

ANGLO SWISS RESOURCES INC  
Form 20-F  
May 30, 2006

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 20-F**  
**ANNUAL REPORT**

£

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

**OR.**

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ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal period ended **December 31, 2005**

**OR**

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TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**OR**

£

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT 1934  
(Date of event requiring this shell company report)

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission File Number 0-8797**

**ANGLO SWISS RESOURCES INC.**  
(Exact name of Registrant as specified in its charter)

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Province of British Columbia, Canada  
(Jurisdiction of incorporation or organization)

837 West Hastings Street, Suite 1904, Vancouver, British Columbia, Canada V6C 3N7  
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
<u>None</u>	<u>Not Applicable</u>

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Common Shares Without Par Value

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None  
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Title of Class	Issued and Outstanding as of December 31, 2005
Common Shares Without Par Value	67,402,688

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the Company is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check One)

Large accelerated filer \_\_\_\_\_

Accelerated filer \_\_\_\_\_

Non-accelerated filer  X

Indicate by check mark which financial statement item the registrant has elected to follow.

**Item 17  Item 18**

If this is an annual report, indicate by check mark whether the Company is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes \_\_\_\_\_ No  X

**(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)**

Indicate by check mark whether the Company has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes \_\_\_\_\_ No \_\_\_\_\_ Not Applicable  X

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This information set forth in this Form 20-F Annual Report is as at December 31, 2005 unless an earlier or later date is indicated.

References to Anglo Swiss Resources Inc. and the Company in this Form 20-F Annual Report include any of its subsidiaries except to the extent the context requires otherwise.

Financial information is presented in accordance with accounting principles generally accepted in Canada. The major measurement differences between accounting principles generally accepted in Canada and in the United States, as applicable to the Company, are set forth in Item 5 of this Annual Report and in Note 12 to the accompanying Financial Statements of the Company.

#### **FORWARD-LOOKING STATEMENTS**

**This Annual Report contains forward-looking statements and information relating to the Company that are based on the beliefs of its management as well as assumptions made by and information available to Anglo Swiss. When used in this document the words, anticipate, believe, and expect and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements.**

**This Annual Report contains forward-looking statements relating to, among other things, regulatory compliance, the sufficiency of current working capital, the estimated cost and availability of funding for the continued exploration and development of the Company's exploration properties. Many factors could cause the actual results, performance or achievements of Anglo Swiss to be materially different from any future results,**

**performance or achievements be expressed or implied by such forward-looking statements. Important factors are identified in this Annual Report and the attached financial statements.**

**Statements in this Annual Report regarding expected completion dates of feasibility studies, anticipated commencement dates of mining or metal production operations, projected quantities of future metal production and anticipated production rates, operating efficiencies, costs and expenditures are forward-looking statements. Actual results could differ materially depending upon the availability of materials, equipment, required permits or approvals and financing, the occurrence of unusual weather or operating conditions, the accuracy of reserve estimates, lower than expected ore grades or the failure of equipment or processes to operate in accordance with specifications. See Item 3.D Key Information Risk Factors for other factors that may affect the Company's future financial performance.**

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### **Critical Accounting Estimates**

A summary of all the Company's significant accounting policies is included in Note 2 to the annual financial statements for the year ended December 31, 2005.

Management is required to make assumptions and estimates that affect the valuation of its mineral properties. The carrying value of each property in the exploration or development stage is evaluated as to the project economics, including the timing of the exploration and/or development work, the work programs and the exploration results experienced by the Company or others. The review of the carrying value of each producing property is made by reference to the estimated future operating results and net cash flows. When the carrying value of a property exceeds its estimated net recoverable amount, provision is made for the decline in value.

Acquisition costs of mineral properties and development expenditures thereon are capitalized. Costs incurred for general explorations that do not result in the acquisition of mineral properties with ongoing exploration or development potential are charged to operations. Costs relating to properties abandoned are written off when such decision is made. When production is attained, the capitalized costs will be amortized using the unit of production method based upon estimated proven and probable recoverable reserves.

Future income tax assets and liabilities are computed based on differences between the carrying amount of assets and liabilities on the balance sheet and their corresponding tax values, using the enacted or substantively enacted, as applicable, income tax rates at each balance sheet date. Future income tax assets also result from unused loss carry forwards and other deductions. The valuation of future income tax assets is reviewed annually and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount.

