

MIDLANDS MINERALS CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004

MIDLANDS MINERALS CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004

INDEX	PAGE
Auditors' Report	1
Consolidated Balance Sheets	2
Consolidated Statements of Operations and Deficit	3
Consolidated Statement of Property Acquisition Costs and Deferred Exploration Expenditures	4
Consolidated Statements of Cash Flows	5
Notes to the Consolidated Financial Statements	6 – 15



AUDITORS' REPORT

To the Shareholders of
Midlands Minerals Corporation

We have audited the consolidated balance sheets of Midlands Minerals Corporation as at December 31, 2004 and 2003 and the consolidated statements of operations and deficit, property acquisition costs and deferred exploration expenditures, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

McGOVERN, HURLEY, CUNNINGHAM, LLP

A handwritten signature in cursive script that reads 'McGovern, Hurley, Cunningham, LLP'.

Chartered Accountants

TORONTO, Canada
April 5, 2005

	2004 \$	2003 \$
ASSETS		
CURRENT		
Cash	86,395	98,464
Prepaid expenses	20,440	-
GST receivable	4,497	21,782
Advances to Grand Oakes Resources Corp. (Note 5)	<u>-</u>	<u>40,781</u>
	111,332	161,027
ADVANCES TO SIKA RESOURCES INC. (Note 6)	6,541	6,541
DEFERRED COSTS (Note 7)	45,235	-
EQUIPMENT (Note 8)	17,172	11,272
INTEREST IN MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (Note 9 and Statement)	<u>1,466,661</u>	<u>957,528</u>
	<u>1,646,941</u>	<u>1,136,368</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (Notes 13(a) and (b))	268,520	153,669
Notes payable (Note 10)	<u>-</u>	<u>282,900</u>
	268,520	436,569
NON-CONTROLLING INTEREST (Note 5)	<u>36,125</u>	<u>36,125</u>
	<u>304,645</u>	<u>472,694</u>
CAPITAL STOCK AND DEFICIT		
CAPITAL STOCK (Note 11)	2,050,301	977,045
(DEFICIT)	<u>(708,005)</u>	<u>(313,371)</u>
	<u>1,342,296</u>	<u>663,674</u>
	<u>1,646,941</u>	<u>1,136,368</u>

APPROVED ON BEHALF OF THE BOARD:

Signed "Edward Harris", Director

Signed "Noel Nedrick", Director

MIDLANDS MINERALS CORPORATION
(A DEVELOPMENT STAGE ENTERPRISE)
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
FOR THE YEARS ENDED DECEMBER 31

Page 3

	2004 \$	2003 \$
EXPENSES		
Office and administrative expense	68,415	56,901
Management fees	60,000	33,000
Investor relations and shareholder information	44,419	-
Consulting fees	39,669	22,796
Professional fees	25,091	98,221
Telephone	14,526	8,308
Travel and automobile expense	13,255	25,435
Rent	13,159	12,470
Bank charges and interest	8,472	4,215
Transfer agent and filing fees	7,344	-
Foreign exchange (gain) loss	(6,687)	5,410
Amortization	<u>3,868</u>	<u>2,424</u>
Net loss from operations	291,531	269,180
Transaction costs (Note 5)	<u>103,103</u>	<u>-</u>
NET LOSS for the year	394,634	269,180
DEFICIT , beginning of year	<u>313,371</u>	<u>44,191</u>
DEFICIT , end of year	<u>708,005</u>	<u>313,371</u>
NET LOSS PER SHARE - Basic and diluted	<u>0.02</u>	<u>0.02</u>
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	<u>16,809,429</u>	<u>12,822,690</u>

See accompanying notes to the consolidated financial statements.

