

**MID-NORTH RESOURCES LIMITED**

**FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2004**

**(Unaudited - See Notice to Reader)**

### **NOTICE TO READER**

We have compiled the balance sheet of Mid-North Resources Limited as at September 30, 2004 and the statements of loss and deficit and cash flows for the period then ended from information provided by management. We have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information. Readers are cautioned that these statements may not be appropriate for their purposes.

Calgary, Alberta  
November 15, 2004

PROACT CHARTERED ACCOUNTANTS

**MID-NORTH RESOURCES LIMITED**  
**BALANCE SHEET**  
**SEPTEMBER 30, 2004**  
**(Unaudited - See Notice to Reader)**

	Sept. 30, 2004 \$	Dec. 31 2003 \$
<b>ASSETS</b>		(Note 1)
<b>CURRENT</b>		
Cash	35,248	3,279
Sales taxes recoverable	1,104	312
Exploration grant receivable	-	15,000
	36,352	18,591
<b>EQUIPMENT</b>	3,117	3,838
<b>MINING CLAIMS AND DEFERRED EXPENSES (Note 3)</b>	1,411,557	1,338,056
	1,451,026	1,360,485
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Bank indebtedness	846	781
Accounts payable and accrued liabilities	48,064	74,934
Notes payable (Note 4)	250,660	250,660
Accrued interest payable (Note 4)	144,847	129,807
Due to related parties (Note 5)	251,434	254,049
	695,851	710,231
<b>SHAREHOLDERS' EQUITY</b>		
<b>SHARE CAPITAL</b>		
Authorized - unlimited number of common shares without par value		
Issued (Note 6)	3,594,069	3,404,719
<b>CONTRIBUTED SURPLUS (Note 2)</b>	40,250	11,000
<b>DEFICIT (Note 2)</b>	(2,879,144)	(2,765,465)
	755,175	650,254
	1,451,026	1,360,485

See accompanying Notes to the Financial Statements.

**MID-NORTH RESOURCES LIMITED**  
**STATEMENT OF LOSS AND DEFICIT**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2004**  
**(Unaudited - See Notice to Reader)**

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>EXPENSES</b>				
Consulting fees (Note 5)	8,400	-	25,815	-
Interest on promissory notes	5,013	5,014	15,039	15,040
Professional fees	3,742	4,632	24,800	11,598
Filing and registration fees & shareholder services	1,661	2,889	17,810	13,284
Amortization	240	306	721	920
Bank charges	49	-	140	-
Office	10	-	104	2,165
Stock option compensation (Note 2)	-	-	29,250	-
Rent	-	600	-	1,800
Automotive	-	86	-	319
Travel	-	-	-	298
	<u>19,115</u>	<u>13,527</u>	<u>113,679</u>	<u>45,424</u>
<b>NET LOSS FOR THE PERIOD</b>	<u>(19,115)</u>	<u>(13,527)</u>	<u>(113,679)</u>	<u>(45,424)</u>
DEFICIT, Beginning of period	(2,860,029)	(2,720,537)	(2,754,465)	(2,688,640)
ADJUSTMENT (Note 2)	<u>-</u>	<u>(11,000)</u>	<u>(11,000)</u>	<u>(11,000)</u>
DEFICIT, Beginning of period - restated (Note 2)	<u>(2,860,029)</u>	<u>(2,731,537)</u>	<u>(2,765,465)</u>	<u>(2,699,640)</u>
DEFICIT, End of period	<u><u>(2,879,144)</u></u>	<u><u>(2,745,064)</u></u>	<u><u>(2,879,144)</u></u>	<u><u>(2,745,064)</u></u>
 <b>BASIC AND DILUTED WEIGHTED AVERAGE</b>				
Number of common shares outstanding	<u>13,680,847</u>	<u>11,700,847</u>	<u>13,082,307</u>	<u>11,700,847</u>
<b>BASIC AND DILUTED LOSS PER SHARE</b>	<u>(0.001)</u>	<u>(0.001)</u>	<u>(0.009)</u>	<u>(0.004)</u>

See accompanying Notes to the Financial Statements.

**MID-NORTH RESOURCES LIMITED**  
**STATEMENT OF CASH FLOWS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2004**  
**(Unaudited - See Notice to Reader)**

	Three months ended September 30,		Nine months ended September 30,	
	2004 \$	2003 \$	2004 \$	2003 \$
CASH PROVIDED BY (USED FOR):				
OPERATING ACTIVITIES				
Cash payments to suppliers	(26,644)	(19,722)	(75,848)	(44,533)
Cash flows used for operating activities	(26,644)	(19,722)	(75,848)	(44,533)
FINANCING ACTIVITIES				
Cash from short-term financing	10	-	65	-
Repayment of short-term financing	-	-	-	(6)
Share issuance costs paid (Note 6)	(3,500)	-	(10,650)	-
Proceeds from private placement (Note 6)	-	-	200,000	-
Cash flows (used for) from financing activities	(3,490)	-	189,415	(6)
INVESTMENT ACTIVITIES				
Cash advances (to) from related parties	-	(14,308)	(2,615)	10,509
Mining claims option payment received	-	35,000	-	35,000
Deferred expenses	-	-	(78,983)	-
Cash flows from (used for) investment	-	20,692	(81,598)	45,509
NET (DECREASE) INCREASE IN CASH DURING THE PERIOD	(30,134)	970	31,969	970
CASH, Beginning of period	65,382	21	3,279	21
CASH, End of period	35,248	991	35,248	991

See accompanying Notes to the Financial Statements.

