

Consolidated Financial Statements
(Expressed in Canadian dollars)

TAN RANGE EXPLORATION CORPORATION
(An Exploration Stage Company)

Years ended August 31, 2005 and 2004



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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Tan Range Exploration Corporation as at August 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 August 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.

KPMG LLP

Chartered Accountants

Vancouver, Canada

November 4, 2005

TAN RANGE EXPLORATION CORPORATION

(An Exploration Stage Company)

Consolidated Balance Sheets
(Expressed in Canadian dollars)

August 31, 2005 and 2004

	2005	2004
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,395,468	\$ 1,067,448
Short-term investments	-	415,201
Accounts and other receivables (note 8)	77,677	61,035
Inventory	49,934	-
Prepaid expenses	73,273	521,889
	1,596,352	2,065,573
Mineral properties and deferred exploration costs (note 3)	19,739,275	19,853,296
Equipment and leasehold improvements (note 4)	922,056	173,504
	\$ 22,257,683	\$ 22,092,373
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 172,812	\$ 146,672
Current portion of obligations under capital lease (note 5)	34,634	-
	207,446	146,672
Obligations under capital lease (note 5)	175,011	-
Future income taxes (note 6)	-	647,565
Shareholders' equity:		
Share capital (note 7)	44,839,796	42,145,471
Share subscriptions received (note 7(b))	813,828	-
Deficit	(23,778,398)	(20,847,335)
	21,875,226	21,298,136
	\$ 22,257,683	\$ 22,092,373

Nature of operations (note 1)
Commitments (notes 3 and 9)
Subsequent events (note 10)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

"James E. Sinclair" Director

"Norman Betts" Director

"Victoria M. Luis" Director

TAN RANGE EXPLORATION CORPORATION

(An Exploration Stage Company)

Consolidated Statements of Operations and Deficit
(Expressed in Canadian dollars)

Years ended August 31, 2005 and 2004

	2005	2004
Expenses:		
Amortization	\$ 88,981	\$ 54,643
Annual general meeting	36,299	21,894
Capital tax	3,243	(46,052)
Consulting and management fees	139,054	140,099
Insurance	97,412	65,744
Memberships, courses and publications	649	6,551
Office and administration	76,022	82,643
Office rentals	65,760	103,134
Press releases	41,814	23,642
Printing and mailing	46,220	19,266
Professional fees	147,333	201,167
Promotions and shareholder relations	12,495	8,408
Salaries and benefits	691,059	604,368
Telephone and fax	29,407	29,592
Training	18,756	14,433
Transfer agent and listing	140,166	68,895
Travel and accommodation	36,881	40,284
	<u>1,671,551</u>	<u>1,438,711</u>
Other expenses (earnings):		
Foreign exchange	134,650	(48,630)
Interest, net	11,488	(30,626)
Loss (gain) on sale of asset	(93)	12,692
Gain on sale of short-term investments	(2,527)	(10,774)
Property investigation costs	133,627	254,991
Write-off of mineral properties and deferred exploration costs (note 3)	1,629,932	-
	<u>1,907,077</u>	<u>177,653</u>
Loss before income taxes	(3,578,628)	(1,616,364)
Future income tax recovery	647,565	-
Loss for the year	(2,931,063)	(1,616,364)
Deficit, beginning of year	(20,847,335)	(19,230,971)
Deficit, end of year	\$ (23,778,398)	\$ (20,847,335)
Basic and diluted loss per share	\$ (0.04)	\$ (0.02)
Weighted average number of shares outstanding (note 2(i))	83,387,939	81,056,126

See accompanying notes to consolidated financial statements.

TAN RANGE EXPLORATION CORPORATION

(An Exploration Stage Company)

Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

Years ended August 31, 2005 and 2004

	2005	2004
Cash provided by (used in):		
Operations:		
Loss for the year	\$ (2,931,063)	\$ (1,616,364)
Items not affecting cash:		
Amortization	88,981	54,643
Loss (gain) on sale of asset	(93)	12,692
Gain on sale of short-term investments	(2,527)	(10,744)
Write-off of mineral properties and deferred exploration costs	1,629,932	-
Future income tax recovery	(647,565)	-
	(1,862,335)	(1,559,773)
Changes in non-cash working capital		
Accounts receivable and other receivables	(16,642)	(16,747)
Inventory	(49,934)	-
Prepaid expenses	(36,362)	(490,529)
Accounts payable and accrued liabilities	26,140	(312,328)
	(1,939,133)	(2,379,377)
Investing:		
Mineral properties and deferred exploration costs (note 3)	(1,817,102)	(1,512,784)
Option payments and recoveries	301,191	331,934
Equipment and leasehold improvement additions	(140,403)	(40,660)
Short-term investments	417,728	521,763
Proceeds on disposal of asset	2,653	-
Repayment of obligations under capital lease	(5,067)	-
	(1,241,000)	(699,747)
Financing:		
Share capital issued - net of issuance costs	2,694,325	2,596,500
Share subscriptions received	813,828	-
	3,508,153	2,596,500
Increase (decrease) in cash and cash equivalents	328,020	(482,624)
Cash and cash equivalents, beginning of year	1,067,448	1,550,072
Cash and cash equivalents, end of year	\$ 1,395,468	\$ 1,067,448
Supplementary information:		
Interest received, net	\$ (11,488)	\$ 50,382
Non-cash transactions:		
Purchase of automotive equipment by way of capital lease	214,712	-
Deposit paid in 2004 for drilling equipment purchased in 2005	484,978	-

See accompanying notes to consolidated financial statements.

