

**MACMILLAN GOLD CORP.  
(AN EXPLORATION STAGE COMPANY)**

**CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2004**

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**(AN EXPLORATION STAGE COMPANY)**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2004**

<b><u>INDEX</u></b>	<b><u>PAGE</u></b>
Auditors' Report	1
Consolidated Balance Sheets	2
Consolidated Statements of Operations and Deficit	3
Consolidated Statements of Cash Flows	4
Notes to the Consolidated Financial Statements	5 - 17



**AUDITORS' REPORT**

To the Shareholders of  
**MacMillan Gold Corp.**

We have audited the consolidated balance sheet of MacMillan Gold Corp. as at September 30, 2004 and the consolidated statements of operations and deficit and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 September 30, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures were reported on by another firm of Chartered Accountants who issued an audit report without reservation dated January 14, 2004.

**McGOVERN, HURLEY, CUNNINGHAM, LLP**

**Chartered Accountants**

TORONTO, Canada  
January 6, 2005

	2004 \$	2003 \$
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	294,309	722,210
Prepaid expenses	36,729	-
Amounts receivable	<u>52,727</u>	<u>38,680</u>
	<b>383,765</b>	760,890
<b>INVESTMENTS</b> (Note 6)	<b>3</b>	<b>2</b>
<b>EXPLORATION PROPERTIES</b> (Note 3)	<u>1,922,770</u>	<u>829,977</u>
	<u><b>2,306,538</b></u>	<u><b>1,590,869</b></u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities (Note 8)	<u>281,700</u>	<u>307,509</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>CAPITAL STOCK</b> (Note 4)	16,108,579	14,922,729
<b>CONTRIBUTED SURPLUS</b> (Note 4)	55,550	50,550
<b>DEFICIT</b>	<u>(14,139,291)</u>	<u>(13,689,919)</u>
	<u><b>2,024,838</b></u>	<u>1,283,360</u>
	<u><b>2,306,538</b></u>	<u><b>1,590,869</b></u>

On behalf of the Board

“Greg Van Staveren” , Director

“Ross D. Lawrence” , Director

**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
YEARS ENDED SEPTEMBER 30

	2004 \$	2003 \$
<b>EXPENSES</b>		
Administrative and general	444,372	260,422
Stock-based compensation expense (Note 5)	5,000	50,550
Write down and expense of exploration (Note 3)	<u>-</u>	<u>16,180</u>
<b>NET LOSS FOR THE YEAR</b>	<b>449,372</b>	327,152
<b>DEFICIT</b> , beginning of year	<u>13,689,919</u>	<u>13,362,767</u>
<b>DEFICIT</b> , at end of year	<u>14,139,291</u>	<u>13,689,919</u>
<b>LOSS PER SHARE</b> – basic and diluted	<u>0.01</u>	<u>0.01</u>
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>	<u>31,245,692</u>	<u>24,949,092</u>

See accompanying notes to the consolidated financial statements

MACMILLAN GOLD CORP.  
(AN EXPLORATION STAGE COMPANY)  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
YEARS ENDED SEPTEMBER 30

Page 4

	2004 \$	2003 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net (loss) for the year	<b>(449,372)</b>	(327,152)
Add items not requiring cash:		
Stock-based compensation expense	<b>5,000</b>	50,550
Write down of exploration properties	<u>-</u>	<u>6,180</u>
	<b>(444,372)</b>	(270,422)
Changes in non-cash working capital balances:		
(Increase) in prepaid expenses	<b>(36,729)</b>	-
(Increase) in amounts receivable	<b>(14,047)</b>	(7,953)
(Decrease) increase in accounts payable and accrued liabilities	<u>(25,809)</u>	<u>196,166</u>
Cash flows from operating activities	<u><b>(520,957)</b></u>	<u>(82,209)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Exploration property expenditures	<u><b>(1,047,794)</b></u>	<u>(589,561)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of capital stock	<u><b>1,140,850</b></u>	<u>1,300,500</u>
<b>(Decrease) increase in cash</b>	<b>(427,901)</b>	628,730
<b>Cash, beginning of year</b>	<u><b>722,210</b></u>	<u>93,480</u>
<b>Cash, end of year</b>	<u><u><b>294,309</b></u></u>	<u><u>722,210</u></u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Interest paid	-	-
Taxes paid	-	-
Shares issued for interest in exploration properties	<b>45,000</b>	26,000

