Plexmar Resources Inc.
(an exploration company)

Consolidated Financial Statements
December 31, 2004 and 2003

PRICEWATERHOUSECOOPERS

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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, 2004 and 2003 and the consolidated statements of earnings, deficit, contributed surplus and cash flows for the years 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 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, 2004 and 2003 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 10, 2005, except for notes 10d) and 16 dated March 14, 2005

Plexmar Resources Inc.

(an exploration company)

Consolidated Balance Sheets

As at December 31, 2004 and 2003

	2004 $	2003 $ (restated)
Assets		
Current assets		
Cash	237,072	200,581
Exploration funds	495,668	-
Amounts receivable (note 3)	231,859	127,544
Prepaid expenses	84,465	6,633
	1,049,064	334,758
Mining properties (note 4)	613,328	325,380
Property, plant and equipment (note 5)	244,159	4,250
	1,906,551	664,388
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities		
Companies controlled by directors	1,225	2,848
Others	54,811	41,700
Balances of purchase price payable (note 10a) and d)	162,270	-
	218,306	44,548
Convertible debenture (note 6)	92,619	52,844
	310,925	97,392
Shareholders' Equity		
Share capital (notes 7, 8 and 9)	13,985,285	10,465,974
Conversion option and warrants related to the convertible debenture (note 6)	94,719	119,000
Warrants (note 9)	1,155,859	535,020
Stock options (note 8)	572,900	587,335
Contributed surplus	78,762	-
Deficit	(14,291,899)	(11,140,333)
	1,595,626	566,996
	1,906,551	664,388

Nature of activities and going concern (note 1)

Commitments (note 13)

Subsequent events (notes 10d) and 16)

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

Approved by the Board of Directors

(signed) GUY BÉDARD Director (signed) LOUIS LESSARD Director

Plexmar Resources Inc.

(an exploration company)

Consolidated Statements of Deficit

For the years ended December 31, 2004 and 2003

	2004 $	2003 $ (restated)
Balance – Beginning of year		
As previously reported	10,569,598	8,873,597
Restatement related to the implementation of a new accounting policy (note 2)	570,735	418,555
As restated	11,140,333	9,292,152
Loss for the year	2,605,455	1,840,931
Share issue expenses	546,111	7,250
Balance – End of year	14,291,899	11,140,333

Consolidated Statements of Contributed Surplus

For the years ended December 31, 2004 and 2003

	2004 $	2003 $
Balance – Beginning of year	-	-
Warrants matured or cancelled during the year (note 9)	54,481	-
Warrants related to the convertible debenture and matured during the year (note 6)	24,281	-
Balance – End of year	78,762	-

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

Plexmar Resources Inc.

(an exploration company)

Consolidated Statements of Earnings

For the years ended December 31, 2004 and 2003

	2004 $	2003 $ (restated)
Revenues		
Interest	15,180	665
Expenses		
Professional fees	500,949	155,406
Management fees	120,000	100,000
Salaries and fringe benefits	39,882	32,656
Net stock-based compensation costs	17,876	152,180
Rents – Offices	42,500	30,000
Office sublease	(20,470)	(8,845)
Maintenance fees	59,236	33,774
Information to shareholders	12,896	5,992
Insurance	19,746	14,715
Printing expenses	14,832	8,675
Communication expenses	16,975	9,078
Office expenses and others	54,528	12,344
Tax on flow-through shares	-	14,219
Travelling	91,316	41,477
Search for properties	192,109	151,729
Production expenses for a television broadcast	-	210,115
Depreciation of property, plant and equipment	13,425	3,947
Cost of mining properties abandoned	1,364,841	852,290
Interest on convertible debenture	18,002	-
Accretion on convertible debenture	39,775	21,844
Exchange loss	22,217	-
	2,620,635	1,841,596
Loss for the year	2,605,455	1,840,931
Basic and diluted loss per share (note 14)	0.06	0.07

