

**MID-NORTH RESOURCES LIMITED**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2003**

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

To the Shareholders of Mid-North Resources Limited:

The financial statements and the information in the annual report are the responsibility of the Board of Directors and management. The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. A system of controls is maintained by management to provide reasonable assurance that assets are safeguarded and financial information is accurate and reliable.

The Audit Committee meets with management and the independent auditors to assure that management is maintaining adequate financial controls and to approve the annual and quarterly financial statements. The Audit Committee also reviews the results of the annual audit performed by the independent auditors prior to submitting the financial statements to the Board of Directors for approval.

The financial statements for the year ended December 31, 2003 in the annual report have been examined by Daunheimer & Dow LLP and their report is below.

Calgary, Alberta  
Date: May 15, 2004

*·Signed by Robert B. Dunlop·*  
Robert B. Dunlop  
Director

*·Signed by Keith J. Engel·*  
Keith J. Engel  
Director

## AUDITORS' REPORT

To the Shareholders of Mid-North Resources Limited:

We have audited the balance sheet of Mid-North Resources Limited as at December 31, 2003 and the statements of loss and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

The financial statements as at December 31, 2002 and for the year then ended were audited by other auditors who expressed an opinion without reservation in their Auditor's Report dated May 12, 2003.

Calgary, Alberta  
May 10, 2004

*Signed by Daunheimer & Dow LLP*  
DAUNHEIMER & DOW LLP  
CHARTERED ACCOUNTANTS

**MID-NORTH RESOURCES LIMITED**  
**BALANCE SHEET**  
**DECEMBER 31, 2003 and 2002**

	2003 \$	2002 \$
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	3,279	21
Sales taxes recoverable	312	2,912
Exploration grant receivable (Note 3)	15,000	-
Share subscription receivable	-	7,000
	18,591	9,933
CAPITAL ASSETS (Note 4)	3,838	5,065
MINING CLAIMS AND DEFERRED EXPENSES (Note 3)	1,338,056	1,390,124
	1,360,485	1,405,122
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Bank indebtedness	781	787
Accounts payable and accrued liabilities	74,934	80,801
Accrued interest payable	129,807	109,755
Due to related parties (Note 5)	254,049	245,040
Notes payable (Note 6)	250,660	250,660
	710,231	687,043
<b>SHAREHOLDERS' EQUITY</b>		
SHARE CAPITAL (Note 7)	3,404,719	3,406,719
DEFICIT	(2,754,465)	(2,688,640)
	650,254	718,079
	1,360,485	1,405,122

Approved on behalf of the Board:

·Signed by Robert B. Dunlop·  
 Robert B. Dunlop, Director

·Signed by Keith J. Engel·  
 Keith J. Engel, Director

See accompanying Notes to the Financial Statements.

**MID-NORTH RESOURCES LIMITED**  
**STATEMENT OF LOSS AND DEFICIT**  
**FOR THE YEARS ENDED DECEMBER 31, 2003 and 2002**

	2003 \$	2002 \$
<b>EXPENSES</b>		
Professional fees	25,717	23,903
Interest on promissory note	20,678	21,232
Filing and registration fees	13,583	15,782
Office	2,203	2,575
Rent	1,800	4,247
Amortization	1,227	1,309
Automotive	319	9,153
Travel	298	2,216
Consulting fees (Note 5)	-	12,000
Advertising and promotion	-	3,410
Repairs and maintenance	-	2,450
Insurance	-	1,332
Interest and bank charges	-	385
	65,825	99,994
<b>NET LOSS FOR THE YEAR</b>	(65,825)	(99,994)
<b>DEFICIT, Beginning of year</b>	(2,688,640)	(2,588,646)
<b>DEFICIT, End of year</b>	(2,754,465)	(2,688,640)
 <b>LOSS PER SHARE (Note 9)</b>	 (0.01)	 (0.01)

See accompanying Notes to the Financial Statements.

