

**CANARY RESOURCES INC.  
(FORMERLY SAKHA RESOURCE  
TECHNOLOGIES CORPORATION)**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2005 AND 2004**

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## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Stockholders of  
**Canary Resources Inc.**  
**(Formerly Sakha Resource Technologies Corporation)**

We have reviewed the accompanying consolidated balance sheet of **Canary Resources Inc., (Formerly Sakha Resource Technologies Corporation)** as at June 30, 2005 and the related statements of changes in stockholders' deficiency, operations and cash flows for the six month period ended June 30, 2005. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheet of Sakha Resource Technologies Corporation as at December 31, 2004, and the related statements of operations, and cash flows for the year then ended; the auditor's report on those financial statements dated January 27, 2005 includes an explanatory paragraph referring to the matters in Note 2 of those financial statements and indicating that these matters raised substantial doubt about the Company's ability to continue as a going concern. As indicated in Note 2 of the Company's unaudited consolidated financial statements, as of June 30, 2005, the Company has not secured additional debt or equity financing. The accompanying financial information does not include any adjustments that might result from the outcome of this uncertainty.

**"SF Partnership, LLP"**

**Toronto, Canada**  
July 18, 2005

**CHARTERED ACCOUNTANTS**

**CANARY RESOURCES INC.**  
**(FORMERLY SAKHA RESOURCE TECHNOLOGIES CORPORATION)**  
Consolidated Balance Sheets  
June 30, 2005 and December 31, 2004  
(Expressed in United States Dollars)

|                    | <b>2005</b><br><b>(Unaudited)</b> | 2004<br>(Audited) |
|--------------------|-----------------------------------|-------------------|
| <b>ASSETS</b>      |                                   |                   |
| <b>Current</b>     |                                   |                   |
| Cash               | \$ 120,225                        | \$ -              |
| Prepaid and sundry | <u>3,000</u>                      | <u>-</u>          |
|                    | <u>\$ 123,225</u>                 | <u>\$ -</u>       |

|                                    |                |              |
|------------------------------------|----------------|--------------|
| <b>LIABILITIES</b>                 |                |              |
| <b>Current</b>                     |                |              |
| Accounts payable                   | \$ 196,800     | \$ 5,000     |
| Advances from shareholder (note 5) | <u>103,420</u> | <u>3,420</u> |
|                                    | <u>300,220</u> | <u>8,420</u> |

|                                 |                   |                |
|---------------------------------|-------------------|----------------|
| <b>STOCKHOLDERS' DEFICIENCY</b> |                   |                |
| <b>Capital Stock</b> (note 6)   | 300,030           | 30             |
| <b>Accumulated Deficit</b>      | <u>(477,025)</u>  | <u>(8,450)</u> |
|                                 | <u>(176,995)</u>  | <u>(8,420)</u> |
|                                 | <u>\$ 123,225</u> | <u>\$ -</u>    |

**APPROVED ON BEHALF OF THE BOARD**

**"James D. Beatty"**

\_\_\_\_\_  
Director

**"Michael J.H. Brown"**

\_\_\_\_\_  
Director

(The accompanying notes are an integral part of these consolidated financial statements)

**CANARY RESOURCES INC.**  
**(FORMERLY SAKHA RESOURCE TECHNOLOGIES CORPORATION)**

Consolidated Statement of Changes in Stockholders' Deficiency

Period Ended June 30, 2005

(Expressed in United States Dollars)

(Unaudited)