**CONSOLIDATED STATEMENT OF PROPERTY ACQUISITION COSTS AND DEFERRED
EXPLORATION EXPENDITURES
FOR THE YEARS ENDED DECEMBER 31**

	Itilima Gold Project, Tanzania \$	Kwahu Praso Concession, Ghana \$	Total \$
PROPERTY ACQUISITION COSTS			
Balance, December 31, 2002	469,725	-	469,725
Additions	<u>21,196</u>	<u>-</u>	<u>21,196</u>
Balance, December 31, 2003	490,921	-	490,921
Additions	<u>3,812</u>	<u>46,511</u>	<u>50,323</u>
Balance, December 31, 2004	<u>494,733</u>	<u>46,511</u>	<u>541,244</u>
DEFERRED EXPLORATION EXPENDITURES			
Balance, December 31, 2002	86,647	-	86,647
Additions	<u>295,240</u>	<u>84,720</u>	<u>379,960</u>
Balance, December 31, 2003	381,887	84,720	466,607
Geological consulting	172,000	36,299	208,299
Travel	72,988	36,220	109,208
Lab costs	97,924	-	97,924
Labour	16,759	2,343	19,102
Rent	11,715	-	11,715
Field supplies	7,743	1,585	9,328
Licences and permits	<u>2,093</u>	<u>1,141</u>	<u>3,234</u>
Balance, December 31, 2004	<u>763,109</u>	<u>162,308</u>	<u>925,417</u>
TOTAL BALANCE, DECEMBER 31, 2004	<u><u>1,257,842</u></u>	<u><u>208,819</u></u>	<u><u>1,466,661</u></u>

See accompanying notes to the consolidated financial statements.

MIDLANDS MINERALS CORPORATION
(A DEVELOPMENT STAGE ENTERPRISE)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

Page 5

	2004	2003
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) for the year	(394,634)	(269,180)
Add items not requiring cash:		
Shares issued for services	8,600	21,000
Amortization	<u>3,868</u>	<u>2,424</u>
	(382,166)	(245,756)
Changes in non-cash working capital balances:		
(Increase) decrease in prepaid expenses	(20,440)	21,028
Decrease (increase) in GST receivable	17,285	(21,782)
Increase in accounts payable and accrued liabilities	<u>101,353</u>	<u>143,829</u>
Cash flows from operating activities	<u>(283,968)</u>	<u>(102,681)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Advances to Grand Oakes Resources Corp.	(50,230)	(38,679)
Advances to Sika Resources Inc.	-	(6,541)
Purchase of equipment, net	(9,768)	(7,480)
Interest in mineral properties and deferred exploration expenditures	<u>(509,133)</u>	<u>(401,156)</u>
Cash flows from investing activities	<u>(569,131)</u>	<u>(453,856)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Deferred costs	(45,235)	-
Notes payable	8,385	153,400
Issuance of common shares for cash, net of costs	<u>877,880</u>	<u>422,577</u>
Cash flows from financing activities	<u>841,030</u>	<u>575,977</u>
(Decrease) increase in cash	(12,069)	19,440
Cash, beginning of year	<u>98,464</u>	<u>79,024</u>
Cash, end of year	<u>86,395</u>	<u>98,464</u>
SUPPLEMENTAL INFORMATION:		
Interest paid	-	-
Taxes paid	-	-
Common shares issued upon amalgamation with 1487852 Ontario Inc. (Note 5)	291,285	-
Common shares issued upon amalgamation with Grand Oakes Resources Corp. (Note 5)	104,509	-

See accompanying notes to the consolidated financial statements.

1. BASIS OF PRESENTATION AND GOING CONCERN

Midlands Minerals Corporation (the "Company") is in the process of exploring its newly acquired mineral properties and is considered to be in the development stage. The Company has not yet determined whether these properties contain ore reserves that are economically recoverable. The recoverability of the carrying values of mineral properties is dependent upon the discovery of economically recoverable reserves, the preservation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain financing necessary to complete development of the properties, and the future profitable production therefrom or alternatively upon the Company's ability to dispose of its interests on an advantageous basis.

As at December 31, 2004, the Company had a working capital deficiency of \$157,188 and an accumulated deficit of \$708,005. The Company's ability to continue operations and fund its exploration property expenditures is dependent on management's ability to secure additional financing. Management is actively pursuing such additional sources of financing, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future. (See Note 17).

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a "going concern", which assume 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 operations. The Company is in the development stage with no history of profitability. There is no guarantee that the Company's exploration programs will yield positive results or that the Company will be able to obtain the necessary financing to carry out the exploration and development of its properties. If the "going concern" assumption was not appropriate for these consolidated financial statements, then adjustments would be necessary to the carrying values of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used. Such adjustments could be material.

