

UNITED BOLERO DEVELOPMENT CORP.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2005

AUDITORS' REPORT

To the Shareholders of
United Bolero Development Corp.

We have audited the consolidated balance sheets of United Bolero Development Corp. as at December 31, 2005 and 2004 and the consolidated statements of operations and deficit 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 December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Accountants

April 12, 2006

A Member of SC INTERNATIONAL

UNITED BOLERO DEVELOPMENT CORP.
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31

	2005	2004
ASSETS		
Current		
Cash	\$ 833,674	\$ 114,334
Receivables	32,928	9,014
Prepaid expenses	<u>34,988</u>	<u>-</u>
	901,590	123,348
Equipment (Note 4)	28,652	16,766
Oil and gas properties (Note 5)	2	231,375
Mineral properties (Note 6)	1,323,764	130,304
Reclamation deposit (Note 7)	<u>141,360</u>	<u>-</u>
	<u>\$ 2,395,368</u>	<u>\$ 501,793</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 166,013	\$ 83,980
Asset retirement obligation (Note 8)	<u>283,338</u>	<u>-</u>
	<u>449,351</u>	<u>83,980</u>
Shareholders' equity		
Capital stock (Note 10)	6,667,349	3,998,833
Share subscriptions receivable	-	(9,860)
Contributed surplus (Note 10)	601,036	381,009
Deficit	<u>(5,322,368)</u>	<u>(3,952,169)</u>
	<u>1,946,017</u>	<u>417,813</u>
	<u>\$ 2,395,368</u>	<u>\$ 501,793</u>

Nature and continuance of operations (Note 1)

Subsequent events (Note 16)

On behalf of the Board:

"R. Bruce Duncan"

Director

"Robert Gardner"

Director

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

UNITED BOLERO DEVELOPMENT CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
YEAR ENDED DECEMBER 31

	2005	2004
EXPENSES		
Amortization	\$ 7,878	\$ 2,661
Consulting fees	30,075	32,471
Management and administration fees	287,974	153,163
Office, rent, and miscellaneous	128,946	22,665
Professional fees	189,579	117,055
Shareholder communications and promotion	171,056	77,231
Stock-based compensation (Note 11)	192,030	188,651
Transfer agent and filing fees	33,190	27,899
Travel and accommodation	<u>90,098</u>	<u>14,646</u>
Loss before other items	<u>1,130,826</u>	<u>636,442</u>
OTHER ITEMS		
Write-down of oil and gas properties (Note 5)	(231,373)	(199,913)
Settlement of litigation	(8,000)	-
Oil and gas income (Note 5)	-	5,405
Gain on sale of marketable securities (Note 3)	<u>-</u>	<u>11,340</u>
	<u>(239,373)</u>	<u>(183,168)</u>
Loss for the year	(1,370,199)	(819,610)
Deficit, beginning of year	<u>(3,952,169)</u>	<u>(3,132,559)</u>
Deficit, end of year	<u>\$ (5,322,368)</u>	<u>\$ (3,952,169)</u>
Basic and diluted loss per common share	<u>\$ (0.06)</u>	<u>\$ (0.07)</u>
Weighted average number of common shares outstanding	<u>24,179,661</u>	<u>12,325,843</u>

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

UNITED BOLERO DEVELOPMENT CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	\$ (1,370,199)	\$ (819,610)
Items not affecting cash:		
Amortization	7,878	2,661
Depletion	-	995
Stock-based compensation	192,030	188,651
Gain on sale of marketable securities	-	(11,340)
Write-down of oil and gas properties	231,373	199,913
Changes in non-cash working capital items:		
Decrease (increase) in receivables	(23,914)	7,390
Decrease (increase) in prepaid expenses	(34,988)	6,000
Increase in accounts payable and accrued liabilities	<u>38,225</u>	<u>6,150</u>
Cash flows used in operating activities	<u>(959,595)</u>	<u>(419,190)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from related parties	-	250
Proceeds from issuance of capital stock	2,797,354	1,036,650
Proceeds from share subscription receivable	9,860	-
Share issue costs	<u>(205,926)</u>	<u>(31,654)</u>
Cash flows provided by financing activities	<u>2,601,288</u>	<u>1,005,246</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(19,764)	(14,065)
Reclamation deposit	(141,360)	-
Mineral property expenditures	(761,229)	(101,304)
Oil and gas property expenditures	-	(432,283)
Proceeds on sale of marketable securities	<u>-</u>	<u>30,340</u>
Cash flows used in investing activities	<u>(922,353)</u>	<u>(517,312)</u>
Increase in cash during the year	719,340	68,744
Cash, beginning of year	<u>114,334</u>	<u>45,590</u>
Cash, end of year	<u>\$ 833,674</u>	<u>\$ 114,334</u>
Cash paid for interest during the year	<u>\$ -</u>	<u>\$ -</u>
Cash paid for income taxes during the year	<u>\$ -</u>	<u>\$ -</u>

Supplemental disclosure with respect to cash flows (Note 12)

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

UNITED BOLERO DEVELOPMENT CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

1. NATURE AND CONTINUANCE OF OPERATIONS

The Company was incorporated in British Columbia on August 13, 1985 and is listed on the TSX Venture Exchange ("TSX-V"). The Company's principal business is the acquisition and exploration of resource property interests. To date, the Company has not generated significant revenues from its operations and is considered to be in the exploration stage.