**MID-NORTH RESOURCES LIMITED**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2003 and 2002**

	2003 \$	2002 \$
<b>OPERATING ACTIVITIES</b>		
Cash payments to suppliers	(45,745)	(53,451)
Cash flows used for operating activities	(45,745)	(53,451)
 <b>FINANCING ACTIVITIES</b>		
(Repayment) proceeds from short-term financing	(6)	787
Proceeds from private placement	-	85,000
Cash flows (used for) from financing activities	(6)	85,787
 <b>INVESTMENT ACTIVITIES</b>		
Mining claims option payment received	35,000	-
Advances from related parties	14,009	137
Purchase of capital assets	-	(1,582)
Deferred expenses	-	(31,773)
Cash flows from (used for) investing activities	49,009	(33,218)
NET INCREASE (DECREASE) IN CASH FOR THE YEAR	3,258	(882)
CASH, Beginning of year	21	903
CASH, End of year	3,279	21
 <b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Interest paid	626	-

See accompanying Notes to the Financial Statements.

**MID-NORTH RESOURCES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2003 and 2002**

**1. NATURE OF OPERATIONS AND FINANCIAL CONDITION OF THE COMPANY**

Mid-North Resources Limited is a TSX Venture Exchange listed public company. The Company currently has interests in mining claims situated in the Provinces of Manitoba and Saskatchewan and the State of Nevada and intends to maintain and explore its mining claims directly and through joint ventures. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern. The ability of the Company to continue as a going concern is dependent on it raising the required capital to proceed with its operational plans and subsequently obtain profitable operations. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

**2. SIGNIFICANT ACCOUNTING POLICIES**

In the opinion of management, all adjustments considered necessary for fair presentation have been included in these financial statements. The significant accounting policies are as follows:

Financial Instruments

Financial instruments of the Company consist mainly of the cash, sales tax recoverable, exploration grant receivable, bank indebtedness, accounts payable and accrued liabilities, accrued interest payable, amounts due to related parties, and notes payable. As at December 31, 2002 and 2003, there are no significant differences between the carrying values of these amounts and their estimated market values.

Capital Assets

Capital assets are stated at cost less accumulated amortization. Amortization is recorded on the declining balance basis at rates designed to amortize the cost of the capital assets over their estimated useful lives based on the following annual rates:

Computer equipment	30%
Office equipment	20%
Display equipment	20%

Mining Claims and Deferred Expenses

Mining claims and deferred expenses are valued at cost less option payments and exploration grants received.

Deferred expenses relate to exploration of mining claims and will be deferred until the properties are brought into production, at which time they will be amortized on a unit of production basis or until the properties are sold or abandoned, at which time the asset will be written off.

**MID-NORTH RESOURCES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2003 and 2002**

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

Mining Claims and Deferred Expenses (continued).

Administrative expenses which are considered to be wholly related to the acquisition and exploration of properties have been capitalized as part of deferred costs.

Recovery of deferred expenses is contingent upon either the Company's identifying mineral reserves in commercial quantities and bringing such reserves into profitable production or the profitable disposition of mineral leases.

Loss per Share

Basic earnings (loss) per share is computed using the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share is computed using the weighted average number of common shares and potential common shares outstanding during the year. Potential common shares that are anti-dilutive to its basic earnings (loss) per share are excluded from the calculation of diluted earnings per share. Potential common shares consist of the incremental common shares issuable upon the exercise of warrants and stock options using the treasury stock method.

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 amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of the revenue and expenses during the reporting years. Actual results could differ from those estimated.

**3. MINING CLAIMS AND DEFERRED EXPENSES**

	2003	2002
	\$	\$
Mining claims	268,017	268,017
Deferred expenses (Schedule 1)	1,120,039	1,122,107
Mining claims option (see i below)	(35,000)	-
Exploration grant (see i below)	(15,000)	-
	1,338,056	1,390,124
	1,338,056	1,390,124

**MID-NORTH RESOURCES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2003 and 2002**

**3. MINING CLAIMS AND DEFERRED EXPENSES (continued)**

i Central Manitoba Bissett (Gold Property)

The Company owns a 100% interest in 20 Central Manitoba and Cryderman claims located approximately 160 kilometres northeast of Winnipeg, Manitoba. On July 25, 2003, the Company granted Placer Dome (CLA) Limited ("Placer") an option to earn 75% interest in 17 of the 20 Central Manitoba and Cryderman claims for \$150,000. The Company has received \$ 35,000 in option payments during the year. This amount is non-refundable.

