

Plexmar Resources Inc.

Consolidated Financial Statements
December 31, 2003 and 2002

Auditors' Report

To the Shareholders of Plexmar Resources Inc.

We have audited the consolidated balance sheets of **Plexmar Resources Inc.** (an exploration company) as at December 31, 2003 and 2002 and the consolidated statements of earnings, deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Quebec, Quebec, Canada
March 19, 2004

Plexmar Resources Inc.
 (an exploration company)
 Consolidated Balance Sheets
 As at December 31, 2003 and 2002

	2003 \$	2002 \$
Assets		
Current assets		
Cash	200,581	-
Amounts receivable (note 3)	127,544	147,721
Prepaid expenses	6,633	5,886
	<u>334,758</u>	<u>153,607</u>
Exploration funds		
Cash	-	11,752
Amount receivable from current operations	-	153,209
	<u>-</u>	<u>164,961</u>
Mining properties (note 4)	<u>325,380</u>	<u>632,277</u>
Property, plant and equipment (less accumulated depreciation of \$7,860; \$3,913 in 2002)	<u>4,250</u>	<u>8,197</u>
	<u>664,388</u>	<u>959,042</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities		
Related parties	2,848	30,165
Others	41,700	108,038
	<u>44,548</u>	<u>138,203</u>
Amount due to exploration funds	-	153,209
Convertible debenture (note 5)	<u>52,844</u>	<u>-</u>
	<u>97,392</u>	<u>291,412</u>
Shareholders' Equity		
Share capital (notes 6, 7 and 8)	10,465,974	9,539,827
Conversion option and warrants related to the convertible debenture (note 5)	119,000	-
Warrants (note 8)	535,020	-
Stock options (note 7)	16,600	1,400
Deficit	<u>(10,569,598)</u>	<u>(8,873,597)</u>
	<u>566,996</u>	<u>667,630</u>
	<u>664,388</u>	<u>959,042</u>
Nature of activities (note 1)		
Commitments (note 11)		
Subsequent events (note 14)		

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

Approved by the Board of Directors

(2)

(signed) GUY BÉDARD _____ Director

(signed) LOUIS LESSARD _____ Director

Plexmar Resources Inc.

(an exploration company)

Consolidated Statements of Deficit

For the years ended December 31, 2003 and 2002

	2003	2002
	\$	\$
Balance – Beginning of year	8,873,597	8,386,790
Loss for the year	1,688,751	479,807
Share issue expenses	7,250	7,000
	<hr/>	<hr/>
Balance – End of year	10,569,598	8,873,597

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

Plexmar Resources Inc.

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Consolidated Statements of Earnings

For the years ended December 31, 2003 and 2002

	2003	2002
	\$	\$
Revenues		
Interest	665	167
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Expenses		
Professional fees	155,406	123,590
Management fees	100,000	95,000
Salaries and fringe benefits	32,656	34,509
Rent	30,000	30,000
Office sublease	(8,845)	-
Maintenance fees	33,774	36,643
Information to shareholders	5,992	11,573
Insurance	14,715	12,733
Printing expenses	8,675	18,869
Communication expenses	9,078	4,894
Office expenses and others	12,344	60,623
Part XIII.6 tax	14,219	1,236
Travelling	41,477	23,991
Search for properties	151,729	1,059
Production expenses for a television broadcast	210,115	-
Depreciation of property, plant and equipment	3,947	3,716
Cost of mining properties abandoned	852,290	21,538
Accretion on convertible debenture	21,844	-
	<hr/>	<hr/>
	1,689,416	479,974
	<hr/>	<hr/>
Loss for the year	1,688,751	479,807
	<hr/>	<hr/>
Basic and diluted loss per share	0.07	0.03
	<hr/>	<hr/>
Basic and diluted weighted average number of shares outstanding (note 12)	24,604,884	18,268,010
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The accompanying notes are an integral part of these consolidated financial statements.

Plexmar Resources Inc.