The Company is in the process of exploring its resource properties and has not yet determined whether the properties contain reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties and related deferred exploration costs are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production.

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

	2005	2004
Working capital	\$ 735,577	\$ 39,368
Deficit	(5,322,368)	(3,952,169)

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Montana Molybdenum Corporation ("MT Moly"), a company incorporated under the laws of Montana, U.S.A. Significant inter-company balances and transactions have been eliminated upon consolidation.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of the assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from those estimates.

Foreign currency translation

Financial statements of the Company's foreign subsidiary are translated into Canadian dollar equivalents using the temporal method whereby all monetary assets and liabilities are translated at the rate of exchange at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates. Income and expenses are translated at the rates approximating those at the transaction dates. Gains and losses arising from restatement of foreign currency monetary assets and liabilities at each year end are recognized in the statement of operations.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Mineral properties

The Company records its interests in mineral properties and areas of geological interest at cost. All direct and indirect costs relating to the acquisition and exploration of these interests are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold or management has determined there to be an impairment. These costs will be amortized on the basis of units produced in relation to the proven reserves available on the related property following commencement of production. Mineral properties which are sold before that property reaches the production stage will have all revenues from the sale of the property credited against the cost of the property. Properties which have reached the production stage will have a gain or loss calculated based on the portion of that property sold.

The recorded cost of mineral exploration interests is based on cash paid, the value of share considerations and exploration and development costs incurred. The recorded amount may not reflect recoverable value as this will be dependant on the development program, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to bring its projects into production.

Asset retirement obligations

Effective January 1, 2004, the Company adopted the recommendations of CICA Handbook Section 3110, Asset Retirement Obligations. This new section requires recognition of a legal liability for obligations relating to retirement of property, plant and equipment, including mineral properties, and arising from the acquisition, construction, development or normal operation of those assets. Such asset retirement cost must be recognized at fair value in the period in which it is incurred, added to the carrying value of the asset, and amortized into income on a systematic basis over its useful life.

Oil and gas properties

The Company follows the full cost method of accounting for its oil and gas operations, whereby all costs of exploring for and developing oil and gas reserves are capitalized in cost centres on a country-by-country basis. Such costs include land acquisition costs, geological and geophysical costs, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, cost of production and gathering equipment and administrative charges directly related to acquisition, exploration and development activities. Proceeds from the disposal of oil and natural gas properties are applied against capitalized costs. Gains or losses are not recognized on disposals unless crediting the proceeds against capitalized costs would materially alter the rate of depletion.

Depletion and amortization

The capitalized costs together with estimated future capital costs associated with the development of proven reserves are depleted and amortized using the unit-of-production method based on proven oil and natural gas reserves, before royalties, determined by Company and independent engineers. For purposes of the depletion and amortization calculations, oil and natural gas reserves are converted to a common unit of measure based upon their relative energy content.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Oil and gas properties (cont'd...)

Ceiling test

The Company calculates a ceiling test whereby the net capitalized costs of properties cannot exceed the sum of the undiscounted cash flows expected to result from the Company's proved reserves. Cash flows are calculated based on third party quoted forward prices and adjusted for the Company's contract prices and quality differentials. If there is impairment, the magnitude of it would be calculated by comparing the carrying amount of oil and gas properties to the estimated net present value of future cash flows from proved plus risked probable reserves. A risk-free interest rate is used to arrive at the net present value of the future cash flows. Any excess carrying value above the net present value of future cash flows would be recorded as a permanent impairment and charged as additional depletion expense in the consolidated statement of operations.

Sales of oil and gas properties are accounted for as adjustments of capitalized costs, with no gain or loss recognized unless such adjustments would alter the rate of depletion and amortization by more than twenty percent.

Revenue recognition

Revenue from the sale of oil and gas products is recognized upon the passage of title and when ultimate collection is reasonably assured.

Equipment

Equipment is recorded at cost less accumulated amortization. Amortization is being provided for annually using the declining balance method of amortization at the following rates:

Office equipment	20%
Machinery and other equipment	20%
Computer equipment	30%
Vehicles	30%

Income taxes

The Company follows the asset and liability method of accounting for income taxes whereby future income taxes are recognized for the future income tax consequences attributable to differences between the financial statement carrying values and their respective income tax bases (temporary differences). Future income tax assets and liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period in which the change occurs. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

Stock-based compensation

Stock options and direct awards of stock granted to employees and non-employees are recorded at fair value on the date of grant and the associated expense is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to capital stock.

