

**PROSPECTOR CONSOLIDATED RESOURCES INC.**

**CONSOLIDATED FINANCIAL STATEMENTS  
AND  
QUARTERLY REPORT  
FOR  
YEAR ENDED DECEMBER 31, 2005; AND  
THREE MONTHS ENDED MARCH 31, 2006**

The accompanying unaudited interim financial statements of the Company have been prepared by management and approved by the Audit Committee and Board of Directors of the Company

The Company advises as required by National Instrument 51-102, Part 4, subsection 4.3(3)(a), that it's independent auditors have not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements.

**PROSPECTOR CONSOLIDATED RESOURCES INC.**

Balance Sheets

As at March 31, 2006(unaudited) and December 31, 2005(audited)

	March 31 2006	December 31 2005
<b>ASSETS</b>		
<i>Current Assets</i>		
Cash and cash equivalents	\$ 105,716	\$ -
Accounts receivable	9,285	3,578
Prepaid expenses	<u>3,732</u>	<u>3,732</u>
	118,733	7,310
Advances receivable	-	-
Property, plant and Equipment-Note 4	4,367	4,749
Resource properties – Note 5	<u>182,980</u>	<u>182,980</u>
	<u>187,347</u>	<u>187,729</u>
	<u>\$ 306,080</u>	<u>\$ 195,039</u>
<b>LIABILITIES</b>		
<i>Current Liabilities</i>		
Bank indebtedness	\$ -	\$ 14
Accounts payable	<u>191,791</u>	<u>220,915</u>
		220,929
<b>(CAPITAL DEFICIT) SHAREHOLDER'S EQUITY</b>		
Capital Stock- Note 6	9,634,089	9,467,089
Contributed Surplus – Note 8	383,876	383,876
Deficit	<u>(9,903,676)</u>	<u>(9,876,855)</u>
	<u>114,289</u>	<u>( 25,890)</u>
	<u>\$ 306,080</u>	<u>\$ 195,039</u>

Approved by the Board:

“Brian Stewart”, Director“Henry Neugebauer”, Director*See accompanying notes to the financial statements*

**PROSPECTOR CONSOLIDATED RESOURCES INC.**

Statements of Deferred Exploration Costs

For the 3 months ended March 31, 2006 and year ended December 31, 2005

	March 31 2006	December 31 2005
<b>Expenditures</b>		
Camp equipment and supplies	\$ -	\$ -
Drilling	1,472	1,472
Filings	22,705	22,705
Geological and geochemical	6,789	6,789
Labour	-	-
Mapping	3,000	3,000
Miscellaneous	159	159
Project Management	<u>1,137</u>	<u>1,137</u>
<b>Exploration costs incurred during the period</b>	35,262	35,262
<b>Deferred exploration costs, beginning of the period</b>	149,444	149,444
Write off of deferred exploration costs	<u>( 108,701)</u>	<u>( 108,701)</u>
<b>Deferred exploration costs end of period</b>	<u>\$ 76,005</u>	<u>\$ 76,005</u>

*See accompanying notes to the financial statements*

**PROSPECTOR CONSOLIDATED RESOURCES INC**

Statements of Loss and Deficit (unaudited – prepared by management)

For the three months ended March 31, 2006 and 2005

	3 months ended March 31, 2006	3 months ended March 31, 2005
<b>Interest and miscellaneous income</b>	\$ -	\$ -
<b>Expenses</b>		
Amortization	382	46
Bank Charges	58	130
Bad Debts	-	-
Consulting -Administration	-	3,000
Couriers and Deliveries	-	15
Corporate Development	-	-
Directors' Fees	-	-
Equipment rental	308	323
Filing and transfer agent fees	3,946	3,855
Insurance	-	1,200
Legal and accounting	1,050	2,707
Management fees	15,000	11,250
Office and miscellaneous	3,167	1,964
Professional services	-	-
Project expenses	-	-
Property Investigation	-	-
Rent	2,910	2,910
Secretarial services	-	1,290
Investor relations	-	9,378
Stock Compensation	-	55,108
Investor relations	-	27,146
Telephone	-	718
Travel and promotion	-	-
Total expenses for period	<u>26,821</u>	<u>93,895</u>
Gain/loss on sale of asset	-	-
Gain/loss on investment	-	-
Net loss for period	(26,821)	(93,895)
Deficit, beginning of year	<u>(9,876,855)</u>	<u>(9,197,963)</u>
Deficit end of period	<u><b>\$ (9,903,676)</b></u>	<u><b>\$ (9,291,858)</b></u>