(an exploration company)

Consolidated Statements of Cash Flows

For the years ended December 31, 2003 and 2002

	2003 \$	2002 \$
Cash flows from operating activities		
Loss for the year	(1,688,751)	(479,807)
Items not affecting cash		
Depreciation of property, plant and equipment	3,947	3,716
Cost of mining properties abandoned	852,290	21,538
Accretion on convertible debenture	21,844	-
Stock options	15,200	1,400
Professional fees paid in consideration of the issuance of shares	15,000	-
	<u>(780,470)</u>	<u>(453,153)</u>
Change in non-cash working capital items		
Grant receivable	-	28,500
Amounts receivable	4,514	42,668
Prepaid expenses	(747)	17,858
Accounts payable and accrued liabilities	(93,655)	41,237
	<u>(89,888)</u>	<u>130,263</u>
	<u>(870,358)</u>	<u>(322,890)</u>
Cash flows from financing activities		
Decrease in exploration restricted cash	11,752	169,848
Increase in share capital	1,386,167	502,500
Share issue expenses	(7,250)	(7,000)
Issuance of a convertible debenture	150,000	-
	<u>1,540,669</u>	<u>665,348</u>
Cash flows from investing activities		
Variation in a term deposit	-	10,000
Purchase of mining properties	(590,723)	(679,096)
Grants cashed related to exploration costs applied against mining properties	-	21,500
Additions to property, plant and equipment	-	(8,564)
Tax credits cashed related to exploration costs applied against mining properties	120,993	4,426
	<u>(469,730)</u>	<u>(651,734)</u>
Net change in cash	200,581	(309,276)
Cash – Beginning of year	-	309,276
Cash – End of year	<u>200,581</u>	<u>-</u>
Additional information		
Tax credits receivable related to exploration costs applied against mining properties	76,516	92,179
Shares issued in consideration of the acquisition of mining properties	(60,000)	-
Shares issued in consideration of the payment of professional fees	(15,000)	-
Interest cashed	(665)	(167)

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

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Notes to Consolidated Financial Statements

December 31, 2003 and 2002

1 Statutes, nature of activities and going concern

The company, incorporated under the Canada Business Corporations Act, is in the business of acquiring and exploring mining properties. It has not yet determined whether its properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for mining properties is dependent upon the existence of economically recoverable reserves, the ability of the company to obtain necessary financing to complete the exploration and development of its properties, and upon future profitable production or proceeds from the disposal of properties.

The company has accumulated a significant deficit. To continue operations, the company still needs new capital. Management intends to secure such new capital from third parties. Without such funding being available, the company may be unable to continue its operations and amounts realized for assets may be significantly less than amounts reflected in these financial statements.

2 Summary of significant accounting policies

Basis of consolidation

These consolidated financial statements include the accounts of the company and those of its wholly-owned subsidiary "Companía Minera Cayhuachaua S.A.C." This Peruvian subsidiary, incorporated on December 12, 2003, has been created in order to enable the company to manage its exploration activities on the properties located in Peru. As at December 31, 2003, this subsidiary was a non-operating company.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates that affect the amounts of assets and liabilities reported in the financial statements. Those estimates also affect the disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the years. Significant estimates include the carrying value of mining properties and certain accrued liabilities. Actual results could differ from those estimates.

Foreign currency translation

Foreign currency transactions

Transactions denominated in currencies other than Canadian dollars are translated into the functional currency as follows: monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date and revenues and expenses are translated at the average rate for the year. Non-monetary assets and liabilities are translated at historical rates. Gains and losses arising from such translation are reflected in the statements of earnings.

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Foreign subsidiary

Compañía Minera Cayhuachau S.A.C. is considered to be an integrated foreign operation. As a result, the foreign subsidiary's accounts are remeasured into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities are remeasured at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are remeasured at historical rates. Revenues and expenses are remeasured at the average rate for the year. Gains and losses resulting from remeasurement are reflected in the statements of earnings.

Exploration funds

Exploration funds, which include cash and an amount receivable from current operations, represent the unexpended proceeds of financing under the terms of which the company committed to spending the amounts on the exploration of mining properties.

Mining properties

The company records its interests in mining properties and areas of geological interest at cost less option payments and other recoveries. Exploration and development costs relating to these interests and projects are capitalized on the basis of specific claim blocks or areas of geological interest until the mining properties to which they relate are placed into production, sold or allowed to lapse. Management reviews the carrying values of mining properties on a regular basis to determine whether any writedowns are necessary. These costs will be amortized over the estimated useful life of mining properties following commencement of production or written off if the mining properties or projects are sold or allowed to lapse. General exploration expenditures not related to specific mining properties are expensed as incurred.

