

NAVASOTA RESOURCES LTD.
INTERIM FINANCIAL STATEMENTS
JULY 31, 2006
(Unaudited)

**MANAGEMENT'S COMMENTS ON
UNAUDITED INTERIM FINANCIAL STATEMENTS**

The accompanying unaudited interim financial statements of Navasota Resources Ltd. as at July 31, 2006 and the three month period ended July 31, 2006 and 2005 have been prepared by and are the responsibility of the Company's management. These statements have not been reviewed by the Company's external auditors.

**NAVASOTA RESOURCES LTD.
INTERIM BALANCE SHEETS
AS AT JULY 31 AND APRIL 30, 2006**

(Unaudited)

| | July 31, <u>2006</u> | (Note 12) April 30, <u>2006</u> |
|--|---------------------------------|--|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents (Note 3) | \$ 305,353 | \$ 357,113 |
| Marketable securities (Note 1) | 189,000 | 189,000 |
| Amounts receivable | 1,112 | 2,747 |
| Prepaid expenses | 2,951 | 3,321 |
| Reclamation bonds | 5,000 | 5,000 |
| | 503,416 | 557,181 |
| Office Equipment (Note 4) | 10,016 | 10,588 |
| Mineral Property Interests (Statement) (Note 5) | 5,076 | 5,076 |
| Deferred Exploration Expenditures (Statement) | 532,476 | 529,461 |
| | \$ 1,050,984 | \$ 1,102,306 |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | \$ 85,310 | \$ 172,727 |
| Due to related parties (Note 9 (b)) | 1,060 | 110,309 |
| | 86,370 | 283,036 |
| SHAREHOLDERS' EQUITY | | |
| Share Capital (Note 6 (b)) | 14,561,260 | 13,991,510 |
| Share Subscriptions | - | 349,750 |
| Contributed Surplus (Note 6 (e)) | 206,495 | 200,072 |
| Deficit | (13,803,141) | (13,722,062) |
| | 964,614 | 819,270 |
| | \$ 1,050,984 | \$ 1,102,306 |

Contingencies (Note 8)

Approved By The Directors:

Christopher J. Wild Director
Christopher J. Wild

James T. Gillis Director
James T. Gillis

NAVASOTA RESOURCES LTD.
INTERIM STATEMENTS OF OPERATIONS AND DEFICIT
FOR THE THREE MONTHS ENDED JULY 31, 2006 AND 2005

(Unaudited)

| | <u>2006</u> | <u>2005</u> |
|---|-----------------|-----------------|
| Administrative Expenses | | |
| Amortization | \$ 572 | \$ 623 |
| Consulting fees (Note 9 (a)) | 2,100 | 13,600 |
| Interest, bank charges and foreign exchange | (1,410) | 4,200 |
| Management fees (Note 9 (a)) | 9,500 | 9,000 |
| Office | 1,840 | 2,577 |
| Professional fees | 24,191 | 21,587 |
| Rent (Note 9 (a)) | 1,777 | 7,486 |
| Stock-based compensation (Note 6(c)) | - | 5,600 |
| Telephone and utilities | 1,028 | 1,328 |
| Transfer agent and regulatory fees | 3,146 | 4,489 |
| Travel and promotion | 2,581 | 4,622 |
| Wages and benefits | 14,034 | 13,246 |
| Net Loss Before Undernoted Items | (59,359) | (88,358) |
| Other Income (Expense) | | |
| Interest income | 2,632 | 63 |
| Net Loss | (56,727) | (88,295) |
| Deficit, Beginning Of Period | (13,722,062) | (12,870,381) |
| Share Issuance Costs | (24,352) | - |
| Deficit, End Of Period | \$ (13,803,141) | \$ (12,958,676) |
| Basic and diluted loss per common share | \$ 0.00 | \$ 0.00 |
| Weighted Average Common Shares Outstanding | 28,136,650 | 21,531,454 |

