



ANNUAL REPORT 2004

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## **A MESSAGE FROM THE PRESIDENT**

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On behalf of the Board of Directors it is with great pleasure that I report to you the accomplishments of Wildcat Exploration Ltd. in 2004, and the company's plans for moving ahead in 2005.

The year 2004 was highlighted by the discovery of a new gold zone on the Siderock Project in the Bissett gold mining camp, the acquisition of two new promising exploration properties and the successful financing of the company. Also, the depth of the Board of Directors was enhanced by the addition of Rob Dzisiak. Tim Tuba, Wildcat's new exploration manager, will help solidify our technical team.

Wildcat successfully raised aggregate net proceeds after commissions of approximately \$2.1 million from brokered and non-brokered private placements. Through these financings Wildcat has increased not only its' retail investor base but also established an institutional shareholder base. These financings provided the company with the funds required to proceed with the 2004 exploration program.

By way of a Purchase and Sale Agreement with Arc Metals Ltd. Wildcat acquired two new and exciting projects: the Foster River Property in Saskatchewan and the Reed Lake Property in Manitoba. The Foster River Property is being explored for its potential Broken-Hill type base metal (zinc, lead and silver) mineralization and the Reed Lake Project for its' platinum and palladium mineralization. During the early 1990's preliminary work by Noranda Exploration identified two extensive zones of zinc-lead-silver mineralization on the Foster River property. These extensive gossanous horizons will be the focus of Wildcat's exploration efforts on the property this year.

Exploration in 2004 comprised an aggressive work program of geological, geophysical and geochemical surveying followed by diamond drilling on both the Poundmaker and Siderock properties. A new gold discovery - dubbed the Portage Gold Zone - was made on the Siderock property. The Portage Gold Zone has a minimum strike length of 1.8 km with gold values reaching 0.67 oz/ton. Diamond drilling on this gold zone confirmed the presence of subsurface gold and expanded the width of the zone hosting mineralization two-fold. Substantial follow-up work will be required to evaluate this zone of mineralization and will begin the summer of 2005. The Siderock property has very similar geological characteristics to the Red Lake gold mining camp.

The Company has an extensive work program planned for 2005. Six properties will be examined including four gold properties in the Bissett area, the Reed Lake property and the Foster River property. Exploration in the spring will comprise line-cutting and geophysical surveying followed by geological mapping, prospecting, sampling, trenching and geochemical surveying in the summer and fall. Diamond drilling will be carried out in the fall. This work will be contingent upon financing. An airborne geophysical survey was flown over the Foster River property in March-April 2005.

At this time, I would like to thank Wildcat's loyal and hard working staff for their contribution to making 2004 a successful year. I would particularly like to thank our shareholders for their on-going support through the challenges that have faced the company during its' initial growth period. I feel very positive that Wildcat will have a fruitful 2005 and that we will continue to grow and add value to the company for our shareholders.

Respectfully Submitted

Edward Sawitzky  
President  
April 2005

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The following discussion, prepared by management, reviews the Company's financial results for the year ended December 31, 2004 compared to the previous year and covers the subsequent period to April 21, 2005.

Additional information about the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **FORWARD LOOKING STATEMENT**

This report may contain forward-looking statements that involve a number of risks and uncertainties including statements regarding the outlook of the Company's business and results of operations. By nature, these risk and uncertainties could cause actual results to differ materially from those indicated. Such factors include, without limitation, risks inherent in mineral exploration, the Company's history of operating losses and uncertainty of future profitability, uncertainty of access to additional capital, and environmental risks.

Wildcat Exploration Ltd. disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

### **OVERVIEW**

Wildcat Exploration Ltd. is a Manitoba-based junior exploration company active in the acquisition and exploration of mining properties, focusing its exploration in two areas of Central Canada. Wildcat is strategically positioned in the Bissett gold camp of Manitoba, where it has accumulated the largest land holdings in an under-explored portion of the camp, with 148 claims covering 230 square kilometers. Also, the Company is exploring for base metals in the Wollaston Domain of Saskatchewan where it holds three claims covering 8,089 hectares.

Because Wildcat has not begun production on any of its properties, the Company does not have any revenue from operations. The Company raises capital for use in its operations through private placements and the exercise of warrants and options.

Wildcat's 2004 summer program included mapping and prospecting, mechanical and hydraulic stripping and detailed channel sampling on the Bissett properties. An extensive geochemical program was carried out on the Bissett properties as well. The summers' activities resulted in the discovery of several new gold showings on the Poundmaker property and a major new gold zone (Portage Gold Zone) on the Siderock property. All of the summer activities were geared toward identifying targets for a winter drill program planned for late 2004 and early 2005.

Wildcat completed a diamond drill program over the Poundmaker and Siderock properties between November 2004 and February 2005. 1109 meters diamond drilling was carried out on the Poundmaker property with drilling focused in two areas 1) a new gold discovery made in 2003 - the Lady Gold Zone and 2) an historical gold producer - Poundmaker deposit. 1449 meters of drilling was conducted on the Siderock property where the focus of attention was the Portage Gold Zone.

As part of Wildcat's strategic plan to diversify its landholdings geographically and to expand its exploration strategy to include base metals, the Company acquired, during the last quarter of 2004, a 100% interest (subject to a 2% NSR) in the Foster River project in Saskatchewan. The Company also acquired a platinum-palladium project (Reed Lake property) in the Snow Lake area of northern Manitoba. These properties were acquired from Arc Metals Ltd. ("AML") for cash consideration of \$160,000 and the issuance of 350,000 common shares in Wildcat's capital stock at a deemed price of

\$0.50 per share, all being paid or issued over a four-year period. Under TSXV policy, the acquisition is a “related-party transaction” due to AML being 70% owned by the President of Wildcat, however, the acquisition was exempt from the requirements to prepare a formal valuation and to receive minority approval due to the fact that Wildcat’s common shares are listed solely on the TSXV and the fair market value of the consideration paid by Wildcat to AML does not exceed 25% of its current market capitalization.

## SELECTED ANNUAL INFORMATION

The following table sets forth selected annual information of the Company for, and as at, the end of each of the last three financial years of the Company ending December 31, 2004. The financial information is derived from the annual audited financial statements of the Company and have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). All references to dollars are in Canadian funds.

