

# FIRST QUARTER REPORT

June 30, 2005



**CANADIAN GOLD HUNTER CORP.**

Notice: The accompanying unaudited interim financial statements of Canadian Gold Hunter Corp. (the "Company") have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**CANADIAN GOLD HUNTER CORP.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
THREE MONTHS ENDED JUNE 30, 2005**

The following discussion and analysis of the results of operations and financial condition ("MD&A") for Canadian Gold Hunter Corp. (the "Company") should be read in conjunction with the unaudited interim consolidated financial statements for the three months ended June 30, 2005 and related notes therein. The financial information in this MD&A is derived from the Company's consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles. The effective date of this MD&A is August 8, 2005.

Additional information about the Company and its business activities is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## GENERAL

The Company is principally engaged in the acquisition, exploration and development of precious and base metal properties located in Canada.

## SELECTED QUARTERLY INFORMATION

| Financial Data for 8 Quarters                           |        |        |         |        |        |        |        |        |
|---|--------|--------|---------|--------|--------|--------|--------|--------|
| Three Months Ended                                      | Jun-05 | Mar-05 | Dec-04  | Sep-04 | Jun-04 | Mar-04 | Dec-03 | Sep-03 |
| A. Total revenues (\$000's) *                           | 4      | 15     | 4       | 17     | 3      | 16     | 4      | 3      |
| B. Earnings (loss) before extraordinary items (\$000's) | (192)  | 70     | (1,540) | (83)   | (179)  | (111)  | (347)  | (288)  |
| C. Net earning (loss) (\$000's)                         | (192)  | 70     | (1,540) | (83)   | (179)  | (111)  | (347)  | (288)  |
| D. Basis and diluted earnings (loss) per share (\$)     | (0.01) | (0.00) | (0.04)  | (0.00) | (0.01) | (0.01) | (0.01) | (0.01) |

\* Consists of interest income and project overhead fee.

The income for the fourth quarter of fiscal 2005 ending March 31<sup>st</sup>, is primarily attributed to the recovery of \$1,309,035 of future income taxes related to renounced mineral property expenditures on flow-through share agreements exceeding the \$1,247,879 of stock-based compensation expenses recorded in the fourth quarter of 2005, representing the estimated fair value of stock options granted. Other than these two amounts the losses for the fourth quarter of 2005 and 2004 were consistent. The increase in loss for the third quarter of fiscal 2005 as compared to the third quarter of fiscal 2004 is mainly due to the write-off of expenditures on the Nunavut properties and stock based compensation expenses.

## RESULTS OF OPERATIONS

The Company's loss for the three months ended June 30, 2005 was \$192,000, which is comparable to a loss of \$179,000 for the three months ended June 30, 2004.

General and administrative expenses were \$197,000 for the three months ended June 30, 2005, which are also comparable to \$182,000 for 2004. There were no stock-based compensation expenses for the three months ended June 30, 2005 as compared to \$51,000 in the same period of 2004. Consulting and wages increased by \$23,000 to \$46,000 reflecting increased amounts paid to the President of the Company. Promotion and public relation expenses increased by \$18,000 to \$32,000 for the three months ended June 30, 2005. The increase is primarily due to increased participation at conferences by staff and a corporate profile written by a newsletter writer.

The operating losses are a reflection of the Company's status as non-revenue producing mineral company. As the Company has no main source of income, losses are expected to continue.

## **LIQUIDITY AND CAPITAL RESOURCES**

At June 30, 2005, the Company had cash of \$4.3 million and working capital of \$3.9 million as compared to cash of \$768,000 and working capital of \$1.1 million at March 31, 2005. The increase of \$2.8 million in working capital is primarily due to receipt of net proceeds totaling \$4.2 million from a non-brokered private placement of 4,970,000 flow-through common shares at a price of \$0.80 per share and 407,001 common shares (non flow-through) at a price of \$0.75 per share.

Net cash provided by operating activities was \$128,000 for the three months ended June 30, 2005 and consisted mainly of the net loss from operations of \$192,000 offset by an increase in accounts payable. Net cash used in investing activities was \$1.1 million and consisted mainly of capitalized exploration expenditures of \$519,000 on the Company's projects and \$598,000 in shares of bcMetals Corporation, a publicly traded company.

