FM RESOURCES CORP.

Financial Statements

December 31, 2004 and 2003

Index

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CHARTERED ACCOUNTANTS

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AUDITORS' REPORT

To the Shareholders of

FM RESOURCES CORP.

We have audited the balance sheets of **FM Resources Corp.** as at December 31, 2004 and 2003 and the 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 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.

Vancouver, Canada
February 24, 2005

"ELLIS FOSTER"
Chartered Accountants

FM RESOURCES CORP.

Balance Sheets
December 31, 2004 and 2003

	2004	2003
ASSETS		
Current		
Cash and cash equivalents	$ 5,372	$ 5,043
Taxes recoverable	1,651	1,536
	7,023	6,579
Mining assets held for resale (note 4)	-	20,000
Mineral property (note 5)	1	1
	$ 7,024	$ 26,580
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 1,382,564	$ 1,062,856
Loans payable (note 6)	1,043,524	1,021,524
	2,426,088	2,084,380
SHARE CAPITAL AND DEFICIT		
Share capital (note 7)	15,425,998	15,425,998
Contributed surplus	305,000	305,000
Deficit	(18,150,062)	(17,788,798)
	(2,419,064)	(2,057,800)
	$ 7,024	$ 26,580

Approved by the Directors: "Luard Manning" Luard Manning "Chris Schultze" Chris Schultze

FM RESOURCES CORP.

Statements of Operations and Deficit
Years Ended December 31, 2004 and 2003

	2004	2003
Administrative expenses		
Administration fees	$ 72,000	$ 72,000
Filing and transfer agent fees	7,781	7,306
Interest and bank charges	223,757	167,646
Office and miscellaneous	20,673	19,502
Professional fees	11,082	14,715
Rent	6,000	6,000
	341,293	287,169
Other expenses (income)		
Interest and miscellaneous income	(29)	(2,196)
Impairment to carrying value of mining assets held for resale	20,000	33,000
	19,971	30,804
Loss for the year	(361,264)	(317,973)
Deficit, beginning of year	(17,788,798)	(17,470,825)
Deficit, end of year	$ (18,150,062)	$ (17,788,798)
Loss per share - basic and diluted	$ (0.15)	$ (0.13)
Weighted average number of common shares outstanding - basic and diluted	2,397,216	2,397,216

FM RESOURCES CORP.

Statements of Cash Flows
Years Ended December 31, 2004 and 2003

	2004	2003
Cash flows from (used in) operating activities		
Loss for the year	$ (361,264)	$ (317,973)
Adjustment for items not involving cash:		
Impairment to carrying value of mining assets held for resale	20,000	33,000
	(341,264)	(284,973)
Changes in non-cash working capital:		
(Increase) decrease in taxes recoverable	(115)	365
Increase in accounts payable and accrued liabilities	319,708	262,143
	(21,671)	(22,465)
Cash flows from financing activities		
Increase in loans payable	22,000	25,000
Increase in cash and cash equivalents	329	2,535
Cash and cash equivalents, beginning of year	5,043	2,508
Cash and cash equivalents, end of year	$ 5,372	$ 5,043

1. Future Operations

The Company was incorporated under the laws of the Province of British Columbia, Canada and its principal business activities include the exploration and development of mineral properties.

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future. The Company has no current source of revenue. The future of the Company as a "going concern" is highly dependent upon the Company's ability to attract new long-term and permanent equity financing, to complete the development of a mineral property, to have the continued support of creditors and shareholders, and ultimately to reach a profitable level of operations. Accordingly, they do not give effect to adjustments, if any, that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities other than in the normal course of business and at amounts which may differ from those shown in the financial statements.

As at December 31, 2004, the Company has a working capital deficiency of $2,419,065 (2003 - $2,077,801) and a cumulative operating deficiency of $18,150,062.

2. Change in Accounting Policy

Effective January 1, 2003, the Company adopted, prospectively, the Canadian Institute of Chartered Accountants Handbook, Section 3870 *Stock-based compensation and other stock-based payments.* Under the new recommendation, the Company adopted the fair value for all direct awards of stocks and applies the fair value method. The fair value of stock options is determined by the *Black-Scholes Option Pricing Model* with assumptions for risk-free interest rates, dividend yields, volatility factors of the expected market price of the Company's common shares, and the expected life of the options. The fair value of direct awards of stocks is determined by the quoted market price of the Company's stock.

The adoption of this policy has no cumulative effect on the prior year's financial statements.

3. Significant Accounting Policies

The financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

(a) 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results may differ from those estimates.

(b) Mining Assets Held for Resale

Mining assets held for resale are recorded at their estimated net realizable value.

(c) Mineral Properties

The Company is in the exploration stage and defers all expenditures related to its mineral properties until such time as the properties are put into commercial production, sold or abandoned. Under this method, all amounts shown as mineral properties represent costs incurred to date less amounts amortized and/or written off and do not necessarily represent present or future values.

If the properties are put into commercial production, the expenditures will be depleted based upon the proven reserves available. If the properties are sold or abandoned, the expenditures will be charged to operations. The Company does not accrue the estimated future costs of maintaining in good standing its mineral properties.