|                            | <u>Number of<br/>Shares</u> | <u>Capital<br/>Stock</u> | <u>Accumulated<br/>Deficit</u> | <u>Stockholders'<br/>Deficiency</u> |
|----------------------------|-----------------------------|--------------------------|--------------------------------|-------------------------------------|
| Balance, December 31, 2002 | 30,142,700                  | \$ 30                    | \$ (1,700)                     | \$ (1,670)                          |
| Net loss                   | -                           | -                        | (200)                          | (200)                               |
| Balance, December 31, 2003 | <u>30,142,700</u>           | <u>\$ 30</u>             | <u>\$ (1,900)</u>              | <u>\$ (1,870)</u>                   |
| Balance, January 1, 2004   | 30,142,700                  | \$ 30                    | \$ (1,900)                     | \$ (1,870)                          |
| Net loss                   | -                           | -                        | (6,550)                        | (6,550)                             |
| Balance, December 31, 2004 | <u>30,142,700</u>           | <u>\$ 30</u>             | <u>\$ (8,450)</u>              | <u>\$ (8,420)</u>                   |
| Balance, January 1, 2005   | 30,142,700                  | \$ 30                    | \$ (8,450)                     | \$ (8,420)                          |
| Net loss                   | -                           | -                        | (468,575)                      | (468,575)                           |
| Shares issued for cash     | <u>600,000</u>              | <u>300,000</u>           | <u>-</u>                       | <u>300,000</u>                      |
| Balance, June 30, 2005     | <u>30,742,700</u>           | <u>\$ 300,030</u>        | <u>\$ (477,025)</u>            | <u>\$ (176,995)</u>                 |

(The accompanying notes are an integral part of these consolidated financial statements)

**CANARY RESOURCES INC.**  
**(FORMERLY SAKHA RESOURCE TECHNOLOGIES CORPORATION)**

Consolidated Statement of Operations  
Six Months Ended June 30, 2005 and 2004  
(Expressed in United States Dollars)  
(Unaudited)

|   | <u>Three Months Ended June 30,</u> |                   | <u>Six Months Ended June 30,</u> |                   |
|---|------------------------------------|-------------------|----------------------------------|-------------------|
|   | <b>2005</b>                        | 2004              | <b>2005</b>                      | 2004              |
| <b>Revenue</b>  | <u>\$ -</u>                        | <u>\$ -</u>       | <u>\$ -</u>                      | <u>\$ -</u>       |
| <b>Expenses</b>   |                                    |                   |                                  |                   |
| Professional fees   | 9,225                              | 1,425             | 44,349                           | 2,850             |
| General and administrative  | 74,700                             | 213               | 148,657                          | 426               |
| Management fees   | 105,000                            | -                 | 210,000                          | -                 |
| Exploratory expenditures  | 65,569                             | -                 | 65,569                           | -                 |
|   | <u>254,494</u>                     | <u>1,638</u>      | <u>468,575</u>                   | <u>3,276</u>      |
| <b>Net Loss</b>   | <u>\$ (254,494)</u>                | <u>\$ (1,638)</u> | <u>\$ (468,575)</u>              | <u>\$ (3,276)</u> |
| <b>Loss per weighted average<br/>number of shares outstanding<br/>- basis and diluted</b> | <u>\$ (0.01)</u>                   | <u>\$ -</u>       | <u>\$ (0.01)</u>                 | <u>\$ -</u>       |
| <b>Weighted average number of<br/>shares outstanding - basic and<br/>diluted</b>          | <u>30,725,118</u>                  | <u>30,142,700</u> | <u>30,437,175</u>                | <u>30,142,700</u> |

(The accompanying notes are an integral part of these consolidated financial statements)

**CANARY RESOURCES INC.**  
**(FORMERLY SAKHA RESOURCE TECHNOLOGIES CORPORATION)**

Consolidated Statement of Cash Flows  
Six Months Ended June 30, 2005 and 2004  
(Expressed in United States Dollars)  
(Unaudited)

|  | <b>Six Months<br/>Ended June 30,<br/>2005</b> | Six Months<br>Ended June 30,<br>2004 |
|--|---|--------------------------------------|
| <b>Cash Flows from Operating Activities</b>                                    |   |                                      |
| Net loss   | \$ (468,575)                                  | \$ (3,276)                           |
| Adjustments to reconcile net loss to net cash used<br>in operating activities: |   |                                      |
| Prepaid and sundry   | (3,000)                                       | -                                    |
| Accounts payable   | 191,800                                       | 2,500                                |
| Advances from shareholder  | 100,000                                       | 776                                  |
|  | <u>(179,775)</u>                              | -                                    |
| <b>Cash Flows from Financing Activities</b>                                    |   |                                      |
| Issuance of common stocks  | <u>300,000</u>                                | -                                    |
| <b>Net Cash Used in Operating Activities</b>                                   | <b>120,225</b>                                | -                                    |
| <b>Cash - beginning of period</b>  | <u>-</u>                                      | <u>-</u>                             |
| <b>Cash - end of period</b>  | <u>\$ 120,225</u>                             | <u>\$ -</u>                          |
| <b>Supplemental Cash Flow Information</b>                                      |   |                                      |
| Interest paid  | <u>\$ -</u>                                   | <u>\$ -</u>                          |
| Income taxes paid  | <u>\$ -</u>                                   | <u>\$ -</u>                          |