See accompanying notes to the consolidated financial statements

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
SEPTEMBER 30, 2004

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**1. BASIS OF PRESENTATION AND ONGOING OPERATIONS**

MacMillan Gold Corp. (the "Company") is a publicly listed company continued under the Canada Business Corporations Act. The Company's common shares are listed on the TSX Venture Exchange. The Company, directly and through joint ventures, is engaged in the exploration of mineral properties primarily in North and South America and considers itself to be an exploration stage company. The Company's head office is located in Canada and substantially all of the Company's operating expenses are incurred in Canada.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of exploration properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise alternative financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write downs of the carrying values. The Company's mining assets are located outside of Canada and are subject to the risk of foreign investment, including increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and political uncertainty.

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. If the going concern assumption was not appropriate for these consolidated financial statements, then adjustments would be necessary to the carrying values of assets and liabilities, the reported expenses and the balance sheet classifications used.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada and their basis of application is consistent with that of the previous year. Outlined below are those policies considered particularly significant:

**Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Exploracion Mac-Ore S.A. de C.V. ("Mac-Ore"). All material inter-company balances and transactions have been eliminated. All references to the Company should be treated as references to the Company and its subsidiary.

**Interests in Joint Ventures**

Interests in joint ventures are accounted for on the proportionate consolidation basis whereby the Company's share of joint venture assets, liabilities, revenues and expenses are included in the consolidated financial statements.

**Cash**

Cash includes cash on hand, balances with banks and deposits with maturities within three months.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
SEPTEMBER 30, 2004

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Investments**

Investments not subject to significant influence are accounted for using the cost method. Investments are written down when, in the opinion of management, there has been a permanent impairment in the value of the investment.

**Exploration Properties**

Property acquisition costs and related direct exploration costs, less recoveries, are deferred until such time as the properties are either placed into commercial production, sold, determined not to be economically viable, or abandoned. General exploration expenditures which do not relate to specific resource properties are written off in the year incurred. These deferred costs will be amortized on the unit-of-production basis over the estimated useful lives of the properties following the commencement of production, or written off if the properties are sold, allowed to lapse or abandoned.

The cost of exploration properties includes any cash consideration paid, and the fair market value of shares issued, if any, on the acquisition of property interests. Properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts when the payments are made. The recorded amounts of property claim acquisition costs and their related deferred exploration costs represent actual expenditures incurred and are not intended to reflect present or future values.

The Company reviews capitalized costs on its property interests on a periodic basis and will recognize an impairment in value based upon current exploration results and upon management's assessment of the future probability of profitable revenues from the property or from the sale of the property. Management's assessment of the property's estimated current fair market value may also be based upon a review of other property transactions that have occurred in the same geographic area as that of the property under review.

**Asset Retirement Obligations**

Effective October 1, 2003, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3110, "Asset Retirement Obligations". Under the new standard, the fair values of asset retirement obligations are recorded as liabilities on a discounted basis when they are incurred. Amounts recorded for the related assets are increased by the amount of these obligations. Over time, the liabilities will be accreted for the change in their present value and the initial capitalized costs will be depleted and amortized over the useful lives of the related assets. There are no asset retirement liabilities set up for those assets which have an indeterminate useful life.

The impact of adopting the new accounting for asset retirement obligations standard has no effect on these statements as of September 30, 2004.

