

# **PACIFIC COMOX RESOURCES LTD.**

(A Development Stage Enterprise)

## **CONSOLIDATED FINANCIAL STATEMENTS**

Nine Months Ended  
JULY 31, 2006 and 2005

### Responsibility for Consolidated Financial Statements

The accompanying consolidated financial statements for Pacific Comox Resources Ltd. have been prepared by management in accordance with Canadian generally accepted accounting principles consistently applied. The most significant of these accounting principles have been set out in the October 31, 2005 audited consolidated financial statements. Only changes in accounting information have been disclosed in these consolidated financial statements. These statements are presented on the accrual basis of accounting. Accordingly, a precise determination of many assets and liabilities is dependent upon future events. Therefore, estimates and approximations have been made using careful judgment. Recognizing that the Corporation is responsible for both the integrity and objectivity of the consolidated financial statements, management is satisfied that these consolidated financial statements have been fairly presented.

### Disclosure Required Under National Instrument 51-102 - "Continuous Disclosure Obligations" - Part 4.3(3)(a)

The auditor of Pacific Comox Resources Ltd. has not performed a review of the unaudited consolidated financial statements for the nine months ended July 31, 2006 and July 31, 2005.

PACIFIC COMOX RESOURCES LTD.  
(A Development Stage Enterprise)  
CONSOLIDATED BALANCE SHEETS

ASSETS

	July 31 2006 (unaudited)	October 31 2005 (audited)
CURRENT		
Cash and equivalents	\$2,662,974	\$ 1,233
Accounts receivable	10,152	9,322
Advances and prepaid expenses	<u>216,283</u>	<u>2,357</u>
	2,889,409	12,912
INVESTMENT IN RELATED PARTY (note 3)	206,613	169,738
MINERAL PROPERTIES AND INTANGIBLE ASSETS (note 5)	1,559,315	1,076,686
CAPITAL ASSETS (note 4)	<u>2,202</u>	<u>2,842</u>
	<u>\$ 4,657,539</u>	<u>\$ 1,262,178</u>

LIABILITIES

CURRENT		
Accounts payable and accrued liabilities	\$ 101,150	\$ 332,538
Demand loan payable to unrelated party	-	-
Due to a shareholder and officer (note 3)	<u>87,700</u>	<u>70,133</u>
	<u>188,850</u>	<u>402,671</u>

SHAREHOLDERS' EQUITY

SHARE CAPITAL (note 8)	17,709,428	13,800,077
WARRANTS (note 8)	101,287	101,287
DEFICIT	<u>( 13,342,026)</u>	<u>(13,041,857)</u>
	<u>4,468,689</u>	<u>859,507</u>
GOING CONCERN BASIS (note 1)		
COMMITMENTS (note 5)		
SUBSEQUENT EVENTS (note 9)		
	<u>\$ 4,657,539</u>	<u>\$ 1,262,178</u>

Approved by the Board:

\_\_\_\_\_  
"Marvin Wolff", Director

\_\_\_\_\_  
"Donald Empey", Director

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

PACIFIC COMOX RESOURCES LTD.  
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CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

<u>Unaudited</u>	9 Months to July 31 2006	9 Months to July 31 2005	3 Months to July 31 2006	3 Months to July 31 2005
Expenses				
Administrative (note 3)	157,305	115,467	96,439	36,897
Interest (net)	2,864	799	2,342	164
Write-down of mineral property	140,000	-	140,000	-
Net loss	(300,169)	(116,266)	(238,781)	(37,061)
Deficit, beginning of period	(13,041,857)	(11,953,766)	(13,103,245)	(12,032,971)
Deficit, end of period	(13,342,026)	(12,070,032)	\$(13,342,026)	\$(12,070,032)
Basis and diluted loss per share	\$(0.003)	\$(0.001)	\$(0.002)	\$(0.001)

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PACIFIC COMOX RESOURCES LTD.  
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CONSOLIDATED STATEMENTS OF CASH FLOWS

