	\$ 289,542	\$ 314,773

Detail of expenditures during the six month period ended May 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	\$ 748	\$ 9,625	\$ 1,919	\$ 12,554	\$ 1,120,498
Geochemical	-	-	5,330	289	5,619	342,552
Geology	9,275	8,897	13,936	1,334	33,442	454,580
Geophysics	-	-	-	-	-	2,145
Staking	-	-	1,000	-	1,000	194,799
Trenching	-	-	-	-	-	251
Tenure payments	-	-	13,085	-	13,085	45,752
	\$ 9,537	\$ 9,645	\$ 42,976	\$ 3,446	\$ 65,700	\$ 2,160,577

# CHAPLEAU RESOURCES LTD.

(An exploration stage company)

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

May 15, 2005

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

### New Property Agreements Entered Into During the Six Month Period ended May 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)

May 15, 2005

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

New Property Agreements Entered Into During the Six Month Period ended May 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)

May 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
Balance, May 15, 2005	71,093,900	\$ 29,399,340

(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)

May 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 May 15, 2005 and changes during the period/year ending on those dates 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>\$</b>	<b>0.44</b>
Cancelled	<b>(12,053,898)</b>		<b>0.44</b>
Granted	<b>12,160,000</b>		<b>0.30</b>
Outstanding and exercisable at end of period	<b>12,160,000</b>	<b>\$</b>	<b>0.30</b>

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

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

# CHAPLEAU RESOURCES LTD.

(An exploration stage company)

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

May 15, 2005

## 5. Share purchase warrants

A summary of the status of share purchase warrants outstanding and exercisable as of May 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>\$</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>\$</b>	<b>0.53</b>

Number of Warrants Outstanding	Exercise Price	Expiry Date
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)

May 15, 2005

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

At May 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)

May 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>May 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 which was charged to operating expense and a fair value per option of \$0.24 for each new option granted.

## 7. Related party transactions

During the periods ended May 15, 2005 and May 15, 2004, management fees of \$87,500 and \$90,000 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)

May 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.
- b) Certain expenditures required to have been incurred by the Company under the terms of a flow-through private placement subscription agreement completed in December 2003, were not expended. The affected parties are currently negotiating a resolution. Should any loss result from the resolution of this claim, such loss would be recognized in the period the loss becomes likely.
- c) A claim for damages has been filed against a former director of the Company. There are no allegations against the Company. The costs to the Company associated with this are only expected to be certain legal costs relating to the claim.

## 9. Comparative figures

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