	Years ended		
	2004	2003	2002
Revenue	Nil	Nil	Nil
Income (Loss)	(521,046)	(129,644)	(737,515)
Income (Loss) per Share	(0.04)	(0.01)	(0.09)
Fully Diluted Loss per Share	(0.04)	(0.01)	(0.09)
Total Assets	3,601,915	1,811,297	1,660,210
Long-term Debt	90,824	Nil	Nil
Cash Dividends Paid	Nil	Nil	Nil
Mineral Exploration Properties	2,432,864	1,757,204	1,636,320

## OVERALL PERFORMANCE AND RESULTS OF OPERATIONS

At the end of 2004, Wildcat had \$129,000 in general funds on hand, compared to \$26,000 at the end of the previous year. As well, the Company had \$790,000 (2003 - \$11,845) of restricted cash at year-end. Restricted cash is raised through the issue of flow-through shares and is available to finance specified Canadian exploration activities. Cash flows show a net increase of general funds during 2004 of \$103,000 compared to a net increase in general funds in 2003 of \$20,000. Financings resulted in net cash raised for operations of \$2,135,000 during 2004 and \$427,000 for 2003. 2004 saw an investment of \$784,000 in exploration activities before MEAP grants received of \$108,000 (2003 investment - \$121,000, 2003 MEAP - Nil), an investment of \$72,000 (2003 - Nil) in field and office equipment, and \$326,000 (2003 - \$227,000) disbursed on head office operations.

The following table sets forth selected annual expenses of the Company for, and as at, the end of each of the last two financial years of the Company ending December 31, 2004. This information should be read in conjunction with the annual audited financial statements of Wildcat. All references to dollars are in Canadian funds.

	Years ended	
	2004	2003
Cumulative Mineral Exploration Properties	2,432,864	1,757,204
Investment in Deferred Exploration	675,660	120,884
Operating Expenses	521,046	129,644
Management Fees	101,450	23,061
Professional Fees	104,066	21,130
Directors' Compensation	166,790	Nil

There was a significant increase in net operating expenses from 2003 to 2004, from \$129,644 to \$521,046, an increase of \$391,000. Management changes in 2003 found Wildcat without full-time executive direction for several months of that year. During October of 2003, Mr. Edward Sawitzky joined the Company as President and COO. His focus was on management of both the Company's head office and exploration activities. Mr. Sawitzky's contribution to the Company is evidenced by the substantial increase in funds spent on exploration activities in 2004 as compared to 2003, from \$120,884 to \$675,660 an increase of \$555,000, with a corresponding increase in management fees of \$78,000. During much of 2003, Wildcat operated with only the Chairman and the accountant managing the affairs of the Company. The addition of office staff as Company activity increased has resulted in a significant increase in Professional Fees. Professional fees were affected as well by an increase in regulatory requirements and increased financing activities. Due to a change in accounting policies as described in "Change in Accounting Policy" at the end of this report, stock based compensation for options issued to directors was recorded during the year ended 2004 in the amount of \$166,790.

## SUMMARY OF QUARTERLY RESULTS

The following table sets out the summary quarterly results for Wildcat Exploration for each of the eight most recently completed quarters. This financial data has been prepared in accordance with Canadian generally accepted accounting principles. All amounts are shown in Canadian dollars.

	Dec 31, 2004	Sep 30, 2004	Jun 30, 2004	Mar 31, 2004	Dec 31, 2003	Sep 30, 2003	Jun 30, 2003	Mar 31, 2003
Net loss (income)	221,378	92,786	118,215	88,667	23,538	107,935	(35,747)	33,918
Loss (income) per share	0.015	0.007	0.011	0.008	0.002	0.011	(0.004)	0.004
Fully diluted loss (income) per share	0.015	0.007	0.011	0.008	0.002	0.011	(0.004)	0.004

## LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2004, Wildcat had working capital of \$817,532 (2003 – working capital deficit of \$110,550), with long-term debt of \$90,824 arising from a claims purchase from Arc Metals Ltd. (2003 – Nil). Unrestricted cash available at December 31, 2004 for general business activities was \$129,000 (2003 - \$26,000) and restricted cash, available for exploration activities only, at the end of the quarter was \$790,000 (2003 - \$11,845).

Wildcat raised \$2,135,000, net of costs, through private placements and the exercise of options during the year ended December 31, 2004, compared to \$427,000 during 2003. The Company is actively working on raising additional capital through private placements and other forms of equity financing.

The ability of the Company to fund its exploration projects is dependant upon the Company's ability to obtain sufficient funding for its operations and is ultimately dependant on the recoverability of the amounts capitalized to mineral exploration properties. The Company has not yet determined whether its mineral properties contain gold reserves that are economically recoverable, and accordingly, the success of any further exploration or development prospects cannot be assured. Because the Company is not yet a producer, the primary source of future funds is through the sale of additional equity capital. There is no assurance that the Company will be successful in raising sufficient capital to meet its obligations. If the Company is not successful in raising sufficient capital, the Company may have to curtail or otherwise limit its operations.

## FOURTH QUARTER RESULTS OVERVIEW

During the final quarter of 2004, financings resulted in net cash raised for operations of \$480,000, with no financings completed during the final quarter of 2003. An investment was made during the final quarter of 2004 in exploration of properties of \$351,153 before MEAP grants received of \$47,270 (2003 investment - \$50,100, 2003 MEAP – Nil). \$12,700 was spent on exploration equipment and computer software between October and December of 2004 (2003 – Nil).

## RESOURCE PROPERTIES

Wildcat is currently focusing its exploration activities in Central Canada specifically in the provinces of Manitoba and Saskatchewan. In Manitoba two project areas are being examined - the Bissett gold mining camp and the Snow Lake mining camp. In Bissett four properties Poundmaker, Jeep, Siderock and Garner are being evaluated for their gold potential. On the Reed Lake property platinum and palladium are the commodities being explored. In Saskatchewan the Foster River property is being examined for its base metal (zinc, lead and silver) potential.

After completing an extensive 2004 winter/spring program of line-cutting (144.8 km) and geophysical surveying (126.9 km) on the Poundmaker, Jeep and Siderock properties, the company assembled an 11-man team to map and prospect the 12 grids established on the latter properties. Geological mapping, sampling and geochemical surveying were conducted over these grids. Key geological outcrops were subjected to extensive hydraulic stripping; trenching was conducted locally via an excavator. In outcrops with elevated gold values channel sampling was also conducted to verify initial grab sample assay results.

