



North American Gold Inc.

ANNUAL REPORT 2004

Letter to Shareholders

June, 2004

I am both excited and privileged to be appointed the new president of North American Gold Inc. Our previous president Mr. Harmen Keyser has assumed the position of Vice President of Exploration for the company. His leadership and experience are important assets to our on going exploration activities. It is my goal to expand on the solid foundation that he has built.

My 30 plus years experience in mineral exploration, mine development, and mine operations, in the U.S. and internationally will be at the company's disposal. As President of Western States Minerals Corporation (1980 to 2001) which discovered and brought into production some of Nevada's most significant gold deposits including Barrick's Goldstrike mine, I have been privileged to work on discoveries that ultimately became mines. This has kept my continuing career in the mining business fresh and focused.

In order to accomplish our mission to turn discoveries into mines, various strategies will be employed. These strategies range from acquiring properties that are 100% controlled by North American Gold Inc. to forming joint ventures and strategic alliances that offer the company the opportunity to develop the properties. Quality projects coupled with quality work, critical evaluation, and the insight and experience to determine "will it make a mine" will allow the management and staff of North American Gold Inc. to fulfill its mission.

During the past year North American Gold Inc. has acquired the opportunity to earn a 60% interest in two adjoining projects in Vasterbotten District, Sweden. Both the Norra and the Barsele projects have had past exploration work on them which include significant drilling. A review of this information has led the company to develop a work plan and budget that is designed to determine the viability of the projects. The work plan is in progress and will begin with the core drilling of the Central Zone on the Barsele, followed by drilling on the Norra. Concurrent with the drilling, a program of geochemical, geophysical, mapping and ongoing geologic investigation will be carried out. Based on the totality of the initial work plan additional drill targets are expected to be developed on one or more of the six known gold occurrences within projects lands.

The merits of these projects begin with the country in which they are located. Sweden provides through its 1992 revised Mining Act, a favorable political and regulatory environment for those who explore, develop, and ultimately mine its vast mineral resources. The repeated theme of the agencies in Sweden is "Sweden is open for business, please come in." The welcome begins with the ease in which a company can acquire new or existing exploration permits or exploitation concessions. The cost of holding permits and concessions are relatively low and provide companies with an opportunity to spend money in the ground, as opposed to fees and filing requirements. Swedish agencies make geologic, drilling and property ownership information readily available for a nominal fee. Permitting for exploration is timely and in many cases does not require a performance bond. Operating permits for mining are again carried out in a timely fashion and reclamation bonding requirements are funded progressively. Contrary to popular belief, environmental regulations are in place and do not appear to be a moving target. The list of "Why Sweden" extends to European laws and courts, infrastructure, and availability of labor, eclectic power, and modern transportation. Another significant benefit, is the fact that the Swedish government does not take mineral royalties. All of these elements and more make Sweden an excellent place to explore, develop and mine.

Our partner MinMet plc of Dublin, Ireland is currently mining in Sweden. Its Bjorkdal Gold Mine is currently in operation and working year round producing gold. Their experience in Sweden is of exceptional value to our current venture. MinMet's extensive geologic and sample data base is available for both projects and for the Area of Influence around the properties.

The Norra and Barsele projects, while adjoining, provide different geologic opportunities for gold mineralization. The Norra has been described as a volcanic massive sulfide style deposit, the Barsele as an orogenic intrusive hosted gold deposit. Combined, the two projects have a large existing data base of surface sampling and an excess of three hundred drill holes spread over approximately 60 square kilometers. There are six gold occurrences that are identified by surface sampling and gold bearing drill intercepts. The Norra and Barsele projects while having a large data base and past drilling remain under explored providing additional opportunity for discovery.

We believe that Sweden provides the company an opportunity to acquire and explore in a favorable regulatory environment and has significant potential for ongoing gold discovery. As a result, the Company has acquired two additional Exploration Permits in Sweden. The two Exploration Permits (concessions) are 100% owned by North American Gold Inc. Initial evaluation will be carried out over the next twelve months. Our plan is to carry out a continuous, systematic investigation of geologic, geochemical, and geophysical information, as well as field work that will lead to the acquisition of potential gold bearing deposits in Sweden.