Net cash provided by financing activities for the three months ended June 30, 2005 totalled \$4.5 million and consisted primarily of the \$4.1 million proceeds from issuance of 5,377,001 common shares of the Corporation and a \$0.4 million proceeds from a note payable to a related party.

Based on the Company's financial position at June 30, 2005, the Company believes that existing funds should be sufficient to perform planned exploration and general corporate activities for the next 12 months.

## **RELATED PARTY TRANSACTIONS**

During the three months ended June 30, 2005, the Company:

- (a) incurred management fees of \$54,000 to a company controlled by the Chairman of the Company pursuant to an agreement which is renewable on July 1, 2006. At June 30, 2005, \$2,236 was due to this company and included in amounts due to related parties;
- (b) incurred legal fees of \$35,694 to a law firm of which a partner is a director of the Company. At June 30, 2005, \$33,439 was due to this law firm and included in amounts due to related parties.

## **OUTSTANDING SHARE DATA**

As at August 8, 2005, the Company had 41,762,266 common shares outstanding and 2,335,000 share options outstanding under its stock-based incentive plans. Of the 2,335,000 stock options outstanding, 791,000 stock options may not be exercised until shareholders approval is received to the increase in the stock option plan. As at the same date, the Company had 1,025,500 share purchase warrants outstanding.

## **RISKS**

The discovery, development and acquisition of mineral properties are in many instances unpredictable events. Future metal prices, the success of exploration programs and other property transactions can have a significant impact on capital requirements.

In addition, risk factors that could affect the Company's future results, include, but are not limited to, competition, risk inherent in mineral exploration and development and policies including trade laws and policies, receipt of permits and approvals from government authorities and other operating and development risks.

## **OUTLOOK**

Since the Company does not expect to generate any revenue in the near future, funding requirements are expected to be satisfied through the sale of equity, debt securities or investment to meet on-going needs.

## **CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Certain statements contained in the foregoing Management's Discussion and Analysis and elsewhere constitute forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are advised to consider such forward-looking statements in light of the risks set forth above.

**CANADIAN GOLD HUNTER CORP.  
INTERIM CONSOLIDATED BALANCE SHEETS**

|  | <b>June 30,<br/>2005<br/>(Unaudited)</b> | <b>March 31,<br/>2005</b> |
|--|--|---------------------------|
| <b>ASSETS</b>  |  |                           |
| Current assets   |  |                           |
| Cash   | \$ 4,332,996                             | \$ 767,894                |
| Accounts receivable  | 53,764                                   | 268,859                   |
| Due from joint venturer                                    | -  | 80,306                    |
| Prepaid expenses   | 157,032                                  | 9,923                     |
|  | <u>4,543,792</u>                         | <u>1,126,982</u>          |
| Investments (Note 2)                                       | 633,899                                  | 35,899                    |
| Equipment, net   | 3,051                                    | 3,466                     |
| Mineral properties and related expenditures                | 5,573,200                                | 5,053,981                 |
| Other assets   | 50,858                                   | 60,717                    |
|  | <u>\$ 10,804,800</u>                     | <u>\$ 6,281,045</u>       |
| <b>LIABILITIES</b>   |  |                           |
| Current liabilities  |  |                           |
| Accounts payable and accrued liabilities                   | \$ 195,251                               | \$ 53,746                 |
| Due to related parties                                     | 35,800                                   | 9,248                     |
| Advances from joint venturer                               | 3,542                                    | -                         |
| Note payable (Note 3)                                      | 400,616                                  | -                         |
|  | <u>635,209</u>                           | <u>62,994</u>             |
| <b>SHAREHOLDERS' EQUITY</b>                                |  |                           |
| Share capital (Note 4)                                     |  |                           |
| 41,762,266 shares (March 31, 2005 - 36,385,253 shares)     | 90,978,952                               | 86,835,709                |
| Reserved for issuance 20,368 shares (2005 - 20,380 shares) | 1,291                                    | 1,292                     |
| Contributed surplus - stock options                        | 1,421,372                                | 1,421,372                 |
| Deficit  | <u>(82,232,024)</u>                      | <u>(82,040,322)</u>       |
|  | <u>10,169,591</u>                        | <u>6,218,051</u>          |
|  | <u>\$ 10,804,800</u>                     | <u>\$ 6,281,045</u>       |