**Environmental Expenditures**

The operations of the Company may in the future be affected by changes in environmental regulations, including those for future removal and site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company vary greatly from country to country and are not predictable. Environmental expenditures that relate to ongoing environmental and reclamation programs are charged against earnings as incurred or capitalized and amortized depending on their future economic benefits. To date, the Company has incurred no environmental expenditures relating to the exploration of properties.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
SEPTEMBER 30, 2004

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Income Taxes**

Income taxes are calculated using the asset and liability method of tax accounting. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and on unclaimed losses carried forward and are measured using the substantively enacted tax rates that will be in effect when the differences are expected to reverse or losses are expected to be utilized. A valuation allowance is recognized to the extent that the recoverability of future income tax assets is not considered more likely than not.

**Foreign Currency Translation**

The Canadian dollar is the functional currency of all of the Company's operations, which are classified as integrated for foreign currency translation purposes. Under this method translation gains or losses are included in the determination of net income or loss.

Monetary assets and liabilities of the Company's integrated foreign operations are translated into Canadian dollars at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates, unless such items are carried at market, in which case they are translated at the exchange rates in effect on the balance sheet date. Revenues and expenses, are translated at the average exchange rates for the period.

**Stock-Based Compensation**

Effective October 1, 2002, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870, "Stock-Based Compensation and Other Stock-based Payments", which requires that a fair value based method of accounting be applied to all stock-based payments to non-employees and to direct awards of stock to employees.

Under the fair value based method, stock-based payments to non-employees are measured at the fair value of the consideration received, or the fair value of the equity instruments issued, or liabilities incurred, whichever is more reliably measurable. The cost of stock-based payments to non-employees that are fully vested and not forfeitable at the grant date is measured and recognized at that date. The standard encourages the use of a fair value based method for all other awards granted to employees, but only requires the use of a fair value based method for direct awards of stock, stock appreciation rights, and awards that call for settlement in cash or other assets.

The Company, as permitted by Section 3870, has chosen to continue its existing policy of recording no compensation cost on the grant of stock options to employees. Any consideration paid by employees on exercise of stock options is credited to capital stock.

The Company has a stock-option compensation plan as described in Note 4. The Company discloses the pro forma effect on earnings for awards granted after October 1, 2002 based on the fair value method.

Effective October 1, 2004, the Company will adopt the revisions to Section 3870 which require a fair value based method of accounting to be applied to all stock-based compensation arrangements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
SEPTEMBER 30, 2004

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Loss Per Share**

Basic loss per share is calculated using the weighted average number of shares outstanding. Diluted loss per share is calculated using the treasury stock method. In order to determine diluted loss per share, the treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted loss per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease loss per share.

**Use of Estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results may differ from those estimates. Management believes that the estimates are reasonable.

**3. EXPLORATION PROPERTIES**

	Balance at September 30, <u>2003</u> \$	Net Additions / (Recoveries) \$	<u>Write downs</u> \$	Balance at September 30, <u>2004</u> \$
<b>Mexican Exploration Projects</b>				
Acquisition costs	19,490	25,376	-	44,866
Deferred exploration costs	<u>751,054</u>	<u>1,017,925</u>	<u>-</u>	<u>1,768,979</u>
	<u>770,544</u>	<u>1,043,301</u>	<u>-</u>	<u>1,813,845</u>
<b>Peruvian Exploration Projects</b>				
Acquisition costs	19,000	45,000	-	64,000
Deferred exploration costs	<u>40,433</u>	<u>4,492</u>	<u>-</u>	<u>44,925</u>
	<u>59,433</u>	<u>49,492</u>	<u>-</u>	<u>108,925</u>
	<u>829,977</u>	<u>1,092,793</u>	<u>-</u>	<u>1,922,770</u>
	Balance at September 30, <u>2002</u> \$	Net Additions / (Recoveries) \$	<u>Write downs</u> \$	Balance at September 30, <u>2003</u> \$
<b>Mexican Exploration Projects</b>				
Acquisition costs	9,490	10,000	-	19,490
Deferred exploration costs	<u>169,090</u>	<u>581,964</u>	<u>-</u>	<u>751,054</u>
	<u>178,580</u>	<u>591,964</u>	<u>-</u>	<u>770,544</u>
<b>Peruvian Exploration Projects</b>				
Acquisition costs	3,000	16,000	-	19,000
Deferred exploration costs	<u>39,016</u>	<u>7,597</u>	<u>(6,180)</u>	<u>40,433</u>
	<u>42,016</u>	<u>23,597</u>	<u>(6,180)</u>	<u>59,433</u>
	<u>220,596</u>	<u>615,561</u>	<u>(6,180)</u>	<u>829,977</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
SEPTEMBER 30, 2004

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**3. EXPLORATION PROPERTIES (Continued)**

**Mexican Exploration Projects**

The Company has numerous projects in Mexico.