TAN RANGE EXPLORATION CORPORATION

(An Exploration Stage Company)

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended August 31, 2005 and 2004

1. Nature of operations:

The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain mineral deposits that are economically recoverable. Consequently, the Company considers itself to be an exploration stage company. Although at August 31, 2005 the Company has spending commitments (note 3) which exceed funds on hand, it has financing commitments of \$2,386,172 from its chairman and chief executive officer ("CEO"), of which \$136,172 has been received subsequent to year end (note 10) and, if necessary, could adjust the extent and timing of certain expenditures. The recoverability of the amounts shown for mineral properties and related deferred costs are ultimately dependent upon the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, obtaining necessary financing to explore and develop the properties, entering into agreements with others to explore and develop the mineral properties, and upon future profitable production or proceeds from disposition of the mineral properties. The amounts shown as mineral properties and deferred exploration expenditures represent net costs incurred to date, being less amounts recovered from third parties and/or written off, and do not necessarily represent present or future values.

These financial statements have been prepared on the going concern basis which assumes that assets will be realized and liabilities settled in the normal course. These financial statements do not reflect adjustments that would be necessary if the going concern basis was not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments could be necessary to the carrying value of assets and liabilities and such adjustments could be material.

2. Significant accounting policies:

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles.

(a) Principles of consolidation:

These consolidated financial statements include the accounts of Tan Range Exploration Corporation and its subsidiaries. All intercompany amounts are eliminated on consolidation.

(b) Translation of foreign currencies:

The measurement currency of the Company in these consolidated financial statements is the Canadian dollar. The Company's subsidiaries are considered integrated foreign subsidiaries and their accounts are translated using the temporal method. Under this method, monetary assets and liabilities are translated at the prevailing year-end exchange rates. Non-monetary assets are translated at historical exchange rates. Revenue and expense items are translated at the average rate of exchange for the year except for those arising from non-monetary assets which are translated at the historical exchange rate. Translation gains and losses are included in the statements of operations and deficit.

(c) Cash and cash equivalents:

Cash and cash equivalents consist of cash on deposit with banks or highly liquid short-term interest-bearing securities with maturities at purchase dates of three months or less.

TAN RANGE EXPLORATION CORPORATION

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Years ended August 31, 2005 and 2004

2. Significant accounting policies (continued):

(d) Short-term investments:

Interest-bearing securities having a term to maturity in excess of three months but less than one year are classified as short-term investments. Short-term investments are stated at the lower of cost and market value.

(e) Inventory:

Inventory consists of supplies for the Company's drilling rig and is stated at the lower of cost and replacement cost.

(f) Mineral properties and deferred exploration costs:

The Company holds various positions in mineral property interests, including prospecting licences, reconnaissance licences, and options to acquire mining licences or leases. All of these positions are classified as mineral properties for financial statement purposes.

Acquisition costs and exploration costs, including option payments, relating to mineral properties are deferred until the properties are brought into production, at which time they are amortized on a unit-of-production basis, or until the properties are abandoned, sold or to be sold or management determines that the mineral property is not economically viable, at which time the unrecoverable deferred costs are written off. Option payments arising on the acquisition of mineral property interests are exercisable at the discretion of the Company and, accordingly, are only recognized as paid.

Amounts recovered from third parties to earn an interest in the Company's mineral properties are applied as a reduction of the mineral property and deferred exploration costs.

Overhead costs directly related to exploration are allocated to the mineral properties explored during the year and are deferred and are to be amortized using the same method applied to property-specific exploration costs. All other overhead and administration costs are expensed in the year they are incurred.

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Years ended August 31, 2005 and 2004

2. Significant accounting policies (continued):

(f) Mineral properties and deferred exploration costs (continued):

Under CICA Handbook Section 3061, "*Property, Plant and Equipment*", for a mining property, the cost of the asset includes exploration costs if the enterprise considers that such costs have the characteristics of property, plant and equipment. Emerging Issue Committee Abstract 126, "*Accounting by Mining Enterprises for Exploration Costs*", ("EIC-126") states that a mining enterprise that has not established mineral reserves objectively, and therefore does not have a basis for preparing a projection of the estimated cash flow from the property, is not precluded from considering the exploration costs to have the characteristics of property, plant and equipment. EIC-126 also sets forth the EIC's consensus that a mining enterprise in the development stage is not required to consider the conditions in Accounting Guideline No. 11 "*Enterprises in the Development Stage*" ("AcG 11") regarding impairment in determining whether exploration costs may be initially capitalized. With respect to impairment of capitalized exploration costs, EIC-126 sets forth the EIC's consensus that a mining enterprise in the development stage that has not established mineral reserves objectively, and, therefore, does not have a basis for preparing a projection of the estimated cash flow from the property, is not obliged to conclude that capitalized costs have been impaired. However, such an enterprise should consider the conditions set forth in AcG 11 and CICA Handbook Section 3061 in determining whether a subsequent write-down of capitalized exploration costs related to mining properties is required.