### ***Siderock Property:***

On the Siderock property, the company continues to expand its' new gold discovery made on the Portage grid earlier this year (Press Release July 27 2003). The Portage Gold Zone initially comprised relatively widely spaced gold occurrences; subsequent "infill" sampling returned significantly more gold assays. To date, of the 133 grab/chip samples collected from the gold zone 62 samples returned anomalous gold over 100 ppb gold. The anomalous samples have been recovered

from an area measuring approximately 1.8 kilometers in length and over 200 meters in width. Gold assays range from geochemically anomalous (100 ppb) to high-grade values up to 0.67 oz/ton. Channel sampling was conducted over gold occurrences discovered initially by grab sampling and in general validated initial results. Mineralization is open along and across strike. During November 2004, Wildcat purchased William Kurans' 100% interest in two claims adjacent to and contiguous with the Portage Gold Zone. The Kuran claims add another minimum 2 kilometers of strike length to the Portage Gold Zone. No diamond drilling or ground geophysical surveys have ever been conducted on the Kuran property.

An eight hole, 1472 meter, diamond drill program was conducted between January 15 and February 9, 2005 on the Portage Gold Zone located in the south-central part of the Siderock property (see Figure 1: drill locations at [www.wildcat.ca](http://www.wildcat.ca); March 30 Press Release). The objective of the program was to test the subsurface extent of gold mineralization found at several surface gold occurrences and geochemical anomalies identified by a recent MMI survey. There is no record of previous diamond drilling in the Portage area.

Diamond drilling was successful in:

- a) expanding the width of gold mineralization at the Portage Gold Zone from approximately 200 meters to over 400 meters,
- b) confirming the presence of subsurface gold in the Portage Gold Zone,
- c) strongly supporting the interpretation of a gold mineralized fault splay extending northeast from the Wanipigow fault.

Drill hole SR-2005-4 was collared 200 meters north of the northern limit of the Portage Gold Zone. Hole SR-05-4 intersected 1.42 g/t gold over 2.6 meters (including 2.92g/t over 0.40 meters), 0.48g/t gold 2.4 meters, 0.42 g/t gold over 1.0 meters, 0.48 g/t over 2.4 meters (including 1.05 g/t over 0.4 meters), 0.28 g/t over 2.0 meters and 6 other, distinct and separate, "spot" gold anomalies ranging from 0.15 g/t to 0.65 g/t. All gold samples are located between the collar and 190 meters down-hole. These results widen the Portage Gold Zone to over 400 meters and, therefore, the area of potential gold mineralization.

Drill hole SR-2005-9, also collared north of the Portage Gold Zone 400 meters west-southwest of SR-2005-4, intersected two low-grade gold intercepts 0.45g/t over 0.7 meters, 0.16 g/t over 1.1 meters and four "spot" gold anomalies ranging from 0.14 g/t to 0.31 g/t. These rocks confirm the results obtained in drill hole SR-2005-4 and again show the highly prospective nature for gold mineralization in the area north of the previously defined Portage Gold Zone.

Drill hole SR-2005-1 was targeted at a coincident surface showing (East Zone) and MMI anomaly within felsic to intermediate volcanic rocks. The hole intersected the East Zone at a vertical depth of approximately 45 meters and ran 2.48g/t gold over 0.5 meters. Four other anomalous "spot" gold values ranging from 0.11 g/t to 0.55 g/t were encountered in the upper (60 meters) part of the hole. Minor to significant gold mineralization was encountered in all except two drill holes leaving mineralization open along strike and down dip. This first phase drill program has shown clearly the highly anomalous nature of the rocks in this area of the property. The positive results obtained to date strongly suggest further work is warranted.

***Poundmaker Property:***

The Lady Gold Zone is located 1.5 km southeast of the Poundmaker deposit along an auriferous shear zone that parallels a poorly-defined, gradational contact between a tonalitic pluton and volcanic rocks of the Little Beaver Belt. The latter contact comprises a zone of brecciation, shearing, alteration (iron carbonate, chlorite-sericite-fuchsite), quartz veining and is locally, well mineralized with pyrite. The Lady Gold Zone comprises numerous gold occurrences in an area approximately 400 meters by 200 meters along this shear zone. Approximately 2 km to the southeast of the Lady Gold Zone, along this intrusive contact (but off the property), lies the Luagna gold deposit. The Lady Gold Zone is open along strike to the north where exposure is poor.

On the Mike-Power grid a newly recognized shear zone with pervasive ankerite, sericite and extensive quartz veining was discovered north of the intersection of highway 304 and Pointer Lake road. This shear zone is a possible splay or parallel structure to the regionally extensive Wanipigow fault, the dominant ore-controlling structure in the Bissett mining camp. Significant gold values have not been found along this segment of the fault to date.

South of Lake Wanipigow is a poorly exposed regional fold structure intruded by two feldspar porphyry intrusions near a regional fold closure. The northern limb of the fold is strongly sheared, carbonated, silicified, tourmalinized and locally hosts extensive quartz veining. Limited sampling was performed and only geochemically anomalous gold has been encountered to date. An MMI survey conducted over this area in the summer of 2004 validated the fold structure and identified several multi-element geochemical anomalies associated with the fold.

Wildcat commenced diamond drilling on November 15, 2004 and completed the program January 11, 2005. Drilling was focused in two areas 1) a new gold discovery made in 2003 - the Lady Gold Zone and 2) an historical gold producer - Poundmaker deposit.

On the Lady Gold Zone, one target, a surface gold occurrence, was selected for initial testing. Drill holes 2004-1 & 2 targeted this gold occurrence near line 10+00E. No significant gold assays were intersected along this one transect of the shear zone. Further drilling is required to evaluate the full extent of this auriferous shear zone.

On the Poundmaker deposit which lies within the Clinton-Poundmaker tonalite intrusion 10 holes (2004-1 to 10 inclusive) with a total 1109 meters were drilled. The deposit is a shear-hosted, high-grade gold, quartz vein system. Previous diamond drilling conducted on the deposit by Wildcat includes holes 2001-1 to 8 inclusive (drilled in 2001) and 2002-1 to 6 inclusive (drilled in 2002) for a total of 3143 meters. A longitudinal diagram is presented which indicates all drilling conducted since 2001 (excluding 2001-6, 2002-6, and 2004-9; discussed below). Please see [www.kitco.com](http://www.kitco.com), [www.stockhouse.ca](http://www.stockhouse.ca) or [www.wildcat.ca](http://www.wildcat.ca).

Near-surface high-grade mineralization has been intersected immediately southeast of the deposit shaft. Drill intercepts in this area include holes 2004-3 (41.5g/t over 0.6m), 2001-2 (5.7 g/t over 3.0m), 2001-3 (12.1 g/t over 0.45m, 20.2 g/t over 1.1m), 2001-4 (14.9 g/t over 0.42m) and 2001-7 (13.7 g/t over 1.4m). This mineralization is open along strike to the southeast. The down plunge extent of this near-surface mineralization is also poorly constrained and remains open to the southeast.