(The accompanying notes are an integral part of these consolidated financial statements)

**CANARY RESOURCES INC.**  
**(FORMERLY SAKHA RESOURCE TECHNOLOGIES CORPORATION)**

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

(Unaudited)

**1. Operations and Business**

Canary Resources Inc. ("the Company"), a company operating in Toronto, Canada, was incorporated on April 16, 1997 as The Heritage Collection Limited under the laws of the State of Delaware, USA. On June 25, 2004 the Company changed its name to Sakha Resource Technologies Corporation. The Company was incorporated with the intent to manufacture and market various personal jewellery items, however, the Company has never been active in this area, and has been inactive since June 2004.

On January 12, 2005 the Company changed its name to Canary Resources Inc. On January 14, 2005, the Company subscribed for 100% of the common stock of Canary Resources, Inc. ("Canary"), a private Nevada corporation. Canary is a coal-bed methane company that has entered into an agreement to acquire a 75% working interest in approximately 75,000 acres of coal-bed methane leases in the Eastern Forest City Basin in Kansas and Missouri, USA.

**2. Going Concern Assumption**

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

The Company has sustained losses of \$468,575 (2004: \$3,276) and has a working capital deficiency of \$176,995 (2004: \$8,420). The Company's continuation as a going concern is dependant upon obtaining additional sources of financing to sustain its operations and achieving future profitability. Management of the Company is in the process of raising additional financing (see Note 10 Subsequent Event).

The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the possible inability of the Company to continue as a going concern.

**CANARY RESOURCES INC.**  
**(FORMERLY SAKHA RESOURCE TECHNOLOGIES CORPORATION)**  
Notes to Consolidated Financial Statements  
June 30, 2005 and 2004  
(Unaudited)

**3. Basis of Financial Statement Presentation**

The accompanying unaudited interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the requirements of item 310 (b) of Regulation S-B. Accordingly, certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The financial statements reflect adjustments (consisting only of normal recurring adjustments), which, in the opinion of management, are necessary for a fair presentation of the results for the periods presented. The results from operations for the interim periods are not indicative of the results expected for the full fiscal year or any future period.

**4 Summary of Significant Accounting Policies**

a) Principles of Consolidation

The Consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Canary. On consolidation, all material intercompany transactions have been eliminated.

b) Unit of Measurement

The United States currency is being used as the unit of measurement in these financial statements.

c) Fair Value of Financial Instruments

The estimated fair value of financial instruments have been determined by the Company using available market information and valuation methodologies. Considerable judgment is required in estimating fair value. Accordingly, the estimates may not be indicative of the amounts the Company could realize in a current market exchange. As of June 30, 2005 and December 31, 2004, the carrying value of accounts payable and accrued charges and advances from shareholder approximate their fair value due to the short-term maturity of such instruments.

**CANARY RESOURCES INC.**  
**(FORMERLY SAKHA RESOURCE TECHNOLOGIES CORPORATION)**  
Notes to Consolidated Financial Statements  
June 30, 2005 and 2004  
(Unaudited)

**4. Summary of Significant Accounting Policies (cont'd)**

d) Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes". Deferred tax assets and liabilities are recorded for differences between the financial statement and tax basis of the assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is recorded for the amount of income tax payable or refundable for the period increased or decreased by the change in deferred tax assets and liabilities during the period.

e) Earnings or (Loss) Per Share

The Company adopted FAS No.128, "Earnings per Share" which requires disclosure on the financial statements of "basic" and "diluted" earnings (loss) per share. Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the year. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding plus common stock equivalents (if dilutive) related to stock options and warrants for each year.

There were no dilutive financial instruments for the period ended June 30, 2005 and 2004.

f) Concentration of Credit Risk

SFAS No. 105, "Disclosure of Information About Financial Instruments with Off-Balance Sheet Risk and Financial Instruments with Concentration of Credit Risk", requires disclosure of any significant off-balance sheet risk and credit risk concentration. The Company does not have significant off-balance sheet risk or credit concentration.

g) Use of Estimates

Preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and related notes to financial statements. These estimates are based on management's best knowledge of current events and actions the Company may undertake in the future. Actual results may ultimately differ from those estimates, although management does not believe such changes will materially affect the financial statements in any individual year.

