

REDSTAR GOLD CORP.
UNAUDITED FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

G. Ross McDonald*

Chartered Accountant

*Denotes incorporated professional

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NOTICE TO READER

I have compiled the balance sheet of Redstar Gold Corp. as at September 30, 2004 and statement of operations and deficit and cash flows for the six-month period then ended from information provided by the Company. I have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information. Readers are cautioned that these statements may not be appropriate for their purposes.

"G. Ross McDonald" (signed)

G. Ross McDonald
Chartered Accountant

Vancouver, British Columbia
November 16, 2004

REDSTAR GOLD CORP.**BALANCE SHEETS****September 30, 2004****(Unaudited - See Notice to Reader)**

	September 30, 2004	March 31, 2004
	(Unaudited)	(Audited)
ASSETS		
CURRENT ASSETS		
Cash and short term deposits	\$ 50,879	\$ 46,217
Accounts receivable	13,187	35,242
Prepaid expenses and advances	21,489	32,114
	85,555	113,573
MINERAL PROPERTIES (Note 3)	1,563,540	1,398,742
EQUIPMENT (Note 4)	13,620	14,385
	\$ 1,662,715	\$ 1,526,700
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 32,625	\$ 49,065
Due to related parties (Note 6)	283,424	261,168
	316,049	310,233
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 5)	6,349,775	6,100,427
OPTION COMPENSATION (Note 5(b))	175,119	132,113
SHARE PURCHASE WARRANTS (Note 5(a))	14,500	14,500
CONTRIBUTED SURPLUS	71,806	71,806
DEFICIT	(5,264,534)	(5,102,379)
	1,346,666	1,216,467
	\$ 1,662,715	\$ 1,526,700

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)

SUBSEQUENT EVENTS (Note 10)

APPROVED BY THE BOARD

"J. Patrick Nicol"

Director - J. Patrick Nicol

"Douglas A. Fulcher"

Director - Douglas A. Fulcher

REDSTAR GOLD CORP.

STATEMENTS OF OPERATIONS AND DEFICIT

For the Six Months Ended September 30

(Unaudited - See Notice to Reader)

	For the Three Months Ended September 30,		For the Six Months Ended September 30,	
	2004	2003	2004	2003
EXPENSES				
Stock-based compensation	\$ 21,503	\$ 8,860	\$ 43,006	\$ 17,639
Management fees	19,000	(350)	40,300	23,500
Salaries and benefits	15,927	38,565	31,855	58,370
Business promotion	8,157	15,257	30,657	23,681
Investor relations	10,000	1,500	25,000	1,500
Professional fees	8,558	(2,101)	21,558	20,321
Rent	8,709	10,660	21,335	18,518
Office and miscellaneous	6,419	5,472	12,925	7,281
Listing and regulatory fees	6,694	5,319	7,992	6,817
Transfer agent	4,438	8,386	5,200	9,023
Telephone	1,153	2,130	2,456	3,207
Amortization	993	636	1,986	1,273
Less: Interest earned	(65)	(642)	(98)	(1,136)
Expense recoveries	(1,270)	-	(1,270)	-
	110,216	93,692	242,902	189,994
OTHER EXPENSES				
General exploration	-	253	2,500	253
Option income	(51,864)	-	(83,247)	-
LOSS FOR THE PERIOD	58,352	93,945	162,155	190,247
DEFICIT, BEGINNING OF PERIOD	5,206,182	4,599,398	5,102,379	4,503,096
DEFICIT, END OF PERIOD	\$ 5,264,534	\$ 4,693,343	\$ 5,264,534	\$ 4,693,343
BASIC AND DILUTED LOSS				
PER SHARE	\$ 0.00	\$ 0.01	\$ 0.01	\$ 0.02
WEIGHTED AVERAGE NUMBER OF				
SHARES OUTSTANDING	19,995,079	15,768,883	19,995,079	15,768,883

REDSTAR GOLD CORP.