UNITED BOLERO DEVELOPMENT CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Loss per share

The Company uses the treasury stock method to calculate diluted loss per share. Diluted loss per share considers the dilutive impact of the exercise of outstanding stock options, warrants and similar instruments as if the events had occurred at the beginning of the period or at time of issuance, if later. For the years presented, this calculation proved to be anti-dilutive.

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year.

Flow-through shares

Canadian tax legislation permits a company to issue flow-through shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company. Recording these expenditures for accounting purposes gives rise to taxable temporary differences.

Effective March 19, 2004, the Emerging Issues Committee of the Canadian Institute of Chartered Accountants requires that, when the Company renounces flow-through expenditures, a portion of the Company's future income tax assets that were not recognized in previous years, due to the recording of a valuation allowance, be recognized as a recovery of income taxes in the statement of operations.

Comparatives

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

3. MARKETABLE SECURITIES

The Company disposed of all marketable securities resulting in a gain of \$11,340 during the year ended December 31, 2004.

4. EQUIPMENT

	2005			2004		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Office equipment	\$ 2,683	\$ 1,041	\$ 1,642	\$ 2,683	\$ 630	\$ 2,053
Machinery and other equipment	7,186	316	6,870	-	-	-
Vehicles	7,021	1,070	5,951	-	-	-
Computer equipment	<u>23,974</u>	<u>9,785</u>	<u>14,189</u>	<u>18,417</u>	<u>3,704</u>	<u>14,713</u>
	\$ 40,864	\$ 12,212	\$ 28,652	\$ 21,100	\$ 4,334	\$ 16,766

UNITED BOLERO DEVELOPMENT CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

5. OIL AND GAS PROPERTIES

	2005			2004
	Smokey Gap, Wyoming	Wagonbox, Montana	Total	Total
Balance, beginning of year	\$ 1	\$ 231,374	\$ 231,375	\$ -
Deferred exploration costs	-	-	-	432,283
Depletion during the year	-	-	-	(995)
Written-down during the year	-	(231,373)	(231,373)	(199,913)
Balance, end of year	\$ 1	\$ 1	\$ 2	\$ 231,375

As at December 31, 2005 all the oil and gas properties are unproved and excluded from depletion calculations. During the year ended December 31, 2004, the Company received \$6,400 in oil and gas revenue and recorded depletion of \$995.

Smokey Gap Field, Natrona County, Wyoming, USA

During the year ended December 31, 2004, the Company entered into an agreement with Big Snowy Resources LLP, ("Big Snowy") a company with a former director in common, whereby the Company can earn up to a 50% working interest in up to five wells in the Smokey Gap Field, Natrona County, Wyoming.

During the year ended December 31, 2004, the Company wrote-down the working interest in the property to a nominal amount.

Wagonbox Field, Musselshell County, Montana, USA

During the year ended December 31, 2004, the Company, pursuant to an agreement with Big Snowy, earned a 50% working interest in up to two wells in the Wagonbox Field, Musselshell County, Montana by paying \$231,374 (US\$175,000).

During the year ended December 31, 2005, the Company wrote-down the working interest in the property to a nominal amount.

6. MINERAL PROPERTIES

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties are in good standing.

UNITED BOLERO DEVELOPMENT CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

6. MINERAL PROPERTIES (cont'd...)

At December 31, 2005, expenditures incurred on mineral properties were as follows:

	Cannivan Gulch Project, Montana	South Baird Project, Ontario	Bald Butte Project, Montana	Chong Project, Ontario	Total
Acquisition costs:					
Balance, beginning of year	\$ 64,500	\$ 29,000	\$ -	\$ -	\$ 93,500
Additions during the year	<u>60,625</u>	<u>-</u>	<u>426,190</u>	<u>5,000</u>	<u>491,815</u>
Balance, end of year	<u>125,125</u>	<u>29,000</u>	<u>426,190</u>	<u>5,000</u>	<u>585,315</u>
Deferred exploration costs:					
Balance, beginning of year	-	36,804	-	-	36,804
Assays	-	-	23,735	1,163	24,898
Claim staking	-	-	3,041	6,120	9,161
Excavation, drilling and transportation	-	-	327,847	9,913	337,760
Field supplies	-	-	18,238	1,027	19,265
Geologists and other labour	65,485	-	172,393	14,190	252,068
Insurance	-	-	8,429	-	8,429
Licences and permits	-	-	16,664	-	16,664
Reports, drafting, maps	-	-	14,208	2,000	16,208
Surveys	-	7,997	-	-	7,997
Travel and accommodation	-	-	9,195	-	9,195
Balance, end of year	<u>65,485</u>	<u>44,801</u>	<u>593,750</u>	<u>34,413</u>	<u>738,449</u>
Total, December 31, 2005	\$ 190,610	\$ 73,801	\$ 1,019,940	\$ 39,413	\$ 1,323,764

