

Consolidated Financial Statements of

**GOLDSTAKE EXPLORATIONS INC.**  
(A DEVELOPMENT STAGE ENTITY)

Years ended December 31, 2003 and 2002



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## **AUDITORS' REPORT TO THE SHAREHOLDERS**

We have audited the consolidated balance sheets of Goldstake Explorations Inc. (a Development Stage Entity) as at December 31, 2003 and 2002 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a single horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Accountants

Toronto, Canada

May 27, 2004

# GOLDSTAKE EXPLORATIONS INC.

(A DEVELOPMENT STAGE ENTITY)

Consolidated Balance Sheets

December 31, 2003 and 2002

	2003	2002
<b>Assets</b>		
Current assets:		
Cash	\$ 43,714	\$ -
Sundry receivables and other assets	106,105	3,408
	<u>149,819</u>	<u>3,408</u>
Deposits for reclamation costs	26,200	31,200
Mining properties and related expenditure (note 3)	225,000	4,903,462
	<u>\$ 401,019</u>	<u>\$ 4,938,070</u>

## Liabilities and Shareholders' Equity (Deficiency)

Current liabilities:		
Bank overdraft	\$ -	\$ 5,309
Accounts payable and accrued liabilities	1,213,380	1,269,263
Due to directors, unsecured (note 4)	1,260,395	1,121,784
Current portion of loans payable (note 5)	889,079	1,299,118
Current portion of long-term debt (note 6)	4,450	4,749
	<u>3,367,304</u>	<u>3,700,223</u>
Loans payable (note 5)	164,050	194,888
Long-term debt (note 6)	53,316	109,262
Shareholders' equity (deficiency):		
Capital stock (note 7):		
Authorized:		
Unlimited common shares		
Issued:		
50,105,660 common shares (2002 - 45,860,660)	19,676,039	19,114,039
Contributed surplus (note 4)	140,525	109,275
Deficit	<u>(23,000,215)</u>	<u>(18,289,617)</u>
	<u>(3,183,651)</u>	<u>933,697</u>
Going concern (note 1)		
	<u>\$ 401,019</u>	<u>\$ 4,938,070</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

\_\_\_\_\_ Director

\_\_\_\_\_ Director

# GOLDSTAKE EXPLORATIONS INC.

(A DEVELOPMENT STAGE ENTITY)

Consolidated Statements of Operations and Deficit

Years ended December 31, 2003 and 2002

	2003	2002
Interest and other income	\$ 38,482	\$ 92,572
Gain on sale of mining properties and related expenditure	318,437	—
	<u>356,919</u>	<u>92,572</u>
Expenses:		
General, administration and office	44,362	457,424
General exploration	301,236	391,850
Write-down of mining properties and related expenditures (note 3)	4,474,033	214,353
Software development costs	20,000	20,000
Foreign exchange loss (gain)	24,828	(6,600)
Interest	182,711	104,513
Interest on long-term debt	20,347	7,950
	<u>5,067,517</u>	<u>1,189,490</u>
Loss for the year	(4,710,598)	(1,096,918)
Deficit, beginning of year	(18,289,617)	(17,192,699)
Deficit, end of year	<u>\$ (23,000,215)</u>	<u>\$ (18,289,617)</u>
Basic and diluted loss per share	\$ (0.09)	\$ (0.02)

See accompanying notes to consolidated financial statements.

# GOLDSTAKE EXPLORATIONS INC.

(A DEVELOPMENT STAGE ENTITY)