STATEMENTS OF CASH FLOWS

For the Six Months Ended September 30

(Unaudited - See Notice to Reader)

	For the Three Months Ended September 30,		For the Six Months Ended September 30,	
	2004	2003	2004	2003
CASH PROVIDED BY (USED FOR):				
OPERATING ACTIVITIES				
Loss for the period	\$ (58,352)	\$ (93,945)	\$ (162,155)	\$ (190,247)
Items not involving cash				
Amortization	993	636	1,986	1,273
Stock-based compensation	21,503	8,860	43,006	17,639
	(35,856)	(84,449)	(117,163)	(171,335)
Net change in non-cash working capital items				
Accounts receivable	(2,152)	(23,252)	22,055	(24,796)
Prepaid expenses and advances	7,471	156,652	10,625	45,168
Accounts payable and accrued liabilities	(27,740)	(25,130)	(16,440)	(10,289)
Due to related parties	(56,553)	-	22,256	-
	(114,830)	23,821	(78,667)	(161,252)
INVESTING ACTIVITIES				
Mineral property exploration and development expenditures	-	(269,913)	(25,270)	(322,427)
Mineral property acquisition costs	(92,853)	(144,626)	(118,528)	(159,626)
Equipment	-	-	(1,222)	(1,916)
	(92,853)	(414,539)	(145,020)	(483,969)
FINANCING ACTIVITIES				
Issuance of share capital for cash	228,349	26,000	228,349	422,307
INCREASE (DECREASE) IN CASH	20,666	(364,718)	4,662	(222,914)
CASH, BEGINNING OF PERIOD	30,213	370,344	46,217	228,540
CASH, END OF PERIOD	\$ 50,879	\$ 5,626	\$ 50,879	\$ 5,626

Supplemental disclosure with respect to cash flows (Note 8)

REDSTAR GOLD CORP.

NOTES TO THE FINANCIAL STATEMENTS

For the Six Months Ended September 30, 2004

(Unaudited - See Notice to Reader)

1. NATURE OF OPERATIONS AND GOING CONCERN

The Company is an exploration stage company engaged principally in the acquisition, exploration and development of mineral properties. The recovery of the Company's investment in mineral properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development and the future proceeds from the disposition of those reserves.

At September 30, 2004, the Company has working capital deficiency of \$230,494 which, together with the private placement announced subsequent to the period end (Note 10(a)), will be insufficient to achieve the Company's planned corporate and administrative expenses for the coming year. The Company will require additional financing or outside participation, to undertake further exploration and subsequent development of its mineral properties. The Company's ability to continue as a going concern is dependent on continued financial support from its shareholders, the ability of the Company to raise equity financing, and the attainment of profitable operations, external financings and further share issuances to meet the Company's liabilities as they become payable.

These financial statements have been prepared on a going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of business. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary, should the Company be unable to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with accounting policies generally accepted in Canada and reflect the following policies.

(a) Basis of Presentation

The accompanying unaudited interim financial statements are prepared in accordance with generally accepted accounting principles ("GAAP") in Canada with respect to the preparation of interim financial statements. Accordingly, they do not include all of the information and disclosures required by Canadian GAAP in the preparation of annual financial statements. The accounting policies used in the preparation of the accompanying unaudited interim financial statements are the same as those described in the annual financial statements and the notes thereto for the year ended March 31, 2004. In the opinion of management, all adjustments considered necessary for fair presentation have been included in these financial statements. The interim financial statements should be read in conjunction with the Company's financial statements including the notes thereto for the year ended March 31, 2004.

(b) Use of Estimates

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

3. MINERAL PROPERTIES

(a) West Red Lake Properties, Red Lake Division, Ontario

The Company signed a letter option agreement (as amended), to acquire a 51% interest in 51 mineral claims located in the Red Lake District of Ontario. To exercise the option the Company must make, in stages, cash payments of \$135,000 and issue 500,000 common shares, to the optionor and incur \$2,575,000 in exploration expenditures on the property as follows:

REDSTAR GOLD CORP.

NOTES TO THE FINANCIAL STATEMENTS

For the Six Months Ended September 30, 2004

(Unaudited - See Notice to Reader)

3. MINERAL PROPERTIES (continued)

(i) Shares and cash payments

- 125,000 common shares and \$15,000 upon regulatory approval (issued and paid)
- 125,000 common shares and \$35,000 on or before May 6, 2003 (issued and paid)
- 125,000 common shares and \$35,000 on or before May 6, 2004 (issued, payment extended to December 31, 2004)
- 125,000 common shares and \$50,000 on or before May 6, 2005
- 150,000 common shares on amended agreement (issued)

(ii) Work expenditures

- \$450,000 on or before May 6, 2003 (expended)
- \$600,000 on or before May 6, 2004 (expended)
- \$650,000 on or before May 6, 2005
- \$875,000 on or before May 6, 2006

In addition the Company is responsible for the cash payments applicable to the underlying agreements in respect of the claims as follows:

- \$ 46,000 on or before September 1, 2002 (paid)
- \$ 94,000 on or before September 1, 2003 (paid)
- \$201,000 on or before September 1, 2004 (extended to December 31, 2004)
- advance royalties of \$40,000 per year thereafter.