NAVASOTA RESOURCES LTD.
INTERIM STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED JULY 31, 2006 AND 2005

(Unaudited)

| | <u>2006</u> | <u>2005</u> |
|---|-------------|-------------|
| Cash Provided By (Used For): | | |
| Operating Activities | | |
| Net loss | \$ (56,727) | \$ (88,295) |
| Items not requiring (providing) cash: | | |
| Amortization | 572 | 622 |
| Stock-based compensation | - | 9,800 |
| Net change in non-cash working capital items | (194,661) | (20,056) |
| Cash used for operating activities | (250,816) | (97,929) |
| Investing Activities | | |
| Acquisition of office equipment | - | (1,543) |
| Deferred exploration expenditures paid | (3,015) | (270,830) |
| Cash used for investing activities | (3,015) | (272,373) |
| Financing Activities | | |
| Shares issued for cash | 220,000 | - |
| Receipt of share subscriptions | - | 149,100 |
| Share issue costs | (17,929) | - |
| Cash provided by financing activities | 202,071 | 149,100 |
| Decrease in Cash | (51,760) | (221,202) |
| Cash, and Cash Equivalents Beginning of Period | 357,113 | 245,761 |
| Cash, and Cash Equivalents End of Period | \$ 305,353 | \$ 24,559 |

Supplemental Disclosure of Non-Cash Financing Activity:

During the period ended July 31, 2006, the Company issued 100,000 warrants as a finder's fee. The finder's fee was included in the share issue costs in the amount of \$6,423 using the Black-Scholes Pricing Model.

NAVASOTA RESOURCES LTD.
INTERIM STATEMENTS OF MINERAL PROPERTY INTERESTS

(Unaudited)

AS AT JULY 31, 2006 AND APRIL 30, 2006

| | (Note 12) April 30, <u>2006</u> | <u>Additions</u> | July 31, <u>2006</u> |
|--|---|-------------------------|---------------------------------------|
| Gold Creek, Kamloops Mining Division of BC 100% interest | \$ 5,076 | \$ - | \$ 5,076 |
| | <u>\$ 5,076</u> | <u>\$ -</u> | <u>\$ 5,076</u> |

**NAVASOTA RESOURCES LTD.
INTERIM STATEMENTS OF DEFERRED
EXPLORATION EXPENDITURES
FOR THE THREE MONTHS ENDED JULY 31, 2006 AND 2005**

(Unaudited)

| | <u>2006</u> | <u>2005</u> |
|---|-------------------|-------------------|
| Gold Creek | | |
| Balance, beginning of year | \$ 186,845 | \$ 185,422 |
| Geological | - | - |
| Maps and reports | - | 3,467 |
| Balance, end of year | 186,845 | 188,889 |
| Stenlund | | |
| Balance, beginning of year | - | 383,218 |
| Balance, end of year | - | 383,218 |
| Missamana | | |
| Balance, beginning of year | 342,616 | 28,687 |
| Assays and geochemical | - | 24,671 |
| Consulting and wages (Note 9 (a)) | 3,015 | 29,776 |
| Drilling | - | 299,645 |
| Field supplies | - | 13,673 |
| Maps and reports | - | 717 |
| Travel and accommodations | - | 43,968 |
| Vehicle | - | 13,425 |
| Contribution by Mano River Resources Inc. | - | (158,513) |
| Balance, end of year | 345,631 | 296,049 |
| Totals | \$ 532,476 | \$ 868,156 |

NAVASOTA RESOURCES LTD.
NOTES TO THE INTERIM FINANCIAL STATEMENTS
JULY 31, 2006

(Unaudited)

1. Nature of Operations and Significant Accounting Policies

The Company was incorporated under the Company Act (British Columbia) on March 7, 1980 as Nirvana Oil & Gas Ltd., and on October 6, 1986 changed its name to Nirvana Industries Ltd. On February 22, 1989 the Company changed its name from Nirvana Industries Ltd to Consolidated Nirvana Industries Ltd. On June 2, 1995 the Company then changed its name to Navasota Resources Ltd. The common shares of the Company are listed for trading on the TSX Venture Exchange (“TSXV”).

The Company’s major activities are the acquisition and exploration of mineral property interests and the production therefrom. The recoverability of amounts shown for mineral property interests and deferred exploration expenditures is dependent upon the discovery of economically recoverable reserves. The Company does not generate sufficient cash flow from operations to adequately fund its exploration activities and has therefore relied principally upon the issuance of securities for financing. The Company intends to continue relying upon the issuance of securities to finance its operations and exploration activities to the extent such instruments are issuable under terms acceptable to the Company. Accordingly, the Company’s consolidated financial statements are presented on a going concern basis, which assume that the Company will continue to realize its assets and discharge its liabilities in the normal course of operations. If future financing is unavailable, the Company may not be able to meet its ongoing obligations, in which case the realizable values of its assets may decline materially from current estimates.

Although the Company had taken steps to verify title to mineral property interests 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 undetected defects.