2. NATURE OF OPERATIONS

The Company is engaged in the search, evaluation and development of gold, precious metals and other resources in the continent of Africa (Tanzania and Ghana). The assets of the Company that are located outside of North America are subject to the risk of foreign investment, including increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and political uncertainty.

The Company's exploration operations are subject to government legislation, policies and controls relating to prospecting, development, production, environmental protection, mining taxes and labour standards. In order for the Company to carry out its exploration and mining activities, the Company is required to hold certain permits. There is no assurance that the Company's existing permits will be renewed or that new permits that have been applied for will be granted. Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. Changes in future conditions could require material write downs of the carrying values. Major expenditures are required to locate and establish ore reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site. Management reviews the carrying value of the Company's interest in each property and where necessary, exploration properties are written down to their fair value. Although management has made its best estimate of these factors, it is reasonably possible that certain events could adversely affect management's estimates of fair value and the need for, as well as the amount of, provision for impairment in the carrying value of exploration properties and related assets.

3. CHANGE IN ACCOUNTING POLICY

Stock-Based Compensation

Effective October 1, 2004, the Company adopted the recommendations of CICA Handbook Section 3870, *Stock-based Compensation and Other Stock-based Payments* for employees and non-employees. This Section establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. These recommendations require that compensation for all awards made to employees and non-employees be measured and recorded in the financial statements at fair value. The adoption of this policy has no effect on the consolidated financial statements. The Company's proposed stock option plan is described in Note 11.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company are in accordance with Canadian generally accepted accounting principles and their basis of application is consistent with that of the previous year. Outlined below are those policies considered particularly significant.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its 75% owned subsidiary, Itilima Mining Company Limited ("Itilima"), its 89% owned subsidiary Midenka Resources Limited and its wholly owned subsidiary, Midlands Minerals Tanzania Limited and have been prepared by management in accordance with Canadian generally accepted accounting principles. All material intercompany balances and transactions have been eliminated.

Equipment

Equipment is recorded at cost. Amortization is provided over the related assets' estimated useful lives using the following methods and annual rates:

Computer equipment	30% declining balance
Office equipment	20% declining balance
Field equipment	20% declining balance

Mining Properties and Deferred Expenditures

Interest in exploration properties and deferred exploration expenditures are carried at cost until they are brought into production, at which time they are depleted on a unit-of production method based on proven and probable reserves. If a property is subsequently determined not to be economic, the property and related deferred costs are written down to net realizable value. Other general exploration expenses are charged to operations as incurred. The cost of exploration properties abandoned or sold and their related deferred exploration costs are charged to operations in the current year.

The Company reviews its exploration properties on an annual basis to determine if events or changes in circumstances have transpired which indicate that the carrying value of its assets may not be recoverable. The recoverability of costs incurred on the exploration properties is dependent upon numerous factors including exploration results, environmental risks, commodity risks, political risks, and the Company's ability to attain profitable production.

Costs include the cash consideration and the fair market value of the shares issued for the acquisition of exploration properties. The carrying value is reduced by option proceeds received until such time as the property cost and deferred expenditures are reduced to nominal amounts. Properties acquired under option agreements or by joint ventures, whereby payments are made at the sole discretion of the Company, are recorded in the accounts at the time of payment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Asset Retirement Obligations

Effective December 31, 2003, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3110, Asset Retirement Obligations. Under the new standard, the fair values of asset retirement obligations are recorded as liabilities on a discounted basis when they are incurred. Amounts recorded for the related assets are increased by the amount of these obligations. Over time, the liabilities will be accreted for the change in their present value and the initial capitalized costs will be depleted and amortized over the useful lives of the related assets. There are no asset retirement liabilities set up for those assets which have an indeterminate useful life.

Environmental Expenditures

The operations of the Company may in the future be affected by changes in environmental regulations, including those for future removal and site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company vary greatly from country to country and are not predictable. Environmental expenditures that relate to ongoing environmental and reclamation programs are charged against earnings as incurred or capitalized and amortized depending on their future economic benefits. To date, the Company has incurred no environmental expenditures relating to the exploration of properties.