<u>Unaudited</u>	9 Months to July 31 2006	9 Months to July 31 2005	3 Months to July 31 2006	3 Months to July 31 2005
Cash provided by (used in)				
Operating activities:				
Net loss for the period	\$ (300,169)	\$ (116,266)	\$ (238,781)	\$ (37,061)
Items not affecting cash:				
Amortization	640	913	214	305
Write-down of mineral property	140,000	-	140,000	-
	(159,529)	(115,353)	(98,567)	(36,756)
Change in non-cash components of working capital	(431,143)	(66,314)	(252,935)	(40,368)
	(590,672)	(181,667)	(351,502)	(77,214)
Financing activities:				
Proceeds on issue of common shares (net of cash issue costs)	3,674,351	573,313	3,324,551	273,313
Due to unrelated party	-	-	(20,000)	-
Due to shareholder and officer	17,567	(56,180)	2,460	-
Shares to be issued	-	(75,000)	-	-
	3,691,918	442,133	3,307,011	273,313
Investing activities:				
Deferred exploration expenditures (note 5)	(402,630)	(114,100)	(300,334)	(14,686)
Due from related party	(36,875)	(20,937)	(10,480)	(11,909)
	(439,505)	(135,037)	(310,814)	(26,595)
Increase(decrease) in cash	2,661,741	125,429	2,644,695	169,594
Cash and equivalents, beginning of period	1,233	62,915	18,279	18,750
Cash and equivalents, end of period	\$ 2,662,974	\$ 188,344	\$ 2,662,974	\$ 188,344

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED JULY 31, 2006 and 2005

1 - NATURE OF OPERATIONS AND GOING CONCERN CONSIDERATIONS:

Pacific Comox Resources Ltd. (the "Company") was incorporated to seek mineral exploration and development opportunities. To date, the Company has not earned significant revenue from any of its activities and is considered to be in the developments stage.

The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles on a going concern basis which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company has no source of operating cash flow and is currently in arrears in meeting some financial commitments under the terms of certain property commitment agreements (see note 5) and its ability to retain mineral property interests and to continue as a going concern is dependant on the continuing financial support of its shareholders and other related parties. These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

2 - SIGNIFICANT ACCOUNTING POLICIES:

The unaudited consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. These unaudited consolidated financial statements have been prepared following the same accounting policies and methods of computation as the audited financial statements for the fiscal year ended October 31, 2005. The disclosures provided below are incremental to those included with the audited annual consolidated financial statements. These unaudited consolidated financial statements should be read in conjunction with the Company's audited financial statements and notes for the year ended October 31, 2005

**BASIS OF CONSOLIDATION**

The consolidated financial statements include the accounts of the Company's wholly owned subsidiary in Mexico, Pacific Comox S.A. de C.V. All intercompany balances and transactions have been eliminated.

**MINERAL PROPERTIES AND INTANGIBLE ASSETS**

Mineral properties represent the cost of acquired mineral claims and deferred exploration and development activity. Where the Company has not yet acquired the mineral rights these are recorded as intangible assets. Expenditures are capitalized on an area-of-interest basis and included direct costs of obtaining, maintaining and exploring properties, the costs of structures and equipment which are employed directly in the exploration process and other direct cost related to specific properties. All other costs, including administrative overhead, are expensed as incurred.

Management periodically reviews the carrying value of its investments in mineral leases and properties. A decision to abandon, reduce or expand a specific project is based upon factors, including general and specific assessments of mineral reserves, anticipated future mineral prices, the anticipated future cost of exploring, developing and operating a producing mine, the expiration term and ongoing expense of maintaining leased mineral properties and the general likelihood that the Company will continue exploration.