Measurement uncertainty

- The preparation of financial statements in conformity with Canadian generally accepted accounting principals requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of any contingent assets and liabilities as at the date of the financial statements, as well as the reported amounts of revenues earned and expenses incurred during the years.

The Company’s current investments in marketable securities are items that, due to expected market volume and price fluctuations, may yield net realizable values that are materially different from their current book values at any point in time.

NAVASOTA RESOURCES LTD.
NOTES TO THE INTERIM FINANCIAL STATEMENTS
JULY 31, 2006

(Unaudited)

1. Nature of Operations and Significant Accounting Policies *(continued)*

Measurement uncertainty *(continued)*

Other items involving substantial measurement uncertainty are the carrying costs of mineral property interest and their related deferred exploration expenditures and the provision for legal claims and future site restoration and abandonment costs and the determination of stock-based compensation. By their nature, these estimates are subject to measurement uncertainty, and the impact on the financial statements of future changes in such estimates could be material.

Foreign Currency Translation

- Accounts in United States currency have been translated into Canadian currency as follows:
 - monetary items are translated at the rate of exchange prevailing at the balance sheet date;
 - non-monetary items are translated at the rates of exchange prevailing at the dates the assets were acquired or liabilities were incurred;
 - revenues and expenses are translated at the average rate of exchange for the years.

The resulting foreign exchange gains and/or losses are included in the Company's statements of operations.

Marketable Securities

The following portfolio investments are recorded at the lower of cost and market value:

| Name of Issuer | Class Of Security | Quantity | Adjusted Cost July 31, 2006 | Market Value July 31, 2006 | Market Value April 30, 2006 |
|---------------------------|-------------------|----------|-----------------------------------|----------------------------------|-----------------------------------|
| Trade Winds Ventures Inc. | Common Shares | 300,000 | \$ 189,000 | \$ 129,000 | \$ 198,000 |

As of August 25, 2006, the estimated market value of these common shares was \$120,000.

NAVASOTA RESOURCES LTD.
NOTES TO THE INTERIM FINANCIAL STATEMENTS
JULY 31, 2006

(Unaudited)

1. Nature of Operations and Significant Accounting Policies *(continued)*

Mineral Property Interests and Deferred Exploration Expenditures

- The cost of mineral property interests and their related direct exploration expenditures are deferred until the properties are placed into production, sold or abandoned. These deferred exploration expenditures will be amortized on a unit-of-production basis over the estimated useful life of the mineral properties following the commencement of production, or written-off if the properties are sold, allowed to lapse or abandoned. Mineral property interest option payments are recorded when receivable and are charged against the related mineral property interests' costs. Option payments received in excess incurred are disclosed as revenue in the Company's statement of operations.

Cost includes the cash consideration and the fair market value of common shares issued on the acquisition of mineral property interests. The recorded costs of mineral property and related deferred exploration expenditures represent costs incurred, and are not intended to reflect present or future values. The Company does not accrue the estimated future costs of maintaining its mineral property interests in good standing.

The Company reviews capitalized costs on its mineral property interests on a periodic basis, or annually, and will recognize an impairment in value based upon current exploration or production results, if any, and upon management's assessment of the future profitability or profitable revenues from the interests or from sale of the interests. Management's assessment of the interest's estimated current fair market value is also based upon its review of other property transactions in the same geographic area.

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

Environmental Expenditures

On May 1, 2004, the Company adopted a new standard of accounting for asset retirement obligations whereby the Company estimates the fair value of site restoration and clean-up costs on acquisition of mineral property interests and

NAVASOTA RESOURCES LTD.
NOTES TO THE INTERIM FINANCIAL STATEMENTS
JULY 31, 2006

(Unaudited)

1. Nature of Operations and Significant Accounting Policies *(continued)*

Environmental Expenditures *(continued)*

reflects this amount in the cost of the mineral property interest acquired. The new standard requires the recognition of a liability for obligations associated with the retirement of assets when the liability has incurred. A liability is recognized initially at fair value if a reasonable estimate of the fair value can be made, and the resulting amount would be capitalized as part of the asset. The liability is accreted over time through periodic charges to operations of mineral property interest costs. In subsequent years, the Company adjusts the carrying amounts of the assets and the liabilities for change in estimates for the amount or timing of underlying future cash flows.

It is reasonably possible that the Company's estimates or its ultimate reclamation and site restoration liability could change as a result of changes in regulations or cost estimates. The effect of changes in estimated costs is recognized on a prospective basis.