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, 2004 and 2003

	2004 $	2003 $ (restated)
Cash flows from operating activities		
Loss for the year	(2,605,455)	(1,840,931)
Items not affecting cash		
Depreciation of property, plant and equipment	13,425	3,947
Cost of mining properties abandoned	1,364,841	852,290
Accretion on convertible debenture	39,775	21,844
Net stock-based compensation costs and stock-based payment for professional fees	25,615	167,380
Expenses related to the issuance of shares and warrants without consideration	23,065	15,000
Interest on convertible debenture paid through the issuance of shares	18,002	-
	(1,120,732)	(780,470)
Change in non-cash working capital items		
Amounts receivable	(166,295)	4,514
Prepaid expenses	(77,832)	(747)
Accounts payable and accrued liabilities	(6,707)	(93,655)
	(250,834)	(89,888)
	(1,371,566)	(870,358)
Cash flows from financing activities		
Increase in share capital	3,869,665	1,386,167
Share issue expenses	(428,794)	(7,250)
Issuance of a convertible debenture	-	150,000
	3,440,871	1,528,917
Cash flows from investing activities		
Variation in exploration funds	(495,668)	11,752
Purchase of mining properties	(1,377,146)	(590,723)
Additions to property, plant and equipment	(253,334)	-
Tax credits cashed related to exploration costs applied against mining properties	93,334	120,993
	(2,032,814)	(457,978)
Increase in cash	36,491	200,581
Cash – Beginning of year	200,581	-
Cash – End of year	237,072	200,581
Additional information		
Items not affecting cash related to financing and investing activities		
Tax credits receivable related to exploration costs applied against mining properties	14,536	76,516
Acquisition of mining properties in consideration of the issuance of shares and warrants	126,532	60,000
Acquisition of mining properties included in accounts payable and accrued liabilities	18,195	-
Balances of purchase price payable on the acquisition of mining properties	162,270	-
Interest cashed	(15,180)	(665)

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

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

New accounting standards

Stock-based compensation and other stock-based payments

The company offers a stock option plan, which is described in note 8. In accordance with the new standards stated in Section 3870, "Stock Based Compensation and Other Stock-Based Payments" of the Canadian Institute of Chartered Accountants ("CICA") Handbook, the company has retroactively implemented, since January 1, 2004, the amendments made in this regard, with restatement of prior years. Pursuant to these new standards, compensation costs must be accounted for in the financial statements for all types of stock-based payments granted to directors, officers and key employees, including stock options, using the fair value-based method. Accordingly, the deficit and the other equity components have been increased by $570,735 ($418,555 in 2003). For the year ended December 31, 2004, the company recognized net stock-based compensation costs of $17,876 ($152,180 in 2003).

Generally accepted accounting principles and general standards of financial statement presentation

In July 2003, the CICA issued Handbook Sections 1100 and 1400, "Generally Accepted Accounting Principles" and "General Standards of Financial Statement Presentation", which are effective for fiscal years beginning on or after October 1, 2004. 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 adopted these new standards on January 1, 2004. The adoption of these standards had no significant impact on the company's consolidated financial statements.

Basis of consolidation

These consolidated financial statements include the accounts of the company and those of its wholly-owned subsidiary "Minera Chan Chan S.A.C." (previously 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, the useful lives of property, plant and equipment 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 exchange 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.

Foreign subsidiary

Minera Chan Chan 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, represent the unexpended proceeds of financing under the terms of which the company committed to spending the amounts on the exploration or acquisition 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 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.

Credit on duties refundable for loss and refundable tax credit for resources

The company is entitled to a credit on duties refundable for loss on mining exploration expenses incurred in the Province of Quebec. This tax credit has been applied against the costs incurred.

Furthermore, the company is entitled to the refundable tax credit for resources on qualified expenditures incurred after March 29, 2001. The refundable tax credit may reach 45% of qualified expenditures incurred before June 12, 2003, 33.75% before March 30, 2004 and 38.75% thereafter. This tax credit has been applied against the costs incurred.

Property, plant and equipment

Property, plant and equipment are recorded at cost and are depreciated using the straight-line method over the periods mentioned in note 5.

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 and 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.

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.

The company establishes a valuation allowance against future income tax assets if, based on available information, it is more likely than not that some or all of the future income tax assets will not be realized.

Basic and diluted earnings per share

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

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.