This phase of drilling has clearly indicated two discrete zones of auriferous mineralization. Consequently, a re-examination and re-interpretation of all previous drill data is required to redefine mineralization. Section, level and longitudinal plans utilizing 3D modeling software will be undertaken to help resolve the distribution of gold mineralization at the Poundmaker deposit. Subsequent to this work systematic 'tier' drilling is planned to fully evaluate the potential of the Poundmaker deposit.

## RELATED-PARTY TRANSACTIONS

For the period January 1, 2004 to July 31, 2004, management fees totaling \$51,450, professional fees (office administration) fees of \$3,400 and geological consulting fees of \$28,000 were charged by Arc Metals Ltd., a company controlled by Mr. Edward Sawitzky, a Director and President and COO of the Company. Effective August 1, 2004, Mr. Sawitzky became an employee of Wildcat and is no longer charging management fees on a consulting basis. As well, Wildcat incurred expenses of \$20,479 for the rental of field equipment, office space and office equipment from Arc Metals Ltd. during 2004.

During October of 2004, the Board of Directors of Wildcat Exploration Ltd. agreed to pay to Mr. Jerrold Siemens, the Chairman of the Company, a monthly consulting fee of \$2,500 retroactive to

January 1, 2004, for his contributions in various equity financings and the provision of other management services necessary for the day-to-day operations of the Company. A total of \$30,000 was recorded as a management fee for Mr. Siemens.

## **OUTSTANDING SHARE DATA**

The number of common shares outstanding at December 31, 2004 was 16,246,059, with 10,227,659 outstanding at December 31, 2003.

## **CHANGES IN ACCOUNTING POLICY**

### ***Stock-based compensation plans:***

Effective January 1, 2004, Wildcat adopted the revised Canadian accounting standards with respect to accounting for stock-based compensation. Under the new standard, the fair value of stock options is calculated at the date of the grant and that value is recorded as compensation expense over the vesting period of those grants. Under the previous standard, no compensation expense was recorded when stock options were issued with any consideration received upon exercise credited to share capital.

The company has retroactively applied this standard, without restatement of prior years, to all stock options granted since January 1, 2002. Accordingly, the company has recorded an increase in deficit at the beginning of 2004 of \$161,910 with a corresponding increase in contributed surplus.

### ***Flow-through shares:***

In 2004, the company adopted EIC Abstract 146 with respect to accounting for flow-through shares. Under the Abstract, the company recognizes the tax effect of foregone tax deductions as a decrease in share capital and a future tax liability upon renouncement.

## **OTHER**

### ***Change of Directors:***

As of Wildcat's 2004 Annual General Meeting held on May 28, 2004, Mr. George P. Morse did not stand for re-election to the Company's Board of Directors. Wildcat announced the appointment of Mr. Robert Dzisiak to the Board effective October 15, 2004. Mr. Dzisiak is the President of Refco Futures Canada Ltd. and is in charge of the retail operations of Refco Canada. As well, Mr. Dzisiak serves on the Boards of the Winnipeg Commodity Exchange and the Winnipeg Commodity Exchange Clearing Corp.

### ***Issuance of Directors' Options:***

On October 18, 2004, Wildcat announced the grant of incentive stock options to the officers and directors of the Company to purchase up to 700,000 common shares in the capital stock of the Company, at an exercise price of \$0.40 per share and an expiry date of October 15, 2009. The options were issued pursuant to the Company's stock option plan which reserves for issuance shares equal in number to 10% of the Company's issued share capital at the time of the grant. Any shares issued upon the exercise of Options are subject to a four-month hold period pursuant to the policies of the TSX Venture Exchange.

## AUDITOR'S REPORT

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**KPMG LLP**  
**Chartered Accountants** Fax  
Suite 2000 – One Lombard Place  
Winnipeg MB R3B 0X3  
Canada

Telephone (204) 957-0808  
(204) 957-1770  
Internet www.kpmg.ca

To the Shareholders of Wildcat Exploration Ltd.

We have audited the balance sheets of Wildcat Exploration Ltd. as at December 31, 2004 and 2003 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these 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.

Signed “**KPMG LLP**”

Chartered Accountants

Winnipeg, Canada

April 21, 2005

## FINANCIAL STATEMENTS AND NOTES

### Balance Sheets

As at December 31, 2004 and 2003

	2004	2003
<b>Assets</b>		
Current assets:		
Cash (note 14)	\$ 129,293	\$ 26,258
Restricted cash [note 9(a)]	790,228	11,845
Accounts receivable	30,777	15,208
Subscriptions receivable, restricted [note 9(a)]	150,030	–
Prepaid expenses	3,661	–
	<u>1,103,989</u>	<u>53,311</u>
Mineral exploration properties (note 5)	2,432,864	1,757,204
Capital assets (note 6)	65,062	782
	<u>\$ 3,601,915</u>	<u>\$ 1,811,297</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 173,624	\$ 102,325
Payable to Arc Metals Ltd. [note 10(b)]	112,833	–
Shareholder loan (note 7)	–	61,534
	<u>286,457</u>	<u>163,859</u>
Payable to Arc Metals Ltd. [note 10(b)]	90,824	–
Shareholders' equity:		
Capital stock (note 8)	5,612,349	3,433,667
Contributed surplus (note 11)	345,125	–
Deficit	<u>(2,732,840)</u>	<u>(1,786,229)</u>
	3,224,634	1,647,438
Basis of presentation (note 2)		
Commitment (note 13)		
Subsequent event (note 15)		
	<u>\$ 3,601,915</u>	<u>\$ 1,811,297</u>

See accompanying notes to financial statements.

On behalf of the Board:

"Edward Sawitzky" Director

"Jerrold Siemens" Director

## Statements of Operations and Deficit

Years ended December 31, 2004 and 2003

	2004	2003
Operating expenses	\$ 521,046	\$ 141,260
Loss on disposal of capital asset	–	1,633
Recovery of mineral property expenditures	–	(13,249)
Loss for the year	521,046	129,644
Deficit, beginning of year:		
As previously reported	1,786,229	1,656,585
Adjustment to reflect change in accounting for stock-based compensation plan (note 4)	161,910	–
As restated	1,948,139	1,656,585
Adjustment to reflect accounting for related party transaction [note 10(b)]	263,655	–
Deficit, end of year	\$ 2,732,840	\$ 1,786,229
Basic and diluted loss per common share [note 8(o)]	\$ (.04)	\$ (.01)

See accompanying notes to financial statements.