At December 31, 2004, expenditures incurred on mineral properties were as follows:

	Cannivan Gulch Project, Montana	South Baird Project, Ontario	Total
Acquisition costs:			
Balance, beginning of year	\$ -	\$ 15,000	\$ 15,000
Additions during the year	<u>64,500</u>	<u>14,000</u>	<u>78,500</u>
Balance, end of year	<u>64,500</u>	<u>29,000</u>	<u>93,500</u>
Deferred exploration costs:			
Balance, beginning of year	-	-	-
Line cutting	-	18,904	18,904
Reports, drafting, maps	-	2,900	2,900
Surveys	-	15,000	15,000
Balance, end of year	<u>-</u>	<u>36,804</u>	<u>36,804</u>
Total, December 31, 2004	\$ 64,500	\$ 65,804	\$ 130,304

UNITED BOLERO DEVELOPMENT CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

6. MINERAL PROPERTIES (cont'd...)

South Baird Project, Ontario, Canada

On November 3, 2003, the Company entered into an option agreement to acquire a 50% interest in certain mineral claims located in Baird Township, Red Lake Mining Division, Ontario.

To date, the Company has paid \$15,000, issued 100,000 common shares valued at \$14,000 and incurred exploration and development expenditures totalling \$44,801.

Subsequent to December 31, 2005, the agreement was renegotiated and is subject to regulatory approval.

Under the terms of the new agreement, the Company is required to make cash payments, incur exploration expenditures and issue common shares as follows:

Date	Cash payments	Exploration expenditures	Common share issuances
On regulatory approval	\$ 10,000	\$ -	150,000
On or before January 19, 2007	\$ 15,000	\$ 200,000	100,000
On or before January 19, 2008	\$ 20,000	\$ 200,000	100,000
On or before January 19, 2009	\$ -	\$ 350,000	-

Subsequent to December 31, 2005, regulatory approval was received and the required common share issuance and cash payment was made (Note 16).

The Company will earn a 60% property interest on completion of the 2008 commitments and 75% on completion of the 2009 commitments.

The property is subject to a 2% net smelter returns royalty ("NSR").

Cannivan Gulch Project, Montana, USA

During the year ended December 31, 2004 the Company entered into an option agreement to acquire a 100% interest in the Cannivan Gulch deposit which is located in northern Beaverhead County, Montana. The Company issued 266,666 common shares as finders' fees valued at \$42,250 and is required to issue an additional 233,334 common shares as finders' fees by December 31, 2006.

UNITED BOLERO DEVELOPMENT CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

6. MINERAL PROPERTIES (cont'd...)

Cannivan Gulch Project, Montana, USA (cont'd...)

To acquire the option, the Company paid \$64,500 (US\$50,000), issued 100,000 common shares valued at \$18,375 and is required to make cash payments and issue common shares as follows:

Date	Cash payments	Common share issuances
On or before December 31, 2005	US\$ 50,000	100,000
On or before December 31, 2006	US\$ 50,000	100,000
On or before each anniversary date from December 31, 2007 to December 31, 2009	US\$ 75,000	100,000
On or before each anniversary date from December 31, 2010 to December 31, 2109	US\$ 100,000	-

The first anniversary payments of cash and common shares were issued subsequent to December 31, 2005 (Note 16).

The optionors will retain a 2% NSR. The company may purchase 1% of the NSR on the third anniversary of the agreement for US \$600,000.

Bald Butte Project, Montana, USA

The Company entered into an option agreement dated February 18, 2005, whereby the Company can acquire a 100% interest in certain claims referred to as the Bald Butte property in Montana. The Company has acquired additional contiguous claims through staking. The Company issued 121,959 common shares valued at \$22,410 as a finder's fee.

To acquire the option, the Company has paid \$98,392 (US\$80,000) and issued 120,000 common shares valued at \$22,050 and is required to make cash payments and issue common shares as follows:

Date	Cash Payments	Common Share Issuances
On or before February 18, 2006	US\$100,000	120,000
On or before each of anniversary date February 18, 2007 to February 18, 2010	US\$200,000	120,000
On or before each subsequent anniversary date from February 18, 2011 to February 18, 2031	US\$200,000	

In accordance with the agreement, \$114,850 (US\$100,000) cash was paid and 120,000 shares were issued subsequent to December 31, 2005 (Note 16). An asset retirement obligation of \$283,338 related to the property has been recorded as an acquisition cost on the property.

UNITED BOLERO DEVELOPMENT CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

6. MINERAL PROPERTIES (cont'd...)

Bald Butte Project, Montana, USA (cont'd...)

The project is subject to a 3% NSR. The Company can reduce the royalty to 2% by paying US\$500,000 in the third year of the agreement.

The Company incorporated MT Moly during the year ended December 31, 2005 to hold the Bald Butte project.

Chong Molybdenum Property, Ontario

The Company entered into an option agreement to acquire a 100% interest in certain claims referred to as the Chong Molybdenum Property in Ontario. This transaction is subject to regulatory approval.