Sinaloa State

a) Tetasairi Property

The 743 hectare Tetasairi Property in Sinaloa was optioned in 2002 for US\$1,000 cash and 100,000 common shares of the Company issued at \$0.10 per share. The Company has the right to purchase 1% of the royalty for US\$1,000,000. This property was optioned to a third party subsequent to year-end (see Note 10).

b) Other Sinaloa Properties

The Company filed, by staking, for 524 hectares at the La Violetta Property. The Company was granted 211 hectares in three sections of La Violetta. The Company has filed for 1,250 hectares at the Palmira Property and 600 hectares at the El Zafiro Property.

Zacatecas State

c) Cerro de Oro Property

The 2,228 hectare Cerro de Oro Property was acquired in September 2002. One lot containing 76 hectares and twenty lots containing 205 hectares were optioned in three agreements, which require combined option payments totalling US\$20,800 over a period of four years (US\$6,400 paid). An additional 1,947 hectares were acquired for option payments totalling US\$70,000 (US\$20,000 paid) and a requirement to spend US\$500,000 on exploration over a four-year period. These claims will be subject to a 3% net smelter return royalty. An additional 105 hectares was added by staking. Subsequent to year-end, the Company entered into an option to purchase surface rights at Cerro de Oro (see Note 10).

d) Santa Olaya Property

The Company has acquired, by staking, the 643 hectare Santa Olaya Property to protect geological and geothermal targets southeast along the trend of the Cerro de Oro Property.

Jalisco State

e) The 200 hectare El Socorro Property was staked during the year ended September 30, 2004. A US\$10,000 finder's fee is due upon issue of title which occurred subsequent to year-end. The property is subject to a 2% net smelter return royalty that the Company has the right to purchase for \$100,000 per each 1%. The Company has filed, by staking, for an additional 200 hectares at El Socorro. In June, 2004, the Company signed a letter of intent with Au Martinique Inc. ("Au Martinique"), a private Canadian corporation, whereby Au Martinique can earn a 50% joint venture interest for 200,000 common shares of Au Martinique (see Note 6) and by incurring exploration expenditures of US\$100,000 over two years. The Company will be manager of the exploration program until completion of the 50% earn-in and is entitled to a 10% management fee on the exploration work program expenditures.

f) Fiebre de Oro and Yerbabuena Properties

The 1,700 hectare Fiebre de Oro Property was awarded, by staking, in September, 2002. A finder's fee of US\$10,000 was paid. The property is subject to a 2% net smelter return royalty that the Company has the right to purchase for \$100,000 per each 1%. This property was optioned to a third party subsequent to year-end (see Note 10). The 500 hectare Yerbabuena Property was acquired, by staking, in June 2004 to cover prospects north and west of Fiebre de Oro.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
SEPTEMBER 30, 2004

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**3. EXPLORATION PROPERTIES** (Continued)

g) Realito Property

In September, 2004, the Company was awarded, by staking, the 306 hectare Realito Property. The property is subject to a 2% net smelter royalty that the Company has a right to purchase for \$100,000 per each 1%. A US\$10,000 finder's fee is payable on this property.

h) Bautiste Mine Property

The 200 hectare Bautiste Mine Property was optioned in May, 2004. The Company may purchase 100% of the property for cash payments of US\$85,000 over a four-year period (US\$5,000 paid). The property is subject to a 2% net smelter return royalty that the Company has the right to purchase for \$100,000 per each 1%. The property was optioned to a third party subsequent to year-end (see Note 10).