The Company follows the provisions of CIC Handbook Section 3870, which requires the fair value based method to be used for all stock-based awards. As a result, the Company is required to expense stock option benefits issued to employees and directors based on their vesting provisions. Accordingly, the fair value of the options at the date of the

grant is determined using the Black-Scholes option pricing model and stock-based compensation is accrued and charged to operations, with an offsetting credit to options, on a straight-line basis over the vesting periods. The fair value of stock options granted to non-employees is re-measured at the earlier of each financial reporting or vesting date, and any adjustment is charged or credited to operations upon re-measurement. Option pricing models require the input of highly subjective assumptions regarding the expected volatility. Changes in assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options at the date of the grant or thereafter.

## **CURRENCY TRANSLATIONS**

In this Form 20-F Annual Report, unless otherwise specified, all monetary amounts are expressed in Canadian dollars. See **Item 3.A Key Information - Selected Financial Data** for a summary of key exchange rates.

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## **SECURITIES AND EXCHANGE COMMISSION**

### **FORM 20-F FOR ANGLO SWISS RESOURCES INC.**

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The following glossary, which is not exhaustive, should be used only as an adjunct to a thorough reading of the entire document of which it forms a part.

**alluvial:** A term used to identify particular types of, or minerals found associated with, deposits made by flowing water, such as alluvial gold.

alluvial diamonds: diamonds found in river sediments.

**Arrangement:** The arrangement under the Company Act, among the Company and the ASII shareholders and ASII and more particularly described under **Item 4.A Information of the Company History and Development of the Company**.

**ASIHI:** Anglo Swiss International Holdings Inc., a wholly-owned subsidiary of the Company, incorporated under the laws of the Cayman Islands.

**ASII:** Anglo Swiss Industries Inc., a company incorporated under the Company Act under the name 68063 B.C. Ltd. .

**ASII Common Shares:** The common shares without par value in the capital of ASII.

**bedrock:** the solid rock under deposits of gravels, sands, soil and silt.

**beryl:** A beryllium-aluminium silicate. Used as a gem when clear and well coloured. The grass green variety is known as emerald; light green, beryl; blue-green, aquamarine.

**Blu Starr Joint Participation Agreement:** The Agreement dated May 1, 2000 between the Company and Hampton Court Resources Inc., respecting the Blu Starr Property, including amendments thereto. Agreement expired on April 30, 2003.

**Board of Directors:** The board of directors of the Company as elected or appointed from time to time. Also sometimes referred to as the Board .

**breccia:** A fragmental rock; any rock formation essentially composed of uncemented, or loosely consolidated, small angular-shaped fragments.

**Canadamin S.A.:** Compania Minera Canadamin S.A., a company incorporated under the laws of Ecuador, all of whose issued and outstanding shares are held by ASIHI.

**Canadian GAAP:** Canadian generally accepted accounting principles.

**carat:** A unit employed in weighing diamonds and gemstones. The international metric carat (M.C.) of 200 milligrams is the standard.

**carbonatite:** A sulfide of copper and iron.

**Catamayo Joint Participation Agreement:** The Agreement dated May 1, 2000 between the Company and Hampton Court Resources Inc. respecting the Catamayo River Property.

**chalcopyrite:** A sulfide of copper and iron.

**Company:** Anglo Swiss Resources Inc., a company continued under the Company Act.

**Company Act:** The *Company Act* (British Columbia) R.S.B.C. 1996, c.62, as amended from time to time.

**Company Class A Preferred:** The Class A preferred shares without par value in the capital of the Company.

**Company Class B Preferred:** The Class B preferred shares without par value in the capital of the Company.

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**Company Class C Preferred:** The Class C preferred shares without par value in the capital of the Company.

**Company Common Shares:** The common shares without par value in the capital of the Company.

**concession:** A form of entitlement under Ecuadorian law to either explore and develop a given area for minerals or to exploit or mine such area.

**corundum:** An aluminium oxide,  $Al_2O_3$  occurring commonly as an accessory mineral in the metamorphic rocks, such as crystal-line limestone mica-schist, gneiss. The coloured and clear varieties form the gems sapphire, ruby, oriental emerald and oriental topaz.