If the area of interest 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 decline in value.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED JULY 31, 2006 AND 2005

3 - RELATED PARTY TRANSACTIONS

Amounts due to/from related parties are as follows:

	July 31 2006	October 31 2005
Due to a shareholder and officer	\$ 87,700	\$ 70,133
Investment in a corporation under common management	206,613	169,738

The amount due to a shareholder and officer represents amounts advanced which are non-interest bearing and due on demand.

The investment in a corporation under common management represents amounts invested. While management believes that the amount is not impaired, there can be no assurance that the full amount will be recovered.

	July 31 2006	July 31 2005
Rent paid to a corporation under common management	\$ 8,341	\$ 8,179
Consulting fees to an officer of the Company (\$39,700 included in administration expenses, \$27,800 included in mineral properties)	67,500	12,500

Transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

4 - CAPITAL ASSETS

	July 31, 2006			October 31, 2005
	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE	NET BOOK VALUE
Computer equipment	<u>\$ 6,823</u>	<u>\$ 4,621</u>	<u>\$ 2,202</u>	<u>\$ 2,842</u>

5 - MINERAL PROPERTIES, INTANGIBLE ASSETS AND COMMITMENTS

Mineral property expenditures are summarized as follows:

	July 31 2006	October 31 2005
Balance, Beginning of the year	\$1,076,686	\$ 1,496,251
Acquisition costs	501,465	316,593
Deferred exploration costs	121,164	170,036
Write-down of mineral properties	<u>(140,000)</u>	<u>(906,194)</u>
Balance, End of the year	<u>\$1,559,315</u>	<u>\$ 1,076,686</u>

The accumulated costs are represented by the expenditures relating to the companies Mabel, Ryan Lake, Log Lake and Pepa De Oro properties.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED JULY 31, 2006 AND 2005

5 - MINERAL PROPERTIES, INTANGIBLE ASSETS AND COMMITMENTS (continued)

MABEL

- i) On July 1, 2002, the Company entered into an agreement with respect of certain exploration properties in Mexico, whereby the Company will acquire a 100% interest in the properties over a five-year period, for an aggregate price payable as follows:
- (a) A total cash payment of U.S. \$386,000 payable: year one – U.S. \$20,000, which has been paid; year two – U.S. \$60,000, which has been paid; and years three, four and five – U.S. \$102,000 per year, payable either in monthly payments of U.S. \$8,500 or quarterly payments of U.S. \$25,500. U.S. \$102,000 has been paid through July 31, 2006 in respect of each of years three and four.
  - (b) Subject to regulatory approval and conditions, issue a total of 3,500,000 shares of the Company to the vendors, in a five-year period; respectively, 250,000 shares in each of years one and two, 500,000 shares in year three, 1,000,000 shares in year four and 1,500,000 shares in year five. In June 2004, a total of 500,000 common shares were issued valued at \$0.08 per share in respect of year three. In June, 2006, the Company issued 1,000,000 common shares valued at \$0.06 per share in respect of year four.
  - (c) A total work commitment of U.S. \$2,300,000, to be spent on the properties in the five-year period; respectively, U.S. \$75,000 in year one, U.S. \$200,000 in year two, U.S. \$500,000 in each of the years three and four and U.S. \$1,000,000 in year five. The Company met the requirements for the first two years ended June 30, 2004, but was in default in meeting its work commitments to June 30, 2005 and June 30, 2006 in the amount of U.S. \$828,000.

As indicated above, the Company is currently in arrears in meeting certain property commitments. However, in order for the property vendor to exercise default mechanisms, the vendor must issue a default notice in writing, the date from which the Company has six months to satisfy the commitments that are in arrears. To date, the property vendor has not issued a default notice.