The remainder of the option payments is optional and is to be made by Placer:

	\$
On or before July 25, 2004	35,000
On or before July 25, 2005	40,000
On or before July 25, 2006	40,000
	<u>115,000</u>

In order to maintain the option, Placer shall incur \$ 1,000,000 in work costs on the claims on or before July 25, 2006. During the year, Placer incurred \$199,950 in work costs on the claims. In accordance with the agreement, Placer has applied for an exploration grant from the 2003 MEAP - Manitoba Exploration Assistance Program, of which the Company is entitled to receive \$15,000. The amount has been accrued as a grant receivable at the year ended December 31, 2003. During the term of the option, Placer shall have the exclusive right to enter and explore the claims, but the Company retains its right of access and retains its title to the claims. The Company will take the mining claim payments into income at the end of the term if Placer has not exercised the option to earn the 75% interest in the claims.

ii Beaucage Lake (Gold Property)

The Company owns 9 mineral claims situated approximately 50 kilometres southeast of Lynn Lake, Manitoba covering approximately 1,967 hectares.

iii Bomber Lake (Gold/Copper Property)

The Company owns 12 contiguous claims in the Bomber Lake area approximately 3 kilometres to the east of the Hudson Bay Mining And Smelting smelter in Flin Flon, Manitoba. There is currently a net smelter royalty of 2% on the claims. The Company has the option to purchase the net smelter royalty for \$100,000 for each 1% purchased.

**MID-NORTH RESOURCES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2003 and 2002**

**3. MINING CLAIMS AND DEFERRED EXPENSES (continued)**

iv Burntwood River (Nickel Property)

The Company has a 15% interest through a joint venture agreement with Falconbridge Limited in 62 mineral claims located in the Burntwood River area of Manitoba.

v Apex/Miner (Gold Property)

The Company owns a total of 28 claims (Apex - 5, Miner - 23) in the Snow Lake area of Manitoba. W. Bruce Dunlop Ltd. (a shareholder) and Bart Kobar hold 2 separate net smelter royalties of 1.25% with an option for the Company to buy the royalties down to 0.5% for payments of \$200,000 for each area.

vi Gunman Property (Zinc/Copper Property)

The Company entered into a joint venture agreement dated January 31, 2002 with Cypress Development Corp. to continue exploration of the Gunman property in White Pine Country, Nevada. The Company holds 27.55% (2002 - 30%) interest and the other partner holds 72.45% (2002 - 70%). During the year, \$7,550 (2002 - \$148,549) of exploration expenditures incurred by the partner on behalf of the Company has been prepaid with a reduction in the Company's interest from 30% to 27.55% (2002 - 50% to 30%).

The Gunman property consists of 240 lode claims. There is currently a net smelter royalty of 2% on the claims. The Company along with the other interest holder has an option to purchase 1/4 of the net smelter royalty for US \$ 500,000 or 2 of the royalty for US \$ 1,000,000.

vii Other Properties

Pursuant to certain agreements, the Company has the following options:

- (i) War Baby Property - Option to acquire a 10% interest in the block of claims covering an area of 17 acres located within the limits of the City of Flin Flon, Manitoba. Under the terms of the agreement, the Company may exercise its option to acquire a 10% interest in the mineral claims by paying 10% of the exploration expenditures incurred by Callinan within 90 days of the receipt of a positive feasibility study on the property.
- (ii) Fox River Sill Property - The Company holds a first right of refusal to acquire a 25% interest in the property which consists of 58,700 acres in northeast Manitoba. Falconbridge Limited holds 75% of the property.

**MID-NORTH RESOURCES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2003 and 2002**

**4. CAPITAL ASSETS**

	2003		2002	
	\$		\$	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer equipment	3,322	1,826	1,496	2,138
Office equipment	6,791	5,340	1,451	1,814
Display equipment	4,163	3,272	891	1,113
	<u>14,276</u>	<u>10,438</u>	<u>3,838</u>	<u>5,065</u>

**5. RELATED PARTY TRANSACTIONS**

Amounts due to related parties consists primarily of accrued consulting fees and advances from shareholders, with no interest, unsecured, and with no fixed terms of repayment. All parties are related to the Company as shareholders. During the year ended December 31, 2003, nil (2002 - \$12,000) consulting fees were paid to Robert Dunlop, president of the Company.

**6. NOTES PAYABLE**

The notes payable bear interest at 8% per annum, are unsecured and the terms of repayment have not been negotiated.