ON BEHALF OF THE BOARD:

*"Richard J. Bailes"*

\_\_\_\_\_  
Director

*"William A. Rand"*

\_\_\_\_\_  
Director

See notes to interim consolidated financial statements



**CANADIAN GOLD HUNTER CORP.**  
**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

|   | <u>Three months<br/>ended<br/>June 30,<br/>2005</u> | <u>Three months<br/>ended<br/>June 30,<br/>2004</u> |
|---|---|---|
| Cash flows (for) operating activities                     |   |   |
| Loss for the period                                       | \$ (191,702)  | \$ (179,338)  |
| Items not affecting cash                                  |   |   |
| Amortization  | 415   | 195   |
| Project overhead fees                                     | (715)   | (1,560)   |
| Stock based compensation expense                          | -   | 50,609  |
|   | <u>(192,002)</u>                                    | <u>(130,094)</u>                                    |
| Changes in non-cash working capital items                 |   |   |
| Accounts receivable and other current assets              | 67,986  | 6,020   |
| Accounts payable and accrued liabilities                  | 141,505   | 10,837  |
| Due to/from joint venturer                                | 83,848  | (11,959)  |
| Due to/from related parties                               | 26,552  | 7,655   |
|   | <u>127,889</u>                                      | <u>(117,541)</u>                                    |
| Cash flows from financing activity                        |   |   |
| Common shares issued, net                                 | 4,143,242   | 3,786,513   |
| Note payable to related party                             | 400,616   | -   |
|   | <u>4,543,858</u>                                    | <u>3,786,513</u>                                    |
| Cash flows (for) investing activities                     |   |   |
| Mineral properties and related expenditures               | (518,504)   | (548,003)   |
| Investments   | (598,000)   | -   |
| Other assets  | 9,859   | -   |
|   | <u>(1,106,645)</u>                                  | <u>(548,003)</u>                                    |
| Increase in cash  | 3,565,102   | 3,120,969   |
| Cash, beginning of the period                             | <u>767,894</u>                                      | <u>721,950</u>                                      |
| Cash, end of the period                                   | <u>\$ 4,332,996</u>                                 | <u>\$ 3,842,919</u>                                 |
| Supplementary information regarding non-cash transactions |   |   |
| Investing activities                                      |   |   |
| Project overhead fees included in mineral properties      | <u>\$ 715</u>                                       | <u>\$ 1,560</u>                                     |
| Financing activities                                      |   |   |
| Shares reserved for issuance on acquisition of subsidiary | <u>\$ 1</u>   | <u>\$ 2,688</u>                                     |

See notes to interim consolidated financial statements

**CANADIAN GOLD HUNTER CORP.  
CONSOLIDATED STATEMENTS OF MINERAL PROPERTIES  
AND RELATED EXPENDITURES TO  
JUNE 30, 2005**