In the event that reserves are determined, the carrying values of mineral interests, on a property-by-property basis, will be reviewed by management at least annually to determine if they have become impaired. If impairment is deemed to exist, the mineral property will be written down to its net recoverable value. The ultimate recoverability of the amounts capitalized for the mineral properties is dependent upon the delineation of economically recoverable ore reserves, the Company's ability to obtain the necessary financing to complete their development and realize profitable production or proceeds from the disposition thereof. Management's estimates of recoverability of the Company's investment in various projects have been based on current conditions. However, it is reasonably possible that changes could occur in the near term which could adversely affect management's estimates and may result in future writedowns of capitalized property carrying values.

Management has determined each property to be a cost centre.

3. Significant Accounting Policies (continued)

(d) Property Option Agreements

From time to time, the Company may acquire or dispose of a property pursuant to the terms of an option agreement. Due to the fact that options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received.

(e) Impairment of Long-term Assets

The Company re-evaluates the recoverability of long-term assets, including mining capital assets held for resale and the mineral property based upon estimates using factors such as future asset utilization, business climate and future discounted cash flows expected to result from the use of the related assets or be realized on sale. The Company's policy is to write down these assets to their net recoverable amount in the period when it is determined that the carrying amount is not likely to be recovered.

(f) Income Taxes

The Company has adopted the provision of CICA Handbook Section 3465, Income Taxes. Under this standard, current income taxes are recognized for the estimated income taxes payable for the current period.

Future taxes are recognized for the tax consequences of "temporary differences" by applying enacted or substantively enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and tax basis of existing assets and liabilities. The effect on future income taxes for a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. In addition, Section 3465 requires the recognition of future tax benefits to the extent that realization of such benefits is more likely than not.

(g) Cash equivalents

Cash equivalents usually consist of highly liquid investments which are readily convertible into cash with maturities of three months or less when purchased. The Company has no cash equivalents as at December 31, 2004 and 2003.

3. Significant Accounting Policies (continued)

(h) Earnings (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 amounts are calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury stock method. The treasury stock method assumes that proceeds received from the exercise of stock options and warrants are used to repurchase common shares at the prevailing market rate.

(i) Asset Retirement Obligations

The fair value of a liability for an asset retirement obligation is recognized when a reasonable estimate of fair value can be made. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost is charged to earnings using a systematic and rational method and is adjusted to reflect period-to-period changes in the liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flow. As at December 31, 2004, the Company does not have any asset retirement obligations.

4. Mining Assets Held for Resale

	2004	2003
Mining equipment	$ -	$ 20,000

5. Mineral Property

	Total	
	2004	2003
La Forma Property	$ 1	$ 1

The Company owns a 100% interest in the La Forma property located in the vicinity of Mount Freegold, Yukon Territory. Due to a lack of current and foreseeable activity, the investment in the La Forma property has been reduced to a nominal value of $1.

6. Loans Payable

	2004	2003
Loans payable, payable on demand without interest or fixed terms of repayment	$ 865,924	$ 865,924
Loan payable, with interest at 18% per annum, compounded monthly, with no fixed terms of repayment	173,100	151,100
Loans payable to directors and a former director	4,500	4,500
	$ 1,043,524	$ 1,021,524

7. Share Capital

(a) Authorized: 100,000,000 common shares without par value.
5,000,000 preferred shares without par value.

(b) Issued:

	2004		2003	
	Number of Shares	Amount	Number of Shares	Amount
Balance, December 31	2,397,216	$ 15,425,998	2,397,216	$ 15,425,998

(c) The Company's preferred shares are issuable in series, with each series to have such rights and restrictions as may be determined by the Board of Directors. The issuance of preferred shares of any series would be subject to regulatory approval.

8. Income Taxes

The components of the future income tax assets are as follows:

	2004	2003
Future income tax assets:		
Non-capital loss carryforwards	$ 767,000	$ 1,053,000
Unused cumulative development and exploration expenses	2,754,000	2,754,000
	3,521,000	3,807,000
Less: Valuation allowance	(3,521,000)	(3,807,000)
Total future income tax assets	$ -	$ -

The valuation allowance reflects the Company's estimate that the tax assets, more likely than not, will not be realized.

(a) The Company has accumulated non-capital losses for income tax purposes of approximately $1,935,000. The losses expire in the following years:

2005	$ 668,000
2006	136,000
2007	163,000
2008	179,000
2009	215,000
2010	255,000
2014	319,000
	$ 1,935,000

(b) The Company has cumulative capital losses and unused cumulative development and exploration expenses of $6,134,000 which can be carried forward indefinitely.

9. Related Party Transactions

The aggregate amount of transactions made with parties not at arms length to the Company consist of the following:

- Included in accounts payable and accrued liabilities is the amount of $11,640, representing funds due to directors of the Company and to a private company controlled by a director of the Company.

10. Financial Instruments

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgement, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying value of cash and cash equivalents, accounts payable and accrued liabilities and loans payable approximate their fair value because of the short-term nature of those instruments.

11. Comparative Information

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