Durango State

i) Durango Properties

In September 30, 2004, the Company was awarded, by staking, the 194 hectare Mar and 494 hectare Brenda Properties. The Company has also filed, by staking, for the 220 hectare Anna and 500 hectare Jicarilla Properties.

Nayarit State

j) El Oro Property

The Company was awarded, by staking, the 545 hectare El Oro Property in September, 2003. Subsequent to year-end, the Company filed, by staking, an additional 188 hectare claim at El Oro.

**Peruvian Exploration Projects**

k) Minas Santa Rosa and Aguila Pit Concessions

In 1996, the Company obtained the Minas Santa Rosa Concessions by staking. In September, 2001, these properties were written down to \$Nil. The Company maintains these properties in good standing (see Duran option below).

l) Pasacancha Property

In March 2000, the Company optioned three concessions (Pasacancha 1, 2, and 6) covering 2,100 hectares from Inca Pacific Resources Inc. ("Inca Pacific"). The Company made a \$20,000 option payment to Inca Pacific in December 2000. In May 2000, the Company issued 200,000 common shares to Inca Pacific and a further 100,000 common shares in each of December 2001, 2002 and 2003. In September, 2001, these properties were written down to \$Nil. The Company dropped Pasacancha 2 in 2003 resulting in a write down of \$6,180 and continues to maintain Pasacancha 1 and 6 in good standing (see Duran option below).

In June, 2003 the Company entered into an agreement with Duran Ventures Inc. ("Duran") whereby Duran obtained the right to acquire a 50% interest in both of the Company's properties in Peru in exchange for cash payments of \$20,000 per year for four years (\$10,000 paid) and 1,000,000 common shares of Duran Ventures Inc. issuable over a four year period. Duran is required to incur US\$1,000,000 of expenditures over a four-year period. After completion of the earn-in by Duran, the Company may convert its 50% interest into a 5% net smelter return royalty. The effect of this transaction will be recorded in the financial statements as the proceeds of this transaction are received. Duran has not made any share issuances to date; however, the agreement is in good standing. An officer and director of the Company is also an officer and director of Duran.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
SEPTEMBER 30, 2004

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**3. EXPLORATION PROPERTIES (Continued)**

**Canadian Exploration Project**

(m) Mishi Lake Gold Property

In 1982, the Company acquired a 100% interest in the Mishi Lake Gold Property in the Sault Ste. Marie Mining Division, located in the province of Ontario which was sold to Mishibishu Gold Corp. ("Mishibishu") in 1997. The Company continues to be entitled to a 40% net profits royalty from Mishibishu on these claims. In 1998, River Gold Mines Ltd. ("River Gold") prepaid \$1,400,000 (40% to the Company) for a mining lease on 30 of the claims. The Company is entitled to receive from River Gold, a 40% share of royalty for materials mined over 700,000 tonnes. The royalty is \$1.00 per tonne if mined open pit, or \$2.00 per tonne if mined underground. The carrying value of the Company's interest in the Mishi Lake property was written off in fiscal 2002 as the Company was no longer actively exploring the property.

**4. CAPITAL STOCK, COMMON SHARE OPTIONS AND WARRANTS**

**Authorized**

The Company's authorized capital consists of an unlimited number of common shares without par value.

**(a) Common shares issued**

	<u>Shares</u>	<u>Amount</u>
	#	\$
Balance, September 30, 2002	22,371,626	13,596,229
Issued for interest in Tetasairi Property (Note 3(a))	100,000	10,000
Issued for interest in Pasacancha Property (Note 3(l))	100,000	16,000
Issued on exercise of special warrants	3,000,000	450,000
Issued on exercise of stock options	550,000	55,000
Issued in private placement (net of issue costs of \$1,000)	500,000	99,000
Issued in private placement (net of issue costs of \$3,500)	<u>2,800,000</u>	<u>696,500</u>
Balance, September 30, 2003	29,421,626	14,922,729
Issued for interest in Pasacancha Property (Note 3(l))	100,000	45,000
Issued on exercise of stock options	800,000	108,750
Issued in private placement (net of issue costs of \$5,500)	2,000,000	994,500
Issued on exercise of warrants	<u>94,000</u>	<u>37,600</u>
Balance, September 30, 2004 (Note 10)	<u>32,415,626</u>	<u>16,108,579</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
SEPTEMBER 30, 2004