The closing of the company's private placement in April of this year enables us to carry out our planned work for the Norra and Barsele, as well as other ongoing work in Sweden.

We would also like to welcome Kareen McKinnon in the Corporate Development position with the company. Ms. McKinnon's previous experience in Investor Relations and Corporate Finance will enable the company to develop and maintain a consistent message to our shareholders and the general public.

We would also like to thank the entire Board for their support of our efforts in Sweden, and the ongoing plans for the growth of the company. We continue to be optimistic that gold and resource equity markets have consolidated and that the company is well positioned to take advantage of the continued growth in mining and mineral exploration. We will continue our efforts in seeking to create significant gains for our shareholders through new discoveries.

Sincerely,



Arden "Buck" Morrow, President



North American Gold Inc.

NORTH AMERICAN GOLD INC.

(formerly Consolidated Newen Enterprises Inc.)

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2004 and 2003

AUDITORS' REPORT

To the Shareholders,
North American Gold Inc.
(formerly Consolidated Newen Enterprises Inc.)

We have audited the consolidated balance sheet of North American Gold Inc. (formerly Consolidated Newen Enterprises Inc.) as at January 31, 2004 and the consolidated statements of operations and deficit and cash flows for the year 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 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 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 January 31, 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 financial statements as at January 31, 2003 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those financial statements in their report dated February 24, 2003.

Vancouver, Canada
June 3, 2004

"Amisano Hanson"
Chartered Accountants

NORTH AMERICAN GOLD INC.
(formerly Consolidated Newen Enterprises Inc.)
CONSOLIDATED BALANCE SHEETS
as at January 31, 2004 and 2003

ASSETS

	<u>2004</u>	<u>2003</u>
Current		
Cash	\$ 512,735	\$ 19,840
GST receivable	14,468	-
Prepaid expenses	<u>28,644</u>	<u>-</u>
	555,847	19,840
Resource properties – Notes 3 and 8 and Schedule 1	110,604	-
Capital assets – Note 4	<u>1,962</u>	<u>1</u>
	\$ <u><u>668,413</u></u>	\$ <u><u>19,841</u></u>

LIABILITIES

Current		
Accounts payable and accrued liabilities – Note 8	\$ 42,321	\$ 805,747
Due to related parties – Note 8	<u>28,956</u>	<u>517,537</u>
	<u>71,277</u>	<u>1,323,284</u>

SHAREHOLDERS' EQUITY (DEFICIENCY)

Capital stock – Notes 5 and 9	6,514,947	4,474,550
Deficit	<u>(5,917,811)</u>	<u>(5,777,993)</u>
	<u>597,136</u>	<u>(1,303,443)</u>
	\$ <u><u>668,413</u></u>	\$ <u><u>19,841</u></u>

Nature and Continuance of Operations – Note 1
Commitments – Notes 3, 5 and 9
Subsequent Events – Notes 5 and 9

ON BEHALF OF THE BOARD:

“Simon Ridgway”

_____, Director

“Harmen Keyser”