**STATEMENTS OF CASH FLOWS**

Years ended December 31, 2004 and 2003

	2004	2003
Cash provided by (used in):		
Operations:		
Loss for the year	\$ (521,046)	\$ (129,644)
Items not involving cash:		
Amortization	7,579	2,522
Stock-based compensation	166,790	-
Loss on disposal of capital asset	-	1,633
Non-cash interest accrual	-	20,000
Recovery of operating expenses	-	(37,346)
Change in non-cash operating working capital:		
Accounts receivable	(15,569)	(12,530)
Prepaid expenses	(3,661)	-
Accounts payable and accrued liabilities	39,461	(71,692)
	(326,446)	(227,057)
Financing:		
Subscriptions receivable	(150,030)	-
Issuance of capital stock, net	2,135,107	427,199
Increase in restricted cash	(778,383)	(11,845)
Increase (decrease) in shareholder loan	(61,534)	31,534
	1,145,160	446,888
Investments:		
Proceeds from disposal of capital asset	-	10,000
Purchase of capital assets	(71,859)	-
Exploration expenditures	(783,734)	(193,050)
Grants received	108,076	-
Accounts payable relating to exploration expenditures	31,838	(16,520)
	(715,679)	(199,570)
Increase in cash	103,035	20,261
Cash, beginning of year	26,258	5,997
Cash, end of year	\$ 129,293	\$ 26,258

In 2004, the portion of exploration expenditures satisfied by the issuance of capital stock in the amount of \$60,000 has been excluded from the financing activities in the statement of cash flows [note 10(b)].

In 2004, the portion of share issue expenditures satisfied by the issuance of common share purchase warrants of \$16,425 has been excluded from the financing activities in the statement of cash flows [note 8(f)].

In 2003, the portion of accounts receivable satisfied by the forgiveness of debt in the amount of \$278 has been excluded from the operating activities on the statement of cash flows.

In 2003, the portion of exploration expenditures satisfied by the forgiveness of debt in the amount of \$72,166 has been excluded from the operating and investing activities on the statement of cash flows.

In 2003, the portion of share issue expenditures satisfied by the forgiveness of debt in the amount of \$11,319 has been excluded from the operating and financing activities on the statement of cash flows.

See accompanying notes to financial statements.

## NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2004 and 2003

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### 1. General:

The company is active in the acquisition and exploration of mining properties and holds interests in exploration properties in the Province of Manitoba. The company does not exploit any mines nor does it have any direct or indirect interests in a mine.

The company is incorporated under *The Corporations Act* of Manitoba.

### 2. Basis of presentation:

These financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles. The going concern basis of presentation assumes that the company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. There is significant doubt about the appropriateness of the use of the going concern assumption because the company has experienced significant losses and negative cash flow from operations over a number of years.

The ability of the company to continue as a going concern and to be able to realize on its assets and discharge its liabilities is dependant upon the company's ability to obtain sufficient funding for its operations and is ultimately dependant on the recoverability of the amounts capitalized to mineral exploration properties. The company has not yet determined whether its mineral properties contain gold reserves that are economically recoverable, and accordingly, the success of any further exploration or development prospects cannot be assured. The company may not be able to raise the necessary capital to continue to finance and meet its contractual obligations, and may have to forfeit any interest in the properties or prospects earned or assumed under such contracts. If the company's exploration and development programs are successful, additional funds may be required, and the company may not have sufficient funds to conduct the mineral exploration required. The primary source of future funds available to the company is through the sale of additional equity capital, which may dilute the interests of existing shareholders. There is no assurance that the company will be successful in raising sufficient funds to meet its obligations. In the event where it cannot meet its obligations, it may lose its properties.

The financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities and the reported expenses.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2004 and 2003

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### 3. Significant accounting policies:

#### (a) Mineral exploration properties:

All costs related to the acquisition, exploration and development of mineral properties are capitalized. Amounts reflected for mineral exploration properties not in commercial production represent costs incurred to date, net of write-downs and are not intended to reflect present or future values. The recoverability of the cost is dependent upon the discovery of economically recoverable ore reserves, the ability to obtain necessary financing to complete development and the development of future profitable production from the properties or realization of sufficient proceeds from the disposition of the properties.

The costs relating to identifiable groups of property will be written-down to net realizable value if exploration activities prove unsuccessful or if the groups of property are abandoned.

#### (b) Capital assets:

Capital assets are stated at cost. Amortization is provided using the following method and annual rate:

Asset	Basis	Rate
Office equipment	Declining balance	20%
Computer hardware	Declining balance	30%
Computer software	Straight-line	20%
Vehicles	Declining balance	25%
Field equipment	Declining balance	20%

#### (c) Flow-through shares:

Resource expenditure deductions for income tax purposes related to exploratory activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. The company recognizes the tax effect of foregone tax deductions as a decrease in share capital and a future tax liability upon renouncement. A future tax liability has not yet been recorded in these financial statements as the tax deductions have not yet been renounced as at December 31, 2004.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2004 and 2003

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### 3. Significant accounting policies (continued):

(d) Income taxes:

Income taxes are accounted for under the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs.

(e) Stock-based compensation:

The company has a stock option plan which is described in note 8. The company accounts for stock options using the Black-Scholes option pricing model, whereby the fair value of stock options is determined on their grant date and recorded as compensation expense over the period that the stock options vest, with a corresponding increase in contributed surplus. When stock options are exercised, the proceeds together with the amount recorded in contributed surplus are recorded in share capital. The fair value of warrants issued as compensation is also recorded in contributed surplus.

(f) Per share amounts:

Per share amounts are computed using the weighted average number of common shares outstanding during the year. Diluted per share amounts are computed using the treasury stock method which assumes all common share equivalents such as options and warrants had been exercised at the beginning of the reporting period of issue and that the funds obtained thereby were used to purchase common shares of the company at the average trading price of the common shares during the year.

(g) Government assistance:

The company periodically applies for financial assistance under available government incentive programs. Government assistance relating to capital expenditures is reflected as a reduction of the cost of such assets.

The company received government assistance of \$108,076 in 2004 (2003 - nil).

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2004 and 2003

### 3. Significant accounting policies (continued):

(h) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

### 4. Change in accounting policy:

Effective January 1, 2004, the company adopted the revised Canadian accounting standards with respect to accounting for stock-based compensation. Under the new standard, the fair value of stock options is calculated at the date of the grant and that value is recorded as compensation expense over the vesting period of those grants. Under the previous standard, no compensation expense was recorded when stock options were issued with any consideration received upon exercise credited to share capital.