Income Taxes

Income taxes are calculated using the asset and liability method of tax accounting. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and on unclaimed losses carried forward and are measured using the substantially enacted tax rates that will be in effect when the differences are expected to reverse or losses are expected to be utilized. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

Loss Per Share

Basic loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year, including contingently issuable shares which are included when the conditions necessary for issuance have been met. Diluted loss per share is calculated in a similar manner, except that the weighted average number of common shares outstanding is increased to include potentially issuable common shares from the assumed exercise of common share purchase options and warrants, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options and warrants. As the Company had a loss in each of the periods presented, basic and diluted loss per share are the same as the exercise of all options and warrants would be anti-dilutive.

Foreign Currency Translation

The Canadian dollar is the functional currency of all of the Company's operations, which are classified as integrated for foreign currency translation purposes. Under this method translation gains or losses are included in the determination of net income or loss.

Monetary assets and liabilities of the Company's integrated foreign operations are translated into Canadian dollars at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates, unless such items are carried at market, in which case they are translated at the exchange rates in effect on the balance sheet date. Revenues and expenses, except amortization which is translated at historical rates, are translated at the average exchange rates for the period.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

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

5. BUSINESS ACQUISITIONS AND CORPORATE REORGANIZATIONS

On November 12, 2002, the Company acquired 75% of the issued and outstanding shares of Itilima. Itilima's sole asset is a mining property located in Tanzania acquired from Sika Resources Inc. ("Sika") Consideration for the purchase consisted of 5,420,000 common shares of the Company valued at \$433,600. The acquisition was accounted for using the purchase method. The allocation of the purchase price was entirely to the mining property held by Itilima. The Company and Sika had management, directors, and controlling shareholders in common before and after the acquisition. Accordingly, the transaction has been recorded in the financial statements at the carrying amount of the mining property previously recorded in the accounts of Sika. The book value of the 25% interest in Itilima held by shareholders other than the Company has been recorded as a non-controlling interest on the consolidated balance sheet.

On June 2, 2004, the Company amalgamated with 1487852 Ontario Inc. ("Numco"), a corporation with 1,411,000 common shares outstanding. Numco's sole asset was \$291,285 due from the Company. The Company was the continuing entity under the amalgamation and the transaction has been accounted for as a settlement of the amount due to Numco through the issuance of shares. (Note 10).

On June 2, 2004 the Company amalgamated with Grand Oakes Resources Corp. ("Grand Oakes"), an unlisted Canadian public company. Certain directors of the Company became directors of Grand Oakes prior to receipt of Grand Oakes' shareholder approval of the amalgamation with the Company. Grand Oakes is the successor legal entity following the amalgamation. Former Grand Oakes shareholders received 572,167 shares of the amalgamated entity and former Company shareholders received 17,543,801 shares of the amalgamated company. As the former Grand Oakes shareholders have less than 50% of the outstanding shares of the combined entity, the Company is considered the acquirer of Grand Oakes for accounting purposes. Accordingly, the Company is the accounting entity in these financial statements and the comparative figures that are presented in the financial statements after this amalgamation are those of the Company. The capital structure reflects that of the successor legal entity, Grand Oakes and the stated value of the share capital is that of the Company. The amalgamated entity will carry on business under the name Midlands Minerals Corporation.

At amalgamation, Grand Oakes had net liabilities of \$104,509. The assumption of these net liabilities is recorded as a capital transaction. Related transaction costs in the amount of \$103,103 were recorded as an expense in the period the transaction closed.

6. ADVANCES TO SIKA RESOURCES INC.

Advances to Sika Resources Inc. ("Sika") are unsecured, non-interest bearing with no fixed terms of repayment. Sika has officers and directors in common with the Company.

7. DEFERRED COSTS

At December 31, 2004, the Company had accrued and deferred costs totaling \$45,235 which consisted primarily of professional fees related to the financing disclosed in Note 17. The deferred charges will be allocated to share issue costs upon closing of the private placement.