**4. CAPITAL STOCK, COMMON SHARE OPTIONS AND WARRANTS (Continued)**

**(b) Common share options**

Under the Company's stock option plan (the "Plan"), the directors of the Company can grant options to acquire common shares of the Company to qualified directors, officers, employees and persons providing ongoing services to the Company. The stock options are non-transferable and may be granted for a term not exceeding five years. The exercise price of the stock options cannot be less than the closing price of the Company's shares on the trading day preceding the date of grant. The aggregate number of common shares reserved for issuance under this plan is limited to 20% of the aggregate number of common shares of the Company that are issued and outstanding to a maximum 6,250,000 common shares. The options issued prior to September 30, 2003 are 100% vested in the year of grant. The options granted in December 2003 vested over nine months and 50% of the options granted in March 2004 vested immediately on the date of grant with 100% of the options vesting on the first anniversary.

A summary of changes in stock options during the years indicated is as follows:

	<u>Number</u> #	<u>Weighted average</u> <u>exercise price</u> \$
Balance, September 30, 2002	1,275,000	0.11
Granted	1,400,000	0.26
Exercised	(550,000)	(0.10)
Expired	<u>(150,000)</u>	(0.25)
Balance, September 30, 2003	1,975,000	0.20
Granted	1,085,000	0.50
Exercised	(800,000)	(0.14)
Expired	<u>(100,000)</u>	(0.25)
Balance, September 30, 2004	<u>2,160,000</u>	0.37

As at September 30, 2004, the following options granted to directors, officers, employees, and key consultants of the Company remain outstanding:

<u>Date of Grant</u>	<u>Options</u> <u>Granted</u> #	<u>Exercise</u> <u>Price</u> \$	<u>Expiry Date</u>
July 2002	50,000	0.10	July 2005
March 2003	800,000	0.25	March 2006
June 2003	100,000	0.25	June 2006
July 2003	125,000	0.29	July 2006
December 2003	15,000	0.50	December 2006
March 2004	<u>1,070,000</u>	0.50	March 2007
	<u>2,160,000</u>		

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
SEPTEMBER 30, 2004

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**4. CAPITAL STOCK, COMMON SHARE OPTIONS AND WARRANTS (Continued)**

**(c) Warrants**

As part of the two private placement financings completed in 2003, the Company issued a total of 1,900,000 warrants. Within this total, there are 500,000 warrants exercisable to purchase one common share for \$0.35 per share until May, 2004 or \$0.50 if exercised after May, 2004 but before May, 2005, and 1,400,000 warrants exercisable to purchase one common share for \$0.40 per share until August, 2004 or \$0.65 if exercised after August, 2004 but before August, 2005. All 500,000 warrants at \$0.50 remain outstanding as at September 30, 2004. During fiscal 2004, 94,000 of the \$0.40 per share warrants were exercised leaving a balance of 1,306,000 warrants at \$0.65 outstanding as at September 30, 2004.

During the year ended September 30, 2004, the Company completed one private placement for gross proceeds of \$1,000,000. The placement consisted of share subscriptions for 2,000,000 units. Each unit consists of one common share and one warrant, which expires in February 2006. Each warrant entitles the holder to purchase one common share at \$0.75 per share during the first year or at \$1.00 per share during the second year. All 2,000,000 warrants from this private placement remain outstanding at September 30, 2004 (see Note 10).