|                                 | Assean<br>Lake | GJ and<br>Kinaskan | Bob<br>Creek | Manson<br>Creek | MacVicar  | Total        |
|---------------------------------|----------------|--------------------|--------------|-----------------|-----------|--------------|
| Balance, March 31, 2005         | \$ 2,164,029   | \$ 1,906,336       | \$ 501,516   | \$ 409,681      | \$ 72,419 | \$ 5,053,981 |
| Assaying and sampling           | 2,430          | 1,488              | -            | 1,065           | -         | 4,983        |
| Camp costs                      | -              | 41,003             | -            | -               | -         | 41,003       |
| Drilling                        | -              | 91,949             | -            | -               | -         | 91,949       |
| Environmental                   | -              | 41,847             | -            | -               | -         | 41,847       |
| Field supplies and wages        | -              | 15,305             | -            | -               | -         | 15,305       |
| Geological and geophysical      | 779            | 231,283            | 550          | 31,417          | -         | 264,029      |
| Maps and reports                | 3,891          | 6,008              | 2,002        | 9,810           | -         | 21,711       |
| Mobilization and demobilization | -              | 15,942             | -            | -               | -         | 15,942       |
| Office miscellaneous            | 50             | 285                | -            | 4,118           | -         | 4,453        |
| Transport and travel            | -              | 17,997             | -            | -               | -         | 17,997       |
| Incurred during the period      | 7,150          | 463,107            | 2,552        | 46,410          | -         | 519,219      |
| Balance, June 30, 2005          | \$ 2,171,179   | \$ 2,369,443       | \$ 504,068   | \$ 456,091      | \$ 72,419 | \$ 5,573,200 |

See notes to interim consolidated financial statements

**CANADIAN GOLD HUNTER CORP.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED JUNE 30, 2005**  
**(Unaudited)**

**1. BASIS OF PRESENTATION**

The unaudited interim consolidated financial statements of Canadian Gold Hunter Corp. (the "Company") are prepared in accordance with accounting principles generally accepted in Canada using the same accounting policies and methods of application as those disclosed in Note 2 to the Company's consolidated financial statements for the year ended March 31, 2005.

These interim consolidated financial statements do not contain all of the information required by generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the consolidated financial statements included in the Company's 2005 Annual Report.

**2. INVESTMENTS**

|  | June 30,<br><u>2005</u> | March 31,<br><u>2005</u> |
|--|-------------------------|--------------------------|
| <b>Redback Mining Inc.</b> , a company with directors in common, 7,580 common shares with a market value at June 30, 2005 of approximately \$12,886 (March 31, 2005 – \$13,643)          | \$ 10,461               | \$ 10,461                |
| <b>Valkyries Petroleum Corp.</b> , a company with directors in common, 33,917 common shares with a market value at June 30, 2005 of approximately \$149,235 (March 31, 2005 – \$103,447) | 25,438                  | 25,438                   |
| <b>bcMetals Corporation</b> , 1.3 million common shares with a market value at June 30, 2005 of approximately \$572,000 (March 31, 2005 – Nil)   | <u>598,000</u>          | <u>-</u>                 |
|  | <u>\$ 633,899</u>       | <u>\$ 35,899</u>         |

**3. NOTE PAYABLE**

As at June 30, 2005, the Company has a promissory note of \$400,000, which is due on demand on or before December 22, 2005. The promissory note bears interest at Canadian Prime Interest Rate plus 2% per annum. The accrued interest of the promissory note to June 30, 2005 was \$616.

#### 4. SHARE CAPITAL

(a) Authorized:

Unlimited number of common shares with no par value.

(b) Issued and outstanding:

| Common shares  | <u>Number of<br/>Shares</u> | <u>Amount</u>        |
|--|-----------------------------|----------------------|
| Balance, March 31, 2004  | 30,504,553                  | \$ 83,278,696        |
| Private placements, net (i)  | 3,140,000                   | 3,651,763            |
| Tax cost recognized on issuance of flow-through shares on private placements | -                           | (1,309,035)          |
| Financing expense  | 81,000                      | 101,250              |
| Stock options exercised  | 494,000                     | 171,400              |
| Warrants exercised   | 1,923,700                   | 784,850              |
| Mineral properties   | 220,000                     | 142,000              |
| Takeover of Royal County   | 22,000                      | 1,396                |
| Transfer of contributed surplus on exercise of stock options                 | <u>-</u>                    | <u>13,389</u>        |
| Balance, March 31, 2005  | 36,385,253                  | 86,835,709           |
| Private placements, net (i)  | 5,377,001                   | 4,161,242            |
| Takeover of Royal County   | <u>12</u>                   | <u>1</u>             |
| Balance, June 30, 2005   | <u>41,762,266</u>           | <u>\$ 90,996,952</u> |

- (i) During the quarter ended June 30, 2005, the Company completed on a non-brokered private placement basis, the issuance of 4,970,000 flow-through common shares at a price of \$0.80 per share for gross proceeds of \$3,976,000 and 407,001 common shares (non flow-through) at a price of \$0.75 per share for total gross proceeds of \$305,251.

