

Financial Statements for

BLACK BULL RESOURCES INC.

September 30, 2004

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AUDITORS' REPORT

The Shareholders,
Black Bull Resources Inc.

We have audited the balance sheets of Black Bull Resources Inc. as at September 30, 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 September 30, 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.

Deloitte & Touche LLP

Chartered Accountants

November 19, 2004

BLACK BULL RESOURCES INC.

BALANCE SHEETS AS AT SEPTEMBER 30

	2004	2003
ASSETS		
Current		
Cash and cash equivalents	\$ 8,906,265	\$ 1,511,283
Receivables (Note 3)	236,087	10,067
Inventory (Note 4)	186,960	-
Prepaid expenses	36,341	14,684
	9,365,653	1,536,034
Capital assets and trademark (Note 5)	178,443	5,368
Mineral claims (Note 6)	782,038	703,477
Deferred costs (Note 7)	2,612,899	1,895,389
Other assets (Note 8)	389,807	21,425
	\$ 13,328,840	\$ 4,161,693
LIABILITIES		
Current		
Payables and accruals (Note 9)	\$ 492,117	\$ 141,711
Income taxes payable	35,943	-
	528,060	141,711
Asset retirement obligation	114,380	-
	642,440	141,711
SHAREHOLDERS' EQUITY		
Capital stock (Note 10)	17,268,842	7,311,414
Contributed surplus (Note 10)	1,027,228	-
Deficit	(5,609,670)	(3,291,432)
	12,686,400	4,019,982
	\$ 13,328,840	\$ 4,161,693

Approved on behalf of the Board

"Robert E. Condon" Director

"James W. Gogan" Director

BLACK BULL RESOURCES INC.

STATEMENTS OF OPERATIONS AND DEFICIT YEARS ENDED SEPTEMBER 30

	2004	2003
MINERAL REVENUE	\$ 3,214	\$ -
COSTS AND EXPENSES		
Operations	153,955	-
Depletion	11,778	-
Amortization	6,069	2,235
Sales and marketing	125,376	44,567
General and administration expenses	1,551,152	581,741
	1,848,330	628,543
LOSS BEFORE OTHER ITEMS	(1,845,116)	(628,543)
OTHER ITEMS		
Interest income	96,696	5,279
Loss on sale of capital assets	(3,835)	-
Gain on sale of marketable securities	-	491
Write-down of inventory	(496,362)	-
Loss on mineral claims	(33,678)	-
Provision for income taxes (Note 12)	(35,943)	-
	(473,122)	5,770
NET LOSS FOR THE YEAR	(2,318,238)	(622,773)
DEFICIT AT BEGINNING OF YEAR	(3,291,432)	(2,668,659)
DEFICIT AT END OF YEAR	\$ (5,609,670)	\$ (3,291,432)
Basic and diluted loss per share	\$ (0.075)	\$ (0.035)
Weighted average number of shares (Note 10)	30,820,564	17,974,842

BLACK BULL RESOURCES INC.

STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30

	2004	2003
OPERATING ACTIVITIES		
Net loss for the year	\$ (2,318,238)	\$ (622,773)
Non-cash items included in net loss		
Amortization	6,069	2,235
Depletion	11,778	-
Loss on sale of capital assets	3,835	-
Gain on sale of marketable securities	-	(491)
Loss on sale of mineral claims	33,678	-
Stock-based compensation	574,277	-
	(1,688,601)	(621,029)
Change in non-cash working capital accounts		
Receivables	(226,020)	19,382
Inventory	(186,960)	-
Prepaid expenses	(21,657)	(2,736)
Payables and accruals	350,406	(14,650)
Income taxes payable	35,943	-
	(1,736,889)	(619,033)
FINANCING ACTIVITIES		
Proceeds from sale of capital stock	10,410,379	2,180,690
INVESTING ACTIVITIES		
Trademark	(4,693)	-
Acquisition of capital assets	(179,454)	-
Proceeds from sale of assets	1,168	24,594
Deferred costs	(727,147)	(151,172)
Reclamation deposits	(368,382)	-
	(1,278,508)	(126,578)
Change in cash and cash equivalents during the year	7,394,982	1,435,079
Cash and cash equivalents at beginning of the year	1,511,283	76,204
Cash and cash equivalents at end of year	\$ 8,906,265	\$ 1,511,283

BLACK BULL RESOURCES INC.

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2004 AND 2003

1. NATURE OF OPERATIONS

The Company was incorporated under the Company Act of Alberta on July 18, 1997 and is principally involved in mining effective April 1, 2004.