An additional 9% interest can be earned by incurring \$3,000,000 in exploration expenditures on the property.

Certain of the mineral claims are subject to a 2% net smelter return royalty, one-half of which may be purchased for up to \$2,000,000.

The Company signed a letter of intent to acquire a 100% interest in 32-patented mineral claims in the area of interest of the other claims. Under the terms of the agreement the Company must make cash payments of \$50,500 (\$15,000 paid) and issue 100,000 common shares (50,000 issued) over a two-year period. The property is subject to a 1% net smelter returns royalty that may be purchased for \$1,000,000.

(b) Newman Todd Property, Red Lake Division, Ontario

The Company acquired a 100% interest in 12 freehold mineral claims located in the Red Lake District of Ontario by paying \$25,000 and issuing 50,000 common shares at a deemed value of \$10,000 and 100,000 share purchase warrants that have been assigned a fair value of \$14,500. The vendor has retained a 1.5% net smelter return royalty if the gold price is less than or equal to US \$400 per ounce or 2% if greater than \$400 per ounce. The property is also subject to an underlying 15% net profits interest.

The Company has granted an option on the Newman Todd Property to permit the optionee to acquire a 60% interest in the property by incurring up to US\$750,000 in exploration expenditures and cash payments to the Company of up to US\$215,000, in stages, to June 2, 2007. On exercise of the option the Company's interest in the property would be reduced to 18% under the area of influence terms of the West Red Lake Properties agreement.

During the period ended September 30, 2004, the Company received an option payments of \$85,709 (US \$65,000) of which \$83,247 has been taken into income in these financial statements.

REDSTAR GOLD CORP.

NOTES TO THE FINANCIAL STATEMENTS

For the Six Months Ended September 30, 2004

(Unaudited - See Notice to Reader)

3. MINERAL PROPERTIES (continued)

(c) Atikokan Property, Thunder Bay Division, Ontario

The Company signed a letter agreement, to acquire a 100% interest in 11 mineral claims located in the Thunder Bay Mining Division of Ontario. To exercise the option the Company must make, in stages, cash payments of \$220,000 and issue 350,000 common shares, to the optionor and incur \$875,000 in exploration expenditures on the properties as follows:

- (i) Shares and cash payments
 - 75,000 common shares and \$15,000 upon regulatory approval (issued and paid)
 - 60,000 common shares and \$25,000 on or before April 30, 2005
 - 60,000 common shares and \$30,000 on or before April 30, 2006
 - 55,000 common shares and \$50,000 on or before April 30, 2007
 - 100,000 common shares and \$100,000 on or before April 30, 2008

- (ii) Work expenditures
 - \$450,000 on or before April 30, 2005
 - \$600,000 on or before April 30, 2006
 - \$650,000 on or before April 30, 2007
 - \$875,000 on or before April 30, 2008

The mineral claims are subject to a 3% net smelter return royalty, 2% of which may be purchased for \$1,000,000 per percentage point.

An additional 13 mineral claims were acquired in consideration of \$10,270 in staking costs.

Expenditures made on mineral properties by the Company during the period were as follows:

	West Red Lake	Newman Todd	Atikokan	Total
Acquisition costs	\$ 12,000	\$ -	\$ 34,270	\$ 46,270
Deferred exploration expenditures				
Assay	1,586	-	10,751	12,337
Camp and support costs	-	-	3,633	3,633
Contract labour	12,000	-	37,750	49,750
Drilling	5,153	-	-	5,153
Equipment rental	10,338	-	-	10,338
Geological consulting	-	-	5,127	5,127
Materials and supplies	3,057	-	-	3,057
Recording fees	3,037	-	-	3,037
Recoveries	-	(2,462)	-	(2,462)
Travel	204	-	28,354	28,558
	<u>35,375</u>	<u>(2,462)</u>	<u>85,615</u>	<u>118,528</u>
	<u>47,375</u>	<u>(2,462)</u>	<u>119,885</u>	<u>164,798</u>
Balance at beginning of period	1,396,280	2,462	-	1,398,742
Balance at end of period	<u>\$ 1,443,655</u>	<u>\$ -</u>	<u>\$ 119,885</u>	<u>\$ 1,563,540</u>