The Company considers that its exploration costs have the characteristics of property, plant and equipment, and, accordingly, defers such costs. Furthermore, pursuant to EIC-126, deferred exploration costs would not automatically be subject to regular assessment of recoverability, unless conditions, such as those discussed in AcG 11, exist.

The Company follows these recommendations and therefore the unproven mineral property claim costs are initially capitalized. Such assets are tested for impairment in accordance with the provisions of the CICA Handbook Section 3063, "*Impairment of Long-Lived Assets*". Mineral properties and deferred exploration costs are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized if, at the date it is tested for recoverability, the carrying amount of the mineral property exceeds the sum of the undiscounted cash flows expected to result from its production and/or eventual disposition. The impairment loss is measured as the amount by which the carrying amount of the mineral property exceeds its fair value.

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Years ended August 31, 2005 and 2004

2. Significant accounting policies (continued):

(g) Equipment and leasehold improvements:

Equipment and leasehold improvements, other than mineral properties and deferred exploration and development costs, are recorded at cost and amortization is provided for on a declining balance basis using the following rates:

Assets	Rate
Machinery and equipment	20% to 30%
Automotive	30%
Computer equipment	30%
Drilling equipment and automotive equipment under capital lease	6.67%
Leasehold improvements	20%

(h) Stock-based compensation:

Effective September 1, 2002, the Company adopted the new standards of the Canadian Institute of Chartered Accountants with respect to the accounting for stock-based compensation and other stock-based payments. The new standards have been applied prospectively. All stock-based compensation is determined based on the fair value method and expensed over the vesting period.

As the Company did not grant any stock options or had no other stock-based payments during the years ended August 31, 2005 and 2004, the new accounting standards have had no effect on the financial statements. Consideration paid on the exercise of stock options is credited to share capital.

(i) Income taxes:

The Company follows the asset and liability method of accounting for income taxes. Under the asset and liability method, future income tax assets and liabilities are determined based on differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases (temporary differences) and are measured using the enacted or substantively enacted tax rates expected to be in effect when the temporary differences are likely to reverse. Future tax benefits, such as non-capital loss carry forwards, are recognized if realization of such benefits is considered more likely than not.

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2. Significant accounting policies (continued):

(j) Asset retirement obligation:

During the year ended August 31, 2005, the Company adopted the Canadian Institute of Chartered Accountants new Handbook Section 3110 "*Asset Retirement Obligations*" ("HB 3110"). Under this new standard the Company recognizes the fair value of a future asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that results from the acquisition, construction, development, and/or normal use of the assets if a reasonable estimate of fair value can be made. The Company concurrently recognizes a corresponding increase in the carrying amount of the related long-lived asset that is depreciated over the life of the asset. The fair value of the asset retirement obligation is estimated using the expected cash flow approach that reflects a range of possible outcomes discounted at a credit-adjusted risk-free interest rate. Subsequent to the initial measurement, the asset retirement obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. Changes in the obligation due to the passage of time are recognized in income as an operating expense using the interest method. Changes in the obligation due to changes in estimated cash flows are recognized as an adjustment of the carrying amount of the related long-lived asset that is depreciated over the remaining life of the asset.

Prior to the adoption of HB 3110, the Company had accounted for reclamation costs by accruing an amount associated with the retirement of tangible long-lived assets as a charge to operations over the life of the asset.

The Company adopted HB 3110 retroactively with restatement of prior periods presented, however, the adoption of HB 3110 resulted in no changes to amounts previously presented.

(k) Loss per share:

Loss per share has been calculated using the weighted average number of common shares issued and outstanding. Shares held in escrow subject to performance conditions for release are considered contingently issuable shares and are excluded from the weighted average number of shares used in calculating loss per share. Outstanding stock options, special warrants and share purchase warrants that could potentially dilute basic loss per share have not been included in the computation of diluted loss per share because to do so would be anti-dilutive.

(l) Financial instruments:

The Company's financial assets and liabilities consist of cash and cash equivalents, short-term investments, accounts and other receivables and accounts payable and accrued liabilities. The fair value of the Company's financial assets and liabilities is estimated to approximate their carrying value.

TAN RANGE EXPLORATION CORPORATION

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Notes to Consolidated Financial Statements
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Years ended August 31, 2005 and 2004

2. Significant accounting policies (continued):

(m) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the year. Areas requiring the use of estimates and measurement uncertainties include the valuation and impairment of value of mineral properties and deferred exploration costs and the determination of future income taxes. Actual results may differ from management's estimates.

(n) Segmented information:

The Company's principal operations are located in Tanzania. The Company conducts its business in a single operating segment being the investment in and exploration of mineral properties. Substantially all mineral properties (note 3) and equipment and leasehold improvements are situated in Tanzania (note 4).