The Company is now in the business of mining production of its White Rock claim in Nova Scotia, Canada. The recoverability of the amounts shown for mineral claims and related deferred exploration costs is dependent upon the existence of economically recoverable reserves and upon future profitable production.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Cash and cash equivalents

Cash and cash equivalents include highly liquid investments with maturities of less than three months.

b) Inventory

Product inventory is valued at the lower of production cost, consisting mainly of mining and crushing costs, and net realizable value.

c) Capital assets and amortization

Capital assets are recorded at cost and amortization is recorded on a declining-balance basis using the following rates:

Equipment	20%
Office furniture	20%
Computer equipment	30%
Software	100%
Buildings	5%

Trademark represents costs incurred in the application process and upon approval will be amortized over the trademark period using the straight-line basis.

Amortization of buildings and equipment commence when they are put in commercial use.

BLACK BULL RESOURCES INC.

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2004 AND 2003

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Mineral claims

Mineral claim expenses are capitalized and carried at cost until the claim to which they relate is placed in production or sold, or management has determined there to be a permanent impairment of value. If placed in production, the costs are depleted and amortized using the units-of-production method over the estimated life of the measured and indicated resource. If the mineral claims are sold or abandoned, the related deferred amounts will be expensed.

e) Deferred costs

Exploration and mine development expenses are capitalized and carried at cost until the claim or project to which they relate is placed in production or sold, or management has determined there to be a permanent impairment of value. If placed in production, the costs are depleted and amortized using the units-of-production method over the estimated life of the measured and indicated resource. If the claim or project is sold or abandoned, the related deferred amounts will be expensed.

f) Revenue recognition

Revenue from mining operations is recognized upon shipment of the product, when title has passed to the customer and collection is reasonably assured.

g) Asset retirement obligations

Effective October 1, 2003, the Company retroactively adopted the requirements of the CICA Handbook Section, Asset Retirement Obligations. Under the new standard, legal obligations associated with the retirement of tangible long-lived assets are recorded as liabilities. The liabilities are calculated using the net present value of the cash flows required to settle the obligation using a discount rate of 7% over a 10 year term. A corresponding amount is capitalized to the related asset. Asset retirement costs are charged to earnings in a manner consistent with the depreciation, depletion, and amortization of the underlying asset. The liabilities are subject to accretion over time for changes in the fair value of the liability through charges to accretion which are included in cost of sales and operating expenses. There was no obligation balance at the beginning of the year.

BLACK BULL RESOURCES INC.

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2004 AND 2003

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Asset retirement obligations (continued)

It is possible that the Company's estimates of its ultimate asset retirement obligations could change as a result of changes in regulations, the extent of environmental remediation required, the means of reclamation, or cost estimates. Changes in estimates are accounted for prospectively from the period the estimate is revised.

h) 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant areas where management's judgement is applied are asset valuations, amortization and depletion, income taxes, stock-based compensation and asset retirement obligations. Actual results could differ from those estimates.

i) Stock-based compensation

The Company has a stock-based compensation plan as described in Note 10. On October 1, 2003, the Company adopted the changes to CICA Handbook Section Stock-based Compensation and Other Stock-based Payments for employee stock options. Under this standard, the Company adopted expensing the fair value of all stock options and warrants on a prospective basis. The Company uses the Black-Scholes model to estimate fair value. Prior to October 1, 2003, no compensation was recognized for options granted to employees and directors and for options and warrants granted to consultants.

j) Income taxes

The Company follows the liability method of accounting for income taxes whereby future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of tax loss carryforwards that are likely to be realized. Future income tax assets and liabilities are measured using enacted tax rates that are expected to be effective when recovered or settled.

The net change in recorded future income tax assets and liabilities is recognized in income in the period in which the change occurs including any change in applicable future tax rates.

BLACK BULL RESOURCES INC.

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2004 AND 2003

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Income/loss per share

Income/loss per share is calculated using the weighted-average number of common shares outstanding.

Diluted earnings per share are determined as net earnings divided by the weighted average number of diluted common shares outstanding for the period. Diluted common shares reflect the potential dilutive effect of exercising the stock options based on the treasury stock method.

Options to purchase 4,118,199 common shares and warrants to purchase 5,934,860 common shares were outstanding during fiscal 2004 but were not included in the computation of diluted earnings per share because they were anti-dilutive.

l) Impairment of long-lived assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

m) Comparative figures

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

3. RECEIVABLES

	2004	2003
Trade	\$ 2,919	\$ -
Government (HST)	233,168	9,686
Interest	-	381
	<u>\$ 236,087</u>	<u>\$ 10,067</u>

BLACK BULL RESOURCES INC.