Although the company has taken steps to verify title to mining properties 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 and non-compliance with regulatory requirements.

Mining rights tax credit, tax credit for mining exploration companies and tax credit related to communications

The company is entitled to a refundable mining rights tax credit on mining exploration expenses incurred in Quebec. This tax credit is applied against the costs incurred.

Furthermore, the company is entitled to the refundable tax credit for mining exploration companies on qualified expenditures incurred after March 29, 2001. The refundable tax credit may reach 45% of qualified expenditures incurred before June 12, 2003 and 33.75% of qualified expenditures incurred after this date. This tax credit has been applied against the costs incurred.

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Finally, the company is entitled to the refundable tax credit related to communications between companies and stock market investors, which may reach 40% of qualified expenditures. This tax credit has been applied against the costs incurred.

Property, plant and equipment and depreciation

Computer equipment and office equipment are recorded at cost less accumulated depreciation and are depreciated using the straight-line method over periods of three years and five years, respectively.

Share capital

Share capital issued for non-monetary consideration is generally recorded at the quoted market price of the shares over a reasonable period of time before an after the agreement to issue the shares was announced.

The shares issued pursuant to flow-through share financing agreements are recorded at their fair value. Upon the acquisition of mining properties, the carrying value may exceed the tax basis since the company renounces the deductions in favour of the investors concerned. The company also issues flow-through shares without any premium or discount regarding the renunciation of the tax benefits in favour of investors.

Share issue expenses have been charged to deficit.

Government grants

Government grants are recorded as revenues when the company has reasonable assurance that it has complied and will continue to comply with all the conditions related to the grant. Grants related to working capital are included in earnings when the related expenses are incurred. Grants related to exploration costs are deducted from the related mining properties.

Income taxes

The company provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between financial statement values and tax values of assets and liabilities using enacted or substantially enacted income tax rates expected to be in effect for the year in which the differences are expected to reverse.

Basic and diluted earnings per share

Basic earnings per share are determined using the weighted average number of participating shares outstanding during the year.

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Diluted earnings per share are determined using the weighted average number of participating shares outstanding during the year, plus the effects of dilutive potential participating shares outstanding during the year. The calculation of diluted earnings per share is made using the treasury stock method, as if all dilutive potential shares had been exercised at the later of the beginning of the year or the date of issuance, as the case may be, and that the funds obtained thereby be used to purchase participating shares of the company at the average market value of the participating shares during the year.

Stock-based compensation plan

The company maintains a stock option plan, which is described in note 7. Under Canadian generally accepted accounting principles, it has elected not to use the fair value method to account for options granted to employees. Accordingly, compensation expense is recorded for the excess, if any, of the fair value of the shares at the date of grant over the exercise price of the options. The company provides pro-forma earnings and earnings per share information as if the fair value method had been used. Any consideration received from plan participants upon the exercise of stock options is credited to share capital.

New accounting standards

In July 2003, the Canadian Institute of Chartered Accountants ("CICA") issued Sections 1100 and 1400 "Generally Accepted Accounting Principles" and "General Standards of Financial Statement Presentation". These new sections define generally accepted accounting principles (GAAP), establish the relative authority of various types of CICA Accounting Standards Board pronouncements, and clarify the role of industry practice in setting GAAP. The company does not expect that the adoption of these new standards, which are effective on January 1, 2004, will have a significant impact on its consolidated financial statements.

In September 2003, the CICA amended Section 3870 "Stock-Based Compensation and Other Stock-Based Payments", which is effective for fiscal years beginning on or after January 1, 2004. These amendments require that compensation costs arising from all types of stock-based payments granted to directors, executives and employees, including stock options, be accounted for in the financial statements using the fair value-based method. The company will adopt this new standard, without restatement of prior years, from January 1, 2004. For the years ended December 31, 2003 and 2002, the company is required to provide pro-forma disclosures relating to the loss and loss per share as if stock-based compensation costs had been recognized in the financial statements for options granted during fiscal years 2002 and 2003, using the fair-value-based method (note 7).