To acquire the option, the Company has paid \$5,000 and is required to make cash payments and issue shares as follows:

Date	Cash Payments	Common Share Issuances
On regulatory approval	\$ -	50,000
On or before November 16, 2006	\$15,000	75,000
On or before November 16, 2007	\$20,000	75,000
On or before November 16, 2008	\$60,000	100,000

Subsequent to December 31, 2005, regulatory approval was received and the required common share issuance was made (Note 16).

The project is subject to a 2% NSR which can be reduced to 1% upon payment of \$500,000 and to 0.75% for an additional \$500,000.

7. RECLAMATION DEPOSIT

The Company has assigned certificates of deposit in the amount of \$141,360 (US\$120,000) to the Department of Environmental Quality (DEQ) in lieu of a bond for the restoration of roads related to the Bald Butte property.

8. ASSET RETIREMENT OBLIGATION

The Company estimates its asset retirement obligation at the Bald Butte property, based on its understanding of its requirements to reclaim the currently disturbed areas as \$283,338 (US\$243,000). The Company estimates the cost to restore the roads as \$137,588 (US\$118,000) and the cost to restore the quarry as \$145,750 (US\$125,000). The Company has assigned certificates of deposit to the DEQ for the restoration of the roads.

The asset retirement obligation accrual required management to make significant estimates and assumptions. Actual results could differ from these estimates.

9. RELATED PARTY TRANSACTIONS

Included in accounts payable is \$17,693 (2004 - \$2,001) due to directors and former directors. Included in prepaid expenses is \$10,311 (2004 - \$Nil) owing from directors of the Company.

The Company entered into the following transactions with related parties:

- a) Paid or accrued management fees of \$244,508 (2004 - \$144,310) to current and former directors of the Company and to a company controlled by an officer of the Company.
- b) Paid or accrued consulting fees of \$30,000 (2004 - \$32,471) to former directors and officers of the Company and to a company controlled by a former director of the Company.
- c) Paid or accrued rent of \$3,530 (2004 - \$7,250) to a director and a company controlled by a director.
- d) Paid or accrued salary included in geologists and other labour in deferred development costs of \$38,755 (US\$32,700) (2004 - \$Nil) to director and officer of the Company.
- e) Paid or accrued report writing fees include in reports, drafting, map in deferred development costs of \$5,000 (2004 - \$Nil) to a director of the Company.

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

UNITED BOLERO DEVELOPMENT CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

10. CAPITAL STOCK

	Number of Shares	Capital Stock	Contributed Surplus
Authorized			
Unlimited common shares without par value			
Common shares			
Balance as at December 31, 2003	10,035,714	\$ 2,944,327	\$ 218,008
Flow-through private placement	193,548	60,000	-
Finders' fee on flow-through private placement	19,355	6,000	-
Private placements	6,749,999	880,000	21,407
Finders' fee on private placements	307,000	33,840	-
Exercise of warrants	80,000	14,400	-
Exercise of agent warrants	50,000	10,000	-
Fair value of warrants exercised	-	1,367	(1,367)
Exercise of stock options	655,000	72,250	-
Fair value of stock options exercised	-	45,690	(45,690)
Acquisition of mineral properties	100,000	14,000	-
Stock-based compensation (Note 11)	-	-	188,651
Issue costs	-	(83,041)	-
Balance as at December 31, 2004	18,190,616	3,998,833	381,009
Flow-through private placement	850,000	170,000	-
Finders' fee on flow-through private placement	-	(7,002)	7,002
Private placements	11,380,000	1,763,600	-
Finders' fee on private placements	-	(80,571)	80,571
Exercise of warrants	4,570,083	789,137	-
Exercise of stock options	577,165	74,617	-
Fair value of stock options exercised	-	59,576	(59,576)
Acquisition of mineral properties	220,000	40,425	-
Finders' fees on mineral properties	388,625	64,660	-
Stock-based compensation (Note 11)	-	-	192,030
Issue costs	-	(205,926)	-
Balance as at December 31, 2005	36,176,489	\$ 6,667,349	\$ 601,036

During the year ended December 31, 2005, the Company changed its authorized share capital to be unlimited in number.

During the year ended December 31, 2005, the Company issued 577,165 common shares of the Company for \$74,617 pursuant to the exercise of stock options and 4,570,083 common shares for \$789,137 on the exercise of warrants.

On November 28, 2005, the Company issued 3,660,000 units at a price of \$0.20 per unit for total proceeds of \$732,000 pursuant to a private placement. Each unit consisted of one common share of the Company and one non-transferable share purchase warrant. Each warrant entitled the holder to purchase a further common share of the Company at a price of \$0.25 per share for a period of two years. The Company paid \$73,201 and issued 366,001 warrants as finders' fees. The fair value of the finders' fee warrants, as determined by the Black-Scholes pricing model, was \$39,494.