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2004 AND 2003

4. INVENTORY

Inventory value has been adjusted to recognize estimated additional process and related costs which will be incurred to make the product marketable.

5. CAPITAL ASSETS AND TRADEMARK

	2004			2003	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value	
Office furniture & equipment	\$ 12,214	\$ 947	\$ 11,267	\$	1,776
Computer equipment	9,618	1,443	8,175		3,592
Software	5,166	2,583	2,583		-
Equipment	90,756	732	90,024		-
Buildings	61,701	-	61,701		-
Trademark	4,693	-	4,693		-
	\$ 184,148	\$ 5,705	\$ 178,443	\$	5,368

6. MINERAL CLAIMS

	2004			2003	
	Cost	Accumulated Depletion	Net Book Value	Net Book Value	
Burn	\$ -	\$ -	\$ -	\$	6,542
Car	-	-	-		13,260
Horn	-	-	-		26,660
Yarmouth	784,655	2,617	782,038		670,275
	784,655	2,617	782,038		716,737
Recoveries	-	-	-		(13,260)
Net Cost	\$ 784,655	\$ 2,617	\$ 782,038	\$	703,477

On March 25, 2004, the Company agreed to transfer 100% ownership in the Burn, Car, and Horn, British Columbia, claims to Eagle Plains Resources Ltd. The Company received a Net Smelter Royalty on the claims to a maximum of 2%. Due to the contingent nature, no value has been attributed to this royalty claim in these financial statements. The costs of these mineral claims were expensed in the current year.

BLACK BULL RESOURCES INC.

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2004 AND 2003

7. DEFERRED COSTS

	2004		2003	
	Cost	Accumulated Depletion	Net Book Value	Net Book Value
Burn	\$ -	\$ -	\$ -	\$ 16,783
Horn	-	-	-	24,590
Yarmouth	2,622,060	9,161	2,612,899	1,894,913
	2,622,060	-	2,612,899	1,936,286
Recoveries	-	-	-	(40,897)
Net Cost	\$ 2,622,060	\$ 9,161	\$ 2,612,899	\$ 1,895,389

On March 25, 2004, the Company agreed to transfer 100% ownership in the Burn and Horn, British Columbia, claims to Eagle Plains Resources Ltd. The Company received a Net Smelter Royalty on the claims to a maximum of 2%. Due to the contingent nature, no value has been attributed to this royalty claim in these financial statements. The deferred costs were expensed in the current year.

8. OTHER ASSETS

Other assets consist of funds held by the Province of Nova Scotia. The Natural Resources Reclamation Fund contains \$304,274 and the Environmental Reclamation Fund contains \$85,533. The funds bear interest at the provincially designated rate of 2.0% to 2.5%.

9. PAYABLES AND ACCRUED LIABILITIES

	2004	2003
Trade	\$ 481,861	\$ 139,922
Government (Payroll Deductions)	10,256	1,789
	\$ 492,117	\$ 141,711

BLACK BULL RESOURCES INC.

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2004 AND 2003

10. SHAREHOLDERS' EQUITY

a) Authorized

Unlimited common shares without par value
Unlimited preferred shares without par value

b) Issued, common shares

	2004		2003	
	#	\$	#	\$
Balance at beginning of the year	21,355,605	\$ 7,311,414	16,592,451	\$ 5,130,724
Shares issued for cash	22,831,000	11,506,600	4,763,154	2,306,046
	44,186,605	18,818,014	21,355,605	7,436,770
Less: share issue costs		(1,549,172)		(125,356)
Balance at end of the year	44,186,605	\$ 17,268,842	21,355,605	\$ 7,311,414

The weighted average number of shares outstanding was calculated based on the timing of issuance of shares through the year. Due to the number of shares issued during the year, the weighted average number differs significantly from the year end balance.

c) Contributed surplus

	Stock Option		Warrants	
	#	Fair Value	#	Fair Value
Balance at beginning of the year	-	\$ -	-	\$ -
Issued	1,960,000	468,912	2,208,000	558,316
Balance at end of the year	1,960,000	\$ 468,912	2,208,000	\$ 558,316

Contributed surplus consists of the fair value attributed to options and warrants issued during the year. Warrants were issued for consulting and stock issue fees and options were issued to directors, officers and consultants.