8. EQUIPMENT

	<u>Cost</u>	<u>Accumulated</u> <u>Amortization</u>	2004 <u>Net</u>	2003 <u>Net</u>
	\$	\$	\$	\$
Computer equipment	11,962	3,560	8,402	4,595
Office equipment	11,892	3,895	7,997	5,823
Field equipment	<u>999</u>	<u>226</u>	<u>773</u>	<u>854</u>
	<u>24,853</u>	<u>7,681</u>	<u>17,172</u>	<u>11,272</u>

9. INTEREST IN MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES

Itilima Gold Project

The Company's interest in the Itilima Gold Project consists of a 75% interest in two contiguous prospecting licenses registered under the name of the Itilima Mining Company, a Tanzanian corporation. The licenses were granted for all minerals including gold and diamonds but not including building materials and gemstones. Net smelter royalties ("NSR") payable upon production to Juma Motors Transport Ltd. ("JMT"), the Company's local joint venture partner, are 2% for the first two years of mine life, 1.5% for the next two years, and 1% thereafter for the life of the mine. In addition, there is a royalty payable upon production to the Government of Tanzania of a 3% NSR for gold and a 5% NSR for diamonds. The licenses are up for renewal on November 11, 2004 (renewed) and November 11, 2005 respectively, at which time 50% of the ground covered by each license must be dropped. The Company may re-apply for the dropped portion.

The concession area covered by the two prospecting licenses includes a number of registered claims. During the year, the Company entered into two option agreements for three claims. The Company is required to make monthly payments of 150,000 Tanzanian shillings (December 31, 2004 – Cdn\$180) until the date the Company decides to exercise its purchase option. The Company can exercise its options on or before December 31, 2006 for a total purchase price of 38 million Tanzanian shillings (December 31, 2004 – Cdn\$45,100).

During the year ended December 31, 2003, the Company also entered into two purchase agreements for five claims located in the area covered by the two prospecting licenses described above, for total cash consideration of 11.5 million Tanzanian shillings (Cdn\$14,375).

Kwahu Praso Concession, Ghana

The Enkaakyiri Trading Company Limited ("Enkaakyiri") holds title to the Kwahu Praso Concession ("Concession") situated in the Eastern Region along the Northeastern border of the Ashanti gold belt of Ghana. Pursuant to an agreement dated April 23, 2003, Enkaakyiri agreed to enter into a joint venture with the Company to conduct exploration and development activities on the Concession and the Company has been appointed Project Manager and Operator. The Company will hold an 80% interest in the joint venture and will cover all exploration costs until such time as an "inferred resource" has been established. At that time, Enkaakyiri will be required to participate in 20% of all costs related to exploration and development of the Concession. The Company is also required to make a US\$10,000 payment to Enkaakyiri at the time the Concession is transferred to the joint venture (paid).

Enkaakyiri may elect to sell its 20%, or portion thereof, with the sale price being determined by the resources defined at the time of sale. In the event that Enkaakyiri sells its interest in the Concession, it would receive a Net Smelter Royalty equal to:

- a) 2.00% for the first two years;
- b) 1.00% for the next two years; and
- c) 0.25% thereafter for the life of the mine.

9. INTEREST IN MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (Continued)

Kwahu Praso Concession, Ghana (Continued)

In addition, the Government of Ghana is entitled to a 10% interest in the Concession with no contribution requirement. Both the Company and Enkaakyiri shall cede this 10% interest in proportion to their existing interests at that point in time.

10. NOTES PAYABLE

The notes payable are unsecured, non-interest bearing, with no fixed terms of repayment. During the year ended December 31, 2004, the holders of the notes payable transferred and assigned their right, title and interest in the amounts owed by the Company to Numco for shares of Numco. Two directors of the Company are also directors of Numco. (See Note 5)

11. CAPITAL STOCK

Authorized

Unlimited common shares

Issued: Legal Parent (Grand Oakes)

	Common Shares #	Amount \$
Balance of capital stock of legal parent, December 31, 2003	2,575,005	1,020,100
Exchange of capital stock on a 4.5:1 basis	<u>(2,002,838)</u>	<u>-</u>
	572,167	1,020,100
Balance of capital stock of legal subsidiary	17,543,801	2,035,685
Elimination of Grand Oakes' deficit (Note 5)	-	(1,124,609)
Issued for cash	<u>277,035</u>	<u>119,125</u>
Balance, December 31, 2004 (Note 17)	<u>18,393,003</u>	<u>2,050,301</u>