**MID-NORTH RESOURCES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2004**  
**(Unaudited - See Notice to Reader)**

**1. BASIS OF PRESENTATION AND FINANCIAL CONDITIONS OF THE COMPANY**

Mid-North Resources Limited (“The Company”) is a TSX Venture Exchange listed public company. The Company has interests in mining claims situated in the Provinces of Manitoba, Saskatchewan, and the State of Nevada and intends to maintain and explore its mining claims directly and indirectly through joint ventures.

These interim unaudited financial statements do not include all the disclosure required by Canadian generally accepted accounting principles for annual statements and should be read in conjunction with the annual audited financial statements for the year ended December 31, 2003. These statements are prepared in accordance with recommendations for interim financial statements in conformity 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 its ability to raise the required capital to proceed with its operations plans and subsequently obtain profitable operations. These financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern and have been prepared using the same accounting policies and methods as those used in the December 31, 2003 accounts, except as disclosed below.

**2. ACCOUNTING CHANGES**

At 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 and three months ended March 31, 2004 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 for the three months ended March 31, 2004 by \$29,250 for a net loss of \$61,590 and a decrease of loss per share to \$0.005.

The contributed surplus balance at December 31, 2002 and 2003 was \$11,000 and at March 31, 2004 and September 30, 2004 was \$40,250.

**MID-NORTH RESOURCES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2004**  
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**3. MINING CLAIMS AND DEFERRED EXPENSES**

	September 30, 2004	Dec. 31, 2003
	\$	\$
Mining claims	268,017	268,017
Deferred expenses (Schedule 1)	1,143,540	1,070,039
	1,411,547	1,338,056

i. 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%.

ii. Central Manitoba Bisett (Gold Property)

On August 20, 2004, Placer Dome (CLA) Limited advised the Company of its intention not to exercise its option to acquire 75% interest in the Central Manitoba Bisett property. No option payment was received during the period ended September 30, 2004 (2003 - \$35,000). The \$35,000 option payment received and recognized in the prior year has been presented as a reduction of deferred expenses.

**4. NOTES PAYABLE**

The notes payable bear interest at 8% per annum, is unsecured and no terms of repayment have been negotiated. Notes payable include a \$100,000 due to a shareholder of the Company. Interest accrued on this note for the three and nine months ended September 30, 2004 are \$2,000 and \$6,000 (2003 - \$2,000 and \$6,000), respectively. Interest due to the shareholder at period ended September 30, 2004 is \$55,688 (2003 - \$47,688).

**5. RELATED PARTY TRANSACTIONS**

The 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 three and nine months ended September 30, 2004, \$8,400 and \$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.

**MID-NORTH RESOURCES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2004**  
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**6. SHARE CAPITAL**

The changes in issued shares from December 31, 2002 to September 30, 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
Balance, September 30, 2004	13,680,847	3,594,069

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.

i. Escrow Agreement

A total of 290,953 (2003 - 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. One share may be released from escrow for each \$0.40 of deferred expenses incurred on certain mining properties. Application for release from escrow may only be made once per year and may only relate to deferred expenses incurred in the prior years. All shares released shall be distributed pro-rata to all security holders. The Trustee shall cancel all shares in escrow on the 5<sup>th</sup> anniversary of the date of the Agreement.

ii. 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 September 30, 2004, 10% of the issued and outstanding common shares is 1,368,085. 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 three months ended September 30, 2004, no stock options were issued, exercised or expired.

**MID-NORTH RESOURCES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**6. SHARE CAPITAL CONT'D**

The following table presents the outstanding options as at September 30, 2004 and the changes during the period:

Fixed Options	Number of Options	Weighted Average Exercise Price \$
Outstanding at December 31, 2002	1,005,000	0.24
Expired on July 14, 2003	<u>(180,000)</u>	<u>0.15</u>
Outstanding at December 31, 2003	825,000	0.26
Granted to directors at March 24, 2004	<u>450,000</u>	<u>0.10</u>
Outstanding at September 30, 2004	<u><u>1,275,000</u></u>	<u><u>0.20</u></u>
Options exercisable at September 30, 2004	<u><u>1,275,000</u></u>	

The following table summarizes information about the stock options outstanding at September 30, 2004:

Number of 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
<u>450,000</u>	<u>4.48</u>	<u>March 24, 2009</u>	<u>0.10</u>
<u><u>1,275,000</u></u>	<u><u>2.31</u></u>		

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 nine months ended September 30, 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:

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

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**6. SHARE CAPITAL CONT'D**

iii. 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, September 30, 2004	<u><u>2,000,000</u></u>	March 24, 2005	0.13

During the period, no warrants were exercised.

**7. COMPARATIVE FIGURES**

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

**MID-NORTH RESOURCES LIMITED**  
**SCHEDULE 1 - DEFERRED EXPENSES**  
**SEPTEMBER 30, 2004**  
(Unaudited - See Notice to Reader)

	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 3)	-	-	(35,000)	-	-	-	(35,000)
Program grant	-	-	(15,000)	-	-	-	(15,000)

See accompanying notes to the financial statements