The company has retroactively applied this standard, without restatement of prior years, to all stock options granted since January 1, 2002. Accordingly, the company has recorded an increase in deficit at the beginning of 2004 of \$161,910 with a corresponding increase in contributed surplus.

### 5. Mineral exploration properties:

	Bissett	Flin Flon/ Snow Lake	Foster River	Total
Balance, January 1, 2003	\$ 1,636,320	\$ –	\$ –	\$ 1,636,320
Additions	193,050	–	–	193,050
Recovery of mineral property expenditures	(72,166)	–	–	(72,166)
Balance, December 31, 2003	\$ 1,757,204	\$ –	\$ –	\$ 1,757,204
Additions	\$ 783,734	\$ 1	\$ 1	\$ 783,736
Grants received	(108,076)	–	–	(108,076)
Balance, December 31, 2004	\$ 2,432,862	\$ 1	\$ 1	\$ 2,432,864

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2004 and 2003

### 5. Mineral exploration properties (continued):

(a) Bissett:

The Bissett area, also known as Rice Lake, is a gold prospect comprising over 230 square kilometers. Work on the property during the year consisted of geological mapping, prospecting and sampling on the Siderock Lake and Poundmaker properties, as well as a drill program on the Poundmaker property. The company owns a 100 percent interest in 148 mineral claims on this property.

(b) Flin Flon/Snow Lake:

In 2004, 2 projects comprised of 22 claims covering 45 square kilometers were acquired in the Flin Flon/Snow Lake greenstone belt of Manitoba.

(c) Foster River:

In 2004, 1 project, the Foster River project, comprised of 3 claims totaling 81 square kilometers, was acquired in the Hewetson Lake area of Saskatchewan.

### 6. Capital assets:

2004	Cost	Accumulated amortization	Net book value
Office equipment	\$ 7,592	\$ 2,040	\$ 5,552
Computer hardware	6,156	853	5,303
Computer software	14,150	734	13,416
Vehicles	37,248	4,643	32,605
Field equipment	8,930	744	8,186
	\$ 74,076	\$ 9,014	\$ 65,062

2003	Cost	Accumulated amortization	Net book value
Office equipment	\$ 2,217	\$ 1,435	\$ 782

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Years ended December 31, 2004 and 2003

**7. Shareholder loan:**

	2004		2003	
Balance, beginning of year	\$	61,534	\$	30,000
Additions		70,000		31,000
Repayments		(132,891)		(5,000)
Interest		1,357		5,534
Balance, end of year	\$	–	\$	61,534

The shareholder loan was from a shareholder of the company, who is also a director, was due on demand and was unsecured. Interest is accrued at a rate of 10 percent per annum.

**8. Capital stock:**

	2004		2003	
	Shares	Amount	Shares	Amount
Authorized:				
Unlimited common shares				
Issued:				
Beginning of year	10,227,659	\$ 3,433,667	8,705,860	\$ 2,995,149
Shares issued in private placement <sup>(a)</sup>	950,000	282,950	–	–
Shares issued in private placement <sup>(b)</sup>	392,000	194,470	–	–
Exercise of warrants <sup>(c)</sup>	80,500	36,225	–	–
Shares issued in private placement <sup>(d)</sup>	750,000	298,637	–	–
Options exercised <sup>(e)</sup>	50,000	10,000	–	–
Shares issued in private placement <sup>(f)</sup>	2,362,500	787,155	–	–
Shares issued in asset acquisition <sup>(g)</sup>	150,000	49,440	–	–
Shares issued in private placement <sup>(h)</sup>	950,000	377,575	–	–
Shares issued in private placement <sup>(i)</sup>	333,400	142,230	–	–
Shares issued in private placement <sup>(j)</sup>	–	–	333,333	98,350
Shares issued for debt <sup>(k)</sup>	–	–	358,466	101,420
Shares issued in private placement <sup>(l)</sup>	–	–	830,000	227,429
Recovery of share issue costs associated with IPO	–	–	–	11,319
Balance, end of year	16,246,059	\$ 5,612,349	10,227,659	\$ 3,433,667

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2004 and 2003

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### 8. Capital stock (continued):

- (a) In 2004, 950,000 units were issued through a private placement at a price of \$0.30 per unit. Each unit consisted of (i) one common share and (ii) one-half of one common share purchase warrant. Share capital is shown net of share issue costs of \$2,050.
- (b) In 2004, 392,000 units were issued through a private placement at a price of \$0.50 per unit. Each unit consists of (i) one common share and (ii) one common share purchase warrant. Share capital is shown net of share issue costs of \$1,530.
- (c) In 2004, 80,500 warrants were exercised for 80,500 common shares at a price of \$0.45 per share.
- (d) In 2004, 750,000 units were issued through a private placement at a price of \$0.40 per unit. Each unit consisted of (i) one common share and (ii) one common share purchase warrant. Share capital is shown net of share issue costs of \$1,363.
- (e) In 2004, 50,000 options were exercised for 50,000 common shares at a price of \$0.20 per share.
- (f) In 2004, 2,250,000 flow-through common shares were issued through a private placement at a price of \$0.40 per share, for cash consideration of \$803,580, net of commissions of \$45,000 and share issue costs of \$51,420.

The company issued 112,500 common shares as commission on this offering, as well as 225,000 common share purchase warrants with a fair value of \$16,425 exercisable at a price of \$0.40.

- (g) In 2004, 150,000 shares were issued with a fair value of \$0.40 per share as partial payment for the purchase of 25 mineral claims from Arc Metals Ltd. Share capital is shown net of share issue costs of \$10,560 [note 10(b)].
- (h) In 2004, there was a share offering consisting of the issuance of units at a price of \$4,000 per unit. Each unit consisted of (i) 7,000 flow-through shares for a total consideration of \$2,800 (ii) 3,000 common shares for a total consideration of \$1,200, and (iii) 3,000 common share purchase warrants.

The company issued 95 units, or 950,000 common shares (of which 665,000 are flow-through), for cash consideration of \$380,000, net of share issue costs of \$2,425.