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Notes to Consolidated Financial Statements  
June 30, 2005 and 2004  
(Unaudited)

**4. Summary of Significant Accounting Policies (cont'd)**

h) Revenue Recognition - Energy

Gas revenue is recognized when the gas is produced and sold. The Company records revenues from the sales of natural gas when delivery to the customer has occurred and title has transferred. This occurs when gas has been delivered to a pipeline.

i) Recent Accounting Pronouncements

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments With Characteristics of Both Liabilities and Equity", which requires issuers to classify as liabilities the following three types of freestanding financial instruments: (1) mandatory redeemable financial instruments, (2) obligations to repurchase the issuer's equity shares by transferring assets; and (3) certain obligations to issue a variable number of shares. The Company adopted SFAS No. 150 for the year ended December 31, 2003. The adoption of SFAS No. 150 did not have a material impact on the financial position or results of operations of the Company.

In December 2003, the SEC issued Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition" which supersedes SAB 101, "Revenue Recognition in Financial Statements." SAB 104's primary purpose is to rescind the accounting guidance contained in SAB 101 related to multiple element revenue arrangements, superseded as a result of the issuance of EITF 00-21. The Company adopted the provisions of SAB No. 104 for the year ended December 31, 2003. The adoption of SFAS No.104 did not have a material impact on the financial position or results of operations of the Company.

In December 2003, a revision of SFAS No. 132, "Employers' Disclosures about Pensions and Other Post-retirement Benefits" was issued, revising disclosures about pension plans and other post retirement benefits plans and requiring additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit post-retirement plans. The revision of SFAS No. 132 did not have a material impact on the Company's financial statements.

In March 2004, the FASB issued an exposure draft of a new standard entitled "Share Based Payment," which would amend SFAS No. 123, "Accounting for Stock Based Compensation," and SFAS No. 95, "Statement of Cash Flows". Among other items, the new standard would require the expensing, in the financial statements, of stock options issued by the Company. The new standard, as proposed, would be effective for periods beginning after June 15, 2005. The adoption of SFAS 123 and SFAS 95 are not expected to have a material impact on the financial position or results of operations of the Company.

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Notes to Consolidated Financial Statements  
June 30, 2005 and 2004  
(Unaudited)

**4. Summary of Significant Accounting Policies (cont'd)**

i) Recent Accounting Pronouncements (cont'd)

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment". SFAS No. 123R is a revision of SFAS No. 123, "Accounting for Stock Based Compensation", and supersedes APB 25. Among other items, SFAS 123R eliminates the use of APB 25 and the intrinsic value method of accounting, and requires companies to recognize the cost of employee services received in exchange for awards of equity instruments, based on the grant date fair value of those awards, in the financial statements. The effective date of SFAS 123R is the first reporting period beginning after June 15, 2005, which is third quarter 2005 for calendar year companies, although early adoption is allowed. SFAS 123R permits companies to adopt its requirements using either a "modified prospective" method, or a "modified retrospective" method. Under the "modified prospective" method, compensation cost is recognized in the financial statements beginning with the effective date, based on the requirements of SFAS 123R for all share-based payments granted after that date, and based on the requirements of SFAS 123 for all unvested awards granted prior to the effective date of SFAS 123R. Under the "modified retrospective" method, the requirements are the same as under the "modified prospective" method, but also permits entities to restate financial statements of previous periods based on proforma disclosures made in accordance with SFAS 123.

In March 2005, the FASB issued FSP No. 46(R)-5, "Implicit Variable Interests under FASB Interpretation No. ("FIN") 46 (revised December 2003), Consolidation of Variable Interest Entities" ("FSP FIN 46R-5"). FSP FIN 46R-5 provides guidance for a reporting enterprise on whether it holds an implicit variable interest in Variable Interest Entities ("VIEs") or potential VIEs when specific conditions exist. This FSP is effective in the first period beginning after March 3, 2005 in accordance with the transition provisions of FIN 46 (Revised 2003), "Consolidation of Variable Interest Entities — an Interpretation of Accounting Research Bulletin No. 51" ("FIN 46R"). The Company has determined that the adoption of FSP FIN 46R-5 will not have an impact on its results of operations and financial condition.