3. Mineral properties and deferred exploration costs:

The Company acquires gold or other precious metal concessions through its own efforts or through the efforts of its subsidiaries. All of the Company's concessions are located in Tanzania.

For each concession granted in Tanzania under a prospecting or a reconnaissance licence, the Company is required to carry out a minimum amount of exploration work before a mining licence can be granted for further development. A prospecting licence is issued for a period of up to three years and renewable two times for a period up to two years each. At each renewal at least 50% of the area is relinquished. A reconnaissance licence is issued for one year and renewed for a period not exceeding a year. All prospecting licences are granted subject to an annual rental fee of not more than U.S. \$30 per square kilometer payable to the government of Tanzania, a minimum exploration work commitment, and employment and training of Tanzanians. In addition, the government of Tanzania imposes a royalty on the gross value of all production at the rate of 3% of all gold produced.

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(Expressed in Canadian dollars)

Years ended August 31, 2005 and 2004

3. Mineral properties and deferred exploration costs (continued):

The continuity of expenditures on mineral properties is as follows:

	Itetemia Project (a)	Luhala Project (b)	Kigosi (c)	Lunguya (d)	Kanagele (e)	Tulawaka (f)	Ushirombo (g)	Mbogwe (h)	Biharamulu (i)	Other (j)	Total
Balance, August 31, 2002	\$ 7,288,200	\$ 2,498,293	\$ 1,072,516	\$ 2,177,768	\$ 785,565	\$ 1,424,545	\$ 1,330,002	\$ 984,190	\$ 679,869	\$ 311,607	\$ 18,552,555
Exploration expenditures:											
Camp, field supplies and travel	2,512	3,747	1,223	15,687	218	42	24,275	2,770	1,659	6,172	58,305
Exploration and field overhead	(143)	33,543	6,240	182,437	52,319	185,825	66,311	36,418	17,743	149,041	729,734
Geological consulting and field wages	22	314	6,510	47,786	1,234	-	5,376	130	278	397	62,047
Geophysical and geochemical	13,910	2,814	3,298	80,985	8,465	-	24,619	16,421	1,896	34,623	187,031
Property acquisition costs	-	40,519	36,183	-	6,900	-	-	-	12,501	57,850	153,953
Parts and equipment	-	-	-	1,454	-	-	1,875	-	-	2,937	6,266
Trenching and drilling	-	-	-	122,563	-	-	-	16,393	-	-	138,956
Option payments received	(11,410)	-	-	-	-	(56,974)	(44,419)	(11,410)	(60,752)	-	(184,965)
Reclassifications	-	-	371,411	-	-	4,270	(371,411)	-	-	(4,270)	-
	4,891	80,937	424,865	450,912	69,136	133,163	(293,374)	60,722	(26,675)	246,750	1,151,327
	7,293,091	2,579,230	1,497,381	2,628,680	854,701	1,557,708	1,036,628	1,044,912	653,194	558,357	19,703,882
Write-offs	(729,309)	-	-	(35,342)	-	-	(106,386)	-	(10,744)	(149,655)	(1,031,436)
Balance, August 31, 2003	6,563,782	2,579,230	1,497,381	2,593,338	854,701	1,557,708	930,242	1,044,912	642,450	408,702	18,672,446
Exploration expenditures:											
Camp, field supplies and travel	-	13,967	-	5,528	3,406	-	1,098	-	2,259	21,386	47,644
Exploration and field overhead	-	168,588	39,175	129,371	101,526	56,643	52,614	41,485	28,182	348,888	985,189
Geological consulting and field wages	18,717	1,274	-	-	-	-	-	-	-	(21,113)	(19,839)
Geophysical and geochemical	-	4,813	3,986	60,625	73,524	2,598	16,065	2,288	5,244	91,976	261,119
Property acquisition costs	-	50,546	-	-	21,706	-	-	-	274	164,833	237,359
Parts and equipment	-	108	-	-	-	-	-	-	-	109	217
Trenching and drilling	-	1,095	-	-	-	-	-	-	-	-	1,095
Option payments received	(17,496)	-	(58,811)	-	-	(88,926)	(123,275)	(17,496)	(25,930)	-	(331,934)
Reclassifications	-	-	286,762	-	-	-	(286,762)	-	-	-	-
	1,221	240,391	271,112	195,524	200,162	(29,685)	(340,260)	26,277	10,029	606,079	1,180,850
Balance, August 31, 2004	6,565,003	2,819,621	1,768,493	2,788,862	1,054,863	1,528,023	589,982	1,071,189	652,479	1,014,781	19,853,296
Exploration expenditures:											
Camp, field supplies and travel	339	17,089	-	4,432	20,091	-	6,248	1,849	-	111,172	161,220
Exploration and field overhead	2,800	142,948	28,278	29,945	68,848	16,095	63,611	36,488	14,109	534,210	937,332
Geological consulting and field wages	-	-	14,332	-	-	-	-	-	-	-	14,332
Geophysical and geochemical	-	30,200	-	42,932	33,298	34	9,271	1,893	1,393	83,610	202,631
Property acquisition costs	18,635	92,788	16,549	-	60,149	12,075	-	-	-	242,019	442,215
Parts and equipment	-	4,639	-	-	-	-	-	-	-	-	4,639
Trenching and drilling	-	40,593	-	-	899	3,502	-	-	-	9,739	54,733
Recoveries	(24,146)	-	-	-	-	(130,226)	-	(24,146)	(122,673)	-	(301,191)
	(2,372)	328,257	59,159	77,309	183,285	(98,520)	79,130	16,084	(107,171)	980,750	1,515,911
	6,562,631	3,147,878	1,827,652	2,866,171	1,238,148	1,429,503	669,112	1,087,273	545,308	1,995,531	21,369,207
Write-offs	(656,500)	-	-	(73,010)	-	-	(316,476)	(299,118)	(43,399)	(241,429)	(1,629,932)
Balance, August 31, 2005	5,906,131	3,147,878	1,827,652	2,793,161	1,238,148	1,429,503	352,636	788,155	501,909	1,754,102	19,739,275