The properties are also subject to a net smelter royalty of 3% rising to 3.5% for periods in which the gold price exceeds U.S. \$350 per ounce and to 4% for periods in which the gold price exceeds U.S. \$400 per ounce. The Company has the right to purchase (during the term of the agreement and for two years after the commencement of the commercial production) 50% of the net smelter royalty for U.S. \$4,500,000.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED JULY 31, 2006 AND 2005

5 - MINERAL PROPERTIES, INTANGIBLE ASSETS AND COMMITMENTS (continued)

Expenditures relating to the Mexican properties are as follows:

Balance, October 31, 2003	\$830,208
Acquisition costs	157,873
Deferred exploration costs	<u>508,170</u>
Balance, October 31, 2004	1,496,251
Acquisition costs	185,945
Deferred exploration costs	27,448
Write-down of mineral properties (d)	<u>(854,822)</u>
Balance, October 31, 2005	854,822
Acquisition costs	<u>87,499</u>
Balance, July 31, 2006	<u>\$ 942,321</u>

(d) Write-down of mineral properties

At October 31, 2005, management reviewed the carrying values of these properties and determined that, as a result of the uncertainty of raising financing to move the project towards an economically viable resource, the values should be written down by 50% or \$854,822. At July 31, 2006, no further write-down was deemed necessary.

RYAN LAKE

- ii) On March 8, 2005, the Company entered into an agreement to acquire a 100% interest in the Ryan Lake copper-molybdenum property that consists of 10 claims totalling 513 acres, located near Matachewan, Ontario. The aggregate price payable, over a two year period, is as follows:
- (a) A total cash payment of \$600,000 payable: year one – \$225,000 and year two – \$375,000. The \$225,000 in respect of year one has been paid at July 31, 2006.
  - (b) Subject to regulatory approval and conditions, issue a total of 2,000,000 common shares of the Company to the vendors, in a two year period; respectively, 500,000 shares in year one and 1,500,000 shares in year two. The 500,000 shares in respect of year one have been issued as at July 31, 2006;
  - (c) A total work commitment of \$300,000, to be spent on the property in the two-year period; respectively, \$100,000 in year one and \$200,000 in year two; and
  - (d) The Property is also subject to a net smelter royalty of 1%. The Company will have the right to purchase 50% of the net smelter royalty (0.5%) for \$1,000,000 during the two-year term of the agreement and for two years after the commencement of commercial production.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED JULY 31, 2006 AND 2005

5 - MINERAL PROPERTIES, INTANGIBLE ASSETS AND COMMITMENTS (continued)

LOG LAKE

- iii) On September 25, 2005, the Company entered into an option agreement to acquire claims totalling approximately 3,400 acres contiguous to the northern and western boundaries of the Ryan Lake claims in Matachewan, Ontario. To exercise the three-year option the Company has assumed the following commitments:
- (a) A total cash payment of \$180,000 payable: year one – \$80,000; year two – \$50,000 and \$50,000 for year three. A total of \$35,000 in respect of year one has been paid as at July 31, 2006;
  - (b) Subject to regulatory approval and conditions, issue a total of 850,000 common shares of the Company to the vendors, in a three year period; respectively, 400,000 shares in year one, 200,000 shares in year two and 250,000 in year three;
  - (c) A total work commitment of \$235,000, to be spent on the property in the three-year period; respectively, \$60,000 in year one, \$75,000 in year two and \$100,000 in year three; and
  - (d) The Property is also subject to a net smelter royalty of 2%. The Company will have the right to purchase 50% of the net smelter royalty (1%) for \$1,000,000 during the three-year term of the agreement and for two years after the commencement of commercial production.

Expenditures relating to the Ryan Lake and Log Lake, Matachewan, Ontario properties are as follows:

	Ryan Lake	Log Lake	Total
Balance, October 31, 2004	\$ -	\$ -	\$ -
Acquisition costs	100,000	5,000	105,000
Deferred exploration costs	<u>116,864</u>	<u>-</u>	<u>116,864</u>
Balance, October 31, 2005	\$ 216,864	\$ 5,000	\$ 221,864
Acquisition costs	241,390	32,576	273,966
Deferred exploration costs	<u>121,164</u>	<u>-</u>	<u>121,164</u>
Balance, July 31, 2006	<u>\$ 579,418</u>	<u>\$ 37,576</u>	<u>\$ 616,994</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED JULY 31, 2006 AND 2005