Consolidated Statements of Cash Flows

Years ended December 31, 2003 and 2002

	2003	2002
Cash provided by (used in):		
Operating activities:		
Loss for the year	\$ (4,710,598)	\$ (1,096,918)
Write-down of mining properties and related expenditures	4,474,033	214,353
Stock-based compensation	—	158,625
Gain on sale of mining properties and capital assets	(318,437)	—
Change in non-cash operating working capital:		
Sundry receivables and other assets	(102,697)	3,421
Accounts payable and accrued liabilities	(55,883)	229,379
	(713,582)	(491,140)
Financing activities:		
Loans payable	(74,348)	18,674
Due to directors	169,861	102,583
Issue of common shares	337,000	370,864
Repayment of long-term debt	(56,245)	(4,789)
	376,268	487,332
Investing activities:		
Deposits for reclamation costs	5,000	—
Proceeds from sale of mining properties and capital assets	381,337	—
Investment in mining properties and related expenditures	—	(1,351)
	386,337	(1,351)
Increase (decrease) in cash	49,023	(5,159)
Bank overdraft, beginning of year	(5,309)	(150)
Cash (bank overdraft), end of year	\$ 43,714	\$ (5,309)
Supplemental cash flow information:		
Interest paid	\$ 20,348	\$ 14,512
Non-cash investing activities:		
Redesignation of director's loan to contributed surplus	31,250	—
Mining property disposed of under mortgage foreclosure	366,528	—
Non-cash financing activities:		
Mortgage foreclosure	381,969	—
Issuance of shares for acquisition of mining property	225,000	—

See accompanying notes to consolidated financial statements.

# **GOLDSTAKE EXPLORATIONS INC.**

(A DEVELOPMENT STAGE ENTITY)

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

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## **1. Nature of the business and going concern:**

Goldstake Explorations Inc. (the "Company") is incorporated under the laws of Ontario and its principal business activity has been mineral property exploration and development. To date, the Company has not earned significant revenue and is considered to be in the development stage.

The consolidated financial statements of the Company are prepared on a going concern basis which assumes that the Company will be able to discharge its liabilities and realize the carrying value of its assets in the normal course of operations. Accordingly, the accompanying consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

The Company's ability to discharge its liabilities and realize the carrying value of its assets in the normal course of operations is dependent upon, among other things, management's ability to raise the required amount of debt or equity financing and for profitable operations to be achieved. There can be no assurance that the Company will be successful with those initiatives.

## **2. Significant accounting policies:**

### **(a) Basis of consolidation:**

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Goldstake Explorations (S.D.), Inc. ("Goldstake S.D."), located in the United States. All significant intercompany accounts and transactions have been eliminated.

### **(b) Mining properties and related expenditures:**

The Company considers its exploration costs to have the characteristics of property, plant and equipment and, as such, all costs related to mineral exploration are capitalized on a property-by-property basis. Such costs include acquisition, exploration, development and mining-related administrative expenditures, net of any recoveries. Until the mineral properties are explored to a point where it is determined that the mineral properties are or are not capable of being economically developed through assessable exploration results or measurable reserves, in management's opinion, it is impractical to assess the realization of exploration and development costs capitalized to the mineral properties.

# **GOLDSTAKE EXPLORATIONS INC.**

(A DEVELOPMENT STAGE ENTITY)

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2003 and 2002

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## **2. Significant accounting policies (continued):**

When there is little prospect of future work on a property being carried out by the Company or its partners, the costs of the property will be charged to earnings.

The recoverability of amounts shown as mineral properties is dependent on the identification and determination of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development and upon future profitable production.

### **(c) Foreign currency translation:**

For Canadian operations, monetary assets and liabilities in foreign currencies are translated into Canadian dollars at rates of exchange in effect at the balance sheet date. Amounts entering into results of operations are translated at rates in effect at the date of the transaction. The Company's foreign operation is accounted for using the temporal method. Accordingly, monetary assets and liabilities are translated at exchange rates in effect at the balance sheet date, and non-monetary assets and liabilities are translated at historical rates. Revenue and expense items other than amortization are translated at average exchange rates prevailing during the year. Amortization is translated using historical rates of its related assets. All foreign exchange gains or losses arising on translation are included within the statement of operations.

### **(d) Stock-based compensation:**

The Company has a stock-based compensation plan, which is described in note 8. The Company accounts for all stock-based payments to non-employees granted on or after January 1, 2002, using the fair value-based method. No compensation cost is recorded for stock-based compensation awards to employees, directors and officers. Consideration paid by employees on the exercise of stock options is recorded as share capital and contributed surplus. The Company discloses the pro forma effect of accounting for these awards under the fair value-based method.