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Notes to Consolidated Financial Statements

December 31, 2003 and 2002

3 Amounts receivable

	2003 \$	2002 \$
Commodity taxes receivable	32,807	20,965
Tax credit related to communications	12,984	33,288
Tax credit for mining exploration companies	48,833	92,179
Mining rights tax credit	32,546	-
Other receivables	374	1,289
	127,544	147,721

4 Mining properties

	Undivided interest %	Balance as at January 1, 2003 \$	Costs incurred \$	Tax credits and mining properties abandoned \$	Balance as at December 31, 2003 \$
Otish					
Mining property	100	17,908		(17,908)	-
Exploration costs		69,705	6,711	(76,416)	-
		87,613	6,711	(94,324)	-
Papaskwašati (111 claims)					
Mining property	100	32,164	5,466	(27,640)	9,990
Exploration costs		234,551	130,861	(195,331)	170,081
		266,715	136,327	(222,971)	180,071
Discovery					
Mining property	100	162,700	-	(162,700)	-
Exploration costs		2,025	316,907	(318,932)	-
		164,725	316,907	(481,632)	-
Lac Heslin					
Mining property	100	22,100	(490)	(21,610)	-
Exploration costs		12,082	5,807	(17,889)	-
		34,182	5,317	(39,499)	-
Fontange					
Mining property	100	9,500	-	(9,500)	-
Exploration costs		17,944	-	(17,944)	-
		27,444	-	(27,444)	-
Lac Daran (25 claims)					
Mining property	100	-	2,625	-	2,625
Exploration costs		-	-	-	-
		-	2,625	-	2,625
Winchester (49 claims)					
Mining property	50	-	495	-	495
Exploration costs		51,598	-	(19,113)	32,485
		51,598	495	(19,113)	32,980
Martel					
Mining property	100	-	60,000	(60,000)	-
Exploration costs		-	12,637	(12,637)	-
		-	72,637	(72,637)	-
(forward)		632,277	541,019	(957,620)	215,676

Plexmar Resources Inc.

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Notes to Consolidated Financial Statements

December 31, 2003 and 2002

	Undivided interest %	Balance as at January 1, 2003 \$	Costs incurred \$	Tax credits and mining properties abandoned \$	Balance as at December 31, 2003 \$
(brought forward)		632,277	541,019	(957,620)	215,676
Marilia (Peru) (note 14a)					
Mining property	-	-	-	-	-
Exploration costs		-	6,405	-	6,405
		-	6,405	-	6,405
Cascajal (Peru) (note 14b)					
Mining property	-	-	13,530	-	13,530
Exploration costs		-	23,369	-	23,369
		-	36,899	-	36,899
Lucma (Peru) (note 11)					
Mining property	-	-	66,400	-	66,400
Exploration costs		-	-	-	-
		-	66,400	-	66,400
		632,277	650,723	(957,620)	325,380

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Notes to Consolidated Financial Statements

December 31, 2003 and 2002

	Undivided interest %	Balance as at January 1, 2002 \$	Costs incurred \$	Tax credits and mining properties abandoned \$	Balance as at December 31, 2002 \$
Lac Caché (30 claims)					
Mining property	-	5,275	-	(5,275)	-
Exploration costs		7,555	-	(7,555)	-
		12,830	-	(12,830)	-
Otish (407 claims)					
Mining property	100	14,696	3,212	-	17,908
Exploration costs		6,795	89,910	(27,000)	69,705
		21,491	93,122	(27,000)	87,613
Papaskwasati (731 claims)					
Mining property	100	11,308	20,856	-	32,164
Exploration costs		6,795	263,756	(36,000)	234,551
		18,103	284,612	(36,000)	266,715
Discovery (1,627 claims)					
Mining property	100	-	162,700	-	162,700
Exploration costs		-	2,525	(500)	2,025
		-	165,225	(500)	164,725
Lac Heslin (221 claims)					
Mining property	100	-	22,100	-	22,100
Exploration costs		-	18,382	(6,300)	12,082
		-	40,482	(6,300)	34,182
Fontange (95 claims)					
Mining property	100	-	9,500	-	9,500
Exploration costs		-	29,906	(11,962)	17,944
		-	39,406	(11,962)	27,444
Laforge					
Exploration costs	-	-	8,708	(8,708)	-
Winchester (49 claims)					
Exploration costs	50	40,400	47,541	(36,343)	51,598
		92,824	679,096	(139,643)	632,277

Plexmar Resources Inc.