_____, Director

SEE ACCOMPANYING NOTES

NORTH AMERICAN GOLD INC.
(formerly Consolidated Newen Enterprises Inc.)
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
for the years ended January 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Expenses		
Advertising and promotion	\$ 4,229	\$ -
Amortization	271	-
Bank charges and interest	283	-
Consulting fees – Note 8	16,716	-
Filing fees	7,845	7,147
Interest	-	59,920
Office and miscellaneous	6,374	1,602
Professional fees	27,995	47,134
Rent and utilities	3,960	-
Shareholder communication	5,232	1,140
Telephone	2,248	-
Transfer agent	10,374	7,298
Travel and accommodation	<u>469</u>	<u>1,595</u>
Loss before other income (expenses)	<u>(85,996)</u>	<u>(125,836)</u>
Other Income (Expenses)		
Foreign exchange	(211)	-
Write-off of resource properties – Note 3 and Schedule 1	(50,414)	-
Write-off of deferred exploration costs – Note 3 and Schedule 1	(257,437)	-
Gain on settlement of debts	257,919	-
Property investigation costs	(3,679)	(3,576)
Write-off of accounts payable	<u>-</u>	<u>19,387</u>
	<u>(53,822)</u>	<u>15,811</u>
Net loss for the year	(139,818)	(110,025)
Deficit, beginning of the year	<u>(5,777,993)</u>	<u>(5,667,968)</u>
Deficit, end of the year	\$ <u>(5,917,811)</u>	\$ <u>(5,777,993)</u>
Basic and diluted loss per common share	\$ <u>(0.02)</u>	\$ <u>(0.23)</u>
Weighted average number of common shares outstanding	<u>6,199,178</u>	<u>484,097</u>

SEE ACCOMPANYING NOTES

NORTH AMERICAN GOLD INC.
(formerly Consolidated Newen Enterprises Inc.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended January 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Operating Activities		
Net loss for the year	\$ (139,818)	\$ (110,025)
Items not affecting cash:		
Amortization	271	-
Gain on settlement of debts	(257,919)	-
Write-off of resource properties	50,414	-
Write-off of deferred exploration costs	<u>257,437</u>	<u>-</u>
	(89,615)	(110,025)
Changes in non-cash working capital items:		
GST receivable	(14,468)	-
Prepaid expenses	(28,644)	-
Accounts payable and accrued liabilities	<u>(115,748)</u>	<u>129,865</u>
Net cash from (used in) operating activities	<u>(248,475)</u>	<u>19,840</u>
Financing Activity		
Net proceeds from issuance of capital stock	<u>1,128,101</u>	<u>-</u>
Investing Activities		
Acquisition of capital assets	(2,232)	-
Resource property acquisition cost	(45,414)	-
Deferred exploration costs	(368,041)	-
Advances from related parties	<u>28,956</u>	<u>-</u>
Net cash used in investing activities	<u>(386,731)</u>	<u>-</u>
Increase in cash during the year	492,895	19,840
Cash, beginning of year	<u>19,840</u>	<u>-</u>
Cash, end of year	\$ <u>512,735</u>	\$ <u>19,840</u>
Supplementary disclosure of cash flow information:		
Cash paid for interest	\$ <u>-</u>	\$ <u>-</u>
Cash paid for income taxes	\$ <u>-</u>	\$ <u>-</u>
Non-cash Transactions – Note 6		

SEE ACCOMPANYING NOTES

NORTH AMERICAN GOLD INC.
(formerly Consolidated Newen Enterprises Inc.)
CONSOLIDATED SCHEDULE OF RESOURCE PROPERTIES
as at January 31, 2004 and 2003