As at June 30, 2005, the Company is committed to spend \$4,037,265 to complete the flow through agreements. This balance is included in cash but is reserved to complete the qualified expenditures

(c) As at June 30, 2005, the following stock options were outstanding:

|  | <u>Number of<br/>Shares</u> | <u>Weighted-Average<br/>Exercise Price</u> |
|--|-----------------------------|--|
| Outstanding at March 31 and<br>and June 30, 2005 | <u>2,335,000</u>            | <u>CDN\$0.95</u>                           |

As at June 30, 2005, the Company has 2,335,000 stock options outstanding, at a price of \$1.10, \$0.68 and \$0.66 per share, to officers, employees and consultants. Of the 2,335,000 stock options outstanding, 791,000 stock options may not be exercised until shareholders approval is received to the increase in the stock option plan.

(d) As at June 30, 2005, the following share purchase warrants were outstanding:

| <u>Number of Warrants</u> | <u>Common Share Entitlement</u> | <u>Exercise Price</u> | <u>Expiry Date</u> |
|---------------------------|---------------------------------|-----------------------|--------------------|
| 885,000                   | 885,000                         | \$0.40                | October 2, 2005    |
| <u>140,500</u>            | <u>140,500</u>                  | \$1.50                | November 12, 2005  |
| <u>1,025,500</u>          | <u>1,025,500</u>                |                       |                    |

(e) As at June 30, 2005, there are no shares held in escrow.

## 5. RELATED PARTY TRANSACTIONS

During the three months ended June 30, 2005, the Company:

- (a) incurred management fees of \$54,000 to a company controlled by the Chairman of the Company pursuant to an agreement which is renewable on July 1, 2006. At June 30, 2005, \$2,236 was due to this company and included in amounts due to related parties;
- (b) incurred legal fees of \$35,694 to a law firm of which a partner is a director of the Company. At June 30, 2005, \$33,439 was due to this law firm and included in amounts due to related parties.

## 6. SEGMENTED INFORMATION

The Company's only business activity is the exploration for and development of mineral reserves in Canada.

**CANADIAN GOLD HUNTER CORP.  
CORPORATE DIRECTORY  
JUNE 30, 2005**

**OFFICERS**

Lukas H. Lundin,  
Chairman  
Richard J. Bailes,  
President and Chief Executive Officer  
Jan E. Christoffersen,  
Vice President  
Wanda Lee,  
Chief Financial Officer  
Kathy Love,  
Corporate Secretary

**DIRECTORS**

Ronald Netolitzky  
Michael Halvorson \*  
Michael McInnis \*  
Lukas H. Lundin  
William A. Rand \*  
John H. Craig  
Richard J. Bailes

\* Audit Committee

**AUDITORS**

Staley Okada and Partners  
Vancouver, British Columbia, Canada

**BANKERS**

Bank of Montreal  
Vancouver, British Columbia, Canada

**SUBSIDIARIES**

Royal County Minerals Corp  
Vancouver, British Columbia, Canada

**COMPANY HEAD OFFICE**

Suite 2101 - 885 West Georgia Street  
Vancouver, British Columbia  
Canada V6C 3E8  
Telephone: (604) 689-7842  
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**REGISTERED AND RECORDS OFFICE**

Suite 1100 - 888 Dunsmuir Street  
Vancouver, British Columbia  
Canada V6C 3K4

**SOLICITOR**

McCullough O'Connor Irwin  
Vancouver, British Columbia  
Canada

**SHARE CAPITAL**

Authorized: Unlimited number of common shares  
Issued and Outstanding: 41,762,266 shares

**REGISTRAR AND TRANSFER AGENT**

CIBC Mellon Trust Company  
Vancouver, British Columbia  
Toronto, Ontario

**SHARE LISTING**

Toronto Stock Exchange  
Canadian Gold Hunter Corp. (CGH)