*See accompanying notes to the financial statements*

**PROSPECTOR CONSOLIDATED RESOURCES INC.**

Statements of Cash Flows (unaudited – prepared by management)

For the three months ended March 31, 2006 and 2005

	3 months ended March 31, 2006	3 months ended March 31, 2005
<b>Operating activities</b>		
Net loss for the period	\$ (26,821)	\$ (93,895)
Items not involving movement of cash		
Amortization	382	46
Stock based compensation	-	55,108
	<u>382</u>	<u>55,154</u>
Net change in non-cash working capital balances *	<u>(51,195)</u>	<u>5,029</u>
		(33,711)
<b>Investing activities</b>		
Exploration costs (incurred) recovered	-	(26,319)
Property acquisitions	-	-
		<u>(26,319)</u>
<b>Financing activities</b>		
Subscriptions	-	-
Capital stock issued for cash	<u>167,000</u>	<u>-</u>
<b>Increase (decrease) in cash, during the period</b>	89,366	(60,030)
<b>Cash, beginning of the period</b>	<u>16,350</u>	<u>76,380</u>
<b>Cash, end of the period</b>	<u><b>\$ 105,716</b></u>	<u><b>\$ 16,350</b></u>

\* Comprised of changes in term deposits, accounts receivable, advances receivable, prepaid expenses and accounts payable.

*See accompanying notes to the financial statements*

**PROSPECTOR CONSOLIDATED RESOURCES INC.**  
**(An Exploration Stage Company)**  
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**1. Nature of Operations**

The Company is in the process of exploring its interests in resource properties and has not yet determined whether these properties contain reserves that are economically recoverable. The recoverability of amounts shown for resource properties and related deferred costs is dependent upon the existence of economically recoverable reserves, confirmation of the Company's interest in the underlying claims, the ability of the Company to obtain necessary financing to complete the development, and upon future profitable production or proceeds from the disposition thereof.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and may be affected by undetected defects.

These financial statements have been prepared using Canadian generally accepted accounting principles applicable on a going concern basis, which presumes the Company will be able to realize its assets and discharge its liabilities in the normal course of operations for the foreseeable future. As at December 21, 2005, the Company has a working capital deficiency of \$213,619 (2004 – working capital of \$11,424), an accumulated deficit of \$9,876,855 (2004 - \$9,197,963) and has incurred a loss of \$679,892 (2004 - \$670,524)

The ability of the Company to continue as a going concern is in substantial doubt. The Company's continued existence as a going concern is dependent upon its ability to continue to obtain adequate financing arrangement and to achieve profitable operation. Management's plans in this regard are to obtain sufficient equity financing to enable the Company to continue its efforts towards the exploration and development of its mineral properties. These financial statements do not include 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. Summary of Significant Accounting Policies**

*Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affects the amounts reported in the financial statements and the accompanying notes. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements necessarily involves the use of estimates which have been made using careful judgement. Significant estimates used in the financial statements include the estimates of the life and realization of resource properties. The amounts the Company will ultimately recover could differ materially from current estimates.

The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

*Marketable Securities*

Marketable securities are recorded at the lower of cost and the quoted market value.

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**2. Summary of Significant Accounting Policies - cont'd**

*Property, Plant and Equipment*

Property, plant and equipment are recorded at cost and the Company provides for amortization computed under the declining balance method at the following rates:

Computer hardware and software	30% per annum
Field equipment	30% per annum
Office equipment	20% per annum
Vehicles	30% per annum

*Resource Property Acquisition and Deferred Exploration Expenses*

Costs relating to the acquisition, exploration and development of resource properties are capitalized by the Company. When production is attained, the costs will be amortized based on a method relating recoverable reserves to production. Non-producing resource properties that the Company abandons its interest in are written-off in the year of abandonment. The amounts capitalized represent costs to be charged to operations in the future and do not necessarily reflect the present or future values of the present or future value of the particular properties.

Impairment of mineral properties is assessed whenever changes in circumstances indicate the carrying amount may not be recoverable, at which time the costs are written-down to the impaired value.

*Asset Retirement Obligations*

Effective January 1, 2004, the Company adopted the new CICA Handbook Section 3110 "Asset Retirement Obligations", which established standards for asset retirement obligations and the associated retirement costs related to site reclamation and abandonment. The fair value of the liability for an asset retirement obligation is recorded when it is incurred and the corresponding increase to the asset depreciated over the life of the asset. The liability is increased over time to reflect an accretion element considered in the initial measurement at fair value. At December 31, 2005 or March 31, 2006 the Company has not incurred or committed any asset retirement obligations.