**deposit:** A coherent geological body such as a mineralized body.

**diamondiferous:** Containing diamonds.

**Director:** A director of the Company as elected or appointed from time to time.

**Dissenting Shareholders:** ASII shareholders who validly exercised the rights of dissent provided to them in respect of the 409556 Sale or the Arrangement and receive fair value for their ASII common shares of ASII in accordance with Section 207 of the Company Act in respect of the 409556 Sale or with the Section 207 of the Company Act in respect of the Arrangement.

**dome:** A mountain having a smoothly rounded summit of rock that resembles the cupola or dome on a building.

**doré bars:** An unrefined gold and silver bar consisting of approximately 90% precious metals that would be further refined to almost pure precious metals.

**electromagnetic survey (or EM survey):** A survey of the conductive properties of rocks. Grade: (to contain a particular) quantity of ore or mineral relative to other constituents, in a specified quantity of rock.

**epithermal:** Applied to hydrothermal deposits formed at low temperature and pressure.

**Exchange Act:** The United States *Securities Exchange Act of 1934*, as amended from time to time.

**fault:** A fracture or a fracture zone along which there has been displacement of the two sides relative to one another parallel to the fracture. The displacement may be a few inches or many miles.

**fluorite:** A natural calcium fluoride, occurring in veins either alone or with metallic ores.

**fracture:** The general term to include any kind of discontinuity in a body of rock if produced by mechanical process such as shear stress or tensile stress, but not attended by movement on one side or the other.

**garnet:** A group of silicate minerals including several species with related chemical structure. Several principal garnets include almandine (iron aluminum) abrasive and gem, precious garnet and pyrope (manganese aluminum).

**gemstone:** A term that includes pearl, amber, coral, jet, or any stone of any variety of a gem mineral which is of sufficient beauty and durability for use as a personal ornament.

**graphite:** A allotropic form of carbon found in nature, molecular weight, 12.01; black, dark grey or steel grey; specific gravity 1.9 to 2.3; Mohs hardness 1 to 2.

**hectare:** A metric unit of land measure equal to 10,000 square metres or 2.471 acres.

**iolite:** A gem variety of the mineral cordierite; a silicate of magnesium and aluminum, found as an accessory mineral in granite, gneiss, schists and in contact metamorphic zones. Color is different shades of blue, Mohs hardness 7 to 7.5, transparent to translucent.

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**kimberlite:** An igneous rock of mantle origin occurring in intrusive breccia pipes, which is sometimes diamond bearing.

**kyanite:** A natural silicate of aluminum, found in metamorphic rocks.

**mantle:** The ultramafic layer of the earth beneath the crust.

**mineral:** An inorganic substance having usually a definite chemical composition and, if formed under favourable conditions, having a certain characteristic atomic structure which is expressed in its crystalline form and other physical properties.

**mineral claim:** The portion of mining ground held under law by a claimant.



**mineral resource:** In-situ mineral occurrence from which valuable or useful minerals may be recovered.

**mineralization:** Implication that the rocks contain sulphide minerals and that these could be related to ore.

**Option Joint Venture Agreement:** That agreement dated February 10, 1995 between 409556 and Teck Corp. respecting the Kenville Mine Property.

**ore:** That part of a mineral deposit which could be economically and legally extracted.

**overburden:** Material that overlies bedrock.

**pipe:** A roughly funnel-shaped, approximately vertical extrusion of volcanic breccia and kimberlite that may or may not contain diamonds.

**placer:** A place where gold is obtained by washing; an alluvial or glacial deposit, as of sand or gravel, containing particles of gold or other valuable minerals including gemstones.

**Post-Arrangement Transactions:** Post-Arrangement Transactions means those transactions that were undertaken immediately after the Arrangement and more particularly described under **Item 4.A Information of the Company History and Development of the Company.**

**Pre-Arrangement Transactions:** Pre-Arrangement Transactions means those transactions that were undertaken immediately before the Arrangement and more particularly described under **Item 4.A Information of the Company History and Development of the Company.**

**prospect:** Mineral occurrence with the potential for an economic deposit.

**quality:** the degree of excellence of a diamond, measured by its weight, colour, purity or clarity and its perfection of proportions and finish.

**Reorganization:** The Pre-Arrangement Transactions, the Arrangement and the Post-Arrangement Transactions.

**reserve:** That part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination.

**ruby:** Red transparent corundum ( $Al_2O_3$ ) colour being due to traces of sufficient chromium. Mohs hardness 8-9, specific gravity of 4.