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Notes to Consolidated Financial Statements  
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(Unaudited)

**4. Summary of Significant Accounting Policies (cont'd)**

i) Recent Accounting Pronouncements (cont'd)

In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" ("FIN 47"), which will result in (a) more consistent recognition of liabilities relating to asset retirement obligations, (b) more information about expected future cash outflows associated with those obligations, and (c) more information about investments in long-lived assets because additional asset retirement costs will be recognized as part of the carrying amounts of the assets. FIN 47 clarifies that the term "conditional asset retirement obligation" as used in SFAS 143, "Accounting for Asset Retirement Obligations," refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and/or method of settlement. Uncertainty about the timing and/or method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. Retrospective application of interim financial information is permitted but is not required. Early adoption of this interpretation is encouraged. As FIN 47 was recently issued, the Company has not determined whether the interpretation will have a significant effect on its financial position or results of operations.

In April 2005, the Financial Accounting Standards Board ("FASB") issued Staff Position No. FAS 19-1 ("FSP FAS 19-1"), which addressed a discussion that was ongoing within the oil and gas industry regarding capitalization of costs of drilling exploratory wells. Paragraph 19 of Statement of Financial Accounting Standards ("SFAS") 19, "Financial Accounting and Reporting by Oil and Gas Producing Companies" ("SFAS 19"), requires costs of drilling exploratory wells to be capitalized pending determination of whether the well has found proved reserves. If the well has found proved reserves, the capitalized costs become part of the entity's wells, equipment, and facilities; if, however, the well has not found proved reserves, the capitalized costs of drilling the well are expensed.

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June 30, 2005 and 2004  
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**4. Summary of Significant Accounting Policies (cont'd)**

i) Recent Accounting Pronouncements (cont'd)

Questions arose in practice about the application of this guidance due to changes in oil and gas exploration processes and lifecycles. The issue was whether there are circumstances that would permit the continued capitalization of exploratory well costs if reserves cannot be classified as proved within one year following the completion of drilling other than when additional exploration wells are necessary to justify major capital expenditures and those wells are underway or firmly planned for the near future. FSP FAS 19-1 amends SFAS 19 to allow for the continued capitalization of suspended well costs when the well has found a sufficient quantity of reserves to justify its completion as a producing well and the enterprise is making sufficient progress assessing the reserves and the economic and operating viability of the plan. This guidance requires management to exercise more judgment than was previously required and also requires additional disclosure. This new guidance is effective for the first reporting period beginning after April 4, 2005 and is to be applied prospectively to existing and newly capitalized exploratory well costs. The Company does not believe this statement of position will have a significant effect on its financial position or results of operations.

**5. Advances From Shareholder**

The advances from a shareholder are unsecured, non-interest bearing and have no fixed terms of repayment.

**6. Capital Stock**

Authorized

50,000,000 common shares, par value \$0.001 per share  
20,000,000 preferred shares, par value \$0.001 per share

|                 |              |
|-----------------|--------------|
| <b>June 30,</b> | December 31, |
| <b>2005</b>     | 2004         |

Issued

30,742,700 common shares (2004: 30,142,700 )

|                   |              |
|-------------------|--------------|
| <b>\$ 300,030</b> | <b>\$ 30</b> |
|-------------------|--------------|

On June 21, 2004, the Company authorized a ten for one forward stock split of its common shares. This stock split has been retroactively taken into consideration in the financial statements and the calculation of earnings per share.

**CANARY RESOURCES INC.**  
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Notes to Consolidated Financial Statements

June 30, 2005 and 2004

(Unaudited)

**6. Capital Stock (cont'd)**

In March and April 2005, three investors subscribed to purchase 600,000 common shares of the Company at \$0.50 per share. The price per share is subject to adjustment to lower the price per share to equal the price per share of common stock in any "Qualified Financing" of the Company within one year. A "Qualified Financing" is an equity financing of a minimum of \$1,500,000. In no event shall the price per share be increased.