REDSTAR GOLD CORP.**NOTES TO THE FINANCIAL STATEMENTS**

For the Six Months Ended September 30, 2004

(Unaudited - See Notice to Reader)

4. EQUIPMENT

Equipment is comprised of office furniture and computer equipment are recorded at cost net of accumulated amortization of \$16,970.

5. SHARE CAPITAL

Authorized:

99,953,125 common shares without par value

Issued:	Number of Shares	Amount
Balance at March 31, 2002	22,944,573	\$ 4,005,891
Consolidation (1:6)	(19,120,477)	-
Escrow shares cancelled	(46,875)	(49,103)
	3,777,221	3,956,788
Issued during the year		
Private placement for cash	7,786,348	1,009,622
Exercise of share purchase warrants for cash	97,361	19,472
Debt settlement	810,824	121,624
Mineral properties	190,000	48,650
	8,884,533	1,199,368
Balance at March 31, 2003	12,661,754	5,156,156
Private placement for cash (net)	4,367,333	486,732
Exercise of share purchase warrants for cash	997,000	190,135
Exercise of stock options for cash	671,834	124,017
Mineral properties	325,000	49,750
Stock-based compensation	-	93,637
	<small>6,361,167</small>	<small>944,271</small>
Balance at March 31, 2004	19,022,921	6,100,427
Private placement for cash (net)	2,570,000	228,348
Mineral properties	225,000	21,000
Balance at September 30, 2004	21,817,921	\$ 6,349,775

(a) Share Purchase Warrants

The Company has outstanding share purchase warrants as at September 30, 2004, which entitle the holders to purchase common shares as follows:

Number of Shares	Exercise Price	Expiry Date
723,000	\$0.20	October 22, 2004
45,000	\$0.25	October 22, 2004
1,285,000	\$0.15	July 29, 2005
506,000	\$0.15	July 29, 2005
2,559,000		

REDSTAR GOLD CORP.

NOTES TO THE FINANCIAL STATEMENTS

For the Six Months Ended September 30, 2004

(Unaudited - See Notice to Reader)

5. SHARE CAPITAL (continued)

(b) Stock Options

As at September 30, 2004, the Company had stock options outstanding to directors, employees and consultants for the purchase of up to 1,663,334 common shares exercisable as follows:

Number of Shares	Exercise Price	Expiry Date
10,834	\$0.20	March 5, 2005
260,000	\$0.20	June 12, 2007
680,000	\$0.12	April 4, 2008
712,500	\$0.18	September 11, 2008
<u>1,663,334</u>		

6. RELATED PARTY TRANSACTIONS

- (a) The Company conducts the majority of its exploration activities through an exploration services contractor in which a director is a principal. The Company paid that contractor \$84,350 for exploration costs and \$101,501 to reimburse office and administrative costs including \$25,300 for management fees. As at September 30, 2004, the Company owed \$271,004 to that contractor.
- (b) Management fees of \$15,000 and \$15,776 for rental of shared office premises was paid to a company in which a director is a principal; as at September 30, 2004, the Company owed that company \$8,027.
- (c) As at September 30, 2004, the Company owed \$4,393 to a company with two directors in common.

7. SEGMENTED INFORMATION

The Company has one operating segment, mineral exploration and development. All of the Company's assets are located in Canada.

8. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

During the period ended September 30, 2004 the Company issued 225,000 common shares valued at \$21,000 for mineral property interests.

9. COMMITMENT

During 2003, the Company entered into a lease agreement for the rental of office premises for a six-year period October 31, 2009. The cost of the entire premises is shared primarily between the Company and two companies related by a common director. The Company's proportionate share of minimum annual rental payments under this arrangement is approximately \$33,000.

REDSTAR GOLD CORP.
Management's Discussion & Analysis

FORM 51-102F1

**For the Period Ending
September 30, 2004**

The following management discussion and analysis of the financial position of Redstar Gold Corp. ("Redstar" or the "Company") and results of operations of the Company should be read in conjunction with the unaudited and audited financial statements including the notes thereto for the periods ending September 30, 2004 and March 31, 2004, respectively.