BLACK BULL RESOURCES INC.

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2004 AND 2003

10. SHAREHOLDERS' EQUITY (continued)

c) Contributed surplus (continued)

The fair value of the options and warrants were estimated at the date of grant using a Black-Scholes model with the following weighted average assumptions for 2004: risk free interest rates of 2.7% to 3.5%; dividend yields of 0%; volatility factors of the expected market price of the Company's common stock of 47% to 60%; and a weighted average expected life of the option of 2 to 5 years and a weighted average expected life of the warrant of 2 years.

The Black-Scholes model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

d) Stock options and warrants

The following table summarizes the status and changes in stock options and warrants:

	Stock options		Warrants	
	Number	Weighted average price	Number	Weighted average price
Outstanding as at September 30, 2002	2,717,018	\$ 0.76	2,063,300	\$ 0.92
Granted/issued	60,000	0.60	3,746,860	0.73
Exercised	(388,354)	0.26	-	-
Cancelled/expired	(155,465)	0.95	(923,000)	1.25

BLACK BULL RESOURCES INC.

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2004 AND 2003

10. SHAREHOLDERS' EQUITY (continued)

d) Stock options and warrants (continued)

	Stock options		Warrants	
	Number	Weighted average price	Number	Weighted average price
Outstanding as at September 30, 2003	2,233,199	0.83	4,887,160	0.71
Granted/issued	1,960,000	0.68	2,208,000	0.70
Exercised	-	0.00	(891,000)	0.60
Cancelled/expired	(75,000)	0.89	(269,300)	0.80
Outstanding as at September 30, 2004	4,118,199	\$ 0.76	5,934,860	\$ 0.72

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

Range of exercise prices	Number of options	Weighted average remaining contractual life	Weighted average exercise price
\$0.42 - 0.50	723,334	2.5 years	\$ 0.44
\$0.53 - 0.96	3,011,400	1.9 years	\$ 0.77
\$1.00 - 1.44	383,465	0.8 years	\$ 1.27
	4,118,199	1.9 years	\$ 0.76

Range of exercise prices	Number of warrants	Weighted average remaining contractual life	Weighted average exercise price
\$0.50 - \$0.70	5,485,160	1.1 years	\$ 0.70
\$0.80 - \$1.00	449,700	0.3 years	\$ 1.00
	5,934,860	1.0 years	\$ 0.72

On March 14, 2003, the Company adopted a formal stock option plan whereby 20% of the issued and outstanding common shares are reserved for issuance under the Plan. The Plan provides for the granting of options which qualify for treatment as incentive stock options or non-statutory stock options and entitles directors, employees, and consultants to purchase common shares of the Company. Options granted are subject to approval of the Board of Directors. The exercise price of each option equals the average market price of the Company's stock on the date of grant and the maximum term of an option is 5 years. Options and warrants are exercisable to shares at a ratio of 1 to 1.

BLACK BULL RESOURCES INC.

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2004 AND 2003

10. SHAREHOLDERS' EQUITY (continued)

d) Stock options and warrants (continued)

The options generally vest over a period of 18 months from the date of grant and immediately become exercisable once vested. The options generally have a term of 5 years.

11. RELATED PARTY TRANSACTIONS

During the year the Company entered into the following transactions with certain directors and officers of Black Bull Resources Inc. and companies under their control or control of their spouses:

	2004	2003
Accounting fees		
R.E. Condon Accounting Services Ltd.	\$ 10,195	\$ 5,675
Consulting fees		
Zenith Appraisal & Land Consulting Ltd.	\$ -	\$ 59,945
Donald Hilton/1582877 Ontario Inc.	47,383	90,000
Double Check Consulting Ltd	23,815	25,179
Joseph MacDonald	27,650	-
	\$ 98,848	\$ 175,124
Share placement fees		
1582877 Ontario Inc.	\$ 336,000	\$ 74,625

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

Accounts payable included \$8,694 (2003 - \$74,625) due to 1582877 Ontario Inc. and \$1,560 (2003-\$Nil) due to Joseph MacDonald.

BLACK BULL RESOURCES INC.