Issued: Legal Subsidiary (Midlands)

	Common Shares #	Amount \$
Issued on incorporation	2,500,000	2
Issued for services	<u>3,865,929</u>	<u>3,866</u>
Balance, December 31, 2001 and 2002	6,365,929	3,868
Shares to be issued	5,900,000	529,600
Issued for cash	1,942,441	422,577
Issued for services	<u>105,000</u>	<u>21,000</u>
Balance, December 31, 2003	14,313,370	977,045
Issued for Numco (Note 5)	1,411,000	291,285
Issued for services	20,000	8,600
Issued for cash	1,799,431	773,755
Share issue costs	<u>-</u>	<u>(15,000)</u>
Balance, June 2, 2004	<u>17,543,801</u>	<u>2,035,685</u>

Continued...

11. CAPITAL STOCK (Continued)

Shares to be Issued: Legal Subsidiary (Midlands)

	Common Shares #	Amount \$
Balance, December 31, 2001	-	-
Shares to be issued for interest in mineral property	5,420,000	433,600
Shares to be issued	<u>480,000</u>	<u>96,000</u>
Balance, December 31, 2002	5,900,000	529,600
Common shares issued	<u>(5,900,000)</u>	<u>(529,600)</u>
Balance, December 31, 2003 and December 31, 2004	<u>-</u>	<u>-</u>

During the year ended December 31, 2004, the Company issued 410,198 common shares at \$0.43 per common share for gross proceeds of \$176,385. The Company also issued 1,666,268 units at \$0.43 per unit for gross proceeds of \$716,495. An additional 20,000 units at \$0.43 were issued in consideration of services rendered in the amount of \$8,600. Each unit consists of one common share and one common share purchase warrant entitling the holder to acquire an additional common share of the Company at a price of \$0.43 until December 31, 2005.

Warrants

A summary of changes in warrants during the years indicated is as follows:

	Warrants Granted \$	Weighted Average Exercise Price \$
Balance, December 31, 2002 and 2003	-	-
Issued as part of private placements	1,686,268	0.43
Cancelled	<u>(75,000)</u>	<u>(0.43)</u>
Balance, December 31, 2004	<u>1,611,268</u>	0.43

As at December 31, 2004, the following warrants were outstanding:

<u>Date of Grant</u>	Warrants Granted #	Exercise Price \$	<u>Expiry Date</u>
January 15, 2004	525,000	0.43	December 31, 2005
June 1, 2004	809,233	0.43	December 31, 2005
October 24, 2004	<u>277,035</u>	0.43	March 23, 2007
	<u>1,611,268</u>		

Stock Option Plan

The Company has a proposed stock option plan for the purchase of common shares for its directors, officers, employees and other service providers. The aggregate number of common shares reserved for issuance under the stock option plan is a maximum of 10% of the issued and outstanding common shares of the Company. No one person shall be granted options representing more than 5% of the issued and outstanding common shares of the Company. Option grants to persons providing investor relations services may not exceed 2% of the issued and outstanding share capital and must vest over a 12-month period with no more than 25% of the options vesting in any quarter. The options are non-assignable and non-transferable and may be granted for a term not exceeding five years. The exercise price of the options is fixed by the board of directors of the Company and shall be determined on the basis of the market price of the shares at the time of grant, subject to all applicable regulatory requirements. The Company has not granted any stock options as at December 31, 2004.

12. INCOME TAXES

Provision for Income Taxes

The provision for (recovery of) income taxes differs from the amount that would have resulted by applying Canadian federal and provincial statutory tax rates of 36% (2003 – 36%).