The accompanying unaudited financial statements and related notes are presented in accordance with Canadian generally accepted accounting principles. These statements, together with the following management's discussion and analysis dated November 25, 2004 ("Report Date"), are intended to provide investors with a reasonable basis for assessing the financial performance of the Company as well as forward-looking statements relating to the potential future performance. The information in the MD&A may contain forward-looking statements. These statements are subject to known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those implied by the forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are advised to consider such forward-looking statements in light of the risks as set forth below.

Additional information relating to the Company may be found on SEDAR at www.sedar.com.

Overall Performance

The Company is a junior mining and exploration organization engaged in the exploration and subsequent development of prospective mineral targets in the Red Lake and Atikokan regions in northwestern Ontario. For the period ending September 30, 2004, the Company issued 2,570,000 units (including 40,000 commission units) at a price of \$0.10 to raise gross proceeds of \$253,000.

The funds raised from the private placement have been primarily spent on the Company's Red Lake and Atikokan properties. Capitalized costs on the Red Lake properties increased \$47,375 to \$1,443,655 while \$34,720 in acquisition costs and \$85,615 in exploration costs were spent on the Atikokan properties. Monies that were received from the private placement will not be sufficient to achieve the Company's planned exploration program and administrative expenses. As at the date thereof, the Company has a working capital deficiency of \$230,494.

Administrative expenses during the period (\$110,216) represent an 18% increase over the same period last year (\$93,692). The increase is primarily due to an overall increase in corporate activity associated with the addition of administrative staff and business promotion. The Company anticipates that administrative expenses in Fiscal 2005 will not change materially from current levels.

Results of Operations

In fiscal 2004, the Company completed a mechanical stripping, mapping and surface sampling program on the Biron Bay property in Red Lake. Detailed sampling and mapping outlined a gold mineralized structural zone within mafic and felsic volcanic rocks and sulphidized iron formations. The zone has been exposed in a series of four stripped outcrops (L1 – L4) along a strike length of approximately 1.1 kilometres. Zones L1, L2 and L3 are interpreted to occur along a single mineralized structure whereas the L4 zone is hosted within sulphidized iron formations.

Anomalous gold values were collected along the entire strike of the exposed areas, with significant values as high as 22.10 grams per ton over 0.50 meters (see Table 1 for significant values.) A table of results from the L1, L2 and L3 zones are set out below:

<u>Zone</u>	<u>Au</u> <u>g/t</u>	<u>Channel Length</u> <u>(m)</u>
L1	19.25	0.60
L1	8.54	0.50
L1	8.04	0.50
L1	4.94	0.60
L1	4.60	0.50
L1	4.47	0.50
L2	22.1	0.50
L2	5.97	0.50
L2	3.56	0.50
L2	2.77	1.00
L3	1.15	1.00
L4	2.70	2.00
L4	1.18	1.00
L4	7.78	0.10

Field crews also completed a geochemical soil sampling program on the Pipestone North and Wolf Bay properties. The Pipestone North property is located immediately north of Biron Bay and the Wolf Bay property is adjacent to the Redstar/Rubicon/AngloGold held Newman Todd property.

In January and February 2004, the Company completed a 1,500 metre diamond drill program designed to test previously undrilled high-grade surface showings discovered on the Biron Bay and Pipestone North targets. Of the four drill holes that were completed, three holes tested the ledge showings on the Biron Bay properties and one hole tested the 991 showing on the Pipestone North property

Biron Bay Drilling

The intersections in these holes are very similar to the mineralization observed on surface, and confirm the continuity of the Ledge showing at depth.

Hole WRL04-003 was drilled under the Ledge showing and intersected 7.66 g/t gold over 0.91 metres including 30.9 g/t gold over 0.14 metres. Hole WRL04-001 was drilled 200 metres along strike from WRL04-003 and intersected 3.25 g/t gold over 1.34 metres including 4.27g/t gold over 0.85 metres. This intersection is within a strongly biotite altered felsic volcanic unit with minor chalcopyrite bearing quartz veins. Drill hole WRL04-002 was drilled midway between holes 1 and 3 and encountered a mafic dyke unit at depth, and consequently no significant gold values were returned.