*Impairment of Long-Live Assets*

Effective January 1, 2004, the Company adopted new CICA Handbook Section 3063 "Impairment of Long-live Assets", which requires that long-lived assets and intangibles to be held and used by the Company be reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If changes in circumstances indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, future cash flows expected to result from the use of the asset and its disposition must be estimated. If the undiscounted value of the future cash flows is less than the carrying amount of the asset, impairment is recognized. Management believes that there has been no impairment of the Company's long-lived assets as at December 31, 2005 or March 31, 2006.

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**2. Summary of Significant Accounting Policies - cont'd**

*Foreign Exchange*

The accounts recorded in foreign currencies have been translated into Canadian dollars on the following basis:

- monetary assets and liabilities at the rate of exchange in effect at the balance sheet date;
- non-monetary assets and liabilities at the rates of exchange in effect on the respective dates of transactions; and
- revenues and expenses at average rates of exchange for the year.

*Stock-Based Compensation*

Effective January 1, 2004, the Company adopted the new recommendations of the CICA regarding stock-based compensation with respect to directors and employees, whereby all stock options granted are accounted for under the fair value-based method. Under this method, the fair value of all stock options is estimated at the grant date and the total fair value of the options is amortized over the vesting periods as compensation expense, with an offset to contributed surplus. The fair value method of accounting for option granted to directors and employees was adopted retroactively, with prior periods not restated. The cumulative effect of the change on prior periods is reflected by an increase of \$122,284 in the opening deficit, with an offset in the contributed surplus account on January 1, 2004. If the change had been applied on a retroactive basis, the net loss in 2003 would have increased from \$515,759 to \$576,798.

*Income Taxes*

The company accounts for income taxes using the liability method. Under this method, future income tax assets and liabilities are determined based on temporary differences between the accounting basis and the tax basis of assets and liabilities. These temporary differences are measured using substantively enacted income tax rates. Future tax benefits are recognized to the extent that realization of such benefits is considered more likely than not. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in earnings in the period that the change occurs.

*Earnings (Loss) Per Share*

Basic and diluted earnings (loss) per share are calculated using the treasury stock method to determine the dilutive effect of options and warrants. For the years presented, the calculation of diluted earnings (loss) per share proved to be anti-dilutive.

**3. Financial Instruments**

The Company's financial instruments consist of cash, accounts receivable and accounts payable, the fair values of which approximate their carrying values. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

**PROSPECTOR CONSOLIDATED RESOURCES INC.**

(An Exploration Stage Company)

Notes to the Financial Statements

March 31, 2006 and December 31, 2005

**4. Property, Plant and Equipment**

	2006		2005	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware and software	\$ 6,244	\$ (2,224)	\$ 4,020	\$ 4,383
Office equipment	3,044	(2,698)	346	365
Land	<u>1</u>	<u>-</u>	<u>1</u>	<u>1</u>
	<u>\$ 9,289</u>	<u>\$ (4,922)</u>	<u>\$ 4,367</u>	<u>\$ 4,749</u>

**5. Resource Properties**

	Beowawe	Indian Creek	Mc Vicar Lake	Total
<b>Acquisition Costs</b>				
<i>Bal at Dec 31/2003</i>	-	-	81,667	81,667
Cost incurred	220,536	17,676	-	238,212
Write-off	<u>-</u>	<u>-</u>	<u>(81,667)</u>	<u>(81,667)</u>
<i>Bal at Dec 31/2004</i>	220,536	17,676	<u>-</u>	238,212
Cost incurred	135,699	10,000	-	145,699
Write-off	<u>(249,260)</u>	<u>(27,676)</u>	-	<u>(276,936)</u>
<i>Balance Dec 31/2005</i>	<u>106,975</u>	-	-	<u>106,975</u>
<b>Deferred Exploration Costs</b>				
<i>Bal at Dec 31/2003</i>	-	-	30,025	30,025
Costs incurred	149,444	-	-	149,444
Write-off	<u>-</u>	<u>-</u>	<u>(30,025)</u>	<u>(30,025)</u>
<i>Bal at Dec 31/2004</i>	149,444	-	-	149,444
Costs incurred	35,262	-	-	35,262
Write-off	<u>(108,701)</u>	<u>-</u>	<u>-</u>	<u>(108,701)</u>
<i>Bal at Dec 31/2005</i>	<u>76,005</u>	<u>-</u>	<u>-</u>	<u>76,005</u>
<b>Total</b>	<u>\$ 182,980</u>	<u>-</u>	<u>-</u>	<u>\$ 182,980</u>

