

**MID-NORTH RESOURCES LIMITED**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2004**

## 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, 2004 in the annual report have been examined by Daunheimer & Dow LLP and their report is below.

Calgary, Alberta  
Date: April 28, 2005

*Signed by W. Dale Dunlop*

W. Dale 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, 2004 and 2003 and the statements of loss 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 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, 2004 and December 31, 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta  
April 28, 2005

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

**MID-NORTH RESOURCES LIMITED**  
**BALANCE SHEET**  
**DECEMBER 31, 2004 and 2003**

	2004 \$	2003 \$
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	14,157	3,279
Sales taxes recoverable	1,391	312
Exploration grant receivable	-	15,000
	15,548	18,591
EQUIPMENT (Note 4)	2,876	3,838
MINING CLAIMS AND DEFERRED EXPENSES (Note 5)	1,411,557	1,338,056
	1,429,981	1,360,485
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Bank indebtedness	-	781
Accounts payable and accrued liabilities	43,273	74,934
Accrued interest payable (Note 6)	149,860	129,807
Notes payable (Note 6)	250,660	250,660
Due to related parties (Note 7)	251,434	254,049
	695,227	710,231
<b>SHAREHOLDERS' EQUITY</b>		
<b>SHARE CAPITAL</b>		
Authorized - unlimited number of common shares without par		
Issued (Note 8)	3,594,069	3,404,719
CONTRIBUTED SURPLUS	40,250	11,000
DEFICIT	(2,899,565)	(2,765,465)
	734,754	650,254
	1,429,981	1,360,485

Approved on behalf of the Board:

Signed by W. Dale Dunlop  
W. Dale 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, 2004 and 2003**

	2004 \$	2003 \$
<b>EXPENSES</b>		
Professional fees	37,919	25,717
Stock option compensation (Note 3)	29,250	-
Consulting fees (Note 7)	25,815	-
Interest on promissory note	20,053	20,678
Filing, registration and shareholder services	19,829	13,583
Amortization	962	1,227
Interest and bank charges	168	-
Office	104	2,203
Rent	-	1,800
Automotive	-	319
Travel	-	298
	134,100	65,825
<b>NET LOSS FOR THE YEAR</b>	(134,100)	(65,825)
DEFICIT, Beginning of year	(2,754,465)	(2,688,640)
ADJUSTMENT (Note 3)	(11,000)	(11,000)
DEFICIT, Beginning of year - restated (Note 3)	(2,765,465)	(2,699,640)
DEFICIT, End of year	(2,899,565)	(2,754,465)
 <b>BASIC AND DILUTED WEIGHTED AVERAGE</b>		
Number of common shares outstanding	13,215,271	11,700,137
<b>BASIC AND DILUTED LOSS PER SHARE</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, 2004 and 2003**

	2004 \$	2003 \$
<b>OPERATING ACTIVITIES</b>		
Cash payments to vendors	(96,093)	(45,745)
Cash flows used for operating activities	(96,093)	(45,745)
<b>FINANCING ACTIVITIES</b>		
Repayment of proceeds from short-term financing	(781)	(6)
Proceeds from private placement (Note 7)	200,000	-
Share issuance costs paid (Note 7)	(10,650)	-
Cash flows from (used for) financing activities	188,569	(6)
<b>INVESTMENT ACTIVITIES</b>		
Cash advances (to) from related parties	(2,615)	14,009
Deferred expenses	(78,983)	-
Mining claims option payment received	-	35,000
Cash flows (used for) from investing activities	(81,598)	49,009
NET INCREASE IN CASH FOR THE YEAR	10,878	3,258
CASH, Beginning of year	3,279	21
CASH, End of year	14,157	3,279
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Interest paid	69	626

See accompanying Notes to the Financial Statements.

**MID-NORTH RESOURCES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2004 and 2003**

**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, accounts payable and accrued liabilities, accrued interest payable, notes payable and amounts due to related parties. As at December 31, 2003 and 2004, there are no significant differences between the carrying values of these amounts and their estimated market values.

Equipment

Equipment is stated at cost less accumulated amortization. Amortization is recorded on the declining balance basis at rates designed to amortize the cost of the equipment over the 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. The amounts do not necessarily reflect present or future values.

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, 2004 and 2003**

**2. SIGNIFICANT ACCOUNTING POLICIES CON'T.**

Mining Claims and Deferred Expenses con't.

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

The mining claims and deferred expenses are reviewed by management for impairment whenever events or changes in circumstances indicated that the carrying amount may not be recoverable. 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.

Asset Retirement Obligations

The fair value of legal obligations associated with the retirement of property and equipment are recorded in the period the asset is put into use, with a corresponding increase to the carrying amount of the related asset. The liability is adjusted over time for changes in the fair value of the liability through charges to the depletion and depreciation expense. The costs capitalized to the related assets are amortized to earnings in a manner consistent with the depletion and depreciation of the underlying asset. At this point in time, no asset retirement obligation have been set up as the total cost estimated by management is not material.