Pipestone North Drilling

Drill hole WRL04-004 was drilled under the 991 showing, and intersected a 200 metre wide zone of strongly quartz and sericite altered felsic stratigraphy with pyrite and chalcopyrite stringer mineralization and anomalous gold values. The zone consists of numerous intersections of copper up to 0.23% over 5.5 metres with isolated gold values up to 228 ppb. This is the widest zone of anomalous copper mineralization observed on the property, and

previous work has indicated a correlation between gold grades and copper mineralization. In order to establish a framework for future drilling, the hole was designed to test stratigraphy and therefore did not test the north-south oriented gold bearing quartz veins previously sampled on surface. Additional drilling is planned to test these veins, as the 200 metre wide zone confirms the presence of a large mineralized system.

As at the date hereof, the Company has not completed any additional exploration on the Red Lake properties. At the period ending June 30, 2004, the Company has spent a total of \$1,443,655 in exploration on its Red Lake properties and to date has met the work expenditures as outlined in the agreement between the Company and Rubicon Minerals Corp. On or before September 1, 2004, the Company is required to make cash payments of \$201,000 pursuant to underlying agreements with respect to the Red Lake properties and spend \$650,000 in exploration by May 6, 2005. Pursuant to an amending agreement between the Company and Rubicon, the Company has been granted an extension until December 31, 2004 to make the cash payments.

Atikokan Property

In late July, exploration crews began the Phase One program on the Sunshine Road project. The program, consisting of regional analysis, mapping, stripping and sampling was designed to follow up on historical work that included grab samples grading as high as 66.0 grams per tonne gold.

Approximately 400 vein and wall rock samples were taken over the three week program. While geologically interesting, the results of the sampling did not meet the high grade gold samples encountered in the historical samples. Geologists are currently evaluating the potential for other areas of the Sunshine Road property. The total cost of the Phase One exploration program was \$85,615.

Summary of Quarterly Results

	Income (Loss) before discontinued operations \$	Net Income (Loss) per share \$	Revenue \$
September 30, 2004	(58,352)	0.00	51,864*
June 30, 2004	(82,300)	(0.01)	31,383*
March 31, 2004	(188,651)	(0.01)	-
December 31, 2003	(85,736)	(0.01)	-
September 30, 2003	(93,692)	(0.01)	-
June 30, 2003	(96,555)	(0.01)	-
March 31, 2003	(86,015)	(0.01)	-
December 31, 2002	(72,796)	(0.01)	-

*Option income.

Fluctuations in the Company's expenditures reflect the seasonal variations of exploration and the ability of the Company to raise capital for its projects. For example in June 2003 and September 2004, the Company had exploration programs on the Red Lake properties and Atikokan properties, which in turn, raises costs associated with promotion, travel, and general expenses. In addition, expenditures in these periods are also higher due to fund

raising activities. The loss in the quarter ending March 31, 2004 is significantly higher due to stock-based compensation expense associated with the exercise of 671,834 options.

Liquidity

The financial statements are prepared on a 'going concern' basis, which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. As at September 30, 2004, the Company has a working capital deficiency of \$230,494 and an accumulated deficit of \$5,264,534. The Company's ability to continue as a going concern is dependent on the ability of the Company to raise equity financing and the attainment of profitable operations.

The Company also has the following share purchase warrants and incentive stock options as at the date hereof available for exercise:

Warrants

Number of Shares	Exercise Price	Expiry Date
723,000	\$0.20	October 22, 2004
45,000	\$0.25	October 22, 2004
1,285,000	\$0.15	July 29, 2005
506,000	\$0.15	July 29, 2005
2,559,000		

Options

Number of Shares	Exercise Price	Expiry Date
10,834	\$0.20	March 5, 2005
260,000	\$0.20	June 12, 2007
680,000	\$0.12	April 4, 2008
712,500	\$0.18	September 11, 2008
1,663,334		

The Company has no long-term liabilities. Outstanding obligations include rent of an office premise, which is in the second year of a six-year lease.

Capital Resources

The Company's primary capital assets are mineral property assets. The company capitalizes all costs related to the mineral properties until the properties are abandoned and written-off.

All of the Company's mineral property agreements are non-binding.