Schedule 1

<u>Acquisition Costs</u>	<u>Sweden</u>		<u>USA</u>				<u>Canada</u>	<u>Total</u>	<u>Total</u>
	<u>Barsele</u>	<u>Norra</u>	<u>Gold Springs</u>	<u>Empy</u>	<u>Brik</u>	<u>Other</u>	<u>60 Mile</u>	<u>2004</u>	<u>2003</u>
Cash	\$ -	\$ -	\$ 45,414	\$ -	\$ -	\$ -	\$ -	\$ 45,414	\$ -
Shares	-	-	5,000	-	-	-	-	5,000	-
Less: write-off of resource properties	-	-	(50,414)	-	-	-	-	(50,414)	-
	-	-	-	-	-	-	-	-	-
<u>Deferred Exploration Costs</u>									
Administration	191	-	2,207	46	1,311	196	-	3,951	-
Automobile	39	-	12,980	1,257	2,105	992	498	17,871	-
Camp, food and utilities	70	-	4,280	-	689	-	-	5,039	-
Consulting fees – Note 8	1,950	-	84,987	12,019	22,533	18,278	3,850	143,617	-
Drafting, maps and printing	15	21	4,323	15	1,299	-	11	5,684	-
Drilling	-	-	51,109	-	-	-	-	51,109	-
Equipment rental	-	-	3,916	122	618	206	-	4,862	-
Environmental	-	-	2,607	-	-	-	-	2,607	-
Geochemistry	74	-	21,853	1,337	4,504	1,860	744	30,372	-
Legal and accounting fees	-	-	1,060	-	-	4,998	-	6,058	-
Licenses and taxes	-	-	4,160	-	193	-	-	4,353	-
Materials	-	-	1,467	128	103	43	241	1,982	-
Medical insurance	-	-	666	-	-	-	-	666	-
Property payments	-	-	31,382	-	714	-	-	32,096	-
Rent and utilities	-	-	5,008	-	-	1,041	-	6,049	-
Salaries and wages	89	-	3,294	694	1,994	2,975	-	9,046	-
Shipping and courier	-	-	252	-	-	-	-	252	-
Telephone	1,331	818	2,568	24	155	212	-	5,108	-
Travel and accommodation	12,419	-	19,318	830	3,147	1,444	161	37,319	-
	16,178	839	257,437	16,472	39,365	32,245	5,505	368,041	-
Less: write-off of deferred exploration costs	-	-	(257,437)	-	-	-	-	(257,437)	-
Balance, end of year	\$ 16,178	\$ 839	\$ -	\$ 16,472	\$ 39,365	\$ 32,245	\$ 5,505	\$ 110,604	\$ -

SEE ACCOMPANYING NOTES

NORTH AMERICAN GOLD INC.
(formerly Consolidated Newen Enterprises Inc.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
January 31, 2004 and 2003

Note 1

Nature and Continuance of Operations

North American Gold Inc. (formerly Consolidated Newen Enterprises Inc.) (the "Company") is a public company incorporated on March 13, 1987 under the Company Act of British Columbia and is in the business of acquiring, exploring and evaluating mineral resource properties, and either joint venturing or developing these properties further or disposing of them when the evaluation is completed. On April 7, 2003, the Company consolidated its share capital on the basis of five old shares for one new share and changed its name to North American Gold Inc. At January 31, 2004, the Company was in the exploration stage and had interests in properties located in Canada, the United States of America and Sweden.

The recoverability of amounts shown for resource properties is dependent upon the discovery of economically recoverable reserves, continuation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain financing to complete their development, and future profitable production or disposition thereof.

The financial statements have been prepared using Canadian generally accepted accounting principles applicable for a going concern which assumes that the Company will realize its assets and discharge its liabilities in the ordinary course of business. As at January 31, 2004, the Company had not yet achieved profitable operations and has accumulated losses of \$5,917,811 since its inception. Its ability to continue as a going concern is dependent upon the ability of the Company to obtain the necessary financing to meet its obligations and pay its liabilities arising from normal business operations when they come due.

Note 2

Significant Accounting Policies

Management has prepared the financial statements of the Company in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared using careful judgment with reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

a) Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, NAU Gold Inc. and Midnight Gold Inc., companies which were incorporated during the year ended January 31, 2004 under the laws of the State of Nevada. All significant inter-company transactions have been eliminated upon consolidation. Subsequent to January 31, 2004, the Company dissolved Midnight Gold, Inc.

Note 2

Significant Accounting Policies (cont'd)

b) Resource Properties

The Company defers the cost of acquiring, maintaining its interest, exploring and developing resource properties until such time as the properties are placed into production, abandoned, sold or considered to be impaired in value. Costs of producing properties will be amortized on a unit of production basis and costs of abandoned properties are written-off. Proceeds received on the sale of interests in resource properties are credited to the carrying value of the resource properties, with any excess included in operations. Write-downs due to impairment in value are charged to operations.