5 - MINERAL PROPERTIES, INTANGIBLE ASSETS AND COMMITMENTS (continued)

PEPA DE ORO

- iv) On November 1, 2004, the Company entered into an option agreement to option the Pepa de Oro gold property in Chile. Under the option agreement, the Company paid U.S. \$20,000 which will entitle the Company to explore the property for one year. The exploration period may be extended for an additional six months by paying U.S. \$40,000. After twelve or eighteen months of exploration the Company must either abandon the property or agree to pay the Vendor U.S. \$1,000,000 in three instalments during the following year.

Expenditures relating to the Pepa de Oro property are as follows:

Balance, October 31, 2004	\$	-	
Acquisition costs		25,648	
Deferred exploration costs		25,724	
Write-down of mineral properties			<u>( 51,372)</u>
Balance, October 31, 2005		-	
Acquisition costs		140,000	
Write-down of mineral properties			<u>(140,000)</u>
Balance, October 31, 2005	\$	<u>          -</u>	

At October 31, 2005, management made the decision to abandon the property and accordingly the entire carrying value in the amount of \$51,372 was written off. The Company issued 2,000,000 common shares in June, 2006 to fulfil obligations under the agreement. The shares were valued at \$140,000 when issued and this amount was written-off at July 31, 2006 since the property was abandoned.

6 – INCOME TAXES:

At October 31, 2005, the Company has non-capital loss carry forwards of approximately \$1,137,000 available to reduce taxable income in future years. These losses expire through 2015. The benefit of these non-capital loss carry forwards has not been recognized in the financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED JULY 31, 2006 AND 2005

6 – INCOME TAXES (continued)

As at October 31, 2005 the tax effects of temporary timing differences that give rise to significant components of the future tax asset computed at current rates, were as follows:

Capital assets	\$ 14,000
Non-capital losses carry forward	411,000
Resource pools	948,000
Unrealized capital losses	<u>1,480,000</u>
	2,833,000
Less: Valuation allowance	<u>(2,833,000)</u>
Net asset	<u>\$ _____</u> =

The Company's provision for income taxes differ from the amounts computed by applying the basic current rates to loss for the year before taxes, as shown in the following table:

	2005	2004
Statutory rate applied to loss for the year before income taxes	(\$ 393,000)	(\$ 87,000)
Write-off of mineral properties	328,000	-
Tax benefit not recognized on current year's losses	<u>65,000</u>	<u>87,000</u>
	<u>\$ _____</u> =	<u>\$ _____</u> =

7 - FINANCIAL INSTRUMENTS

The carrying values of cash, accounts receivable, accounts payable and accrued liabilities and due to a shareholder and officer approximates fair value due to the short-term maturities of these instruments.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED JULY 31, 2006 AND 2005

8 - SHARE CAPITAL

a) Authorized

Unlimited number of common shares

b) Issued

Common shares

	July 31, 2006		October 31, 2005	
	Shares	Amount	Shares	Amount
Balance, beginning of the period	73,691,257	\$ 13,800,077	63,552,892	\$ 13,226,763
Issued on completion of private placements	56,041,761	4,017,546	10,138,365	634,748
Issued to acquire mineral claims	3,500,000	235,000	-	-
Issued on exercise of warrants	-	-	-	-
Issue costs	-	(343,195)	-	(61,434)
Balance, end of the period	<u>133,233,018</u>	<u>\$ 17,709,428</u>	<u>73,691,257</u>	<u>\$ 13,800,077</u>

c)