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2004 AND 2003

12. INCOME TAXES

The income tax recovery and change in valuation allowance differs from the amounts computed by applying Canadian statutory rates to loss before income taxes as follows:

	2004	2003
Income tax recovery at statutory rate		
of 39.1% (2003 - 35.6%)	\$ (892,000)	\$ (222,000)
Mineral claims	-	(38,000)
Amortization and other	(3,000)	9,000
Employee stock options	76,000	-
Share issue costs	(114,000)	(15,000)
Increase in valuation allowance	933,000	266,000
Subtotal	-	-
Nova Scotia Tax on large corporations	35,943	-
	\$ 35,943	\$ -

The approximate tax effect of temporary differences and tax loss carry forwards that give rise to the Company's future income tax assets are as follows:

	2004	2003
Future income tax assets		
(liabilities)		
Capital assets	\$ (6,000)	\$ 12,000
Mineral claims	(104,000)	(74,000)
	(110,000)	(62,000)
Share issue costs	540,000	39,000
Net future income tax asset (liability)	430,000	(23,000)
Tax loss carryforwards	1,909,000	893,000
Future income tax asset	2,339,000	870,000
Valuation allowance	(2,339,000)	(870,000)
Future income tax asset	\$ -	\$ -

BLACK BULL RESOURCES INC.

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2004 AND 2003

12. INCOME TAXES (continued)

The Company has the following losses carried forward available for tax purposes:

<u>Expiry date</u>	<u>Amount</u>
2005	\$ 71,000
2006	212,000
2007	368,000
2008	713,000
2009	491,000
2010	640,000
2011	2,388,000
	<u>\$ 4,883,000</u>

13. FINANCIAL INSTRUMENTS

Fair value

The carrying values of accounts receivable and accounts payable approximates their fair values based on their liquidity and short-term nature. The fair value of the long-term liability is determined using the present value of cash flows method.

14. COMMITMENTS

On August 1, 2003, the Company entered into an agreement with U.S. Silica Company (USS) and appointed USS as its exclusive agent for the sale of silica product produced from the White Rock property for a five year term until July 31, 2008. Under the agreement, the Company has agreed to pay USS commissions.

MANAGEMENT'S DISCUSSION & ANALYSIS

OF FINANCIAL AND OPERATING RESULTS

(in Canadian dollars)

The following discussion and analysis is the responsibility of management. The Board of Directors carries out its responsibility for review of the disclosure principally through its Audit Committee, comprised exclusively of independent directors. The Audit Committee reviews this disclosure and recommends its approval by the Board of Directors. The MD&A dated December 17, 2004, is prepared in conformity with National Instrument 51-102F1 and has been approved by the Board of Directors.

Overall Performance

During 2004, Black Bull Resources Inc. emerged from an exploration company through a brief development stage to a mining company. In the first half of the fiscal year, the objectives were to obtain all the necessary regulatory approvals and permits, procure a contractor for mine development and production, secure the required financing, and develop a marketing strategy for the White Rock property. In the last half of the year, the objectives were to operate the mine, market and sell, design the production facility, and consolidate operations to Nova Scotia.

In April, the Nova Scotia Department of Natural Resources issued the final approvals including the quartz mining permit for the property. The Company contracted Atcon Construction Inc. for infrastructure development which started immediately. The initial phase of development included clearing, road construction, crusher pads with storage area, and storm water holding ponds. The cost to develop the first phase was \$454,000. The next phase, to be completed in advance of the construction of the processing plant, will be to prepare the plant site, expand the material storage pads, and complete any upgrades required on the road or holding ponds. This is estimated to cost \$160,000.

While the Company worked on the marketing and production of the fine quartz sands, it commenced production of a coarse mixture of aggregate stone for landscape and construction markets and a secondary mixture consisting of various sizes of screened sands along with the small rock. The aggregate, though low in margin, was a product that original studies indicated was marketable. Atcon Construction was contracted to produce 100,000 tonnes of aggregate and sand in the first year. A primary crushing and screening system was used to produce the products, each with an estimated cost of \$13/t. To date 40,000 tonnes have been crushed. Additional one time production costs of \$4/t were incurred mainly due to a standby charge for crushing machinery while production was delayed to conduct due diligence, stabilize and remove a small quantity of charges not detonated during a former bulk sample program.

Sales from the first quartz production run of the Company missed original projections for two reasons. First, transportation capacity was reduced due to a strong international demand for shipping. As a result the markets where the Company could competitively sell the lower margin aggregate was reduced. Second, the material produced from the first series of blasts included ore from zones in the deposit where the colour was not acceptable. As a result the whiteness of the material produced was diminished and did not meet the Company's high quality standards without additional processing costs. To avoid this problem in future blasts the Company is implementing a program to use selective mining techniques. For 2004 the value of the aggregate inventory has been reduced by \$160,000 and the sand inventory reduced by \$336,362 representing the costs of the additional processing. It is

expected that the quality control changes to the mining production and subsequent crushing will produce the premium product with little increase to the original estimated production cost.