**(d) Contributed Surplus**

A summary of changes in contributed surplus during the years indicated is as follows

Balance, September 30, 2002	\$ -
Stock-based compensation expense	<u>50,550</u>
Balance, September 30, 2003	50,550
Stock-based compensation expense	<u>5,000</u>
Balance, September 30, 2004	<u>\$ 55,550</u>

**5. STOCK-BASED COMPENSATION**

The Company uses the intrinsic value method of accounting for stock-based compensation awards granted to key employees and directors. Accordingly no compensation expense has been recognized for 1,060,000 options granted under the stock option plan. Under CICA Handbook section 3870, the Company is required to disclose compensation expense for fixed price stock options issued subsequent to October 1, 2002, assuming that compensation expense had been determined based upon the fair value at the date of the grant. Had compensation cost been determined based on the fair value at the date of the grant, the Company's net loss and net loss per share would have been increased to the pro-forma amounts indicated below:

	<u>2004</u>	<u>2003</u>
Net loss as reported	\$ 449,372	\$ 327,152
Stock-based compensation expense	<u>218,000</u>	<u>142,500</u>
Pro forma net loss	<u>\$ 667,372</u>	<u>\$ 469,652</u>
Pro forma basic and diluted net loss per share	<u>\$0.02</u>	<u>\$0.02</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
SEPTEMBER 30, 2004

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**5. STOCK-BASED COMPENSATION** (Continued)

The fair value of each option is estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants during the year: expected dividend yield of zero (2003 – zero), expected volatility of 80% (2003 – 80%), risk-free interest rate of 4% (2003 – 4%) and expected lives of 3 years (2003 – 3 years). The fair value of each option is accounted for in operations over the vesting period, and the related credit is included in contributed surplus.

The Black-Scholes option valuation model used by the Company to determine fair values was developed for use in estimating the value of freely traded options, which are fully transferable. The Company's stock options are not transferable, cannot be traded and are subject to exercise restrictions, which would tend to reduce the fair value of the Company's stock options. Changes to subjective input assumptions used in the model can cause a significant variation in the estimate of the fair value of the options.

**6. INVESTMENTS**

In settlement of an old receivable which had previously been written down for accounting purposes, the Company accepted in 2003 and continues to hold 2,207,344 common shares representing 18.9% of the outstanding common shares of Virtual Resources Inc., a public company that is currently not listed or trading. The shares are carried at a nominal \$1 value.

The Company has 153,166 shares of Ravenshead Recovery Corporation, formerly International Damascus Resources Inc., purchased in 1988 and 1989. The shares are suspended from trading and were written down in 2001 to a nominal \$1 value.

During the year ended September 30, 2004, the Company received 200,000 common shares of Au Martinique Inc., a privately held corporation, pursuant to the property option agreement described in Note 3(e). The shares are carried at a nominal \$1 value.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
SEPTEMBER 30, 2004

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**7. INCOME TAXES**

**Provision for Income Taxes**

The following table reconciles the expected income tax recovery at the Canadian federal and provincial statutory income tax rate of 36% (2003 - 37%) to the amounts recognized in the consolidated statements of operations.

	<u>2004</u>	<u>2003</u>
	\$	\$
Net loss before taxes	<u>449,372</u>	<u>327,152</u>
Expected income tax recovery	161,800	121,000
Stock-based compensation expense	(1,800)	(18,700)
Share issue costs	2,600	-
Effect of change in income tax rate	-	267,000
Valuation allowance	<u>(162,600)</u>	<u>(369,300)</u>
	<u>-</u>	<u>-</u>

**Future Tax Balances**

The Company has substantial non-capital losses and unclaimed resource pools that under certain circumstances may be used to offset future taxable income; however, the amount and conditions under which they may be utilized have not been determined. For accounting purposes, any future benefit that may be realized from the utilization of these pools would be offset by a valuation allowance.

**8. RELATED PARTY INFORMATION**

In fiscal 2004, the Company was charged \$25,000 (2003 - \$20,712) for rent and administrative services by directors, officers, and corporations controlled by them. Geological consulting fees in the amount of \$138,721 (2003 - \$133,142) charged to exploration properties, were paid or accrued to an officer of the Company. Included in accounts payable and accrued liabilities at September 30, 2004 is \$108,619 (2003 - \$38,029) owing to these related parties.

During the year, a director and officer of the Company subscribed for 200,000 units of the Company at \$0.50 per unit as part of the financing described in Note 4(c).

See Note 3(l).