3 Amounts receivable

	2004 $	2003 $
Commodity taxes receivable	181,739	32,807
Credit on duties refundable for loss	13,261	32,546
Refundable tax credit for resources	1,275	48,833
Tax credit related to communications	-	12,984
Other receivables	35,584	374
	231,859	127,544

4 Mining properties

December 31, 2004

	Undivided interest %	Balance as at January 1, 2004 $	Costs incurred $	Mining properties abandoned and tax credits $	Balance as at December 31, 2004 $
Papaskwasati (111 claims)					
Mining property	100	9,990	-	(9,990)	-
Exploration costs		170,081	-	(170,081)	-
		180,071	-	(180,071)	-
Lac Daran (25 claims)					
Mining property	100	2,625	-	(2,625)	-
Winchester (49 claims)					
Mining property	50	495	-	-	495
Exploration costs		32,485	-	-	32,485
		32,980	-	-	32,980
Marilia I, II & III (Peru) (note 10a)					
Mining property	100	-	139,446	-	139,446
Exploration costs		6,405	1,893	-	8,298
		6,405	141,339	-	147,744
Cascajal (Peru) (note 10b)					
Mining property	-	13,530	295,544	(309,074)	-
Exploration costs		23,369	877,279	(900,648)	-
		36,899	1,172,823	(1,209,722)	-
Lucma (Cascajal) (Peru) (note 10c)					
Mining property	-	66,400	2,456	-	68,856
Oro Del Norte I, II & III (Cascajal) (Peru) (note 10d)					
Mining property	100	-	363,518	-	363,518
Lac Heslin					
Exploration costs		-	3,777	(3,777)	-
Gran chimu I & II (Cascajal) (Peru)					
Mining property	-	-	230	-	230
		325,380	1,684,143	(1,396,195)	613,328

December 31, 2003

	Undivided interest %	Balance as at January 1, 2003 $	Costs incurred $	Mining properties abandoned and tax credits $	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)	-
Papaskwasati (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
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	-	-	60,000	(60,000)	-
Exploration costs		-	12,637	(12,637)	-
		-	72,637	(72,637)	-
Marilia (Peru)					
Exploration costs		-	6,405	-	6,405
(forward)		632,277	547,424	(957,620)	222,081

	Undivided interest %	Balance as at January 1, 2003 $	Costs incurred $	Mining properties abandoned and tax credits $	Balance as at December 31, 2003 $
(brought forward)		632,277	547,424	(957,620)	222,081
Cascajal (Peru)					
Mining property	-	-	13,530	-	13,530
Exploration costs		-	23,369	-	23,369
		-	36,899	-	36,899
Lucma (Peru)					
Mining property	-	-	66,400	-	66,400
		632,277	650,723	(957,620)	325,380

Detailed analysis of deferred exploration costs and expenses

	2004 $	2003 $
Balance – Beginning of year	325,380	632,277
Acquisition and exploration costs		
Cost of claims	801,194	148,026
Drilling	224,324	8,431
Geophysics	92,548	180,080
Sampling and analyses	159,602	216,925
Geologist salaries and others	209,779	97,261
Equipment rental	137,878	-
Fuel and maintenance of vehicles	23,327	-
Maintenance of facilities	35,491	-
Tax credits	(31,354)	(105,330)
Mining properties abandonned	(1,364,841)	(852,290)
Balance – End of year	613,328	325,380

5 Property, plant and equipment

		2004		2003	
	Depreciation periods (years)	**Cost $**	**Accumulated depreciation $**	**Cost $**	**Accumulated depreciation $**
Office furniture	5 and 10	1,719	548	675	259
Hardware	3 and 5	22,160	13,365	11,435	7,601
Camp	5	4,466	186	-	-
Vehicles	5	57,836	6,748	-	-
Equipment	10	5,263	438	-	-
Concentrator *	-	174,000	-	-	-
		265,444	21,285	12,110	7,860
Less : Accumulated depreciation		21,285		7,860	
Net amount		244,159		4,250	

* The concentrator has not been depreciated since it is not in operation as at December 31, 2004.

6 Convertible debenture

	2004 $	2003 $
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. 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 at a price lower than $0.15 per share, or an investment in securities convertible into common shares or exchangeable for such shares	92,619	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.