# **GOLDSTAKE EXPLORATIONS INC.**

(A DEVELOPMENT STAGE ENTITY)

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2003 and 2002

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## **2. Significant accounting policies (continued):**

### (e) Income taxes:

The Company accounts for income taxes using the asset and liability method. Under this method, future income taxes are recognized for all significant temporary differences between the tax and accounting treatment bases of assets and liabilities and for certain carryforward items. Future income tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of the enactment or substantive enactment of the change.

### (f) Loss per share:

Basic loss per share is computed by dividing loss for the year by the weighted average number of common shares outstanding for the year. Shares held in escrow are included in the weighted average number of common shares when they are released from escrow. Diluted loss per share is similar to basic earnings per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued using the treasury stock method. The stock options (note 8) are anti-dilutive and have been excluded from the calculation of diluted loss per share.

### (g) Measurement uncertainty:

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

The Company is subject to all of the risks normally associated with mining activities. Changes in estimates and assumptions will occur based on additional information and the occurrence of future events.

# GOLDSTAKE EXPLORATIONS INC.

(A DEVELOPMENT STAGE ENTITY)

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2003 and 2002

### 3. Mining properties and related expenditures:

	2003	2002
U.S.A:		
Whitewood Creek	\$ -	\$ 366,529
Building, equipment and other	-	62,900
Indonesia:		
Java	-	3,942,809
Canada:		
Option on Larder Lake, Ontario properties	225,000	-
50% interest in three mining claims in Hemlo area of Ontario	-	522,224
Other	-	9,000
	\$ 225,000	\$ 4,903,462

A mining property known as the Martin Property which formed part of the Whitewood Creek Development was security for the first mortgage (note 5 (Loan 1)). During 2003, the loan was foreclosed and the rights to the property were taken over by the lenders.

The mining properties in Indonesia and the Hemlo area have been considered to be impaired at December 31, 2003, as the Company has not been able to pursue further exploration activity at these sites. In accordance with Accounting Guideline 11 issued by the Institute of Chartered Accountants of Canada, these are considered impaired and have been written off.

The option to participate in mining properties relates to an option agreement entered into by the Company and Transpacific Resources Inc. The Company will earn up to a 60% interest in properties owned by Transpacific Resources Inc. in the Larder Lake Mining District of Ontario, subject to the Company incurring \$1,500,000 of expenses in relation to these properties, with \$500,000 to be spent by August 15, 2005 for a 30% interest and an additional \$1,000,000 by August 15, 2007 for the remaining 30%. The agreement is subject to a 2% net smelter return royalty. As consideration for this option, the Company has issued 1,500,000 common shares to Transpacific Resources Inc. at market value.

# GOLDSTAKE EXPLORATIONS INC.

(A DEVELOPMENT STAGE ENTITY)

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2003 and 2002

## 4. Due to directors:

Due to directors includes \$210,153 (2002 - \$235,550) accrued as payable to the President of the Company (who is also a director) for management services during fiscal 2003. Amounts due to directors also include directors' fees, directors' loans that are interest-free, and a director's loan of \$136,768, bearing interest at 10% compounded quarterly, repayable when funds are available. Interest expense includes \$11,738 (2002 - \$12,167) of interest on the directors' loans.

During fiscal 2003, \$31,250 of R. Cleaver's director's loan amount was waived in favour of the Company. This resulted in an increase to contributed surplus of \$31,250.

A party related to a director has advanced the Company \$24,772 (2002 - nil).