On February 10, 2004, the Company completed and received approval from the TSX, for a number of private placements and raised \$500,000 through 4,166,666 units priced at \$0.12 per unit. Each unit consists of one common share and one common share purchase warrant exercisable at \$0.20 until February 2005. A director of the Company subscribed for \$322,000 of the financing. A finder's fee of 7% was paid on \$135,000 of the total financing in shares of the Company valued at \$0.12 per share. The fee was settled by issuing 80,500 common shares. \$0.01 was assigned to the warrants.

d)

On August 24, 2004, the Company completed and received approval from the TSX, for a number of private placements and raised \$250,000 through 3,125,000 units priced at \$0.08 per unit. Each unit consists of one common share and one-half common share purchase warrant exercisable at \$0.12 until August 2006. A director of the Company subscribed for \$50,000 of the financing. A finder's fee of 7% was paid on \$184,000 of the total financing in shares of the Company valued at \$0.08 per share. The fee was settled by issuing 161,000 common shares. \$0.01 was assigned to the warrants.

e)

On November 28, 2004, the Company completed and received approval from the TSX, for a number of private placements and raised \$100,000 through 1,250,000 units priced at \$0.08 per unit. Each unit consists of one common share and one common share purchase warrant exercisable at \$0.12 until November 28, 2006. A director of the Company subscribed for entire \$100,000 of the financing. A finder's fee of 10% was paid on \$57,800 of the total financing in shares of the Company valued at \$0.08 per share.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED JULY 31, 2006 AND 2005

8 - SHARE CAPITAL (continued)

f)

On February 22, 2005, the Company completed and received approval from the TSX, for a number of private placements and raised \$200,000 through 3,333,333 units priced at \$0.06 per unit. Each unit consists of one common share and one common share purchase warrant exercisable at \$0.10 until February 22, 2007. A director of the Company subscribed for \$116,550 of the financing. A finder's fee of 10% was paid on the financing in shares of the Company valued at \$0.06 per share.

g)

On July 28, 2005, the Company completed and received approval from the TSX, for a number of private placements and raised \$316,642. The financing consists of 3,732,600 Flow-Through Units and 1,544,766 Common Share Units. Each Flow-Through Unit consists of one flow-through common share and one-half of one common share purchase warrant (a "Warrant"), with a full Warrant entitling the holder to purchase one additional common share of the Company ("Warrant Shares") at an exercise of C\$0.10 per Warrant Share expiring December 22, 2006. Each Common Share Unit consists of one common share and one common share purchase warrant (a "Warrant"), with a Warrant entitling the holder to purchase one additional common share of the Company ("Warrant Share") at an exercise price of C\$0.10 per Warrant Share expiring December 22, 2006.

The Agent to the private placement received a cash commission of \$25,331 equal to 8% of the gross proceeds and 527,737 Broker Warrants entitling the Agent to acquire Common Share Units at a price of C\$0.10 per Unit expiring December 22, 2006. In addition the Company incurred legal costs in the amount of \$17,998 for total share issue costs of \$43,329.

h)

On December 23, 2005, the Company completed and received approval from the TSX, on a private placement for aggregate proceeds of \$351,000 comprised of \$321,000 Flow-Through Units and \$30,000 Common Share Units. Each Flow-Through Unit consist of one flow-through common share, issued at \$0.05 per share, and one-half of one common share purchase warrant exercisable at \$0.10 per common share to June 23, 2007. Each common share unit is comprised of one common share, issued at \$0.05 per share, and one common share purchase warrant exercisable at \$0.10 per common share to June 23, 2007. A director of the Company subscribed for 600,000 Common Share Units. A finder's fee of 80,000 common shares of the Company valued at \$0.05 per share plus \$1,200 cash was paid in connection with the financing.

i)

On June 14, 2006, the Company closed a brokered private placement of approximately 37.1 million common share units of the company at a price of seven cents per common share unit for proceeds of approximately \$2.6-million and approximately 11.8 million flow-through units at a price of nine cents per flow-through unit for proceeds of approximately \$1.1-million. Each common share unit consisted of one common share and one common share purchase warrant, which entitles the holder to purchase one additional common share of the company at an exercise price of 10 cents per warrant share until June 12, 2008. Each flow-through unit consisted of one flow-through common share and one warrant. Any warrant shares issued on exercise of the warrants will be non-flow-through shares. The common share units and flow-through units are, and any warrant shares which may be issued under the offering will be, subject to a four-month hold period to Oct. 13, 2006. After this financing, the Company has 133,233,018 shares issued.