**7. SHARE CAPITAL**

Authorized:  
 Unlimited common shares

Issued:

	Number of Shares	\$
Balance, December 31, 2002	11,700,847	3,406,719
Cancellation of shares - December 19, 2003	<u>(20,000)</u>	<u>(2,000)</u>
Balance, December 31, 2003	<u>11,680,847</u>	<u>3,404,719</u>

i. Escrow Agreement

A total of 290,953 shares are subject to a performance based escrow agreement, effective December 15, 1995, between the Company, the Trustee and certain shareholders of the Company.

**MID-NORTH RESOURCES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2003 and 2002**

**7. SHARE CAPITAL (continued)**

ii. Options

On July 14, 2003, 180,000 options issued to William Aughey expired. Each option entitled the holder to purchase one common share at \$0.15 per share.

The following options are outstanding at December 31, 2003:

	Options at \$ 0.10	Options at \$ 0.30
Robert Dunlop	-	325,000
W. Dale Dunlop	-	200,000
Keith Engel	185,000	115,000
	185,000	640,000
Date of expiry	April 17, 2007	June 21, 2005

Each option entitles the holder to purchase one common share at the price as identified above.

iii. Warrants

At December 31, 2003, there were 900,000 warrants outstanding. Each warrant entitles the holder to purchase one common share for \$0.10 and expires on April 15, 2004.

**MID-NORTH RESOURCES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2003 and 2002**

**8. INCOME TAXES**

The Company has incurred non-capital losses of \$1,012,740 for tax purposes which are available to reduce future taxable income. Such benefits will be recorded as an adjustment to the tax provision in the year realized. The losses will expire as follows:

	\$
2004	313,000
2005	214,000
2006	112,990
2007	111,066
2008	95,865
2009	99,994
2010	65,825
	1,012,740

The potential benefit of any tax losses has not been reflected in these financial statements.

**9. LOSS PER SHARE**

The computations for basic loss per share are as follows:

	2003 \$	2002 \$
Loss for the year	(65,825)	(99,994)
Weighted average number of share outstanding-basic	11,700,137	11,438,710
Loss per common share	(0.01)	(0.01)

Fully diluted loss per share was not reported for 2003 and 2002 as it would be anti-dilutive to the basic earnings per share.

**MID-NORTH RESOURCES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2003 and 2002**

**10. SUBSEQUENT EVENTS**

1. On January 16, 2004, Placer transferred six Central Manitoba and Cryderman claims to the Company. The six claims plus three additional claims owned by the Company were added to the option agreement. The claims shall be registered in the Company's name during the term of the option for Placer to earn 75% interest in the 26 Central Manitoba and Cryderman claims which is on or before July 25, 2006.
2. On January 22, 2004, \$5,482 of exploration expenditures incurred by Cypress Development Corp. in the Gunman Property joint venture on behalf of the Company has been repaid with a reduction in the Company's interest from 27.55% to 26.87%.
3. On March 23, 2004, the Company closed a private placement for the issue of 2,000,000 units at \$0.10 per unit for gross proceeds of \$200,000. A unit consists of one common share and one share purchase warrant exercisable at \$0.13 on or before March 24, 2005.
4. On March 24, 2004, the Company granted 150,000 stock options each to three directors of the Company, exercisable at \$0.10 per share on or before March 24, 2009.

**11. COMMITMENTS AND CONTINGENCIES**

The Company's mining and exploration activities are subject to various federal, provincial and state laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

**12. COMPARATIVE FIGURES**

Certain of the prior year's figures have been reclassified to conform to the current year's presentation.

**MID-NORTH RESOURCES LIMITED**  
**SCHEDULE 1 - DEFERRED EXPENSES**  
**YEARS ENDED DECEMBER 31, 2002 AND 2003**

	Central Manitoba Bissett \$	Beaucage Lake \$	Bomber Lake \$	Burntwood River \$	Apex/ Miner \$	Gunman Property \$	Total \$
Balance, December 31, 2001	285,403	19,871	11,698	547,137	12,174	370,150	1,246,433
Drill program	-	-	24,223	-	-	-	24,223
Joint interest adjustment (See Note 3 vi)	-	-	-	-	-	(148,549)	(148,549)
Balance, December 31, 2002	285,403	19,871	35,921	547,137	12,174	221,601	1,122,107
Drill program	-	-	-	-	-	5,482	5,482
Joint interest adjustment (See Note 3 vi)	-	-	-	-	-	(7,550)	(7,550)
Balance, December 31, 2003	285,403	19,871	35,921	547,137	12,174	219,533	1,120,039

See accompanying notes to the financial statements