No interest was payable for the first two six-month periods ended June 13, 2004 if the base rate of the company's common shares exceeded $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. During fiscal 2004, an amount of $18,002 was included in earnings as interest expense (nil in 2003).

This debenture had 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 value allocated to these warrants of $24,281 recorded under the caption "Conversion option and warrants related to the convertible debenture" under shareholder's Equity has been charged to the contributed surplus at maturity.

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.

7 Share capital

Authorized
Unlimited number of common shares, without par value

Variation of issued and fully paid share capital:

	2004		2003	
	Number	**Stated value $**	**Number**	**Stated value $**
Balance – Beginning of year	29,604,671	10,465,974	19,530,226	9,387,327
Flow-through share financing	-	-	3,046,667	457,000
Private placements *	13,420,000	2,602,733	4,966,666	209,980
Purchase of a mining property	500,000	115,000	500,000	60,000
Professional fees	-	-	100,000	15,000
Exercise of warrants	2,411,665	683,526	1,461,112	336,667
Exercise of stock options	400,000	100,050	-	-
Interest on convertible debenture	141,486	18,002	-	-
Balance – End of year	46,477,822	13,985,285	29,604,671	10,465,974

* Private placements are presented net of the fair value of the related warrants totalling $752,267 ($535,020 in 2003), which has been determined using the Black-Scholes model.

Issuance of shares and warrants upon private placements

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 placement.

On April 1, 2004, the company issued 300,000 common shares of its share capital at a price of $0.25 per share for a cash consideration of $75,000.

Furthermore, the company paid the agent a cash commission equivalent to 10% of gross proceeds, being an amount of $328,000, and granted the latter non-transferable options equivalent to 10% of the securities sold for a total number of 1,312,000 warrants. Each warrant entitles the holder to purchase one common share and one warrant at a price of $0.25 and this, until March 2006. If the agent exercises these warrants, the subsequent warrants will entitle him to purchase one common share at an exercise price of $0.40 until March 18, 2006.

On May 18, 2004, the company issued 500,000 common shares of its share capital and 100,000 warrants without consideration as acquisition expenses of the Cascajal property. Furthermore, the company issued 200,000 warrants without consideration as professional fees. Values of $115,000 and $34,597 have been respectively allocated to share capital and warrants. These 300,000 warrants are exercisable at a price of $0.30 at any time prior to May 18, 2006.

8 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 9,136,000 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. Options granted to managers, directors and employees vest over an eighteen-month period at the rate of 1/6 for every three-month period. Options granted to consultants vest over a twelve-month period at the rate of 1/4 for every three-month period. However, the related expense is reflected in earnings when services are received.

On July 21, 2004, the company granted 2,860,000 stock options at an exercise price of $0.25 per share. These options will generate aggregate stock-based compensation costs of $306,360.

On July 21, 2004, the company granted 400,000 stock options at an exercise price of $0.20 per share. These options will generate aggregate stock-based compensation costs of $23,600.

The following tables present the stock option activity since January 1, 2003 and summarize information about stock options outstanding and exercisable as at December 31, 2004 and 2003:

	2004			2003		
	Number	**Carrying value $**	**Weighted average exercise price $**	**Number**	**Carrying value $**	**Weighted average exercise price $**
Outstanding – Beginning of year	4,305,000	587,335	0.19	2,935,000	419,955	0.22
Granted	3,260,000	-	0.24	1,620,000	-	0.14
Exercised	(400,000)	(40,050)	0.15	-	-	-
Matured or cancelled	(715,000)	-	0.26	(250,000)	-	0.21
Net stock-based compensation costs	-	25,615	-	-	167,380	-
Outstanding – End of year	6,450,000	572,900	0.21	4,305,000	587,335	0.19
Exercisable – End of year	4,233,334	-	0.20	4,305,000	-	0.19

		Options outstanding		
Exercise price		**Number**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price $**
$0.12 to $0.25	Directors and managers	4,950,000	3.55	0.19
$0.35	Directors and managers	725,000	2.08	0.35
$0.12 to $0.28	Key employees	375,000	2.75	0.21
$0.20	Consultants	400,000	0.55	0.20
		6,450,000		