Flow-Through Common Shares

- The Company has adopted the new accounting pronouncement relating to flow-through shares effective for all flow-through share agreements dated after March 19, 2004. Canadian Income Tax Legislation permits an enterprise to issue securities referred to as flow-through shares whereby the investor may claim the tax deductions arising from the related resources expenditures. When resource expenditures are renounced to the investors, and the Company has reasonable assurance that the expenditures will be completed, future income tax liabilities are recognized (renounced expenditures multiplied by the effective corporate tax rate) thereby reducing share capital. The Company records the initial share issuances by crediting share capital for the full value of the cash consideration received.

NAVASOTA RESOURCES LTD.
NOTES TO THE INTERIM FINANCIAL STATEMENTS
JULY 31, 2006

(Unaudited)

1. Nature of Operations and Significant Accounting Policies *(continued)*

Income Taxes

- The Company follows the asset and liability method of accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statements carrying values and their respective income tax basis (temporary differences) and on unclaimed losses carry forward. Future income tax assets and liabilities are measured using the substantially enacted tax rates expected to be in effect when the temporary differences are likely to reverse or when losses are expected to be utilised. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the year in which the change is enacted or substantially assured. The amount of future income tax assets recognized is limited to the amount of the benefit that is likely to be realized.

Earnings (Loss) Per Share

- Earnings (loss) per share data are computed by dividing net income (loss) by the weighted average number of common shares and common share equivalents outstanding during the period. Shares issuable upon the exercise of share purchase warrants and stock options were excluded from the computation of loss per share because their effect would be anti-dilutive. The Company calculates loss per share using the treasury stock method. Under the treasury stock method only instruments with exercise amounts less than market prices impact the diluted calculations.

Stock-Based Compensation

- The Company records compensation expense associated with stock option granted using a fair value method and records the expense as the options vest with the recipients. The adoption of this accounting policy has been applied prospectively to all stock options granted subsequent to May 1, 2003. The proceeds received by the Company on the exercise of stock options are credited to share capital.

NAVASOTA RESOURCES LTD.
NOTES TO THE INTERIM FINANCIAL STATEMENTS
JULY 31, 2006

(Unaudited)

2. Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, marketable securities (note 1), amounts receivable, and accounts payable and accrued liabilities and amounts due to related parties. 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. The carrying values of the financial instruments approximate their fair values, due to the relatively short period to maturity of these instruments. The amount due to parties are not susceptible to fair market valuation as these liabilities are unsecured, non-interest bearing and due on demand.

3. Cash And Cash Equivalents

Cash equivalents consist of temporary investments in commercial paper that are highly liquid and readily convertible to known amounts of cash. All cash equivalents are carried at their current market values, with any adjustments from cost recorded as interest income in the Company's statement of operations. Amounts receivable are inclusive of accrued interest as receipt of these amounts is also considered to be certain and measurable.

4. Office Equipment

| | | July 31, 2006 | | April 30, 2006 | |
|--------------------|-------------|--------------------------|-------------------------------------|---------------------------|---------------------------|
| | <u>Rate</u> | <u>Cost</u> | <u>Accumulated Amortization</u> | <u>Net Book Value</u> | <u>Net Book Value</u> |
| Computer equipment | 30% | \$ 12,695 | \$ 11,113 | \$ 1,582 | \$ 1,710 |
| Office equipment | 20% | 25,791 | 17,357 | 8,434 | 8,878 |
| | | <u>\$ 38,486</u> | <u>\$ 28,470</u> | <u>\$ 10,016</u> | <u>\$ 10,588</u> |

Office equipment is recorded at cost and its amortized using the declining balance method at the rates disclosed above. In the year of disposal no amortization is claimed.

NAVASOTA RESOURCES LTD.
NOTES TO THE INTERIM FINANCIAL STATEMENTS
JULY 31, 2006

(Unaudited)

5. Mineral Property Interests

(a) Gold Creek

During the year ended April 30, 2003, the Company acquired a 100% interest by staking what is now a 58 unit property known as Gold Creek. The property is road accessible, and is located approximately 20 kilometres northeast of Barriere, B.C.