**sapphire:** Most commonly blue transparent corundum ( $Al_2O_3$ ) colour being due to traces of cobalt, chromium, titanium: Mohs hardness 8-9, specific gravity of 4.

**sediment:** unconsolidated material, both mineral and organic, that has come to rest on, or is being transported over, the earth's surface by water, wind or ice.

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**short ton:** A weight of 2,000 pounds. Also sometimes referred to as a ton .

**strike:** The direction, that is, the course or bearing of a vein or rock formation measured on a horizontal surface.

**Teck Corp.:** Teck Corporation, a Canadian-based, international mining company.

**terrace:** An alluvial deposit on a flat area of a river or former riverbank. Also known as a bench placer.

**ton:** See the definition of short ton .

**tonne:** A weight of 2,200 pounds. Also sometimes referred to as a metric tonne .

**tourmaline:** A complex aluminum silicate of hexagonal crystallization containing boron and other elements.

**ultramafic:** Igneous rocks of mantle origin with low silica contents.

**U.S. GAAP:** United States generally accepted accounting principles.

**vein:** A zone or belt of mineralized rock lying within boundaries clearly separating it from neighbouring rock. A mineralized zone has, more or less, a regular development in length, width and depth to give it a tabular form and is commonly inclined at a considerable angle to the horizontal. The term lode is commonly used synonymously for vein.

**volcanic:** Descriptive of rocks originating from volcanic activity.

**409556:** 409556 B.C. Ltd., previously a wholly-owned subsidiary of the Company which has been now wound-up.

**409556 Sale:** The sale of all of the issued and outstanding shares of 409556 by ASII to the Company, and forming part of the Pre-Arrangement Transactions.

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## **PART I**

### **ITEM 1.**

#### **IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS**

This Form 20-F is being filed as an annual report under the Exchange Act and, as such, there is no requirement to provide any information in regards to the identity of the Directors, Senior Management and Advisors of the Company under this Item.

The Company has had PricewaterhouseCoopers, LPP, Chartered Accountants ( PWC ) act as their auditors since 1981. PWC has offices at 250 Howe Street, Suite 700, Vancouver, British Columbia, V6C 3S7. PWC are appointed annually by the shareholders to conduct an audit in accordance with auditing standards generally accepted in Canada and the PCAOB.

### **ITEM 2.**

#### **OFFER STATISTICS AND EXPECTED TIMETABLE**

This Form 20-F is being filed as an annual report under the Exchange Act and, as such, there is no requirement to provide any information under this Item.

### **ITEM 3.**

#### **KEY INFORMATION**

##### **A.**

#### **Selected Financial Data**

The following table summarizes selected financial data for the Company (stated in Canadian dollars) prepared in accordance with Canadian GAAP. The Reorganization, effective November 28, 1997, resulted in the Company, a former subsidiary of ASII, becoming the parent company and ASII and its other subsidiaries become the subsidiaries of the Company. This transaction was a reorganization of existing companies and had no impact on the financial statements except for authorized capital of the Company which is now 900,000,000 shares. The information in the tables was extracted from the more detailed financial statements and related notes included herein and should be read in conjunction with these financial statements and with the information appearing under **ITEM 5. Operating and Financial Review and Prospects**. Results for the period ended December 31, 2005 are not necessarily indicative of results for future periods.

**Selected Financial Data Prepared in accordance with Canadian GAAP**

<b>Item</b>	<b>Dec. 31/2005</b>	<b>Dec. 31/2004</b>	<b>Dec. 31/2003</b>	<b>Dec. 31/2002</b>	<b>Dec.31/2001</b>
(a)	\$874	\$1,005	\$888	\$90,456	\$3,512
Interest income					
(b)	\$(482,478)	\$(427,123)	\$(269,542)	\$(82,995)	\$(660,334)
Net earnings (loss)					
(c)	\$(0.01)	\$(0.01)	\$(0.00)	\$(0.00)	\$(0.02)
Net earnings (loss) per common share					
(d)	\$5,453,577	3,959,764	\$3,843,615	\$3,899,540	\$3,946,930
Total assets					
(e)	NIL	NIL	NIL	NIL	Nil
Total long-term debt					
(f)	\$4,985,299	\$3,645,071	\$3,406,887	\$3,628,483	\$3,711,478
Net Assets					
(g)	\$13,216,707	\$11,545,745	\$11,224,585	\$11,224,585	\$11,185,585
Capital Stock					
(h)	67,402,688	50,005,688	44,825,688	44,825,688	44,500,688
No. of Common Shares					

Note 12 of the financial statements of the Company included herein sets forth the differences were such information to be presented in accordance with U.S. GAAP.