The Company is in the process of exploring and developing its resource properties and has not yet determined the amount of reserves available. Management reviews the carrying value of resource properties on a periodic basis and will recognize impairment in value based upon current exploration results, the prospect of further work being carried out by the Company, the assessment of future probability of revenues from the property or from the sale of the property. Amounts shown for properties represent costs incurred net of write-downs and recoveries, and are not intended to represent present or future values.

c) Capital Assets and Amortization

Capital assets are recorded at cost and amortized over their estimated useful lives using the declining balance method as follows:

Furniture and equipment	20%
Computer equipment	30%

d) Financial Instruments

The carrying value of the Company's financial instruments, consisting of cash, accounts payable and accrued liabilities and due to related parties approximate their fair value due to the short-term maturity of such instruments. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

e) Stock-based Compensation

The Company has a stock-based compensation plan as disclosed in Note 5, whereby stock options are granted in accordance with the policies of regulatory authorities. The Company applies the "settlement method" of accounting for stock-based compensation awards. No compensation expense is recognized for those options when issued to employees and directors. Any consideration paid by employees and directors upon exercise of stock options is credited to share capital.

Note 2

Significant Accounting Policies (cont'd)

e) Stock-based Compensation – (cont'd)

Effective for fiscal years beginning on or after January 1, 2002, public companies are required to adopt the new recommendations of the Canadian Institute of Chartered Accountants regarding accounting for stock-based compensation. These new requirements require that all stock-based compensation payments to non-employees and director awards of stock to employees be accounted for using a fair value based method of accounting. However, the standard permits the Company to continue its existing policy of not recording compensation costs on the grant of stock options to employees with the addition of pro forma information. The Company has elected to apply the pro forma disclosure provision of the new standard to awards granted on or after February 1, 2002. The Company will adopt the new requirements on February 1, 2004, whereby the fair value of stock option awards to employees and directors will be recognized as an expense.

f) Basic and Diluted Loss Per Share

Basic loss per share ("LPS") is calculated by dividing loss applicable to common shareholders by the weighted average number of common shares outstanding for the year. Diluted LPS reflects the potential dilution that could occur if potentially dilutive securities were exercised or converted to common stock. Due to the losses, potentially dilutive securities were excluded from the calculation of diluted LPS, as they were anti-dilutive. Therefore, there was no difference in the calculation of basic and diluted LPS.

g) Income Taxes

The Company accounts for income taxes using the asset and liability method. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income taxes assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes only if it is more likely than not that they can be realized.

h) Foreign Currency Translation

Monetary items denominated in a foreign currency are translated into Canadian dollars at exchange rates prevailing at the balance sheet date and non-monetary items are translated at exchange rates prevailing when the assets were acquired or obligations incurred. Foreign currency denominated revenue and expense items are translated at exchange rates prevailing at the transaction date. Gains or losses arising from the translations are included in operations.

Note 3

Resource Properties – Schedule 1

Title to resource properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many resource properties. The Company has investigated title to all of its resource properties and, to the best of its knowledge, title to all of its properties are in good standing.

a) Sweden

Barsele

The Company entered into an agreement dated November 3, 2003 with Minmet plc (“Minmet”), a public company traded on the Dublin Stock Exchange, whereby the Company acquired the right to earn a 60% interest in the Barsele property concession in Northern Sweden for consideration consisting of 200,000 common shares of the Company issuable as follows:

- i) 50,000 common shares by February 1, 2004 (issued subsequent to year end);
- ii) 50,000 common shares by November 3, 2004;
- iii) 50,000 common shares by November 3, 2005; and
- iv) 50,000 common shares by November 3, 2006.

In addition, the Company must fund an exploration program in the minimum amount of US\$2,000,000 as follows:

- i) US\$500,000, including a minimum of 2,000 metres of drilling, within 12 months of the date of the agreement;
- ii) US\$1,250,000, including a minimum of 5,000 metres of drilling, within 24 months of the date of the agreement; and
- iii) US\$2,000,000, including a minimum of 10,000 metres of drilling within 36 months.