Red Lake

To maintain its interest in the Red Lake properties, the Company must commit to the following:

(i) Shares and cash payments

- 125,000 common shares and \$15,000 upon regulatory approval (issued and paid)
- 125,000 common shares and \$35,000 on or before May 6, 2003 (issued and paid)
- 125,000 common shares and \$35,000 on or before May 6, 2004 (issued, payment extended to December 31, 2004)
- 125,000 common shares and \$50,000 on or before May 6, 2005
- 150,000 common shares on amended agreement (issued)

(ii) Work expenditures

- \$450,000 on or before May 6, 2003 (expended)
- \$600,000 on or before May 6, 2004 (expended)
- \$650,000 on or before May 6, 2005
- \$875,000 on or before May 6, 2006

In addition the Company is responsible for the cash payments applicable to the underlying agreements in respect of the claims as follows:

- \$ 46,000 on or before September 1, 2002 (paid)
- \$ 94,000 on or before September 1, 2003 (paid)
- \$201,000 on or before September 1, 2004 (extended to December 31, 2004)
- advance royalties of \$40,000 per year thereafter.

Atikokan

To maintain its interests in the Atikokan Property, the Company must commit to the following:

- 75,000 common shares and \$15,000 upon regulatory approval; (issued and paid)
- 60,000 common shares and \$25,000 on or before April 30, 2005;
- 60,000 common shares and \$30,000 on or before April 30, 2006;
- 55,000 common shares and \$50,000 on or before April 30, 2007; and
- 100,000 common shares and \$100,000 on or before April 30, 2008.

Work expenditures

- \$450,000 on or before April 30, 2005;
- \$600,000 on or before April 30, 2006;
- \$650,000 on or before April 30, 2007; and
- \$875,000 on or before April 30, 2008.

Transactions with Related Parties

- The Company conducts the majority of its exploration activities through an exploration services contractor in which a director is a principal. The Company paid that contractor \$84,350 for exploration costs and \$101,501 to reimburse office and administrative costs including \$25,300 for management fees. As at September 30, 2004, the Company owed \$271,004 to that contractor.

- Management fees of \$15,000 and \$15,776 for rental of shared office premises was paid to a company in which a director is a principal; as at September 30, 2004, the Company owed that company \$8,027.
- As at September 30, 2004, the Company owed \$4,393 to a company with two directors in common.

Changes in Accounting Policies and Initial Adoption

Effective April 1, 2003, the Company adopted CICA 3870 "Stock-Based Compensation and Other Stock-Based Payments" for accounting for stock-based compensation expense. Under this standard, stock-based payments to non-employees and employee awards that are direct awards of stock, call for settlement in cash or other assets, or stock appreciation rights that call for settlement by issuance of equity instruments, granted on or after April 1, 2003, are accounted for using the fair value based method and are recorded as an expense in the period the stock-based payment are vested or the awards or rights are granted.

During 2003, the CICA released amendments to Section 3870, which require an expense to be recognized in the financial statements for all forms of employee stock-based compensation, including stock options, commencing on January 1, 2004. The Company has elected for the early adoption of the amendments during the fourth quarter of fiscal 2004. Prior to the adoption, no compensation expense was recognized when stock options were granted to directors and employees if the exercise price of the stock options granted were at market value. However, the effects of accounting for stock-based compensation to directors and employees as compensation expense, using the fair-value based method, was disclosed as pro-forma information in the notes to the financial statements.

Risks and Uncertainties

The Company's principal activity is mineral exploration and development. Companies in this industry are subject to many and varied kinds of risks, including but not limited to, environmental, metal prices, political and economical.

Although the Company has taken steps to verify the title to mineral 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 or transfers and title may be affected by undetected defects.

The Company has no significant source of operating cash flow and no revenues from operations. None of the Company's mineral properties currently have reserves. The Company has limited financial resources. Substantial expenditures are required to be made by the Company to establish ore reserves.

The property interests owned by the Company, or in which it has an option to earn an interest are in the exploration stages only, are without known bodies of commercial mineralization and have no ongoing mining operations. Mineral exploration involves a high degree of risk and few properties, which are explored, are ultimately developed into producing mines. Exploration of

the Company's mineral exploration may not result in any discoveries of commercial bodies of mineralization. If the Company's efforts do not result in any discovery of commercial mineralization, the Company will be forced to look for other exploration projects or cease operations.

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.