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i) (continued)

The agent received a commission equal to 8 per cent of the gross proceeds raised. In addition, the company issued to the agent broker warrants entitling the agent to purchase, for 10 cents per common share unit until June 12, 2008, a total of 4,894,256 common share units (being 10 per cent of the number of all units in the financing). Any common shares, warrants and warrant shares issued on the exercise of the broker warrants will be subject to a four-month hold period to Oct. 13, 2006.

The company plans to use the net proceeds of the offering to diamond drill and develop its Ryan Lake copper-molybdenum properties near Matachewan, Ont., and working capital.

j) Stock-option plan

Under the Employee Stock Option Plan, approved in April 10, 2003, the Company may grant for up to 10% of the outstanding shares of common stock. Options may be granted to any director, officer, employee or consultant of the Company or any of its subsidiaries. Options granted to directors, officers and employees vest immediately. If the optionee is a consultant or providing investor relations services to the Company, the options must vest in stages over 12 months, with no more than one quarter of the options vesting in any three month period. The number of shares reserved for issuance to any one optionee pursuant to options cannot exceed 5% (2% if the optionee is engaged in providing investor relation services to the Company or is a consultant) of the issued and outstanding common shares of the Company at the date of grant of such options. The exercise price of each option cannot be less than the fair market value of the shares on the last trading date preceding the date of the grant. The maximum term of an option is five years.

A summary of the status of the Company's stock option plan and changes is presented below:

	July 31, 2006		October 31, 2005	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding at beginning of the period	2,300,000	0.12	3,300,000	0.12
Expired during the period	-	0.12	(1,000,000)	0.12
Issued during the period	<u>2,000,000</u>	0.12	<u>-</u>	-
Outstanding at end of the period	<u>4,300,000</u>	0.12	<u>2,300,000</u>	0.12

The options outstanding at July 31, 2006 expire as follows: 2,300,000 on May 27, 2008 and 2,000,000 on December 23, 2010. Under Black-Scholes the options issued during the period ended July 31, 2006 have been valued at \$Nil (2005 - \$Nil) as the amount is not material. The following assumptions were used: dividend yield of 0.00%; expected volatility of 40%; risk-free rate of 3% and an expected average term of 5 years.

PACIFIC COMOX RESOURCES LTD.  
(A Development Stage Enterprise)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED JULY 31, 2006 AND 2005

k) Warrants

The following summarizes warrants that have been issued:

	<u>Number of Warrants</u>	
	July 31, 2006	October 31, 2005
Balance, beginning of period	9,556,899	5,729,167
Warrants issued on private placements	60,556,017	7,994,399
Warrants expired during the period	<u>                  -</u>	<u>(4,166,667)</u>
Balance, end of period	<u>70,112,916</u>	<u>9,556,899</u>

At July 31, 2006, the following warrants were outstanding. The warrants entitle the holders to purchase the stated number of common shares at the exercise price on or before the expiry date:

<u>Number of shares</u>	<u>Exercise price</u>	<u>Expiry date</u>
1,562,500	\$ 0.12	August 12, 2006
1,250,000	\$ 0.12	November 28, 2006
3,333,333	\$ 0.10	February 22, 2007
1,866,300	\$ 0.10	January 28, 2007
1,544,766	\$ 0.10	January 28, 2007
300,000	\$ 0.10	June 23, 2007
6,420,000	\$ 0.10	June 23, 2007
<u>53,836,017</u>	\$ 0.10	June 12, 2008
<u>70,112,916</u>		