Norra

The Company entered into an agreement dated November 3, 2003 with Minmet whereby the Company acquired the right to earn a 60% interest in the Norra property concessions in northern Sweden for consideration consisting of 200,000 common shares of the Company issuable as follows:

- i) 50,000 common shares by February 1, 2004 (issued subsequent to year end);
- ii) 50,000 common shares by November 3, 2004;
- iii) 50,000 common shares by November 3, 2005; and
- iv) 50,000 common shares by November 3, 2006.

Note 3

Resource Properties – Schedule 1 (cont'd)

a) Sweden – (cont'd)

Norra – (cont'd)

In addition, the Company must fund exploration in the minimum amount of US\$1,500,000 as follows:

- i) US\$250,000, including a minimum of 1,000 metres of drilling, within 12 months of the date of the agreement;
- ii) US\$750,000, including a minimum of 3,000 metres of drilling, within 24 months of the date of the agreement; and
- iii) US\$1,500,000, including a minimum of 5,000 metres of drilling, within 36 months of the date of the agreement.

b) USA

Gold Springs

Pursuant to an agreement dated February 13, 2003 with a company related by virtue of a common director, the Company acquired an option to earn, subject to a 3% net smelter royalty, a 100% interest in 48 mineral claims in Nevada and 2 mineral claims in Utah (“the Baughman claims”). Also, pursuant to an agreement dated March 27, 2003 with a company related by virtue of a common director, the Company acquired an option to assume, subject to a 4% net smelter royalty, a lease of 2 mineral claims in Utah. (“the Burgess claims”). The Baughman claims and the Burgess claims were collectively known as the Gold Springs project.

i) Baughman Claims

The Baughman claims option was exercisable for consideration consisting of \$125,000, 200,000 shares of the Company and by incurring aggregate exploration expenditures of US\$2,000,000 as follows:

- paying US\$20,000 (paid) and issuing 50,000 shares (issued) within five business days following approval by the TSX Venture Exchange (“TSXV”);
- paying US\$25,000 and issuing 50,000 shares by December 31, 2003;
- incurring exploration expenditures of at least US\$300,000 by December 31, 2003;
- paying US\$30,000 and issuing 50,000 shares by December 31, 2004;
- incurring exploration expenditures in aggregate of US\$1,000,000 by December 31, 2004;
- paying US\$50,000 and issuing 50,000 shares; and
- incurring exploration expenditures in the aggregate of US\$2,000,000 by December 31, 2005.

Note 3 **Resource Properties – Schedule 1 (cont'd)**

b) USA – (cont'd)

Gold Springs – (cont'd)

ii) Burgess Claims

The Burgess claims option was exercisable for consideration consisting of:

- a) paying all costs necessary to maintain the underlying lease in good standing.
- b) paying advance royalty payments as follows:

- US\$2,700 within five business days following the approval by the TSXV (paid);
- US\$3,500 by February 27, 2004;
- US\$5,000 by February 27, 2005;
- US\$6,000 by February 27, 2006; and
- US\$7,500 by February 27, 2007 and annually thereafter.

During the year ended January 31, 2004, the Company decided, based on its exploration work to date, to do no further exploration on the Gold Springs project and \$46,768 in acquisition costs and \$261,083 in deferred exploration expenditures were written-off to operations.

Brik and Empey Claims

The Company acquired the Brik and Empey claims in Nevada by incurring staking costs.

c) Canada

60 Mile

The Company acquired the 60 Mile claims in the Yukon Territory by incurring staking costs.