During the year ended April 30, 2005, the Company concluded an Letter Agreement (the "Agreement"), subsequently amended, with Goldrange Resources, Inc. ("Goldrange") whereby Goldrange will have the option to earn a 100% interest in the Gold Creek property interest, subject to a 2% NSR to be retained by the Company under the following terms:

- Making a cash payment to the Company of US\$5,000 (received) upon conducting due diligence within a period of two months from the date of signing the Agreement;
- Making a cash payment to the Company of US\$25,000 on the second anniversary of the date of signing the Agreement.

If Goldrange exercises the option, the Company will have the right to earn back a 40% interest in Gold Creek property interest by giving notice to Goldrange of its intent to do so within 90 days, and by making a cash payment in an amount equal to 200% of 40% of the qualifying expenditures made by Goldrange. Goldrange Resources, Inc. is a public mineral exploration company based in Bellingham, Washington. During the year ended April 30, 2006, the Company appointed a director who is also a director of Goldrange.

(b) Stenlund

During the year ended April 30, 2005, the Company entered into an Option and Joint Venture agreement with Teck Cominco ("Teck"), to acquire a 100% interest in the Stenlund property interest. The Stenlund property interest consists of thirty-seven contiguous claims totalling 592 hectares, 10 kilometres southeast of Marathon, Ontario. The Company could have earned a 100% interest in the Stenlund property interest by completing staged exploration expenditures of \$2,000,000 by December 31, 2007, paying \$25,000 on signing (paid), and issuing 150,000 common shares by March 31, 2005 (issued). During the year ended April 30, 2006, management of the Company determined to abandon this mineral property interest and therefore, wrote off all of its costs in the consolidated statement of operations for the year then ended.

NAVASOTA RESOURCES LTD.
NOTES TO THE INTERIM FINANCIAL STATEMENTS
JULY 31, 2006

(Unaudited)

5. Mineral Property Interests *(continued)*

(c) Missamana and Gueliban Licenses

During the year ended April 30, 2005, the Company entered into a Letter of Agreement with Mano River Resources Inc. (“Mano”) to acquire up to a 60% interest in the Missamana and Gueliban exploration licenses (the “licences”) covering 498 square kilometres located in Guinea, West Africa. The Licences were issued September 28, 2004 and are valid for a period of two years. This license was re-issued July 11, 2006 and is again valid for a period of two years. Starting from this date, the titleholder is required to undertake in conformance with the mining regulations in force, its programs of work with an approved budget of US\$810,000 per licence.

Pursuant to the Letter of Agreement, the Company may earn an initial 51% interest in the Licences by:

- spending US\$125,000 over the first twelve months which Mano will match (Phase 1) (received);
- spending US\$1,375,000 over a twenty-four month period following the completion of Phase 1 (Phase 2).

The Company may, as its option, acquire a further 9% by:

- spending a further US\$500,000 over a twelve month period following the completion of Phase 2 (Phase 3)

The Company shall be the operator of the Phase 1 and Phase 2 programs.

6. Share Capital

(a) Authorized

Unlimited common shares without par value.

NAVASOTA RESOURCES LTD.
NOTES TO THE INTERIM FINANCIAL STATEMENTS
JULY 31, 2006

(Unaudited)

6. Share Capital *(continued)*

(b) Issued

| <u>Consideration</u> | <u>Type Of Issue</u> | <u>Price Per Share</u> | <u>Number Of Shares</u> | <u>Amount</u> |
|-------------------------|--|--------------------------------|-----------------------------|---------------|
| Balance, April 30, 2005 | | | 19,781,454 | \$ 13,563,706 |
| Cash | Private Placement | \$ 0.10 | 3,000,000 | 300,000 |
| Cash | Private Placement | \$ 0.11 | 1,130,000 | 124,300 |
| Cash | Options exercised | \$ 0.15 | 14,000 | 2,100 |
| Value | Contributed surplus allocated on option exercise | | - | 1,404 |
| <hr/> | | | | |
| Balance, April 30, 2006 | | | 23,925,454 | 13,991,510 |
| Cash | Private Placement | \$ 0.10 | 5,697,500 | 569,750 |
| <hr/> | | | | |
| Balance, July 31, 2006 | | | 29,622,954 | \$ 14,561,260 |

During the period ended July 31, 2006, the Company complete a private placement of 5,697,500 units at a price of \$0.10 per unit for gross proceeds of \$567,750. Each unit consists of one common share of the Company and one non-transferable share purchase warrant exercisable for a common share at \$0.15 per share to May 13, 2008. The common shares and any warrant shares issued are subject to a hold period until September 13, 2006.