- (i) In 2004, 333,400 flow-through common shares and 166,700 common share purchase warrants were issued through a private placement at a price of \$0.45 per share, for cash consideration of \$150,030, net of share issue costs of \$7,800.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2004 and 2003

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### 8. Capital stock (continued):

- (j) In 2003, 333,333 units were issued through a private placement at a price of \$0.30 per unit. Each unit consisted of (i) one common share and (ii) one common share purchase warrant. Share capital is shown net of share issue costs of \$1,650.
- (k) In 2003, 358,466 common shares and 158,466 warrants were issued to satisfy outstanding debt obligations for various services in the amount of \$107,540. Share capital is shown net of share issue costs of \$6,120.
- (l) In 2003, there was a share offering consisting of the issuance of units at a price of \$3,500 per unit. Each unit was comprised of (i) 5,500 flow-through shares for a total consideration of \$1,925 and (ii) 4,500 common shares for a total consideration of \$1,575.

The company issued 83 units, or 830,000 common shares, for cash consideration of \$227,429, net of commissions of \$20,335 and share issue costs of \$42,736.

#### (m) Stock-based compensation plan:

The company has a discretionary stock option plan. Under the plan, the company may grant options to its employees, directors, officers and any other persons providing ongoing management or consulting services to the company for up to 10 percent of the common shares issued and outstanding. The options granted under the plan are valid for a period not to exceed five years from the date of their grant and may be subject to certain vesting conditions as determined by the Board of Directors. The options are exercisable at the price determined by the company which must not be less than the last closing price of the listed shares of the company before the date of their grant less any applicable discount.

In 2004, compensation costs of \$166,790 (2003- nil) was recorded in the statement of operations for options granted to directors and officers.

The fair value of each option granted is estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 2004 and 2003, respectively: risk-free interest rates of 4.0 and 4.3 percent; expected volatility of 43 and 46 percent; and expected lives of stock options of five years for both 2004 and 2003.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Years ended December 31, 2004 and 2003

**8. Capital stock (continued):**

The following is a summary of the status of the company's stock options as of December 31, 2004 and 2003, and changes during the years ended on those dates:

	2004		2003	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	925,000	\$ 0.34	675,000	\$ 0.52
Granted	700,000	0.40	550,000	0.20
Exercised	(50,000)	0.20	—	—
Forfeited	(100,000)	0.53	(300,000)	0.48
<b>Outstanding, end of year</b>	<b>1,475,000</b>	<b>\$ 0.37</b>	<b>925,000</b>	<b>\$ 0.33</b>
Options exercisable at end of year	1,325,000	0.36	805,000	0.30
Weighted average fair value of options granted during the year		\$ 0.17		\$ 0.10

On October 15, 2004, the company granted incentive stock options for 400,000 shares at a price of \$0.40 per share exercisable up to October 15, 2009, to the directors of the company. Also on this date, the company granted incentive stock options for 300,000 shares at a price of \$0.40 per share exercisable up to October 15, 2009, to the officers of the company. On the date of the grant, 50 percent of the options vested with the remaining 50 percent vesting one year after issue.

On October 17, 2003, the company granted incentive stock options for 550,000 shares at a price of \$0.20 per share exercisable up to October 17, 2008, to the directors of the company.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Years ended December 31, 2004 and 2003

**8. Capital stock (continued):**

The following table summarizes information about stock options outstanding at December 31, 2004:

Options outstanding				Options exercisable		
Exercise price	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price	
\$ 0.20	500,000	3.8	\$ 0.20	500,000	\$ 0.20	
0.40	700,000	4.8	0.40	550,000	0.40	
0.45	75,000	0.7	0.45	75,000	0.45	
0.60	200,000	2.4	0.60	200,000	0.60	
\$ 0.20 to \$0.60	1,475,000	3.9	\$ 0.37	1,325,000	\$ 0.36	

## (n) Warrants:

Following is a summary of the warrant transactions for 2004 and 2003:

	Number of warrants	Weighted average exercise price
Balance, December 31, 2002	172,500	\$ 0.70
January 2003 shares for debt	158,466	0.45
March 2003 private placement	333,333	0.45
Warrants expired during the year	(172,500)	0.70
Balance, December 31, 2003	491,799	0.45
February 2004 private placement	475,000	0.40
June 2004 private placement	392,000	0.70
August 2004 private placement	750,000	0.50
August 2004 private placement	225,000	0.40
December 2004 private placement	285,000	0.50
December 2004 private placement	166,700	0.50
Warrants exercised during the year	(80,500)	0.45
Warrants expired during the year	(411,299)	0.45
Balance, December 31, 2004	2,293,700	\$ 0.50

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2004 and 2003

### 8. Capital stock (continued):

Expiry dates of the warrants outstanding as at December 31, 2004 are as follows:

Number of warrants	Expiry date
475,000	February 23, 2005
392,000	June 10, 2005
225,000	August 31, 2005
750,000	August 20, 2006
166,700	December 31, 2005
285,000	December 31, 2006
<u>2,293,700</u>	

#### (o) Per share amounts:

The basic loss per share is calculated using the weighted average number of shares outstanding being 12,395,865 (2003 - 9,598,561). The dilution created by options and warrants has not been reflected in the per share amounts as the effect would be anti-dilutive.

### 9. Income taxes:

#### (a) Flow-through shares:

In 2004, the company issued flow-through shares in the amount of \$1,316,030 (2003 - \$159,775), excluding share issue costs, to finance eligible Canadian exploration expenditures. The resource expenditure deductions for income tax purposes related to exploration activities are renounced to investors in accordance with income tax legislation, and as a result tax deductibility of these costs are not available to the company.

As at December 31, 2004 the subscription value of the flow-through shares of \$1,316,030 had not yet been renounced to the shareholders, and \$940,258 of eligible Canadian development and exploration expenditures had not yet been expended by the company. The company is committed to spend this amount on qualifying expenditures by December 31, 2005.

#### (b) Canadian development and exploration expenditures:

As at December 31, 2004, the company had \$1,650,000 (2003 - \$899,000) of unused Canadian exploration and development expenses available to offset future taxable income of the company. The tax benefit of these expenses carry forward indefinitely.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2004 and 2003

### 9. Income taxes (continued):

(c) Losses:

The company has non-capital tax losses available for carry forward to reduce future year taxable income totaling approximately \$1,731,000 which expire as follows:

2005	\$	36,000
2006		57,000
2007		305,000
2008		378,000
2009		254,000
2010		181,000
2014		520,000

The company has not recorded in its accounts the potential income tax benefit that may be derived from the tax losses due to the uncertainty that the benefits will be realized.

- (d) Income tax recovery differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 42.1 percent (2003 - 43.1 percent) to net loss. The reasons for the differences are as follows:

	2004	2003
Computed tax recovery	\$ (219,400)	\$ (55,900)
Resource loss	41,600	11,200
Effect of tax rate changes	20,500	43,300
Other	100	14,200
Change in valuation allowance	157,200	(12,800)
	\$ -	\$ -

Included in the change in valuation allowance are unrecorded tax effects associated with flow-through shares and share issue costs in the amount of \$28,600 (2003 - \$46,800).