## 5. Loans payable:

	2003	2002
Loan 1	\$ -	\$ 374,184
Loan 2	593,605	394,840
Loan 3	164,050	194,888
Loan 4	295,474	530,094
	<u>1,053,129</u>	<u>1,494,006</u>
Less current portion	889,079	1,299,118
	<u>\$ 164,050</u>	<u>\$ 194,888</u>

Loan 1 was a non-interest bearing U.S. \$240,000 promissory note the Company assumed during fiscal 2001 as part of the Whitewood Creek arbitration process. U.S. \$120,000 was due on January 10, 2002 and U.S. \$120,000 was due on January 10, 2003. The payment due on January 10, 2002 was made by a third party on behalf of the Company and interest commenced accruing at 18% per annum from that date. Similarly, the payment due on January 10, 2003 was also made by a third party. The other party has completed foreclosure proceedings during 2003. The note was secured by a first mortgage on certain properties in the Whitewood Creek development. The third party foreclosed on these properties in 2003 in settlement of the obligation.

Loan 2 is a mortgage in the amount of AUS \$450,000, which bears interest at 15% per annum and was repayable in April 2002. The mortgage is secured by a second mortgage on certain properties in the Whitewood Creek development.

# GOLDSTAKE EXPLORATIONS INC.

(A DEVELOPMENT STAGE ENTITY)

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2003 and 2002

## 5. Loans payable (continued):

Loan 3 is a non-interest bearing U.S. \$125,000 loan, has no specified repayment date and is not callable. The loan is secured by a second mortgage on certain properties in the Whitewood Creek development. The terms of the loan require twice the amount of the loan (i.e., U.S. \$250,000) to be repaid. The repayment date is currently not determinable and the additional U.S. \$125,000 will be recorded when the payment date is determined.

Loan 4 is a demand promissory note in the amount of U.S. \$225,140 (2002 - U.S. \$340,000), bearing interest at 9.25%. The Company has agreed with the lender to repay the amount once the Company sells certain properties and has available funds. The note is secured by a first mortgage on certain properties in the Whitewood Creek development.

## 6. Long-term debt:

The long-term debt relates to a U.S. \$80,000 bank loan, secured by a real estate mortgage on the office building, bearing interest at the commercial base rate plus 1%, and a balloon payment at maturity. The debt is repayable in blended monthly payments of U.S. \$897, maturing on June 3, 2015 and \$57,766 (U.S. \$32,958) is outstanding under the bank loan at year end (2002 - \$114,011 (U.S. \$73,126)). During fiscal 2003, the Company sold the office building for \$132,000 to be received by staged payments through to 2005. Therefore, the security for this debt has been transferred to those payments. All payments have been received subsequent to December 31, 2003 and the balance of \$57,716 has been repaid.

	2003	2002
Bank loans	\$ 57,766	\$ 114,011
Less current portion	4,450	4,749
	\$ 53,316	\$ 109,262

Future minimum repayments of long-term debt are as follows:

2004	\$ 4,450
2005	4,953
2006	5,514
2007	6,136
2008	6,830
2009 and thereafter	29,883
	\$ 57,766

# GOLDSTAKE EXPLORATIONS INC.

(A DEVELOPMENT STAGE ENTITY)

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2003 and 2002

## 7. Capital stock:

During the years presented, common shares were issued as follows:

	2003		2002	
	Shares	Amount	Shares	Amount
Balance, beginning of year	45,860,660	\$ 19,114,039	42,574,295	\$ 18,693,825
Options exercised	2,745,000	337,000	1,175,000	166,850
Warrants exercised for cash	—	—	2,111,365	253,364
Treasury shares issued for acquisition of mining property (note 3)	1,500,000	225,000	—	—
<b>Balance, end of year</b>	<b>50,105,660</b>	<b>\$ 19,676,039</b>	<b>45,860,660</b>	<b>\$ 19,114,039</b>

In February 2000, the Company issued 4,550,000 shares at \$0.11 per share, with warrants at \$0.12 per share, expiring on February 21, 2002, of which 2,725,000 warrants remained outstanding at December 31, 2001. Warrants in the amount of 2,111,365 were exercised in 2002. During February 2002, these warrants were extended to the earlier of (a) the month-end date following the period, whereby the weighted average trading price exceeds \$0.16 for 10 consecutive days and (b) February 21, 2005. There are no warrants outstanding at December 31, 2003 (2002 - nil) relating to this share issue as the outstanding balance of 613,635 expired in connection with the amended termination date, as described above.