Stock-based Compensation Plan

The Company has a stock-based compensation plan, which is described in Note 8. The Company records a compensation expense over the vesting period based on the fair value of options granted to directors.

Loss per Share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year. Basic loss per share is calculated using the weighted average number of shares outstanding during the year. Existing stock options and share purchase warrants have not been included in the computation of diluted loss per share because to do so would be anti-dilutive.

**MID-NORTH RESOURCES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2004 and 2003**

**2. SIGNIFICANT ACCOUNTING POLICIES CON'T.**

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. ACCOUNTING CHANGES**

Stock-Based Compensation Plan

Effective January 1, 2004, the Company adopted the fair value based method of accounting for stock-based compensation as required by the CICA Handbook. The fair value of the options were determined on the date of the grant using the Black-Scholes option pricing model with the following weighted average:

Risk free interest rate	5.1%
Expected life	5 years
Expected volatility	63%
Expected dividends	\$ Nil

The accounting change has been applied retroactively and the financial statements for the years ended December 31, 2002 and 2003 have been restated. The effect of this change was to:

- i. increase the net loss for the year ended December 31, 2002 by \$11,000 for a net loss of \$110,994,
  - ii. increase the contributed surplus at December 31, 2003 by \$11,000, and
  - iii. increase the net loss of the year ended December 31, 2004 by \$29,250 for a net loss of \$134,100.
- The contributed surplus balance at December 31, 2002 and 2003 was \$11,000 and at December 31, 2004 was \$40,250.

Asset Retirement Obligations

Effective January 1, 2004, the Company retroactively adopted the new section in the CICA Handbook with respect to asset retirement obligations. This standard focuses on the recognition and measurement of liabilities related to legal obligations associated with the retirement of equipment. Under this standard, these obligations are initially measured at fair value and subsequently adjusted for the accretion of discount and any changes in the underlying cash flows. The asset retirement cost is to be capitalized to the related asset and amortized into earnings over time. Adoption of this standard has not affected the Company's financial statements.

**MID-NORTH RESOURCES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2004 and 2003**

**4. EQUIPMENT**

	2004 \$		2003 \$	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer equipment	3,322	2,275	1,047	1,496
Office equipment	6,791	5,630	1,161	1,451
Display equipment	4,163	3,495	668	891
	14,276	11,400	2,876	3,838

**5. MINING CLAIMS AND DEFERRED EXPENSES**

	2004 \$	2003 \$
Mining claims	268,017	268,017
Deferred expenses (Schedule 1)	1,143,540	1,070,039
	1,411,557	1,338,056

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

i. 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.

ii. 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 26.87% (2003 - 27.85%) interest and the other partner holds 73.13% (2003 - 72.45%). On January 22, 2004, the amount payable to Cypress as at December 31, 2003 of \$5,482 was repaid by reducing the Company's interest from 27.55% to 26.87%.

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 1/2 of the royalty for US \$ 1,000,000.

**MID-NORTH RESOURCES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2004 and 2003**

**5. MINING CLAIMS AND DEFERRED EXPENSES CON'T.**

iii. Central Manitoba Bissett (Gold Property)

The Company owns a 100% interest in 26 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 the claims for \$150,000, however on August 20, 2004 Placer advised the Company of its intention not to exercise its option. No option payment was received during the year ended December 31, 2004 (2003 - \$35,000). The non-refundable \$35,000 option payment received and recognized in the prior year has been presented as a reduction of deferred expenses.

iv. 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.

v. Beaucage Lake (Gold Property)

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

vi. 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.

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, 2004 and 2003**

**6. NOTES PAYABLE**

The notes payable bear interest at 8% per annum, is unsecured and no terms of repayment have been negotiated. Notes payable include \$100,000 due to a shareholder of the Company. Interest accrued on this note for the year ended December 31, 2004 totaled \$8,000 (2003 - \$8,000). Interest due to the shareholder at year ended December 31 2004 totaled \$57,688 (2003 - \$49,688).

**7. RELATED PARTY TRANSACTIONS**

Amounts due to related parties consist of advances from shareholders and directors. The balances are non-interest bearing, unsecured, and have no fixed terms of repayment. During the year ended December 31, 2004, \$25,815 (2003 - \$nil) in consulting fees were paid to the president of the Company. The fees were recorded at the exchange amount, which is the amount agreed to by both parties.