UNITED BOLERO DEVELOPMENT CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

10. CAPITAL STOCK (cont'd...)

On November 28, 2005, the Company issued 850,000 flow-through units at a price of \$0.20 per unit for total proceeds of \$170,000 pursuant to a private placement. Each unit consisted of one flow-through common share of the Company and one half non-transferable share purchase warrant. One whole warrant entitled the holder to purchase a further common share of the Company at a price of \$0.25 per share for a period of one year. The Company paid \$14,500 and issued 65,000 warrants as finders' fees. The fair value of the finders' fee warrants, as determined by the Black-Scholes pricing model, was \$7,002.

On November 1, 2005, the Company issued 3,450,000 units at a price of \$0.20 per unit for total proceeds of \$690,000 pursuant to a private placement. Each unit consisted of one common share of the Company and one non-transferable share purchase warrant. Each warrant entitled the holder to purchase a further common share of the Company at a price of \$0.25 per share for a period of two years. The Company paid \$58,500 and issued 245,000 warrants as finders' fees. The fair value of the finders' fee warrants, as determined by the Black-Scholes pricing model, was \$27,573.

On August 22, 2005, the Company issued 4,270,000 units at a price of \$0.08 per unit for total proceeds of \$341,600 pursuant to a non-brokered private placement. Each unit consisted of one share and one share purchase warrant which entitled the holder to purchase an additional share of the Company at \$0.10 until August 22, 2006, and \$0.15 until August 22, 2007. The Company also paid the sum of \$24,020 and issued 290,250 warrants as finders' fees. The fair value of the issued warrants, as determined by the Black-Scholes pricing model, was \$13,504.

In June 2005, the Company issued 120,000 common shares valued at \$22,050 for mineral properties related to the Bald Butte Project and issued 121,959 common shares valued at \$22,410 for finder's fees related to the Project.

In March 2005, the Company issued 100,000 common shares valued at \$18,375 for mineral properties related to the Cannivan Gulch Project and issued 66,666 common shares valued at \$12,250 for finder's fees related to the Project.

In January 2005, the Company issued 200,000 common shares valued at \$30,000 for finder's fees related to the acquisition of the Cannivan Gulch Project.

In December 2004, the Company issued 100,000 common shares valued at \$14,000 for the acquisition of mineral properties.

In December 2004, the Company issued 2,749,999 units at \$0.12 per unit for proceeds of \$330,000. Each unit consisted of one common share and one common share purchase warrant entitling the holder to acquire one common share at \$0.15 in the first year and at \$0.20 in the second year. A finder's fee of \$8,044 cash, 41,666 agent warrants and 157,000 agent units valued at \$18,840 with the same terms of the units and warrants was paid. The fair value of the agent warrants, as determined by the Black-Scholes pricing model, was \$8,101.

In October 2004, the Company issued 2,500,000 units at \$0.10 per unit for proceeds of \$250,000. Each unit consisted of one common share and one common share purchase warrant entitling the holder to acquire one common share at \$0.15 for one year. A finder's fee of \$5,750 cash and 150,000 common shares valued at \$15,000 was paid.

UNITED BOLERO DEVELOPMENT CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

10. CAPITAL STOCK (cont'd...)

In June 2004, the Company issued 193,548 flow-through units at \$0.31 per unit for proceeds of \$60,000. Each unit consisted of one flow-through share and one half common share purchase warrant. One whole warrant entitles the holder to acquire one common share at \$0.36 in the first year and at \$0.42 in the second year. The Company issued 19,355 units valued at \$6,000 consisting of one common share and one whole common share purchase warrant with the same terms of the unit warrants as finder's fees.

In April 2004, the Company issued 1,500,000 units at \$0.20 per unit for proceeds of \$300,000. Each unit consisted of one common share and one common share purchase warrant entitling the holder to acquire one common share at \$0.25 in the first year and at \$0.35 in the second year. A finder's fee of \$8,000 cash and 100,000 agent warrants with the same terms of the unit warrants was paid. The fair value of the agent warrants, as determined by the Black-Scholes pricing model, was \$13,306.

The following weighted average assumptions were used for the Black-Scholes valuation of agent warrants granted during the year:

	2005	2004
Risk-free interest rate	3.55%	2.67%
Expected life of warrants	2 years	1.75 years
Annualized volatility	87.08%	129%
Dividend rate	0.00%	0.00%

11. STOCK OPTIONS AND WARRANTS

Share purchase warrants

At December 31, 2005, warrants were outstanding enabling holders to acquire shares as follows:

Number of Shares	Exercise Price	Expiry Date
350,000	\$ 0.35	April 5, 2006 (Note 16)
116,129	0.42	June 15, 2006
2,140,000	0.15	April 29, 2006 (i)
425,000	0.25	November 28, 2006
1,687,332	0.20	December 29, 2006
4,497,750	0.10	August 22, 2006
then at	0.15	August 22, 2007
3,695,000	0.25	November 1, 2007
3,660,000	0.25	November 28, 2007
431,001	0.20	November 28, 2007

- (i) In September 2005, the Company extended the expiry date of these outstanding warrants from October 29, 2005 to April 29, 2006.