	<u>2004</u>	<u>2003</u>
	\$	\$
(Loss) before taxes:	<u>(394,634)</u>	<u>(269,180)</u>
Expected income tax (benefit)	(142,100)	(96,900)
Adjustments to benefit resulting from:		
Non-deductible expenses	39,400	1,300
Share issue costs	(600)	-
Valuation allowance	<u>103,300</u>	<u>95,600</u>
	<u>-</u>	<u>-</u>

Future Tax Balances

The tax effects of temporary differences that give rise to future income tax assets and liabilities are as follows:

	<u>2004</u>	<u>2003</u>
	\$	\$
Future income tax assets (liabilities):		
Non-capital loss carry-forwards	214,400	109,800
Equipment and transaction costs	42,600	1,400
Valuation allowance	<u>(257,000)</u>	<u>(111,200)</u>
	<u>-</u>	<u>-</u>

Canadian Tax Loss Carry-forwards

The Company had approximately \$595,500 of non-capital losses in Canada which, under certain limited circumstances, may be used to reduce taxable income in future years.

<u>Year of Expiry</u>	<u>Amount</u>
	\$
2006	7,900
2007	500
2008	30,600
2009	269,500
2013	77,200
2014	<u>209,800</u>
	<u>595,500</u>

Management believes that it has tax losses in Ghana and Tanzania that may be carried forward to offset future taxable income but cannot reasonably estimate these losses and the resulting future income tax assets at this time. Had the tax losses been determinable, a valuation allowance equal to the total amount of any future income tax assets would have been recorded to offset any such benefit.

The potential income tax benefit of these losses has been offset by a full valuation allowance.

13. RELATED PARTY TRANSACTIONS

- a) During the year ended December 31, 2004, rent totaling \$1,200 (2003 - \$7,793) and management fees totaling \$60,000 (2003 - \$33,000) were paid or accrued to a director who is also an officer of the Company. Included in accounts payable as at December 31, 2004 is \$82,468 (2003 - \$62,580) due to this individual which includes accrued management fees and amounts owing for certain expenditures incurred by the individual on behalf of the Company.
- b) Included in accounts payable as at December 31, 2004 is \$33,399 (2003 - \$11,293) due to a director - shareholder of the Company with respect to expenditures incurred by the individual on behalf of the Company.
- c) During the year ended December 31, 2004, Sika subscribed for 15,814 common shares at \$0.43 per share for gross proceeds of \$6,800 pursuant to the private placements described in Note 11.
- d) See also Notes 5, 6 and 10.

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

14. SEGMENTED INFORMATION

The Company's principal operations are the acquisition, exploration and development of mineral properties. All mineral properties are situated in Africa (Note 9). Substantially all of the Company's operating expenses are incurred in Canada.

15. COMMITMENTS

The Company entered into an agreement with its CEO effective July 1, 2004 whereby the CEO will receive an annual salary of \$80,000 and benefits equal to 20% of her salary. The CEO will be entitled to receive a payment equal to 24 months' salary on termination for any reason other than cause.

16. FINANCIAL INSTRUMENTS

Fair Value

Canadian generally accepted accounting principles require that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The carrying amounts for cash, GST receivable, advances to Grand Oakes Resources Corp., accounts payable and accrued liabilities and notes payable on the balance sheet approximate fair value because of the limited term of these instruments.

Foreign Exchange Risk

Certain of the Company's expenses are incurred in the United States, Tanzanian and Ghanian currencies and are therefore subject to gains or losses due to fluctuations in these currencies.

Commodity Price Risk

The ability of the Company to develop its properties and the future profitability of the Company is directly related to the market price of certain minerals.

17. SUBSEQUENT EVENTS

Subsequent to December 31, 2004, the Company issued 5,017,500 units at \$0.20 per unit for gross proceeds of \$1,003,500 (the "Private Placement"). Each unit consists of one common share and one common share purchase warrant entitling the holder to acquire one additional common share of the Company at a price of \$0.30 for a period of two years. In connection with the private placement, the Company issued a compensation option to the agent to acquire 501,750 common shares at a price of \$0.20 per share for a period of two years. Costs related to the financing were approximately \$185,000 (excluding the fair value of the compensation option) of which \$45,235 was paid or accrued to December 31, 2004 (Note 7).

In addition, the Company issued 50,000 units valued at \$10,000, on the same terms as those of the Private Placement, to the sponsor as part of its compensation.