## 8. Stock-based compensation plan:

The Company has one fixed stock option plan. Under the 1996 Stock Option Plan, the Company may grant options to its directors, officers, consultants and employees for up to 11,000,000 (2002 - 6,500,000) shares of common stock. The exercise price of each option equals the closing market price of the Company's stock on the day immediately preceding the day upon which the option is granted and an option's maximum term is 10 years. Options, when granted, vest immediately.

# GOLDSTAKE EXPLORATIONS INC.

(A DEVELOPMENT STAGE ENTITY)

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2003 and 2002

## 8. Stock-based compensation plan (continued):

A summary of the status of the Company's fixed stock option plan as of December 31, 2003 and 2002 and changes during the year ended on those dates is presented below:

	2003		2002	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Balance, beginning of year	3,450,000	\$ 0.100	–	\$ –
Granted	4,500,000	0.125	4,625,000	0.100
Exercised	(2,745,000)	0.122	(1,175,000)	0.100
Expired	(750,000)	–	–	–
Balance, end of year	4,455,000		3,450,000	0.100

The outstanding options expire December 31, 2004/2006.

No compensation costs were recorded in the statements of operations for options granted to employees, directors and officers. Had the Company determined compensation expense for employees, directors and officers based on the fair values at grant dates of the stock options consistent with the fair value method, the Company's loss per share would have been reported as the pro forma amounts indicated below:

	2003	2002
Loss for the year, as reported	\$ 4,710,598	\$ 1,096,918
Pro forma net loss	4,837,598	1,155,668
Pro forma loss per share, basic and diluted	0.10	0.03

# GOLDSTAKE EXPLORATIONS INC.

(A DEVELOPMENT STAGE ENTITY)

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2003 and 2002

## 8. Stock-based compensation plan (continued):

The fair value of each option granted was estimated on the date of the grant using the Black-Scholes fair value option pricing model with the following assumptions:

	2003	2002
Risk-free interest rate	3.2%	3.2%
Dividend yield	—	—
Volatility factor of the future expected market price of common shares	50%	125%
Weighted average expected life of the options	2 years	2 years
Fair value per option	\$ 0.13	\$ 0.11

## 9. Income taxes:

The provision for income taxes differs from the amount computed by applying the combined federal and provincial income tax rate of 38% (2002 - 41.5%) to the loss before provision for income taxes as a result of the following:

	2003	2002
Loss for the year	\$ (4,710,598)	\$ (1,096,918)
Computed expected tax recovery	\$ 1,790,027	\$ 455,220
Non-recognition of tax benefit of losses	(1,790,027)	(455,220)
Income tax provision	\$ —	\$ —

The tax effect of temporary differences that give rise to significant portions of the future tax assets at December 31, 2003 and 2002 is presented below:

	2003	2002
Future tax assets:		
Non-capital losses carried forward	\$ 4,433,478	\$ 3,099,000
Valuation allowance	(4,433,478)	(3,099,000)
Future tax assets	\$ —	\$ —

# **GOLDSTAKE EXPLORATIONS INC.**

(A DEVELOPMENT STAGE ENTITY)

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2003 and 2002

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**9. Income taxes (continued):**

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the years in which those temporary differences become deductible. Management considers projected future taxable income and uncertainties related to the industry in which the Company operates in making the assessment.

The Company has non-capital losses of approximately \$11,666,348 available to reduce future taxable income which expire in the fiscal years 2004 to 2010. The benefit of these losses has not been recognized for accounting purposes.

**10. Fair values of financial instruments:**

The carrying values of sundry receivables and other assets, accounts payable and accrued liabilities and due to directors approximate their fair values due to the relatively short periods to maturity of the instruments. The carrying value of the long-term debt approximates its fair value as the terms and conditions are comparable to current market terms and conditions available to the Company. It is not practicable to determine the fair value of the loans payable.

**11. Comparative figures:**

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.