UNITED BOLERO DEVELOPMENT CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

11. STOCK OPTIONS AND WARRANTS (cont'd...)

Share purchase warrants (cont'd...)

	Number of Warrants	Weighted Average Exercise Price
As at December 31, 2003	3,933,333	\$ 0.17
Warrants granted	7,164,794	0.18
Warrants cancelled/expired	-	-
Warrants exercised	<u>(130,000)</u>	0.18
As at December 31, 2004	10,968,127	0.17
Warrants granted	12,771,251	0.19
Warrants cancelled/expired	(2,167,083)	0.20
Warrants exercised	<u>(4,570,083)</u>	0.17
As at December 31, 2005	17,002,212	\$ 0.19
Number of warrants currently exercisable	7,511,694	\$ 0.14

Stock options

The Company is authorized to grant to directors, employees and consultants up to 20% of the issued and outstanding common stock of the Company. Under the plan, the exercise price of each option equals the market price, less any applicable discounts, of the Company's stock as calculated on the date of grant. Options vest over an eighteen month period or over a longer period if specified by the directors of the Company. The options can be granted for a maximum term of 5 years.

As at December 31, 2005, the following incentive stock options were outstanding:

Number of Shares	Exercise Price	Expiry Date
1,251,668	\$ 0.10	June 24, 2007
300,000	0.11	August 19, 2007
150,000	0.15	September 30, 2007
400,000	0.25	October 17, 2007
202,000	0.15	August 15, 2008
200,000	0.20	February 27, 2009
100,000	0.24	March 16, 2009
91,667	0.32	March 24, 2009
50,000	0.20	May 31, 2009
125,000	0.15	June 30, 2009
54,500	0.15	July 22, 2009
166,133	0.10	September 1, 2009
50,000	0.15	October 1, 2009
500,000	0.22	December 31, 2009
200,000	0.17	December 21, 2010

UNITED BOLERO DEVELOPMENT CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

11. STOCK OPTIONS AND WARRANTS (cont'd...)

Stock options (cont'd...)

Stock option transactions and the number of share options outstanding are summarized as follows:

	Number Of Options		Weighted Average Exercise Price
Balance, December 31, 2003	857,000	\$	0.12
Options granted	3,075,000		0.17
Options cancelled	(575,000)		0.18
Options exercised	<u>(655,000)</u>		0.11
Balance, December 31, 2004	2,702,000		0.17
Options granted	2,350,000		0.14
Options cancelled	(633,867)		0.14
Options exercised	<u>(577,165)</u>		0.13
Balance, December 31, 2005	3,840,968	\$	0.16
Number of options currently exercisable	1,335,591	\$	0.18

The weighted average fair value of options granted during fiscal 2005 was \$0.10 (2004 - \$0.11).

Stock-based compensation

During the year ended December 31, 2005, the Company granted 2,350,000 (2004 - 3,075,000) stock options to directors, consultants and employees, resulting in a value of \$238,569 (2004 - \$342,536). Compensation costs expensed in the year totalled \$192,030 (2004 - \$188,651) for the options that vested which was recorded as contributed surplus on the balance sheet.

The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted during the year:

	2005	2004
Risk-free interest rate	3.11%	3.56%
Expected dividend yield	0.00%	0.00%
Expected stock volatility	117%	106%
Expected option life in years	2.25 years	5 years

12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions for the year ended December 31, 2005 consisted of the Company:

- a) Issuing 266,666 common shares valued at \$42,250 for finders' fees related to the acquisition of the Cannivan Gulch Project.
- b) Issuing 121,959 common shares valued at \$22,410 for finder's fees related to the acquisition of the Bald Butte Project.
- c) Issuing 120,000 common shares valued at \$22,050 for mineral properties related to the Bald Butte Project.
- d) Issuing 100,000 common shares valued at \$18,375 for mineral properties related to the Cannivan Gulch Project.
- e) Issuing agent warrants valued at \$87,573 as finders' fees and granting stock options valued at \$192,030 which were recorded as contributed surplus. The exercise of options with a value of \$59,576 reducing contributed surplus.
- f) Recording an asset retirement obligation on the Bald Butte Project of \$283,338.
- g) Incurring \$43,808 of mineral property costs through accounts payable at December 31, 2005.

Significant non-cash transactions for the year ended December 31, 2004 consisted of the Company:

- a) Issuing 100,000 common shares valued at \$14,000 for mineral properties relating to the South Baird Project.
- b) Issuing agent warrants valued at \$21,407 as finders' fees and granting stock options valued at \$188,651 which were recorded as contributed surplus. The exercise of warrants and options with a combined value of \$47,057 reducing contributed surplus.
- c) Issuing 307,000 common shares valued at \$33,840 as finder's fees recorded as issue costs (Note 10).
- d) Issuing 19,355 flow-through shares valued at \$6,000 as finder's fees recorded as issue costs (Note 10).

13. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, receivables, reclamation deposit, accounts payable and accrued liabilities and asset retirement obligations. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying value, unless otherwise noted.

The Company is exposed to financial risk arising from fluctuations in foreign exchange rates and the degree of volatility of those rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

UNITED BOLERO DEVELOPMENT CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

14. INCOME TAXES

A reconciliation of income taxes at statutory rates is as follows:

	2005	2004
Loss for the year	\$ (1,370,199)	\$ (819,610)
Expected income tax (recovery)	\$ (531,408)	\$ (291,781)
Expenses not deductible for income tax purposes	167,596	130,628
Write-down of oil and gas properties	89,935	71,169
Items deductible for income tax purposes	(276,803)	-
Unrecognized benefit of non-capital loss carryforward	<u>550,680</u>	<u>89,984</u>
Total income taxes	<u>\$ -</u>	<u>\$ -</u>

The significant components of the Company's future income tax assets are as follows:

	2005	2004
Future income tax assets:		
Resource properties	\$ 390,000	\$ 426,000
Non-capital loss carryforwards	978,000	394,000
Other assets	<u>117,000</u>	<u>10,000</u>
	1,485,000	830,000
Valuation allowance	<u>(1,485,000)</u>	<u>(830,000)</u>
Net future income tax assets	<u>\$ -</u>	<u>\$ -</u>

During the year ended December 31, 2005, the Company issued 850,000 (2004 – 193,548) common shares on a flow-through basis for gross proceeds of \$170,000 (2004 – \$60,000). The flow-through agreements require the Company to renounce certain tax deductions for Canadian exploration expenditures incurred on the Company's mineral properties to the flow-through participants. During the year ended December 31, 2005, the Company renounced exploration expenditures of \$Nil (2004 - \$ Nil).

The Company has available for deduction against future taxable income non-capital losses of approximately \$2,611,000. These losses expire through to 2015. Subject to certain restrictions, the Company also has resource expenditures of approximately \$2,237,787 available to reduce taxable income in future years. Future tax benefits which may arise as a result of these non-capital losses and resource deductions have not been recognized in these financial statements and have been offset by a valuation allowance.

UNITED BOLERO DEVELOPMENT CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

15. SEGMENTED INFORMATION

The Company primarily operates in one reportable operating segment, being the acquisition and exploration of resource properties in Canada and the United States. Segmented information on a geographic basis is as follows:

	Total Assets	Mineral Properties	Oil and Gas Properties	Other Assets
2005				
Assets				
Canada	\$ 823,126	\$ 113,214	\$ -	\$ 709,912
United States	<u>1,572,242</u>	<u>1,210,550</u>	<u>2</u>	<u>361,690</u>
	\$ 2,395,368	\$ 1,323,764	\$ 2	\$ 1,071,602
2004				
Assets				
Canada	\$ 205,918	\$ 65,804	\$ -	\$ 140,114
United States	<u>295,875</u>	<u>64,500</u>	<u>231,375</u>	<u>-</u>
	\$ 501,793	\$ 130,304	\$ 231,375	\$ 140,114

16. SUBSEQUENT EVENTS

Subsequent to the year ended December 31, 2005, the Company:

- a) Issued 3,450,000 units at \$0.20 per unit for proceeds of \$690,000 pursuant to a private placement. Each unit consisted of one common share and one common share purchase warrant entitling the holder to acquire one common share at \$0.25 for two years. A finders' fee of \$50,325 cash was paid and 185,000 warrants issued.
- b) Issued 1,000,000 flow-through shares of the Company at \$0.50 per unit for proceeds of \$500,000 pursuant to a private placement.
- c) Granted 300,000 stock options at an exercise price of \$0.32 per option exercisable for a period of 5 years.
- d) Issued 791,635 common shares of the Company for \$122,103 pursuant to the exercise of stock options.
- e) Issued 8,564,594 common shares of the Company for \$1,383,749 pursuant to the exercise of warrants. Additionally, 62,000 warrants exercisable to April 5, 2006 expired.
- f) Issued 120,000 common shares of the Company valued at \$30,000 and paid \$114,850 (US\$100,000) pursuant to the terms of the Bald Butte mineral property agreement.

UNITED BOLERO DEVELOPMENT CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005

16. SUBSEQUENT EVENTS (cont'd...)

- g) Issued 100,000 common shares of the Company valued at \$25,000 and paid \$58,000 (US\$50,000) pursuant to the terms of the Cannivan Gulch mineral property agreement.
- h) Issued 150,000 common shares of the Company valued at \$90,000 and paid \$10,000 pursuant to the terms of the South Baird mineral property agreement.
- i) Issued 50,000 common shares of the Company valued at \$18,250 pursuant to the terms of the Chong Molybdenum mineral property agreement.