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*Beowawe Property (Nevada)*

In 2004, the Company entered into an option agreement with a related party (Note 9) (“Alpha option”), whereby it can acquire a 100% interest in 140 unpatented mining claims and 4 patented fee lands in north eastern Nevada by issuance of up to 1,800,000 common shares in three separate tranches (300,000 shares issued), incurring exploration costs of \$700,000 on the property, with \$350,000 to be spent by July 15, 2005 and an additional \$350,000 to be spent by July 15, 2006. Under the terms of the agreement, the optionor is to retain a 2% net smelter return royalty which the Company has the right to reduce to 1% upon payment of \$1,000,000 at any time up to the third anniversary of commencement of commercial production.

In 2004, the Company entered into an additional option agreement with Atna Resources Inc. (“ATN”) to combine their respective Boewawe gold property interests whereby the Company would acquire a 60% interest in ATN’s Boewawe property interests by issuing a total of 1,800,000 common shares to ATN in three separate tranches (300,000 shares issued), incurring a total of U.S. \$700,000 in exploration costs on the combined property, with US \$250,000 to be incurred by July 15, 2005 and an additional U.S.\$500,000 to be incurred by July 15, 2007, making all payments required under ATN’s agreements to acquire the ATN properties, and assigning a 40% interest in the Alpha Boewawe properties to ATN.

Payments required under ATN’s Boewawe agreements include a cash payments of U.S. \$20,000 by December 1, 2006 and various annual advance royalties ranging from U.S. \$50,000 to U.S. \$107,000 until commencement of commercial production and are subject to overriding net smelter returns royalties ranging from 1% to 3%. The Company was also granted a secondary option whereby it can increase its interest in the combined property from 60% to 70% by obtaining a bankable feasibility study by July 15, 2011, which may be extended by making payments of U.S. \$100,000 not less than 30 days prior to the commencement of each successive year.

On July 15, 2005 the Company terminated its option agreement with Atna as it felt that the property did not have the necessary status to compete for investor support in the current market.

*Indian Creek Property (Nevada)*

Subject to regulatory approval, in 2004 the Company has negotiated an option agreement to acquire a 100% interest in mining claims located in Lander County, Nevada, by making cash payments of U.S. \$320,000 (comprised of U.S. \$10,000 upon signing (paid), U.S. \$10,000 by March 31, 2006 (paid), U.S. \$50,000 by December 31, 2005, U.S. \$100,000 by December 31, 2006 and U.S. \$150,000 by December 31, 2007) and issuance of 450,000 common shares in five separate tranches. The optionor is to retain a 3% net smelter returns royalty which the Company has the right to reduce to 1 1/2% upon payment of U.S.\$500,000 for each 1/2% reduction.

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*McVicar Lake Property (Ontario)*

In April 2002, the Company entered into an agreement whereby it could acquire a 100% interest in a block of mineral claims located within the McVicar Lake Greenstone Belt in Ontario. In July 2002, the Company concluded an agreement with Continuum Resources Inc., whereby Continuum could earn a 50% interest in the McVicar Lake gold prospect by making a total of \$145,000 in payments to the Company and committing to \$896,000 in exploration expenditures over a three year period. Continuum paid \$95,000, issued 300,000 common shares to the Company and incurred the required exploration expenditures on the property. During 2004, Continuum terminated its sub-option with the Company and the Company then terminated its original option and wrote-off all related costs of the property.

**6. Capital Stock**

Authorized: 50,000,000 common shares without par value

	2006		2005	
	Number of Shares	Amount	Number of Shares	Amount
Issued and outstanding: Beginning balance	<u>19,249,768</u>	<u>\$ 9,467,089</u>	<u>16,099,768</u>	<u>\$ 9,314,939</u>
Issued for cash				
Private placements	2,000,000	167,000	3,150,000	152,150
Exercise of warrants	-	-	-	-
Exercise of stock options	-	-	-	-
Issued for resource properties	-	-	-	-
Exercise of warrants for debt	-	-	-	-
Issued during the period	<u>2,000,000</u>	<u>167,000</u>	<u>3,150,000</u>	<u>152,150</u>
Ending balance	<u>21,249,768</u>	<u>\$ 9,634,089</u>	<u>19,249,768</u>	<u>\$ 9,467,089</u>

**PROSPECTOR CONSOLIDATED RESOURCES INC.****(An Exploration Stage Company)****Notes to the Financial Statements****March 31, 2006 and December 31, 2005****6. Capital Stock – cont'd***Private Placements*

In September 2005, the Company completed a non-brokered private placement for net proceeds of \$152,150. The private placement consisted of 3,150,000 units at a price of \$0.05 per unit. Each unit consisted of one common share and one common share purchase warrant exercisable until September 22, 2007 at the exercise price of 0.10 per share.