Exercise price		Options currently exercisable Number	Weighted average remaining contractual life (years)	Weighted average exercise price $
$0.12 to $0.25	Directors and managers	3,033,334	2.92	0.16
$0.35	Directors and managers	725,000	2.08	0.35
$0.12 to $0.28	Key employees	375,000	2.75	0.21
$0.20	Consultants	100,000	0.55	0.20
		4,233,334		

The fair value of warrants granted for the years ended December 31, 2004 and 2003 was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2004	2003
Weighted average risk-free interest rate	3.71%	4.07%
Expected volatility	100%	120%
Dividend yield	nil	nil
Weighted average expected life	36 months	48 months
Weighted average fair value of options granted	$0.101	$0.104

9 Warrants

The following tables present the warrant activity since January 1, 2003 and summarize information about warrants outstanding and exercisable as at December 31, 2004 and 2003:

	2004			2003		
	Number	Carrying value $	Weighted average exercise price $	Number	Carrying value $	Weighted average exercise price $
Outstanding and exercisable –						
Beginning of year	7,716,666	535,020	0.21	3,211,112	-	0.21
Granted	12,232,000	904,181	0.38	5,966,666	535,020	0.22
Exercised	(2,411,665)	(228,861)	0.19	(1,461,112)	-	0.23
Matured or cancelled	(2,796,667)	(54,481)	0.24	-	-	-
Outstanding and exercisable – End of year	14,740,334	1,155,859	0.36	7,716,666	535,020	0.21

Exercise price	**Warrants outstanding and exercisable as at December 31, 2004**	**Weighted average remaining contractual life (years)**
$0.20	575,000	0.31
$0.25	2,595,334	0.80
$0.30	950,000	0.65
$0.40	10,620,000	1.21
	14,740,334	

The fair value of warrants granted for the years ended December 31, 2004 and 2003 was estimated using the Black-Scholes warrant pricing model with the following weighted average assumptions:

	2004	**2003**
Weighted average risk-free interest rate	2.32%	1.457%
Expected volatility	110%	115%
Dividend yield	nil	nil
Weighted average expected life	24 months	18 months
Weighted average fair value of warrants granted	$0.074	$0.108

10 Agreements

a) Marilia property

On February 16, 2004, the company signed an 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. As at December 31, 2004, a balance of purchase price payable has been accounted for in the amount of $42,070 (US$35,000).

Furthermore, on March 30, 2004, the company acquired mining rights in an adjacent piece of land with the view to extending the Marilia property. The company paid the seller a cash consideration of US$30,000. A 1.5% royalty on the net smelter return will be payable to the seller. This royalty is redeemable at any time for an amount of US$1,500,000.

b) Cascajal property

On February 18, 2004, the company signed an 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.

Under this agreement, the company could give up the project at any time if the results of exploration work were not conclusive. In October 2004, the company terminated the contract signed on February 18, 2004 on this part of the Cascajal property after a thorough review of the drilling and exploration results obtained. Therefore, the company is discharged from the payments scheduled for 2005 to 2009 for an amount of US$425,000. During the year, an amount of US$150,000 was paid, included in mining properties and written off thereafter.

c) Lucma property

Following the acquisition of the rights of ownership, the company committed itself to paying a 2% royalty on net proceeds from future output sales.

d) Oro Del Norte I & II property

On March 29, 2004, the company signed an agreement for the acquisition of mining rights in a piece of land adjacent to the Cascajal property (Oro Del Norte II). This agreement was amended on December 27, 2004. Pursuant to the amended agreement, a 1.5% royalty on the net smelter return will be payable to the seller.

On April 16, 2004, the company signed an agreement for the acquisition of mining rights in a piece of land adjacent to the Cascajal property (Oro Del Norte I), which agreement was modified in October 2004 and December 30, 2004. Pursuant to the amended agreement, all the rights will be acquired upon receipt of a last payment in the amount of US$100,000, due on October 30, 2005, an amount of US$100,000 having already been paid during fiscal 2004. As at December 31, 2004, a balance of purchase price payable has been accounted for in the amount of $120,200 (US$100,000). Furthermore, the company committed itself to paying a royalty of US$3 per ounce of gold upon establishment of proven reserves.

e) On September 20, 2004, the company signed a letter of intent in order to acquire an option on all of the mining rights of the Molinetes property in consideration of future cash payments amounting to US$350,000.