TAN RANGE EXPLORATION CORPORATION

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

Years ended August 31, 2004 and 2004

3. Mineral properties and deferred exploration costs (continued):

The Company has assessed the carrying value of mineral properties and deferred exploration costs as at August 31, 2005.

(a) Itetemia Project:

The Itetemia property consists of seven (2004 - nine) contiguous prospecting licences. Collectively, the Company refers to these concessions as the Itetemia Project.

One prospecting licence is subject to a 3% net smelter royalty.

The Company acquired a 90% interest in another of the prospecting licences through an agreement with the State Mining Corporation ("Stamico") dated July 18, 1994. Stamico retains a 2% royalty interest as well as a right to earn back an additional 20% interest in the prospecting licence by meeting 20% of the costs required to place the property into production. The Company retains the right to purchase one-half of Stamico's 2% royalty interest in exchange for US\$1,000,000.

The Company is required pay to Stamico an annual option fee of US\$15,000 for each of 2006 and 2007 and US\$20,000 thereafter.

During the year ended August 31, 2005, the Company abandoned certain licences in the area and wrote-off \$656,500 of costs related to the abandoned area.

(b) Luhala Project:

The Luhala property consists of eight (2004 - five) contiguous prospecting licences. Collectively, the Company refers to these concessions as the Luhala Project.

During the years ended August 31, 2001 and 2000, the Company entered into option agreements to acquire three additional licences, named Shilalo, Ngobo and Sima. For Ngobo, the Company must make payments totalling US\$132,000 over six years (US\$102,000 paid to date with the balance of US\$30,000 due in 2006) and for Sima, payments totalling US\$84,000 over six years (US\$66,000 paid to date with the balance due of US\$18,000 due in 2006) in order to maintain the options. The vendor in each case retains a 2% net smelter return royalty, of which the Company may buy back, in each case, one-half (i.e., 1%) for US\$1,000,000.

For the Shilalo licence, the vendor retains a 2% net smelter return royalty, of which the Company may buy back one-half (i.e., 1%) for US\$250,000.

(c) Kigosi:

The Kigosi property consists of fifteen (2004 - nine) prospecting licences. During the year ended August 31, 2003, the Company reclassified five licences from the Ushirombo and Ushirombo West with deferred costs of \$371,411 (note 3(g)) to the Kigosi property. The Company has a 100% interest in two of the licences and, through prospecting and mining option agreements entered into in the 2003 fiscal year, has options to acquire between 51% to 90% interests in the other thirteen licences. The Company must make payments totalling US\$162,000 over eight years (US\$36,000 paid to date with the balance required as follows: 2006 - US\$16,000; 2007 - US\$18,000; 2008 - US\$20,000; 2009 - US\$22,000; 2010 - US\$24,000, 2011 - US\$26,000) and is required to fund all costs of exploration of the properties in order to maintain the options.

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3. Mineral properties and deferred exploration costs (continued):

(c) Kigosi (continued):

On July 21, 2003, the Company entered into an agreement with Ashanti Goldfields (Cayman) Limited ("Ashanti"), granting Ashanti the option to acquire the total rights, titles and interests of the Company in the prospecting licences in the Kigosi area, save and except for a royalty varying between 0.5% to 2% of net smelter returns, depending on the market price of gold, to be paid by Ashanti to the licence owners. To maintain and exercise the option, Ashanti must expend US\$300,000 within the first year and US\$800,000 within the second year of closing the agreement, complete various diamond drilling requirements and complete a bankable feasibility report within five years of the closing of the agreement.

Ashanti must also make the following payments to the Company (US\$75,000 paid to date):

Year one	US\$	200,000
Year two		150,000
Year three		180,000
Year four		260,000
Year five		340,000

In addition, Ashanti must make payments to the Company of US\$25,000 for each licence in excess of three held 24 months subsequent to the closing of the agreement and US\$25,000 for each licence held in excess of two in subsequent years.

Should Ashanti complete a bankable feasibility report and make a positive production decision before the fifth anniversary date of the closing of the agreement, then the above payments and drilling by Ashanti shall no longer be required.