**Selected Financial Data Prepared in accordance with U.S. GAAP**

<b>Item</b>	<b>Dec. 31/2005</b>	<b>Dec. 31/2004</b>	<b>Dec, 31/2003</b>	<b>Dec, 31/2002</b>	<b>Dec. 31/2001</b>
(a)	\$874	\$1,005	\$888	\$90,456	\$3,512
Interest income					
(b)	\$(1,534,161)	\$(380,289)	\$(178,527)	\$(2,492,566)	\$(252,747)
Net earnings (loss)					
(c)	\$(0.03)	\$(0.01)	\$(0.00)	\$(0.01)	\$(0.01)
Net earnings (loss) per common share					
(d)	\$1,640,574	\$1,198,444	\$1,035,461	\$1,025,371	\$3,482,332
Total assets					
(e)	NIL	NIL	NIL	NIL	Nil
Total long-term debt <sup>(1)</sup>					
(f)	\$1,172,296	\$883,751	\$598,733	\$754,314	\$3,246,880
Net Assets					
(g)	\$13,216,707	\$11,545,745	\$11,224,585	\$11,224,585	\$11,185,585
Capital Stock					
(h)	67,402,688	50,005,688	44,825,688	44,825,688	44,500,688
No. of Common Shares					

The Company has not declared or paid any dividends in any of its last five financial years.

In this Annual Report on Form 20-F, unless otherwise specified, all monetary amounts are expressed in Canadian Dollars. On May 1, 2006 the exchange rate, based on the noon buying rate published by the Bank of Canada, for the

conversion of United States dollars into Canadian dollars (the Noon Rate of Exchange ) was \$0.8982 (US \$1.00 = CDN \$1.1133).

The following table sets out the high and low exchange rates exchange rates for each of the last six months.

	<b>April 2006</b>	<b>March 2006</b>	<b>February 2006</b>	<b>January 2006</b>	<b>December 2005</b>	<b>November 2005</b>
High for Period	1.1719	1.1724	1.1578	1.1794	1.1754	1.1977
Low for Period	1.1203	1.1322	1.1380	1.1372	1.1427	1.1642

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The following table sets out the average exchange rates for the five most recent financial years calculated by using the average of the Noon Rate of Exchange on the last day of each month during the period.

	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
Average for the period	1.2135	1.3149	1.4377	1.5715	1.5406

**B.**

**Capitalization and Indebtedness**

This Form 20-F is being filed as an annual report under the Exchange Act and, as such, there is no requirement to provide any information under this Item.

**C.**

**Reasons For The Offer and Use of Proceeds**

This Form 20-F is being filed as an annual report under the Exchange Act and, as such, there is no requirement to provide any information under this Item.

**D.**

**Risk Factors**

The following is a brief discussion of those distinctive or special characteristics of the Company's operations and industry, which may have a material impact on, or constitute risk factors in respect of, the Company's future financial performance.

#### *Exploration and Development Risks*

The Company is engaged in the business of acquiring and exploring mineral properties in the expectation of locating mineral reserves. The Company's property interests are in the exploration stage only and are without a known body of commercial ore. Accordingly, there is little likelihood that the Company will realize any profits in the short to medium term. Any profitability in the future from the Company's business will be dependent upon locating mineral reserves, which itself is subject to numerous risk factors.

The business of exploring for minerals and mining involves a high degree of risk. Few properties that are explored are ultimately developed into producing, profitable mines. In developing its mineral deposits, the Company will be subjected to an array of complex economic factors and accordingly there is no assurance that a positive feasibility study or any projected results contained in a feasibility study of a mineral deposit will be attained.

Technical considerations, delays in obtaining governmental approvals, inability to obtain financing or other factors could cause delays in developing properties. Such delays could materially adversely affect the financial performance of the Company.

The business of mining is subject to a variety of risks such as cave-ins and other accidents, flooding, environmental hazards, the discharge of toxic chemicals and other hazards. Such occurrences may delay production, increase production costs or result in liability. The Company may have insurance in amounts that it considers to be adequate to protect itself against certain risks of mining and processing. However, the Company may become subject to liability for hazards against which it cannot insure itself or which it may elect not to insure against because of premium costs or other reasons. In particular, the Company is not insured for environmental liability or earthquake damage.