11 Related party transactions

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

	2004 **$**	**2003** **$**
Management fees	120,000	100,000
Professional fees	114,750	74,994
Rent	42,500	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.

12 Income taxes

The company is entitled to the following tax benefits:

- As at December 31, 2004, 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:

	$
2005	103,000
2006	101,000
2007	165,000
2008	347,000
2009	334,000
2010	490,000
2011	836,000
	2,376,000

- During the year, the company has accumulated, for Peruvian income tax purposes, a non-capital loss totalling $997,201 (S/.2,721,603). This loss can be applied against taxable income according to one of the following methods: (i) the total loss can be applied against taxable income over the four-year period from the first year of taxable income, or (ii) 50% of the loss can be used indefinitely in the future.

- The tax value of mining properties exceeds the carrying value by approximately $1,802,000. 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 $445,677 and will be deductible during the next four years.

The company recorded a valuation allowance corresponding to 100% of the possible tax benefits resulting from these items.

13 Commitments

Operating lease

The company's minimum aggregate commitments under a lease for its office spaces with a related company, which expires on March 31, 2005, amount to $7,500 (note 11).

Other commitments

During fiscal 2004, the company signed two agreements regarding professional fees with companies controlled by directors. Under these agreements, the company's minimum aggregate commitments expiring on January 31, 2006 amount to approximately $86,000, and minimum annual payments amount to $84,000 in 2005 and $2,000 in 2006.

14 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:

	2004	2003
Basic and potentially diluted weighted average number of shares outstanding	42,762,777	24,604,884

For the years ended December 31, 2004 and 2003, 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.

However, should the company's basic earnings per share have been positive, the stock options exercisable at an exercise price varying from $0.12 to $0.16 would have been dilutive and would have resulted in the addition of 810,836 shares (401,531 shares in 2003); furthermore, the warrants exercisable at an exercise price of $0.18 would have been dilutive and would have resulted in the addition of 303,117 shares (none in 2003) to the weighted average number of shares outstanding used in the diluted earnings per share calculation to the weighted average number of shares outstanding used in the diluted earnings per share calculation.

The following table presents the items excluded from the calculation of diluted earnings per share because the exercise price was greater than the average market price of the common shares:

	2004	**2003**
Number of stock options at an exercise price varying from \$0.20 to \$0.35	3,625,000	3,245,000
Number of warrants at an exercise price varying from \$0.20 to \$0.40	14,740,334	7,716,666

15 Financial instruments

Fair value

The fair value of cash, exploration funds, amounts receivable, accounts payable and accrued liabilities and balances of purchase price payable 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 \$126,600 as at December 31, 2004, 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, 2004 and 2003, the company's exposure to interest rate risk is summarized as follows:

Cash	Variable interest rate
Exploration funds	Variable interest rate
Amounts receivable	Non-interest bearing
Accounts payable and accrued liabilities	Non-interest bearing
Balances of purchase price payable	Non-interest bearing
Convertible debenture	As described in note 6

Currency risk

The company is exposed to currency risks since certain debts are denominated in US dollars.

16 Subsequent events

Granting of stock options

On February 4, 2005, the company granted 550,000 stock options to employees and consultants under its stock option plan. These options are exercisable at a price of \$0.15 per share until February 2, 2010 and vest over the periods provided for in the plan.

Angolos property

On March 14, 2005, the company signed an agreement under which it has the option to acquire all the mining rights in the Angolos gold property located in the Piura area to the north of Peru for a consideration of US$1,600,000. This amount is payable as follows:

	$US
Upon signing	100,000
On June 12, 2005	50,000
On September 12, 2005	125,000
On March 12, 2006	150,000
On September 12, 2006	200,000
On March 12, 2007	200,000
On September 12, 2007	250,000
On March 12, 2008	250,000
On September 12, 2008	275,000
	1,600,000

A 2% royalty on the net smelter return will be payable to the seller.