(c) Stock Options

The company has a stock option plan whereby a maximum of 10% of the issued and outstanding common shares of the Company may be reserved for issuance pursuant to the exercise of stock options. The term of stock options granted are fixed by the board of directors and are not to exceed five years. The exercise prices of the stock options are determined by the board of directors, but shall not be less than the closing price of the Company's common shares on the day proceeding the day on which the directors grant the stock options, less any discount permitted by the TSVX, but shall not be less than \$0.10 per share. The stock options vest immediately on the date of grant unless otherwise required by the TSVX, however, a four month hold period applies to all shares issued under each stock option, commencing on the date of grant. Other terms and conditions are as follows: all stock options are non-transferable; no more than 5% of the issued shares may be granted to any one individual in any 12 month period; no more than 2% of the issued shares may be granted to a consultant, or an employee performing investor relations activities, in any 12 month period; disinterested

NAVASOTA RESOURCES LTD.
NOTES TO THE INTERIM FINANCIAL STATEMENTS
JULY 31, 2006

(Unaudited)

6. Share Capital *(continued)*

(c) Stock Options *(continued)*

shareholder approval must be obtained for (i) any reduction in the exercise price of an outstanding option, if the holder is an insider, (ii) any grant of stock options to insiders, within a 12 month period, exceeding 5% of the Company's issued shares; and stock options will be reclassified in the event of any consolidation, subdivision, conversion or exchange of the Company's common shares. Options granted shall expire within thirty days after the optionee ceases to be director, officer, consultant, or employee of the Company.

| | <u>Number of Shares</u> | <u>Weighted Average Exercise Price</u> | <u>Weighted Average Remaining Life (Years)</u> |
|-------------------------------------|-----------------------------|--|--|
| Options outstanding, April 30, 2005 | 1,635,000 | \$ 0.17 | 4.09 |
| Granted | 300,000 | \$ 0.12 | |
| Exercised | (14,000) | (\$ 0.15) | |
| Expired | (100,000) | (\$ 0.15) | |
| Options outstanding, April 30, 2006 | 1,821,000 | \$ 0.16 | 3.29 |
| Expired | (60,000) | (\$ 0.15) | |
| Options outstanding, July 31, 2006 | 1,761,000 | | 3.08 |
| Options exercisable, July 31, 2006 | 1,761,000 | | |

As at July 31, 2006, the Company has the following stock options outstanding:

| <u>Exercise Price Per Share</u> | <u>Expiry Date</u> | <u>April 30, 2006</u> | <u>Granted</u> | <u>Exercised</u> | <u>Cancelled/ Expired</u> | <u>July 31, 2006</u> |
|---|--------------------|---------------------------|----------------|------------------|-------------------------------|--------------------------|
| \$0.15 | Aug. 15, 2006 | 115,000 | - | - | (30,000) | 85,000 |
| \$0.20 | Dec. 3, 2008 | 720,000 | - | - | - | 720,000 |
| \$0.15 | April 5, 2010 | 786,000 | - | - | (30,000) | 756,000 |
| \$0.10 | Apr. 19, 2011 | 200,000 | - | - | - | 200,000 |
| | | 1,821,000 | - | - | (60,000) | 1,761,000 |

During the period ended July 31, 2006, 60,000 options expired upon the resignation of a director of the Company.

NAVASOTA RESOURCES LTD.
NOTES TO THE INTERIM FINANCIAL STATEMENTS
JULY 31, 2006

(Unaudited)

6. Share Capital *(continued)*

(c) Stock Options *(continued)*

During the year ended April 30, 2006, the Company granted an option to its chief financial officer to purchase up to 100,000 shares of the Company at \$ 0.15 per share to May 3, 2010. These stock options subsequently expired upon the resignation of the officer in January 2006.

During the year ended April 30, 2006, the Company granted an option to a director to purchase up to 200,000 shares of the Company at \$0.10 per share to April 19, 2011.

During the period ended July 31 2005, the Company recorded stock-based compensation expense of \$5,600. The fair value of stock options included in the expense recorded during the period ended July 31, 2005 was estimated using the Black-Scholes Option Pricing Model based on the following assumptions: a risk-free interest rate of 3.53%, an expected life of 5 years; an expected volatility of 135.70% and no expectation for the payment of dividends.

Option pricing models require the input of highly subjective assumptions, particularly as to the expected price volatility of the stock and expected life of the option. Changes in these assumptions can materially affect the fair value estimate and therefore it is management's view that the existing models do not necessarily provide a single reliable measure of the fair value of the Company's stock option grants.