Note 4 **Capital Assets**

	2004			2003
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>	<u>Net</u>
Furniture and equipment	\$ 6,054	\$ 6,053	\$ 1	\$ 1
Computer equipment	<u>2,607</u>	<u>646</u>	<u>1,961</u>	<u>-</u>
	<u>\$ 8,661</u>	<u>\$ 6,699</u>	<u>\$ 1,962</u>	<u>\$ 1</u>

Note 5 **Capital Stock – Note 9**

a) Authorized

100,000,000 common shares without par value

Issued:	2004		2003	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Balance, beginning of the year	2,420,487	\$4,474,550	2,420,487	\$4,474,550
Issued pursuant to agreements to settle debts with shares – at \$0.20	2,911,479	582,296	-	-
1 for 5 share consolidation	(4,265,573)	-	-	-
	1,066,393	5,056,846	2,420,487	4,474,550
Issued pursuant to agreements to settle debts with shares – at \$0.20	1,625,000	325,000	-	-
Pursuant to property agreement – at \$0.10	50,000	5,000	-	-
Issued for cash:				
– pursuant to a private placement – at \$0.10	2,700,000	270,000	-	-
– at \$0.30	2,900,001	870,001	-	-
Less: issuance costs	-	(57,950)	-	-
– pursuant to the exercise of warrants – at \$0.15	267,000	40,050	-	-
– pursuant to the exercise of options – at \$0.30	20,000	6,000	-	-
Balance, end of year	<u>8,628,394</u>	<u>\$6,514,947</u>	<u>2,420,487</u>	<u>\$4,474,550</u>

Note 5 **Capital Stock – Note 9 (cont'd)**

b) Commitments

Stock-based Compensation

A summary of the stock options granted under the Company's stock option plan is as follows:

	Year ended January 31,		Year ended January 31,	
	2004		2003	
	Number of <u>Options</u>	Weighted Average Exercise <u>Price</u>	Number of <u>Options</u>	Weighted Average Exercise <u>Price</u>
Outstanding, beginning of year	-	-	-	-
Granted	655,000	\$0.37	-	-
Exercised	<u>(20,000)</u>	<u>\$0.30</u>	<u>-</u>	<u>-</u>
Outstanding, end of year	<u>635,000</u>	<u>\$0.37</u>	<u>-</u>	<u>-</u>

At January 31, 2004, the following employee and director common share purchase options were outstanding entitling the holder thereof the right to purchase one common share for each purchase option held:

<u>Number of Shares</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
20,000	\$0.30	February 15, 2004
50,000	\$0.30	June 30, 2004
360,000	\$0.30	May 25, 2008
155,000	\$0.48	October 20, 2008
<u>50,000</u>	<u>\$0.66</u>	<u>November 20, 2008</u>
<u>635,000</u>		

During the year ended January 31, 2004, stock-based compensation expense of \$145,650, associated with the granting of options to employees and directors has not been recorded in the financial statements, but included in the pro forma amounts below. The fair value was determined using the Black-Scholes option pricing model with the following assumptions:

Expected dividend yield	0.0%
Expected volatility	83.1%
Risk-free interest rate	3.60%-3.88%
Expected term in years	5

Note 5 **Capital Stock – Note 9 (cont'd)**

b) Commitments

Stock-based Compensation

Had the fair value method been used for those options issued to employees and directors, the Company's net loss and loss per share would have been adjusted to the pro forma amounts indicated below:

		Year ended <u>January 31, 2004</u>
Net loss	As reported	\$ (139,818)
	Stock-based compensation	(145,650)
	Pro forma	\$ (285,468)
Basic and diluted loss per share	As reported	\$ (0.02)
	Pro forma	\$ (0.05)

Share Purchase Warrants

At January 31, 2004, the following share purchase warrants were outstanding entitling the holder thereof the right to purchase one common share for cash warrant held:

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
2,433,000	\$0.15	April 7, 2004
1,807,501	\$0.50	June 29, 2004
<u>4,240,501</u>		

Subsequent to January 31, 2004, the Company repriced 1,807,501 share purchase warrants expiring June 29, 2004 from \$0.50 per share to \$0.60 per share and extended the expiry date to June 29, 2005. Subsequent to January 31, 2004, 12,000 share purchase warrants with an exercise price of \$0.15 per share expired unexercised.