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2004 and 2003

### 9. Income taxes (continued):

The components of the company's net future income tax asset at December 31, 2004 and 2003 are as follows:

	2004	2003
Future income tax assets:		
Tax losses	\$ 642,600	\$ 449,700
Share issue costs	39,000	49,000
Capital losses	53,700	53,700
Capital assets	3,500	-
Future income tax asset	738,800	552,400
Future income tax liability:		
Mineral exploration properties	(318,500)	(317,900)
	420,300	234,500
Valuation allowance	(420,300)	(234,500)
Net future income tax asset	\$ -	\$ -

### 10. Related party transactions:

(a) The following is a listing of related party transactions and balances not otherwise disclosed in these financial statements:

- Management fees were charged by a director of the company for his services of \$30,000 (2003 - \$36,750).
- Management fees were charged by a company controlled by a director of the company of \$51,450 (2003 - \$10,675).
- Professional fees were charged by a company controlled by a director of the company of \$3,408 (2003 - \$4,706).
- Geological consulting services were purchased from a company controlled by a director of the company of \$28,112 (2003 - \$119,123).
- During fiscal 2004, equipment rental of geological consulting equipment was charged by a company controlled by a director of \$13,979.
- During fiscal 2004, the company paid \$4,400 to a company controlled by a director for the rental of office equipment.
- During fiscal 2004, the company paid \$2,100 to a company controlled by a director for the rental of office space.
- During fiscal 2003, the company paid \$6,000 to a director to rent a building premises.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2004 and 2003

### 10. Related party transactions (continued):

- During fiscal 2003, 146,667 shares were issued to a director of the company to satisfy an outstanding debt obligation of \$44,000.
- During fiscal 2003, 53,333 shares were issued to a company owned by a director of the company to satisfy an outstanding debt obligation of \$16,000.
- During fiscal 2003, an outstanding debt obligation for geological services, management fees and rent owed to a company owned by a director of the company in the amount of \$109,511 was forgiven.
- Included in accounts payable and accrued liabilities is \$32,100 (2003 - \$39,323) owing to a director for his services.
- Included in accounts payable and accrued liabilities at December 31, 2003 is \$22,308 owing to a company controlled by a director of the company.

All of the above transactions were recorded at the exchange amount as agreed to by the related parties.

- (b) During the year, the company acquired 25 mineral claims from Arc Metals Ltd. (AML), a company controlled by a director and officer of the company, for total cash and share consideration of \$263,657. The purchase price was recorded at AML's carrying value of the mineral claims of \$2. The excess of the purchase price over the carrying value of the assets purchased of \$263,655 has been charged to deficit.

The cash and share consideration is subject to the following payments terms:

Payment date	Cash	Number of shares
December 1, 2004	\$ 60,000	150,000
December 1, 2005	25,000	80,000
December 1, 2006	20,000	40,000
December 1, 2007	25,000	40,000
December 1, 2008	30,000	40,000
	\$ 160,000	350,000

The cash portion of the liability has been recorded on a discounted basis and the share portion of the liability has been recorded based on the fair value of the shares as at the transaction date of \$0.40 per share. The company has not paid the first cash payment of \$60,000 due on December 1, 2004. The company and AML have agreed to treat this amount as a loan effective December 1, 2004 with interest to be accrued at a rate of 6 percent per annum. Repayment of the loan will be at the company's discretion.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2004 and 2003

### 10. Related party transactions (continued):

The amount payable to AML is comprised of:

Present value of cash portion	\$ 123,657
Fair value of share consideration	80,000
	<u>203,657</u>
Less current portion	112,833
	<u>\$ 90,824</u>

In addition to the cash and share consideration noted above, and subject to the commencement of commercial production on the properties acquired, the company has agreed to pay AML royalty interests of between 2 percent and 3 percent of the net smelter returns.

### 11. Contributed surplus:

Contributed surplus is comprised of:

Stock options granted in 2002 and 2003 (note 4)	\$ 161,910
Stock options granted in 2004 [note 8 (m)]	166,790
Warrants issued as consideration [note 8 (f)]	16,425
	<u>\$ 345,125</u>

### 12. Financial instruments:

The carrying value of cash, accounts receivable, accounts payable and accrued liabilities and shareholder loan approximates their fair value since these items fall due in the short term. The carrying value of the amount payable to Arc Metals Ltd. approximates its fair value.

**Notes to Financial Statements (continued)**Years ended December 31, 2004 and 2003

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**13. Commitment:**

The company has committed to payments under operating leases for office space and equipment as follows:

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2005	\$	25,375
2006		23,109
2007		15,268

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**14. Cash:**

The company is required to maintain a minimum bank balance of \$20,000 as security for corporate credit cards.

**15. Subsequent event:**

Subsequent to year end, the company signed an agreement to sell certain mineral claims to Grandview Gold Inc. (Grandview) for consideration of \$100,000 and 70,000 common shares of Grandview which traded on April 19, 2005 at \$1.31 per share.

## **OFFICERS, DIRECTORS AND SHAREHOLDER INFORMATION**

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### **Officers and Directors**

***Edward Sawitzky***  
President and COO

***Jerrold Siemens***  
Chairman

***Joseph J. Baylis***

***Denis Fillion***

***Robert Dzisiak***

### **Annual Meeting**

May 14, 2005  
9:30 AM  
Holiday Inn Astoria  
2935 Pembina Highway  
Winnipeg, Manitoba

### **Corporate and Investor Information**

#### ***Head Office:***

Wildcat Exploration Ltd.  
Unit 66 -1313 Border Street  
Winnipeg, Manitoba R3H 0X4  
Phone: (204) 944-8916  
Fax: (204) 944-8918

#### ***Transfer Agent:***

CIBC Mellon Trust Company  
Suite 750, One Lombard Place  
Winnipeg, Manitoba R3B 0X3

#### ***Legal Counsel:***

Gowling Lafleur Henderson LLP  
Suite 2300, 1055 Dunsmuir Street  
Vancouver, BC V7X 1J1

#### ***Auditors:***

KPMG LLP  
Suite 2000, One Lombard Place  
Winnipeg, Manitoba R3B 0X3

#### ***Stock Exchange:***

TSX Venture Exchange

#### ***Trading Symbol:***

WEL

#### ***Share Structure:***

Authorized: Unlimited  
Outstanding: 16,246,059