(d) Share Purchase Warrants

As at July 31, 2006 the Company has the following share purchase warrants outstanding:

| <u>Exercise Price Per Share</u> | <u>Expiry Date</u> | <u>April 30, 2006</u> | <u>Granted</u> | <u>Exercised</u> | <u>Expired/Cancelled</u> | <u>July 31, 2006</u> |
|---------------------------------|--------------------|-----------------------|------------------|------------------|--------------------------|----------------------|
| \$ 0.15 | December 2, 2006 | 565,000 | - | - | - | 565,000 |
| \$ 0.15 | May 25, 2007 | 1,500,000 | - | - | - | 1,500,000 |
| \$ 0.15 | May 12, 2008 | - | 5,797,500 | - | - | 5,797,500 |
| | | <u>2,065,000</u> | <u>5,797,500</u> | - | - | <u>7,862,500</u> |

NAVASOTA RESOURCES LTD.
NOTES TO THE INTERIM FINANCIAL STATEMENTS
JULY 31, 2006

(Unaudited)

6. Share Capital *(continued)*

(e) Contributed Surplus

Contributed surplus is comprised of the following:

| | |
|------------------------------------|------------|
| Balance, April 30, 2006 | \$ 200,072 |
| Warrants issued as finder's fee | 6,423 |
| <hr/> | |
| Balance, July 31, 2006 | \$ 206,495 |

(f) Subsequent Issuances

On September 7, 2006, the Company granted stock options to its directors and key employees entitling them to purchase, in total, up to 714,000 shares over a five year term expiring September 7, 2011 at an exercise price of \$0.12 per share. A mandatory hold period will be imposed upon the sale or disposition of any shares acquired for four months from the date of the grant of the stock options.

7. Income Taxes

No provision for recovery of income taxes was made in 2006 and 2005 because of the uncertainty as to the utilization of the losses for income tax purposes. The Company has accumulated losses for tax purposes of approximately \$1,806,095 (July 31, 2005 - \$1,755,744) which expire in various years to 2027 as follows:

| | |
|------|------------|
| 2007 | \$ 311,317 |
| 2008 | 235,379 |
| 2009 | 180,251 |
| 2010 | 227,176 |
| 2011 | 237,345 |
| 2015 | 185,945 |
| 2016 | 354,030 |
| 2027 | 74,656 |

As at July 31, 2006, the Company has undeducted resource related expenses of approximately \$7,083,000 (2005 - \$6,760,000) available for deduction against future Canadian taxable income. These expenses have no expiration date. In addition, the Company has undeducted share issuance costs and undeducted eligible capital expenditures totalling \$ 41,584 (2005 - \$ 39,743) which are also available for deduction against future Canadian taxable income. Future income tax assets and liabilities are recognized for temporary differences between the carrying amount of the balance sheet items and their corresponding tax values as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized.

NAVASOTA RESOURCES LTD.
NOTES TO THE INTERIM FINANCIAL STATEMENTS
JULY 31, 2006

(Unaudited)

7. Income Taxes *(continued)*

| | Three Months Ended July 31, 2006 | Three Months Ended July 31, 2005 |
|---------------------------------|---|---|
| Net loss before income taxes | \$ (56,727) | \$ (88,295) |
| Tax rate | 34.12% | 35.62% |
| Calculated income tax recovery | (19,355) | (31,451) |
| Increase in valuation allowance | 19,355 | 31,451 |
| Income tax expense | <u>\$ -</u> | <u>\$ -</u> |

Significant components of the Company's future tax assets and liabilities, after applying enacted corporate income tax rates, are as follows:

| | July 31, 2006 | April 30, 2006 |
|--|----------------------|-----------------------|
| Future income tax assets | | |
| Temporary differences in assets | \$ 2,287,143 | \$ 2,286,114 |
| Non-capital loss carry forwards | 597,372 | 590,768 |
| | <u>2,884,515</u> | <u>2,876,882</u> |
| Valuation allowance for future income tax assets | (2,884,515) | (2,876,882) |
| | <u>\$ -</u> | <u>\$ -</u> |

NAVASOTA RESOURCES LTD.
NOTES TO THE INTERIM FINANCIAL STATEMENTS
JULY 31, 2006

(Unaudited)

8. Contingencies

The Company is one of nine named defendants in litigation pending in the District Court of Travis County, Texas. The plaintiffs seek non-monetary relief against the Company and other named defendants in the form of a declaratory judgment and a petition for an accounting. The plaintiffs also seek damages against the Company and other named defendants for alleged tortious interference with plaintiffs' purported contractual relations with third parties. These claimed damages are for alleged lost profits in an unspecified amount. The plaintiffs also seek exemplary damages, costs and attorneys' fees against all defendants. The case was filed in 1997, but the Company was not a named party until August 1999 and was never served with the original complaint.