Note 6 **Non-cash Transactions**

Investing and financing that do not have a direct impact on current cash flows are excluded from the cash flow statements. During the year ended January 31, 2004, the following transactions were excluded:

- the Company issued 2,911,479 pre-consolidation shares at \$0.20 per share and 1,625,000 post-consolidated shares at \$0.20 per share pursuant to agreements to settle debts for shares.
- the Company issued 50,000 common shares at \$0.10 per share for a total of \$5,000 pursuant to a resource property agreement.

Note 7 **Corporation Income Taxes**

The Company has accumulated \$751,536 in Canadian and foreign development and exploration resource expenditures and \$762,570 in non-capital losses which are available to offset future years' taxable income. The non-capital losses expire as follows:

2007	\$	159,814
2008		312,722
2009		132,854
2010		110,025
2011		<u>47,155</u>
	\$	<u>762,570</u>

The significant components of the Company's future income tax assets are as follows:

	<u>2004</u>	<u>2002</u>
Non-capital losses	\$ 288,151	\$ 285,600
Canadian development and exploration expenditures	<u>282,578</u>	<u>276,000</u>
	570,729	561,600
Less: valuation allowance	(<u>570,729</u>)	(<u>561,600</u>)
	\$ <u> </u>	\$ <u> </u>

The Company has recorded a valuation allowance against its future income tax assets based on the extent to which it is more-likely-than-not that sufficient taxable income will not be realized during the carry-forward period to utilize all the future tax assets.

Note 8 **Related Party Transactions – Note 3**

The Company incurred charges with companies having a common director or officer as follows:

	Years ended January 31,	
	<u>2004</u>	<u>2003</u>
Consulting fees	\$ 11,965	\$ -
Deferred exploration costs – consulting fees	<u>71,000</u>	<u>-----</u>
	<u>\$ 82,965</u>	<u>\$ -----</u>

These charges were measured by the exchange amount, which is the amount agreed upon by the transacting parties.

At January 31, 2004, accounts payable included \$10,121 (2003: \$251,995) due to a director of the Company and to a company with a common director.

At January 31, 2004, due to related parties consists of amounts owing to a director and a company with a common director totaling \$28,956 (2003: \$517,537) which are unsecured, non-interest bearing and have no specific terms for repayment.

During the year ended January 31, 2004, 1,157,634 shares were issued at \$0.20 per share totaling \$231,527 pursuant to debt settlement agreements with former directors of the Company.

Note 9 **Subsequent Events – Notes 3 and 5**

Subsequent to January 31, 2004:

- a) the Company issued 100,000 common shares at \$0.45 per share pursuant to resource property option agreements (Note 3);
- b) the Company issued 4,650,000 units at \$0.50 per unit for net proceeds totaling \$2,325,000 pursuant to a private placement. Each unit consists of one share and one half share purchase warrant. Each full warrant will entitle the holder to purchase one additional share of the Company at \$0.75 per share for a period of two years. The fees paid by the Company in respect of this private placement totaled \$149,382. The Company also issued the agents 26,737 units and 465,000 share purchase warrants which are exercisable into one common share at \$0.75 per share for a period of one year;
- c) the Company issued 2,421,000 common shares at \$0.15 per share pursuant to the exercise of share purchase warrants outstanding at January 31, 2004 for total proceeds of \$366,150;

Note 9

Subsequent Events – Notes 3 and 5 – (cont'd)

- d) The Company issued 20,000 shares at \$0.30 per share pursuant to the exercise of share purchase options outstanding at January 31, 2004 for total proceeds of \$6,000;
- e) the Company granted 100,000 share purchase options at \$0.50 per share exercisable for a period of five years;
- f) the Company granted 500,000 share purchase options at \$0.37 per share exercisable for a period of five years; and
- g) the Company granted 50,000 share purchase options at \$0.50 per share exercisable for a period of 5 years.

Note 10

Comparative Figures

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