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Notes to Consolidated Financial Statements

December 31, 2003 and 2002

Detailed analysis of deferred exploration costs and expenses

	2003 \$	2002 \$
Balance – Beginning of year	632,277	92,824
Acquisition and exploration expenses		
Cost of claims	148,026	218,368
Drilling	8,431	47,541
Geophysics	180,080	67,482
Sampling	216,925	249,128
Geologist salaries and others	97,261	96,577
Tax credits	(105,330)	(96,605)
Grants cashed	-	(21,500)
Cost of mining properties abandoned	(852,290)	(21,538)
	<hr/>	<hr/>
Balance – End of year	325,380	632,277

5 Convertible debenture

	2003 \$	2002 \$
Liability component of unsecured debenture with a par value of \$150,000, redeemable at the latest on June 13, 2006 in cash or in common shares of the company based on a predetermined formula if the holder is notified at the latest on April 13, 2006. Interest is calculated at 12% and is payable half-yearly according to the terms described below. This debenture is convertible at the holder's option and is redeemable at the company's option, subject to certain conditions, at a price lower than \$0.15 per share. The holder of this debenture may require its redemption before the maturity date in case of default by the company, or if the latter makes an investment in common shares, or an investment in securities convertible into common shares or exchangeable for such shares	<hr/>	<hr/>
	52,844	-

Interest payment terms

The number of shares issued upon the payment of interest is based on the following formula: 6% of the principal outstanding on the date of interest instalment at the base rate preceding immediately the date of interest instalment.

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Notes to Consolidated Financial Statements

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No interest will be payable for the first two six-month periods ending June 13, 2004 if the base rate of the company's common shares exceeds \$0.225 for the twenty-day reference period preceding the expected instalment date, and no interest will be payable for each subsequent six-month period if the base rate exceeds \$0.30 during the same period.

This debenture has 500,000 accompanying warrants, each of them entitling the holder to subscribe for one common share of the company at a price of \$0.20 per share at all times until March 13, 2004, and 500,000 accompanying warrants, each of them entitling the holder to subscribe for one common share of the company at a price of \$0.30 per share at all times until December 13, 2004.

The fair value of the conversion option and warrants related to the convertible debenture is recorded as "Conversion option and warrants related to the convertible debenture" under Shareholders' Equity. The accretion on debenture is charged to earnings to maturity.

6 Share capital

Authorized

Unlimited number of common shares, without par value

	2003 \$	2002 \$
Issued and fully paid 29,604,671 common shares (19,530,226 in 2002)	10,465,974	9,387,327
To be issued - common share (3,046,667 in 2002)	-	457,000
Less: Subscriptions receivable	-	(304,500)
	<u>10,465,974</u>	<u>9,539,827</u>

Plexmar Resources Inc.

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Notes to Consolidated Financial Statements

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Variation of issued share capital:

	2003		2002	
	Number	Stated value \$	Number	Stated value \$
Balance – Beginning of year	19,530,226	9,387,327	15,905,788	8,810,327
Flow-through share financing	3,046,667	457,000	1,513,326	227,000
Private placements *	4,966,666	209,980	2,111,112	350,000
Purchase of a mining property	500,000	60,000	-	-
Professional fees	100,000	15,000	-	-
Exercise of warrants	1,461,112	336,667	-	-
Balance – End of year	29,604,671	10,465,974	19,530,226	9,387,327

* Private placements are presented net of the fair value of the related warrants totalling \$535,020, which has been determined using the Black-Scholes model.

7 Stock option plan

In accordance with a stock option plan established by the company, some managers, directors, key employees and consultants may be granted stock options for shares of the company. A maximum of 4,815,000 stock options may be granted (maximum of 5% of the number of common shares outstanding in favour of one person).

Options granted expire after a maximum of five years following the granting date. There is no vesting period for managers, directors and key employees. Options granted to consultants vest over a twelve-month period at the rate of 25% for every three-month period.