An amended complaint, which named the Company as a party for the first time, was purportedly served on the Company by service on the Secretary of State's office in Texas, in August 1999. The Company disputes all claims against it, but has not yet formally responded to the amended complaint because it disputes that it is subject to jurisdiction in the State of Texas. In September 1999, the Company filed a motion to dismiss all claims against it based on the Court's lack of personal jurisdiction over the Company. The entire case was dismissed in 2002, however, it has been since reinstated. Since the reinstatement, the Company has filed an appeal concerning its motion to dismiss for lack of personal jurisdiction. On June 30, 2006, the Austin Court of Appeals affirmed that the trial court has personal jurisdiction over the Company. Accordingly, the Company may be litigating this case in Texas. A trial date for this case was set for October 30, 2006. This trial date has been adjourned and the new trial date is pending.

The Company disputes all claims against it, and management is of the opinion that the outcome of any claims cannot be determined, and that the extent of the claims cannot be reasonably estimated. No amounts in respect of these claims are accrued in the consolidated financial statements.

9. Related Party Transactions

(a) The following related party transactions occurred during the three months ended July 31, 2006 and 2005:

| | <u>2006</u> | <u>2005</u> |
|---|-------------|-------------|
| Consulting fees paid or accrued to a director of the Company | \$ 3,015 | \$ 14,918 |
| Management fees paid to a company controlled by a director of the Company | \$ 9,500 | \$ 9,000 |
| Rent paid to a company controlled by a director of the Company | \$ - | \$ 3,000 |
| Rent paid to a company with common management | \$ 1,327 | \$ - |

NAVASOTA RESOURCES LTD.
NOTES TO THE INTERIM FINANCIAL STATEMENTS
JULY 31, 2006

(Unaudited)

9. Related Party Transactions *(continued)*

- (b) The balance due to a related party as at July 31, 2006 represents deferred exploration expenditures incurred. The balance is unsecured, non-interest bearing, and is due on demand.

10. Commitments

The Company has a management services agreement with a company controlled by a director of the Company requiring payments of \$3,000 per month plus taxes. The agreement is in effect until April 30, 2010 unless sooner terminated in accordance with the provisions of the agreement. During July 2006 the agreement was renegotiated to \$3,500 per month plus taxes, with similar terms, and was extended to June 30, 2011.

11. Segmented Information

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by management, in deciding how to allocate resources, and in assessing performance. All of the Company's operations are within the mining sector. Due to the geographic and political diversity, the Company's mining operations are decentralized whereby mining managers are responsible for business results and regional corporate offices provide support to the mining programs in addressing local and regional issues. The Company's operations are therefore segmented on a geographic basis. The Company's mineral property interests are all located in Canada and Africa.

Details of identifiable assets by geographic segments are as follows:

| | <u>Total Assets</u> | <u>Deferred Exploration Expenditures</u> | <u>Mineral Property Interests</u> | <u>Other Assets</u> |
|-----------------------|---------------------|--|---|---------------------|
| April 30, 2006 | | | | |
| Canada | \$ 759,690 | \$ 186,845 | \$ 5,076 | \$ 567,769 |
| Africa | 342,616 | 342,616 | - | - |
| | <u>\$ 1,102,306</u> | <u>\$ 529,461</u> | <u>\$ 5,076</u> | <u>\$ 567,769</u> |
| July 31, 2006 | | | | |
| Canada | \$ 705,353 | \$ 186,845 | \$ 5,076 | \$ 513,432 |
| Africa | 345,631 | 345,631 | - | - |
| | <u>\$ 1,050,984</u> | <u>\$ 532,476</u> | <u>\$ 5,076</u> | <u>\$ 513,432</u> |

NAVASOTA RESOURCES LTD.
NOTES TO THE INTERIM FINANCIAL STATEMENTS
JULY 31, 2006

(Unaudited)

12. Comparative Figures

The comparative figures disclosed as at April 30, 2006 in these interim financial statements were subject to an audit engagement.