(d) Lunguya:

The Lunguya property consists of seven (2004 - six) prospecting licences. Through prospecting and mining option agreements the Company has options to acquire interests ranging from 60% to 75% in the six licences. To maintain the options, the Company is required to make certain expenditure requirements and fund all exploration costs of the properties.

During the year ended August 31, 2005, the Company abandoned certain licences within the area and wrote-off \$73,010 of costs related to the abandoned area.

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3. Mineral properties and deferred exploration costs (continued):

(e) Kanagele:

The Kanagele property consists of eleven (2004 - six) prospecting licences. In 2002, the Company entered into an option agreement requiring payments totaling US\$72,000 over eight years (US\$22,000 paid to date) in exchange for a 90% interest in three prospecting licence and an option to purchase the remaining 10% upon production decision. In 2004, the Company entered into an option agreement for one prospecting license requiring payments of US\$145,000 (US\$21,000 paid to date) over nine years and another option agreement for one prospecting licence requiring payments of US\$90,000 over five years (US\$15,000 to date). The Company has options to acquire a 65% interest in the other three licences acquired through prospecting and option agreements. The Company is required to fund all exploration costs of the properties.

In 2005, the Company entered into an agreement on two prospecting licenses for an 85% interest requiring payments of US\$173,000 over six years (\$17,000 paid to date).

Details by year of the required option payments described above are as follows:

2006	US\$	59,000
2007		68,000
2008		77,000
2009		51,000
2010		55,000
Thereafter		95,000
	US\$	405,000

(f) Tulawaka:

The Tulawaka property consists of fifteen (2004 - eight) prospecting licences. Seven of the licences are held by the Company and through prospecting and option agreements has options to acquire interests ranging from 65% to 90% in the other four licences. Twelve licences are subject to an option agreement with Northern Mining Explorations Ltd. ("Northern") (note 3(l)).

During the year ended August 31, 2003, the Company entered into a prospecting mining option agreement to acquire a 90% interest in a prospecting license. The Company must make payments of US\$117,000 over nine years, (US\$19,000 paid to date with the balance required as follows: 2006 - US\$11,000; 2007 - US\$12,000; 2008 - US\$13,000; 2009 - US\$14,000; 2010 - US\$15,000; 2011 - US\$16,000; 2012 - US\$17,000) and is required to fund all exploration costs of property to maintain its option.

(g) Ushirombo and Ushirombo West:

The Ushirombo and Ushirombo West properties consist of twelve prospecting licences (2004 - twelve prospecting licences). The Company holds 100% interest in one of these licences and through prospecting and option agreements has options to acquire interests ranging from 65% to 80% in the other eleven licences. The Company is required to fund all exploration costs of the properties.

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3. Mineral properties and deferred exploration costs (continued):

(g) Ushirombo and Ushirombo West (continued):

During the year ended August 31, 2005, the Company abandoned certain licences within the area and wrote-off \$316,476 of costs related to the abandoned area.

(h) Mbogwe:

The Mbogwe property consists of four (2004 - seven) licences. The Company, through prospecting and option agreements, has options to acquire interests ranging from 51% to 80% in these licences. The Company is required to fund all exploration costs of the properties. One of the licences is subject to the option agreement with BEAL (note 3(k)).

During the year ended August 31, 2005, the Company abandoned certain licences within the area and wrote-off \$299,118 of costs related to the abandoned area.

(i) Biharamulu:

The Biharamulu property consists of five (2004 - six) prospecting licences. The Company has a 100% interest in two of these licences and through prospecting and option agreements has options to acquire interests ranging from 51% to 65% in the other three licences. The Company is required to fund all exploration costs of the properties. Four of the licences are subject to the option agreement with Northern (note 3(l)).

During the year ended August 31, 2005, the Company abandoned certain licences in the area and wrote-off \$43,399 of costs related to the abandoned area.

(j) Other:

The Company's other properties consist of several prospecting licences. The Company has options to acquire interests in these properties ranging from 51% to 100%. To maintain these options and licences, the Company must make the following future payments to maintain its options:

2006	\$ 266,000
2007	282,500
2008	314,500
2009	311,500
2010	341,500
Thereafter	703,500

\$ 2,219,500

During the year ended August 31, 2005, the Company abandoned certain licences in the area and wrote-off \$241,429 of costs related to the abandoned area.

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3. Mineral properties and deferred exploration costs (continued):

(k) Joint venture with Barrick Exploration Africa Ltd. ("BEAL"):

Barrick Exploration Africa Ltd. ("BEAL") has the option to acquire the total rights, titles and interests of the Company in twelve prospecting licences in different properties, herein called the BEAL project. In exchange for this option, BEAL was required to pay US\$100 to the Company. To maintain and exercise the option, BEAL was required to incur US\$250,000 in exploration and development on the BEAL project within a year of closing the agreement (completed), and thereafter, BEAL must expend US\$50,000 each year for each retained prospecting licence. In addition, BEAL must make the following annual payments to the Company for each retained prospecting licence (US\$50,000 paid to date):

December 2005	US\$	40,000
December 2006 and subsequent years		40,000

Within thirty days after commercial production, BEAL must pay US\$1,000,000 and an additional US\$1,000,000 on each of the next two years. BEAL will also pay the owner of the licence 1.5% of net smelter returns.