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The following tables present the stock option activity since January 1, 2002 and summarize information about fixed stock options outstanding and exercisable as at December 31, 2003 and 2002:

		2003		2002	
		Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Outstanding – Beginning of year		2,935,000	0.22	725,000	0.15
Granted		1,620,000	0.14	2,685,000	0.22
Matured or cancelled		(250,000)	0.21	(475,000)	0.15
Outstanding and exercisable – End of year		4,305,000	0.19	2,935,000	0.22
Exercise price		Options outstanding and exercisable as at December 31, 2003	Weighted average remaining contractual life	Weighted average exercise price \$	
\$0.12 to \$0.16	Directors and managers	2,900,000	3.62 years	0.15	
\$0.35	Directors and managers	850,000	3.09 years	0.35	
\$0.12 to \$0.28	Key employees	405,000	3.80 years	0.21	
\$0.15	Consultants	150,000	4.30 years	0.15	
		4,305,000			

Accounting for the stock-based compensation plan

The company has elected not to use the fair value-based method to measure the compensation cost related to grants of stock options. In this instance, however, under Section 3870, "Stock-based Compensation and Other Stock-Based Payments", the company is required to make pro-forma disclosures of loss and basic and diluted loss per share as if the fair value based method of accounting had been applied.

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The fair value of options granted for the years ended December 31, 2003 and 2002 was estimated using the Black-Scholes options pricing model with the following assumptions:

	2003	2002
Weighted average risk-free interest rate	4.07%	4.54%
Expected volatility	120%	115%
Dividend yield	Nil	Nil
Weighted average expected life	48 months	36 months
Weighted average fair value of options granted	\$0.104	\$0.16

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the stock options granted to officers, directors and key employees have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide an accurate single measure of the fair value of stock options granted to officers, directors and key employees.

The company recognizes, as a compensation cost arising from awards to officers, directors and key employees, the excess of the quoted market value of the shares over the exercise price of the options upon granting. No compensation cost has been accounted for in the financial statements for the years ended December 31, 2003 and 2002. The fair value of stock options granted during the year amounts to \$167,380. Out of this sum, an amount of \$15,200 (\$1,400 in 2002), representing the fair value of stock options granted to consultants, has been included in the statement of earnings under the item "Professional fees" and in Shareholders' Equity under the item "Stock options", and an amount of \$152,180 (\$418,555 in 2002) representing the fair value of options granted to directors and key employees, has not been recognized in the financial statements for the years ended December 31, 2003 and 2002. If the fair value based method had been used to account for stock-based compensation costs related to stock options granted to officers, directors and key employees, the loss and related loss per share would be as follows:

	2003	2002
	\$	\$
Pro-forma loss for the year	1,840,931	898,362
Pro-forma basic and diluted loss per share	0.07	0.05

The pro-forma loss does not consider the impact of awards granted before January 1, 2002.

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8 Warrants

The following table summarizes the warrant activity since January 1, 2002:

	2003		2002	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Outstanding – Beginning of year	3,211,112	0.21	-	-
Granted	5,966,666 *	0.22	3,211,112	0.21
Exercised	(1,461,112)	0.23	-	-
Outstanding and exercisable – End of year	7,716,666	0.21	3,211,112	0.21

* Warrants will expire at the latest in May 2005.

Exercise price	Warrants outstanding and exercisable as at December 31, 2003	Weighted average remaining contractual life (years)
\$0.18	2,666,666 **	0.37 year
\$0.20	3,400,000	0.51 year
\$0.30	1,650,000	0.80 year
	<u>7,716,666</u>	

** Out of these warrants, 666,666 are exercisable at an exercise price of \$0.18 until May 6, 2004 and afterwards, at an exercise price of \$0.25 until May 6, 2005. The remaining warrants, being 2,000,000, are exercisable at an exercise price of \$0.18 until May 18, 2004 and afterwards, at an exercise price of \$0.25 until May 18, 2005.

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9 Related party transactions

The company entered into the following transactions mainly with companies controlled by directors:

	2003	2002
	\$	\$
Management fees	100,000	95,000
Professional fees	74,994	43,169
Rent	30,000	30,000

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

10 Income taxes

The company is entitled to the following tax benefits, which have not been accounted for in the financial statements as at December 31, 2003:

- As at December 31, 2003, the company has accumulated, for federal and provincial income tax purposes, non-capital losses which can be applied against future years' taxable income and which will expire as follows:

	\$
2004	177,000
2005	103,000
2006	101,000
2007	165,000
2008	347,000
2009	334,000
2010	490,000
	<u>1,717,000</u>

- The tax value of mining properties exceeds the carrying value by approximately \$2,200,000. The difference between the tax value and the amounts capitalized in the financial statements mainly results from writeoffs of mining properties.
- The unamortized balance, for income tax purposes, of share issue expenses amounts to \$13,000 and will be deductible during the next four years.