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#### *Title Matters*

While the Company believes title to all of its properties is in good standing, this should not be construed as a guarantee of title. Other parties (including indigenous landowners) may dispute title to the mining properties in which the Company has an interest or the right to acquire an interest. The properties may be subject to prior unregistered agreements or transfer or land claims and title may be affected by undetected defects.

Only a small number of the mining claims in which the Company has an interest are held under governmental lease or patent. Accordingly, other parties may dispute the Company's title to its mining and other interests. Such claims may

be subject to prior unregistered agreements or transfers or native land claims and title may be affected by undetected defects. There may also be liens or other encumbrances registered against the Company's mining claims from time to time. The Company has entered into, or may enter into, contractual arrangements to acquire interests in resource properties with governments or governmental agencies. Such contractual arrangements may be difficult to enforce.

#### *Insurance*

The Company currently has little or no insurance coverage for its plant and related equipment at any of its properties. In the event of one or more uninsured losses, any one of the Company's current projects would be rendered uneconomic.

#### *Environmental and other Regulatory Requirements*

The Company's potential mining and processing operations and exploration activities in Canada are subject to various federal, territorial and provincial laws governing land use, the protection of the environment, prospecting, development, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, mine safety and other matters. Such operations and exploration activities are also subject to substantial regulation under these laws by governmental agencies and may require that the Company obtain permits from various governmental agencies.

The Company believes it is in substantial compliance with all material laws and regulations which currently apply to its various activities. There can be no assurance, however, that all permits which the Company may require for construction of mining facilities and conduct of mining operations will be obtainable on reasonable terms or that such laws and regulations would not have an adverse effect on any mining project which the Company might undertake.

Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions there-under, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties.



### *Competition*

Significant and increasing competition exists for the limited number of diamond/gemstone/precious and base metals acquisition opportunities available in Canada, the United States and beyond. As a result of this competition, some of which is with large established mining companies with substantial capabilities and greater financial and technical resources than the Company, the Company may be unable to acquire additional attractive opportunities on terms it considers acceptable.

### *Currency Fluctuations*

The Company maintains its accounts in Canadian Dollars. The Company's operations are all situated within Canada and therefore, are not subject to foreign currency fluctuations. The Company does not at the present, nor in the future plan to engage in foreign currency transactions to hedge exchange rate risks.

### *Mineral Prices*

The mining industry in general is intensely competitive and there is no assurance that, even if commercial quantities of mineral resources are discovered, a profitable market will exist for the sale of same. Factors beyond the control of the Company may affect the marketability of any substances discovered. The price of gold and gemstones has experienced volatile and significant price movements over short periods of time, and is affected by numerous factors beyond the control of the Company, including international economic and political trends, expectations of inflation, currency exchange fluctuations (specifically, the U.S. dollar relative to other currencies), speculative activities and increased production due to improved mining and production methods. The supply of and demand for diamond/gemstones/precious and base metals is affected by various factors, including political events, economic conditions and production costs in major commodities producing regions and governmental policies.

### *Sales and Refining*

If production is achieved on any of the Company's properties, the diamonds, gemstones, or precious/base metals can be readily sold on numerous markets throughout the world and it is not difficult to ascertain its market price at any particular time. Doré bars that may be produced by the Company's future mining operations would be refined by a commercial refinery; and any precious/base metals produced would subsequently be purchased on a competitive basis.

The Company believes that because of the availability of refiners, each able to supply all services that would be required by the Company, no material adverse affect is likely to result if the Company lost the services of any refiner. Because of the large number of available precious/base metals purchasers, the Company believes that it is not dependent upon the sale of its production to any customer, the loss of which would have material adverse affect on the business of the Company.

Sapphires are far less common than diamonds, with large gem quality rubies being anything from 30-50 times rarer than diamonds. Rubies and sapphires dominate the world gemstone market and account for over 50% of total sales.

The world market for diamonds and precious/semi-precious gemstones is maintained mostly through well established markets throughout the world.

### *Dependence Upon Qualified Personnel*

The Company is dependent upon its ability to attract and retain qualified personnel. No assurances can be given that the Company will be able to attract or retain any such persons.