During the years ended August 31, 2005, 2003 and 2002, the Company received from BEAL notices of relinquishment for all rights, titles, and interests for a total of ten prospecting licenses included in the option agreement.

As at August 31, 2005, of the two remaining prospecting licences in the BEAL project, one licence is located in Mbogwe and one in Itetemia.

(l) Option Agreement with Northern Mining Explorations Ltd. ("Northern"):

On January 20, 2003, and as amended on March 18, 2003, the Company entered into an agreement with Northern granting Northern the exclusive option to acquire the total rights, titles and interests of the Company in ten prospecting licences. In exchange for this option, Northern was required to pay US\$80,000. In addition, to maintain and exercise the option, Northern must make annual payments for each retained prospecting licence, incur minimum exploration and development expenditures and certain drilling requirements, undertake all obligations of the Company in respect of the licences and complete a feasibility study by December 31, 2008. Upon exercise of the option, the Company shall retain a net smelter return royalty fluctuating between 0.5% to 2% depending on the price of gold.

As at August 31, 2005, of the ten prospecting licences optioned to Northern, four are located in Biharamulu, six are located in Tulawaka.

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3. Mineral properties and deferred exploration costs (continued):

(I) Option Agreement with Northern Mining Explorations Ltd. ("Northern") (continued):

On September 7, 2004, the Company entered into a second option agreement with Northern, granting Northern the exclusive option to acquire the total rights, titles, and interest of the Company in six prospecting licenses. In exchange for this option, Northern is required to make annual payments for each retained prospecting license, incur minimum exploration and development expenditures and certain drilling requirements, and undertake all obligations of the Company in respect of the licenses. Upon exercise of the option, the Company shall retain a net smelter royalty fluctuating between 0.5% to 2% depending on the price of gold.

4. Equipment and leasehold improvements:

2005	Cost	Accumulated amortization	Net book value
Drilling equipment	\$ 564,311	\$ 18,810	\$ 545,501
Automotive under capital lease	214,712	8,962	205,750
Automotive	157,279	97,008	60,271
Computer equipment	107,043	54,155	52,888
Machinery and equipment	101,078	46,168	54,910
Leasehold improvements	6,873	4,137	2,786
	\$ 1,151,296	\$ 229,240	\$ 922,106

2004	Cost	Accumulated amortization	Net book value
Machinery and equipment	\$ 88,386	\$ 33,854	\$ 54,532
Automotive	169,300	111,231	58,069
Computer equipment	101,471	44,262	57,209
Leasehold improvements	10,770	7,076	3,694
	\$ 369,927	\$ 196,423	\$ 173,504

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5. Obligations under capital lease:

During the year, the Company has financed two vehicles by entering into capital leasing arrangements. Future minimum lease obligations are due as follows:

2006	\$ 51,340
2007	51,340
2008	51,340
2009	51,340
2010	42,783
Net minimum lease payments	248,143
Less amount representing interest at 9.0%	(38,498)
Present value of net minimum capital lease payments	209,645
Current portion	34,634
	\$ 175,011

Interest of \$3,040 (2004 - nil) relating to obligations under capital lease has been included in interest expense.

6. Income taxes:

Substantially all differences between actual income tax recovery of \$647,565 (2004 - nil) and the expected income tax recovery rebate to losses not recognized for tax purposes.

The tax effects of significant temporary differences which would comprise tax assets and liabilities at August 31, 2005 and 2004 are as follows:

	2005	2004
Future income tax assets:		
Equipment	\$ 78,000	\$ 173,000
Non-capital losses for tax purposes	2,070,000	3,911,000
Capital losses for tax purposes	43,000	45,000
Resource related deductions carried forward	3,500,000	1,130,000
	5,691,000	5,259,000
Valuation allowance	(5,691,000)	(5,259,000)
Net future income tax assets	\$ -	\$ -
Future income tax liabilities:		
Mineral properties	\$ -	\$ 647,565
Net future income tax liabilities	\$ -	\$ 647,565

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6. Income taxes (continued):

In assessing the recoverability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible.

At August 31, 2005, the Company has approximately \$6,000,000 of Canadian non-capital losses available for income tax purposes to reduce Canadian taxable income in future years that expire in years up to, and including 2014.

The Company has a capital loss carry forward of approximately \$250,000 which is available indefinitely to reduce future capital gains for tax purposes, and resource pools of approximately \$10,100,000 which are available indefinitely to reduce future income for tax purposes..

7. Share capital:

(a) Authorized:

91,000,000 common voting shares (2004 - 91,000,000; 2003 - unlimited number of common voting shares)

(b) Issued common shares, warrants and share subscriptions:

	Number of shares	Amount
Balance, August 31, 2002	74,714,203	\$ 35,821,706
Issued for cash	474,064	700,000
Collection of previous year's subscription receivable	-	102,000
Stock options exercised	2,454,000	1,255,700
Issued on exercise of warrants	2,549,275	1,544,565
Balance, August 31, 2003	80,191,542	39,423,971
Issued for cash	1,477,050	2,250,000
Issued for share subscription previously received	65,445	125,000
Stock options exercised	730,000	346,500
Balance, August 31, 2004	82,464,037	42,145,471
Stock options exercised	107,500	69,325
Issued for cash	2,204,517	2,625,000
Balance, August 31, 2005	84,776,054	\$ 44,839,796

The Company had no share purchase warrants outstanding as at August 31, 2005 and 2004.