These transactions were in the normal course of operations and were measured at the exchange amount which is the amount agreed to by the related parties.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
SEPTEMBER 30, 2004

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**9. FINANCIAL INSTRUMENTS**

**Fair Value**

Canadian generally accepted accounting principles require that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The carrying amounts for cash, amounts receivable, and accounts payable and accrued liabilities on the balance sheet approximate fair value because of the limited term of these instruments.

**Foreign Exchange Risk**

Certain of the Company's expenses are incurred in United States and Mexican currencies and are therefore subject to gains or losses due to fluctuations in these currencies.

**Commodity Price Risk**

The ability of the Company to develop its properties and the future profitability of the Company is directly related to the market price of certain minerals.

**10. SUBSEQUENT EVENTS**

**Financing**

Subsequent to September 30, 2004 the Company received share subscriptions for 1,080,000 units at \$0.50 per unit for total proceeds of \$540,000. Each unit consists of one common share and one warrant with a two-year expiry. The warrant entitles the holder to purchase one share at \$0.75 in the first year or at \$1.00 in the second year. This transaction received regulatory approval.

**Property Option Agreements**

Subsequent to September 30, 2004 an agreement was signed with Consolidated Spire Venture Ltd. ("Spire"), which sets out the terms under which Spire may earn a 50% interest in the Tetasiari Property described in Note 3(a) for 1,000,000 common shares of Spire. The Company received 400,000 shares within 10 days of regulatory approval, and 200,000 shares are due on the first, second, and third anniversary of signing. In addition, Spire is required to incur exploration expenditures totalling US\$1,000,000 comprised of US\$100,000 by the end of year one, US\$300,000 by the end of year two, \$600,000 by the end of year three, and US\$1,000,000 by the end of year four. Spire, at its option, may earn a 60% interest in the joint venture by spending an additional US\$200,000 on property exploration and payment of an additional 200,000 shares. This transaction received regulatory approval.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
SEPTEMBER 30, 2004

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**10. SUBSEQUENT EVENTS** (Continued)

**Property Option Agreements** (Continued)

Subsequent to September 30, 2004, the Company entered into an option agreement to purchase the surface rights covering approximately 1,227 hectares of the Cerro de Oro Gold and Silver Property described in Note 3(c), including land and buildings for a purchase price of US\$252,000. In addition, the Company has received an option to acquire the existing dumps and tailings for a price of US\$100,000. This option will remain open for as long as the Company pays a monthly US\$1,000 option fee. The initial signing fee of US\$5,000 was paid and is deductible from the purchase price.

Subsequent to September 30, 2004, an agreement was signed with Strikezone Minerals (Canada) Ltd. ("Strikezone"), which sets out the terms under which Strikezone may earn a 50% interest in the Fiebre de Oro property described in Note 3(f) for a cash payment of US\$10,000 (received) and 200,000 common shares of Strikezone (received). Strikezone is also required to spend a minimum of US\$50,000 in the first year as part of a two-year US\$100,000 required exploration programme to earn the 50% interest. Strikezone will be the operator, while the Company will be the exploration manager until completion of the 50% earn-in. Until earn-in, the Company will receive a 10% management fee. At closing of this transaction, the Company received a payment of US\$55,000 in advance representing the first year exploration minimum plus the 10% management fee. This transaction received regulatory approval.

Subsequent to September 30, 2004, an agreement was signed with Au Martinique Inc., which sets out the terms under which Au Martinique may earn a 50% Joint Venture interest in the Bautiste Mine Property described in Note 3(h), for 500,000 shares of Au Martinique. The shares will be received as follows; 200,000 within 10 days of regulatory approval (received), and 100,000 shares due on each of the first, second, and third anniversaries of receipt of regulatory approval. In addition, Au Martinique is also required to fund US\$500,000 of exploration within 48 months. Au Martinique has been granted operator status for this property, and the Company will be the manager of exploration programs until completion of the 50% earn-in by Au Martinique. Under the terms of the agreement, the Company will be entitled to a 10% management fee on the exploration work programme expenditures. This transaction is subject to regulatory approval.