**8. SHARE CAPITAL**

The changes in issued shares from December 31, 2002 to December 31, 2004 are as follows:

	Number of Shares	\$
Balance, December 31, 2002	11,700,847	3,406,719
Cancellation of shares, December 19, 2003	(20,000)	(2,000)
Balance, December 31, 2003	11,680,847	3,404,719
For cash pursuant to private placement, net of share issue costs of \$10.650	2,000,000	189,350
Cancellation of shares in escrow	(290,953)	-
Balance, December 31, 2004	<u>13,389,894</u>	<u>3,594,069</u>

**i. Private Placement**

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.

**ii. Cancellation of Shares in Escrow**

On December 10, 2004 the Trustee cancelled the 290,953 shares in escrow in accordance to a performance based escrow agreement dated December 15, 1995.

**MID-NORTH RESOURCES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2004 and 2003**

**8. SHARE CAPITAL CON'T.**

iii. Stock Options

The Company has a Stock Option Plan which permits the issuance of options up to 10% of the Company's common shares outstanding. At December 31, 2004, 10% of the issued and outstanding common shares is 1,338,989. The Stock Option Plan provides that the terms of the options, vesting period and the option shall be fixed by the directors subject to the price restrictions imposed by the TSX Venture Exchange. Stock options granted may be for a maximum term of 5 years and vest immediately. The Stock Option Plan of the Company and the granting of stock options are also subject to the additional restrictions and requirements pursuant to all applicable policies of the TSX Venture Exchange including that the Stock Option Plan receive annual approval. During the year ended December 31, 2004, 450,000 stock options were issued, and no options were exercised or expired.

The following table presents the outstanding stock options as at December 31, 2004 and the changes during the year:

Fixed Options	Number of Options	Weighted Average Exercise Price \$
Outstanding at December 31, 2002	1,005,000	0.24
Expired on July 14, 2003	(180,000)	0.15
Outstanding at December 31, 2003	825,000	0.26
Granted to directors at March 24, 2004	450,000	0.10
Outstanding at December 31, 2004	1,275,000	0.20
Options exercisable at December 31, 2004	1,275,000	

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

Number of Stock Options	Weighted Average Life Remaining (Years)	Expiry Date	Exercise Price \$
640,000	0.72	June 21, 2005	0.30
185,000	2.55	April 17, 2007	0.10
450,000	4.48	March 24, 2009	0.10
1,275,000	2.31		

Each option entitles the holder to purchase one common share at the price identified above. The weighted average grant date fair value assigned to stock options granted during the year ended December 31, 2004 was \$0.06. The fair value of these options were determined on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

**MID-NORTH RESOURCES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2004 and 2003**

**8. SHARE CAPITAL CON'T.**

Risk free interest rate	3.2%
Expected life	5 years
Expected volatility	57%
Expected dividends	\$ Nil

iv. Warrants

	Number of Warrants	Expiry Date	Exercise Price \$
Outstanding, December 31, 2002	920,000	April 15, 2004	0.10
Cancelled, December 19, 2003	<u>(20,000)</u>	April 15, 2004	0.10
Outstanding, December 31, 2003	900,000	April 15, 2004	0.10
Issued, March 23, 2004	2,000,000	March 24, 2005	0.13
Expired, April 15, 2004	<u>(900,000)</u>	April 15, 2004	0.10
Outstanding, December 31, 2004	<u><u>2,000,000</u></u>	March 24, 2005	0.13

During the year, no warrants were exercised.

On March 24, 2005, subsequent to the year ended December 31, 2004, the above 2,000,000 warrants expired.

**9. INCOME TAXES**

The Company has incurred non-capital losses of \$833,840 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:

	\$
2005	<u>214,000</u>
2006	112,990
2007	111,066
2008	95,865
2009	99,994
2010	65,825
2011	<u>134,100</u>
	<u><u>833,840</u></u>

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

**MID-NORTH RESOURCES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2004 and 2003**

**10. 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.

**11. 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, 2003 AND 2004**

	Burntwood River \$	Gunman Property \$	Central Manitoba Bissett \$	Bomber Lake \$	Beaucage Lake \$	Apex/ Miner \$	Total \$
Balance, December 31, 2002	547,137	221,601	285,403	35,921	19,871	12,174	1,122,107
Drill program	-	5,482	-	-	-	-	5,482
Option payment (Note 5)	-	-	(35,000)	-	-	-	(35,000)
Program grant	-	-	(15,000)	-	-	-	(15,000)
Joint interest adjustment	-	(7,550)	-	-	-	-	(7,550)
Balance, December 31, 2003	547,137	219,533	235,403	35,921	19,871	12,174	1,070,039
Drill program	-	78,983	-	-	-	-	78,983
Joint interest adjustment (See Note 5)	-	(5,482)	-	-	-	-	(5,482)
Balance, December 31, 2004	547,137	293,034	235,403	35,921	19,871	12,174	1,143,540

See accompanying notes to the financial statements