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7. Share capital (continued):

(b) Issued common shares, warrants and share subscriptions (continued):

On March 5, 2003, the Company completed a private placement subscription agreement with the Company's chairman and CEO for the sale of between \$1,500,000 to \$3,000,000 worth of common shares of the Company in 24 separate monthly closings. The sales price of the common shares was equal to the five day weighted average trading price for the last five consecutive trading days of each month immediately preceding the closing date. Each closing was to be between \$62,500 to \$125,000. As at August 31, 2005, the Company has issued in total 2,137,629 common shares and received \$2,950,000 pursuant to this subscription agreement.

On January 13, 2005, the Company completed a private placement subscription agreement with the Company's chairman and CEO for the sale of \$3,000,000 worth of common shares in eight separate quarterly closings. The sales price of the common shares will be equal to the five day weighted average trading price for the last five consecutive trading days of each quarter immediately preceding the closing date. As at August 31, 2005, the Company issued in total 642,169 common shares and received \$750,000 pursuant to this agreement.

During the year ended August 31, 2005, in addition to the monthly and quarterly private placements discussed above, the chairman and CEO also subscribed for an additional 819,000 common shares at a price of \$1.221 per share, resulting in gross proceeds of \$1,000,000 to the Company. During the year ended August 31, 2004, in addition to the monthly private placements discussed above, the chairman and CEO also subscribed for an additional 622,278 common shares of the Company at \$1.607 per share, resulting in gross proceeds of \$1,000,000 to the Company.

As at August 31, 2005, the Company has received \$813,828 in cash share subscriptions from the chairman and CEO pursuant to another private placement subscription agreement. These funds are recorded as share subscriptions received at August 31, 2005 (note 10(b)).

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7. Share capital (continued):

(c) Stock options:

The Company has a stock option plan which is administered by the board of directors and options are granted at their discretion. The number of shares reserved, set aside and available for issue under the plan should not exceed 8,109,132 or such greater number of shares as may be determined by the board and approved, if required, by the shareholders of the Company and by any relevant stock exchange or regulatory authority. Options must expire no later than five years from the date such options are granted. The purpose of granting such options is to assist the Company in compensating, attracting, retaining and motivating directors, officers and employees of the Company and to closely align the personal interests of those directors, officers and employees with those of the shareholders. Stock option activity during the three years ended August 31, 2005 was as follows:

	Number of shares	Weighted average price
Outstanding, August 31, 2003	1,255,000	\$ 0.59
Exercised	(730,000)	0.47
Outstanding, August 31, 2004	525,000	0.76
Exercised	(107,500)	0.64
Outstanding, August 31, 2005	417,500	\$ 0.79

At August 31, 2005, the following director and employee stock options were outstanding and exercisable:

Number of common shares	Exercise price	Expiry date
5,000	\$ 0.51	August 7, 2006
362,500	0.79	May 3, 2007
50,000	0.83	June 20, 2007
417,500		

(d) Employee stock ownership plan:

On May 1, 2003, the Company established a non-leveraged employee stock ownership plan ("ESOP") for all eligible employees, consultants, and directors. The Company matches 100 percent of participants' contributions up to 5 percent of the participants' salaries and 50 percent of participants' contributions between 5 percent and 30 percent of the participants' salaries. All contributions fully vest immediately. ESOP compensation expense for the year ended August 31, 2005 was \$57,362 (2004 - \$47,897) and is included in salaries and benefits.

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8. Related party transactions:

In addition, to related party transactions disclosed elsewhere in these consolidated financial statements, during the year ended August 31, 2005, \$44,813 (2004 - \$22,435; 2003 - \$178,894) was paid or payable by the Company to certain directors or entities affiliated with the directors and a former director for consulting fees. Directors were paid \$92,986 (2004 - \$88,470; 2003 - \$5,600) for director fees.

Accounts and other receivables include \$46,000 (2004 - \$21,000) receivable from an entity related to a director.

Accounts payable and accrued liabilities include \$24,325 (2004 - \$15,291) payable to certain directors and a former director for consulting and director's fees.

9. Commitments:

In addition to the property payments committed to by the Company to maintain options in certain prospecting and mining option agreements (note 3), the Company is committed to rental payments of approximately \$15,750 for premises in 2006.

10. Subsequent events:

- (a) From September 1, 2005 to November 4, 2005, the Company entered into six new prospecting licenses. Five of these represent renewals of past licenses.
- (b) Subsequent to August 31, 2005, the Company issued 442,478 common shares, to the chairman and CEO of the Company in consideration for \$813,828 in previously paid share subscriptions (note 7(b)) and further cash proceeds of \$136,172.