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11 Commitments

Operating lease

The company's minimum aggregate commitments under a lease for its office spaces, which expires on March 31, 2005, amount to \$37,500 (note 9). Minimum annual payments under this lease amount to \$30,000 in 2004 and \$7,500 in 2005.

Royalty

The company will have to pay a 2% royalty on net proceeds from future production sales derived from the Lucma mining property.

12 Earnings per share

The following table summarizes the reconciliation of the basic weighted average number of shares outstanding and the diluted weighted average number of shares outstanding used in the diluted loss per share calculations:

	2003	2002
Basic weighted average number of shares outstanding	24,604,884	18,268,010
Stock options	401,531	167,147
	<hr/>	<hr/>
Diluted weighted average number of shares outstanding	25,006,415	18,435,157
Items excluded from the calculation of diluted loss per share because the exercise price was greater than the average market price of the common shares		
Stock options	3,245,000	710,000
Warrants	7,716,666	3,211,112

For the years ended December 31, 2003 and 2002, the diluted loss per share was the same as the basic loss per share since the dilutive effect of stock options and warrants was not included in the calculation; otherwise, the effect would have been anti-dilutive. Accordingly, the diluted loss per share for those years was calculated using the basic weighted average number of shares outstanding.

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13 Financial instruments

Fair value

The fair value of cash, amounts receivable, exploration funds and accounts payable and accrued liabilities approximates their carrying value due to their short-term maturity or to current market rates. The estimated fair value of the convertible debenture, amounting to \$148,365 as at December 31, 2003, has been established by discounting the future disbursements at an interest rate to that which the company would currently be able to obtain for a loan with similar terms and maturity date.

Interest rate risk

As at December 31, 2003 and 2002, the company's exposure to interest rate risk is summarized as follows:

Cash	Variable interest rate
Amounts receivable	Non-interest bearing
Exploration funds	Variable interest rate
Accounts payable and accrued liabilities	Non-interest bearing
Convertible debenture	As described in note 5

14 Subsequent events

a) Marilia property

Following the August 27, 2003 letter of intent, the company signed, on February 16, 2004, the final agreement for the acquisition of all mining rights in the Marilia gold property located in the Cajamarca area to the north of Peru for a total cash consideration of US\$70,000. This amount is payable in two equal instalments of US\$35,000 at the latest on March 6, 2004 and February 7, 2005.

b) Cascajal property

Following the October 25, 2003 letter of intent, the company signed, on February 18, 2004, the final agreement for the acquisition of exploration and exploitation rights, over a five-year period, in the Cascajal property (gold and silver) located to the north of Peru for a total cash consideration of US\$575,000. This amount is payable as follows:

	US\$
Paid on October 24, 2003	10,000
Payable on March 15, 2004	80,000
Payable on November 30, 2004	60,000
Payable on November 30, 2005	50,000
Payable on November 30, 2006	75,000
Payable on November 30, 2007	75,000
Payable on November 30, 2008	75,000
Payable on November 30, 2009	150,000
	<hr/>
	575,000
	<hr/>

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Under this agreement, the company may give up the project at any time if the results of exploration work are not conclusive.

A purchase option entitles the company to acquire indefinitely the exploration and exploitation rights in the property, at any time from February 16, 2004, for a consideration of US\$1,050,000. Out of this amount, the payments already made under the exploration and exploitation agreement will be deducted and this, subject to the respect of all terms related to the said agreement. A 2% royalty on net proceeds from future production sales derived from the mine will be payable to the seller.

Moreover, during the period preceding the exercise of the option, the company will have to pay an additional royalty corresponding to 50% of net profits on certain products.

Furthermore, the company may be subject to a 10% royalty on the proceeds from the sale of 10,000 metric tons of ore already extracted from the mine.

c) Issuances of shares

From January 1, to March 19, 2004, the company issued 1,466,666 common shares for an amount of \$279,999 pursuant to the exercise of warrants and issued 400,000 common shares for an amount of \$60,000 pursuant to the exercise of stock options.

On March 18, 2004, the company issued 13,120,000 common shares of its share capital at a price of \$0.25 per share and 10,620,000 warrants entitling to subscribe for one common share of the company at a price of \$0.40 over a 24-month period following the closing of the distribution.

15 Comparative figures

Certain comparative figures have been reclassified in order to conform with the current year presentation.