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### *Conflicts of Interest*

Certain of the directors of the Company are directors of other reporting companies and to the extent that such other companies may participate in ventures in which the Company may participate, the directors of the Company may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In the event that such a conflict of interest arises at a meeting of the directors of the Company, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In appropriate cases the Company will establish a special committee of independent directors to review a matter in which several directors, or management, may have a conflict. From time to time, several companies may participate in the acquisition, exploration and development of natural resource properties thereby allowing for their participating in larger programs, permitting involvement in a greater number of programs and reducing financial exposure in respect of any one program. It may also occur that a particular company will assign all or a portion of its interest in a particular program to another of these companies due to the financial position of the company making the assignment. In accordance with the laws of the Province of British Columbia, the directors of the Company are required to act honestly, in good faith and in the best interests of the Company. In determining whether or not the Company will participate in a particular program and the interest therein to be acquired by it, the directors will primarily consider the potential benefits to the Company, the degree of risk to which the Company may be exposed and its financial position at that time. Other than as indicated, the Company has no other procedures or mechanisms to deal with conflicts of interest.

### *Additional Funding Requirements*

The Company has not received cash flow from operations in the past and positive cash flow is not expected in the next few years to satisfy the Company's operational requirements and cash commitments. In the past, the Company has relied on sales of equity securities to meet most of its cash requirements, together with management fees, property payments and sales or joint ventures of properties. There can be no assurance that funding from these sources will be sufficient in the future to satisfy operational requirements and cash commitments.

The Company currently has minimal financial resources on hand to undertake all of its planned exploration programs and meet its general and administrative expenses budgeted through the current fiscal year ending 2006. The Company completed a private placement of \$734,700 in 2005 and received \$160,000 from the exercise of options, both resulting in the issuance of common shares. **SEE ITEM 17. FINANCIAL STATEMENTS Note 7.** The development of the Company's properties in the future will continue to depend upon the Company's ability to obtain financing through any or all of the joint venturing of projects, debt financing, equity financing or other means. There is no assurance that the Company will be successful in obtaining the required financing. Failure to obtain additional financing on a timely basis could cause the Company to forfeit its interest in its properties and reduce or terminate its operations on such properties.

*History of Net Losses; Accumulated Deficit; Lack of Revenue From Operations*

The Company has incurred significant net losses to date. Its deficit as of December 31, 2005, was \$8,962,155. The Company has not yet had any revenue from the exploration activities on its properties, nor has the Company yet found that development activity is warranted on any of its properties. Even if the Company does undertake development activity on any of its properties, the Company may continue to incur losses beyond the period of commencement of such activity. There is no certainty that the Company will produce revenue, operate profitably or provide a return on investment in the future.

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*Limited Experience with Development-Stage Mining Operations*

The Company has limited experience in placing resource properties into production, and its ability to do so will be dependent upon using the services of appropriately experienced personnel or entering into agreements with other major resource companies that can provide such expertise. There can be no assurance that the Company will have available to it the necessary expertise when and if the Company places its resource properties into production.

*Stock Subject to Penny Stock Rules*

The capital stock of the Company would be classified as penny stock as defined in Reg. § 2403a51-1 promulgated under the Exchange Act. In response to perceived abuse in the penny stock market generally, the Exchange Act was amended in 1990 to add new requirements in connection with penny stocks. In connection with effecting any transaction in a penny stock, a broker or dealer must give the customer a written risk disclosure document that (a) describes the nature and level of risk in the market for penny stocks in both public offerings and secondary trading, (b) describes the broker's or dealer's duties to the customer and the rights and remedies available to such customer with respect to violations of such duties, (c) describes the dealer market, including bid and ask prices for penny stock and the significance of the spread between the bid and ask prices, (d) contains a toll-free telephone number for inquiries on disciplinary histories of brokers and dealers, and (e) defines significant terms used in the disclosure document or the conduct of trading in penny stocks. In addition, the broker-dealer must provide to a penny stock customer a written monthly account statement that discloses the identity and number of shares of each penny stock held in the customer's account, and the estimated market value of such shares. The extensive disclosure and other broker-dealer compliance related to penny stocks may result in reducing the level of trading activity in the secondary market for such stocks, thus limiting the ability of the holder to sell such stock.

*Environmental and Other Regulatory Requirements*

The current or future operations of the Company,