In May 2004, the Company issued 815,000 common shares at \$0.15 per share with warrants attached, entitling the holders to purchase an additional 815,000 common shares at \$0.18 per share until May 26, 2005.

In November 2004, the Company issued 4,310,000 common shares at \$0.10 per share under a brokered private placements for proceeds, net of issuance costs, of \$383,000. The placement included warrants entitling the holders to purchase an additional 5,262,500 common shares at \$0.15 per share until November 17, 2005.

*Warrants*

Outstanding warrants at March 31, 2006 entitle the holders to purchase up to the following number of shares of the Company:

Share purchase warrants and broker warrants outstanding as at June 30, 2004:

Number of Warrants	Exercise Price	Expiry Date
750,000	\$0.25	September 16, 2005
5,262,500	\$0.15	November 17, 2005

**7. Stock Options**

The Company has stock option plan for directors, officers and certain consultants. Under the plan, the Company may grant options for up 3,219,950 shares of common stock.

Changes to the stock options are shown in the following table:

	2005		2004	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
<i>Balance, beginning of year</i>	1,830,750	\$ 0.12	1,424,000	\$ 0.15
Granted	-	-	1,212,750	0.10
Exercised	-	-	-	-
Cancelled	-	-	( 806,000)	0.15
<i>Balance, end of period</i>	<u>1,830,750</u>	<u>\$ 0.12</u>	<u>1,830,750</u>	<u>\$ 0.12</u>

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**7. Stock Options - cont'd**

Stock options outstanding and exercisable at March 31, 2006 are shown in the following table:

Number	Weighted Average Lifespan (years)	Weighted Average Exercise Price
1,135,000	4.2	\$ 0.10
77,750	2.2	0.15
489,375	1.2	0.15
<u>128,625</u>	<u>1.6</u>	<u>0.17</u>
<u>1,830,750</u>	<u>3.0</u>	<u>\$ 0.12</u>

*Stock-Based Compensation*

Effective January 1, 2004, the Company adopted the fair value method of accounting for all stock based compensation (Note 2). During the year ended December 31, 2005, 1,212,750 stock options were granted to directors, officers and consultants at a weighted average price of \$0.10 per share and these options had an average fair value of option that was charged to the statement of loss in 2004 was \$125,594.

The fair value of each option in 2004 was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	3.85%
Expected life of options (years)	4.87
Dividend yield	-
Volatility	107%

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**8. Contributed Surplus**

In the period ended March 31, 2006, an additional \$110,216 (year ended December 31, 2005 - \$247,878) was recorded in contributed surplus based upon the fair value of stock options issued by the Company.

**9. Related Party Transactions**

Management and consulting fees of \$0 (2004 - \$11,250) were charged by a company controlled by a former director and an officer of the Company.

Directors fees of \$0 (2004 - \$3,000) and management fees of \$15,100 (2004 - \$15,000) were paid to directors for their services during the quarter.

During the 2004 year, the Company recorded expense reimbursements of \$78,038 to directors, which included \$72,000 that was applied to warrants exercised.

During the 2004 year, the Company entered into a option agreement ("Alpha option") with a director and a company controlled by him to acquire a 100% interest in a resource property located in Nevada (Note 5).

Transactions with related parties noted above were in the normal course of business and were measured at the exchange rate which was the amount of consideration established and agreed to by the related parties.

**10. Commitments**

The Company is committed to payments under operating leases for rent of office premises in 2005 of \$6,770.

**12. Segmented Information**

The Company has one operating segment, the acquisition, exploration and development of resource properties.

Geographic segmentation of total assets is as follows:

	2005	2004
Canada	\$ 6,435	\$ 84,199
United States	<u>437,329</u>	<u>411,011</u>
	<u>\$ 445,764</u>	<u>\$ 495,210</u>

**PROSPECTOR CONSOLIDATED RESOURCES INC.**

**Notes to the Financial Statements**

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**13. Subsequent Events**

Subsequent to December 31, 2005, the Company arranged a private placement of 2,000,000 units at \$0.10 per unit, with each unit to consist of one common share and one non-transferable purchase warrant, exercisable for a period of one year from the date of the issuance of the unit at \$0.15 per share. A total of \$167,000 was received in March 2006 with respect to the private placement. The 2,000,000 units will be issued upon receipt of the balance of the private placement funds.