**7. Related Party Transaction and Balances**

For the six months ended June 30, 2005, \$10,000 was paid to a board member for consulting services.

For the three months ended June 30, 2005, management fees and related charges for services provided by shareholders and directors or Companies controlled by shareholders and directors amounted to \$119,400.

For the six months ended June 30, 2005, management fees and related charges for services provided by shareholders and directors or Companies controlled by shareholders and directors amounted to \$238,800 of which \$185,800 are included in accounts payable.

For the three months ended June 30, 2005, rent amount of \$21,400 was paid to a company owned by a director of the Company.

For the six months ended June 30, 2005, rent amount of \$32,100 was paid to a company owned by a director of the Company.

**8. Segmented Information**

The Company's operations were conducted in the United States.

Canary Resources Inc. ("Corporate") – a parent company

Canary Resources, Inc. ("Canary") – a subsidiary

**CANARY RESOURCES INC.**  
**(FORMERLY SAKHA RESOURCE TECHNOLOGIES CORPORATION)**

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

(Unaudited)

**8. Segmented Information** (cont'd)

|                             | <b>Three Months<br/>Ended June 30,<br/>2005</b> | <b>Six Months<br/>Ended June 30,<br/>2005</b> |
|-----------------------------|---|---|
| Revenues by Segment:        |   |   |
| Corporate                   | \$ -  | \$ -  |
| Canary                      | -   | -   |
|                             | <hr/>   | <hr/>   |
| Consolidated revenues       | <b>\$ -</b>                                     | <b>\$ -</b>                                   |
|                             |   |   |
| Operating Loss by Segment:  |   |   |
| Corporate                   | \$ (254,494)                                    | \$ (433,575)                                  |
| Canary                      | -   | (35,000)                                      |
|                             | <hr/>   | <hr/>   |
| Consolidated operating loss | <b>\$ (254,494)</b>                             | <b>\$ (468,575)</b>                           |
|                             |   |   |
| Total Assets by Segment:    |   |   |
| Corporate                   | \$ 123,225                                      | \$ 123,225                                    |
| Canary                      | -   | -   |
|                             | <hr/>   | <hr/>   |
| Consolidated total assets   | <b>\$ 123,225</b>                               | <b>\$ 123,225</b>                             |

Comparative segment information is not presented for 2004 as the acquisition of Canary only occurred in 2005.

**9. Income Taxes**

The Company has tax losses available to be applied against future years income. Due to the losses incurred in the current year and expected future operating results, management determined that it is more likely than not that the deferred tax asset resulting from the tax losses available for carryforward will not be realized through the reduction of future income tax payments. Accordingly a 100% valuation allowance has been recorded for deferred income tax assets.

The Company's current income taxes are as follows:

|  | <b>Six Months<br/>Ended June 30,<br/>2005</b> | <b>Six Months<br/>Ended June 30,<br/>2004</b> |
|--|---|---|
| Expected income tax recovery at the statutory rates<br>of 34% (2004 - 34%) | \$ (159,316)                                  | \$ (1,114)                                    |
| Valuation allowance  | <b>159,316</b>                                | <b>1,114</b>                                  |
|  | <hr/>   | <hr/>   |
| Provision for income taxes   | <b>\$ -</b>                                   | <b>\$ -</b>                                   |

**CANARY RESOURCES INC.**  
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Notes to Consolidated Financial Statements  
June 30, 2005 and 2004  
(Unaudited)

**10. Subsequent Event**

On July 26, 2005, the Company closed a private placement for gross proceeds of US\$7,250,000. Funds raised from the placement are to be used for drilling and development of coal-bed methane in the Eastern Forest City Basin in Kansas and Missouri, and for general working capital purposes.

The placement comprised 18,125,000 new Class A zero-dividend convertible preferred shares which are convertible into 18,125,000 common shares of the Company, and 9,062,500 warrants, each of which permits the holder to purchase a common share of Canary for \$1.00 for four years, with mandatory exercise provisions if Canary common shares trade above \$2.00.

Upon closing the private placement, the Company had 30,892,700 common shares issued and outstanding. After giving effect to conversion of all of the Class A convertible preferred shares, the Company would have 49,017,700 common shares outstanding.

**11. Comparative Figures**

Certain figures for the prior year have been reclassified to conform with the current year's financial statement presentation.