During the year common share, option and warrant financing raised net cash proceeds of \$10,410,379. The Company has used a portion of the money for predevelopment and development of the new mine, marketing new products, consolidating all operations to Shelburne, Nova Scotia, providing reclamation deposits to the province of Nova Scotia, and constructing and equipping a storm water treatment plant.

The Company's September 30 cash balance was \$8,906,265. These funds will be used to construct the production facilities and continue operations until the Company attains profitability which is projected for the second quarter of 2006. The Company has prepared a proposal for the production facility. The modular approach will allow new units to be easily and economically added to increase production levels. In late 2004, the Company commenced a drilling program, at a cost of \$200,000, to further outline the quartz and kaolinite resource at the White Rock property. The Company continues to analyze the kaolin quality and during 2005 will increase product testing and development.

The past year has seen the Company experience turnover at the executive level. Currently the Chief Executive Officer, the Vice-President of Operations, and the Vice-President of Marketing positions are either vacant or are being filled on an interim basis. The Company has retained a firm to assist in attracting suitable candidates to fill these positions in early 2005.

The Company has agreed to rigorous environmental standards and has spent \$124,030 to monitor the impact of the operations on water along with plant and animal life over the six months since the mining permit. The Company will continue to monitor the environmental impact but will look at alternatives to reduce the costs.

The Company transferred 100% ownership in the Burn, Car, and Horn, British Columbia, claims to Eagle Plains Resources Ltd. retaining a 2% net smelter royalty.

Financial Results Overview and Results of Operations

	2004	2003	2002
Mineral Revenue	3,214	0	0
Net Loss	2,318,238	622,773	484,294
Net Loss per Share (Basic and Diluted)	(0.075)	(0.035)	(0.031)
Total Assets	13,328,840	4,161,693	2,618,426

During 2004 the Company received its first mineral revenue. The sales consisted of small shipments of aggregate to the local area. Subsequent to the year end, a larger shipment of aggregate was sold to a customer in Nova Scotia. The customer has indicated extra processing was required resulting in a reduced margin.

The operations costs contain \$124,030 for environmental monitoring compared to \$0 last year as there was no production. The remaining expenses relate to land lease costs, scale rental, and direct mining costs of aggregate sales. The sales and marketing increase relates to \$72,622 cost to transport,

clean, process and bag four sizes of fine sands to be distributed to potential customers and \$10,438 paid in salaries where there was \$0 in 2003.

The introduction of the new accounting policy for stock based compensation resulted in \$574,277 of the general and administration increase; \$381,009 was expensed to consulting costs while \$193,268 was expensed as employee compensation. The difference from the previous year also consists of an extra \$214,278 paid in salaries. The increase is a result of new salaries and benefits for a Vice-President of Operations, Chief Financial Officer, and Office Administrator, along with a salary increase to the President. Travel related expenses increased from \$40,528 to \$114,229 caused by the increase in frequency and length of trips to Nova Scotia by the President, the extra cost for Directors after the increase to seven from five, and their diversity in locations along with the cost of travel of the new employees. The increase in staff and the operation of two locations for part of the year resulted in the office related expenses to increase from \$44,925 in 2003 to \$73,855 in 2004.

The interest income increase of \$91,417 was a result of investing the cash generated from the financings throughout the year.

The sale of the low margin aggregate from the first production run, after the end of the year, resulted in an extra processing expense. The Company estimates that this will be required for future sales or the price will be reduced for the product in the current condition. The Company has reduced the carrying value of the inventory by \$160,000. The cost per tonne of the marketing project undertaken by the Company indicates that the cost to process the sand product at an off site location is more than the potential selling price. The Company also considered holding the product until the new production facility is complete but most of this product would be used in the testing phase, therefore the Company determined that a reduction in the carrying value to \$0 was required. The result of this is a write-down of \$336,362.

Summary of Quarterly Results

	2004				2003			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Mineral Revenue	3,214	0	0	0	0	0	0	0
Net Loss	1,193,322	588,356	186,295	350,265	166,805	119,505	181,347	155,116
Net Loss per Share (Basic and Diluted)	(0.024)	(0.022)	(0.010)	(0.019)	(0.005)	(0.010)	(0.010)	(0.010)

From the first quarter of 2003 to the second quarter of 2004 the Company focused primarily on the regulatory approvals and permitting for the White Rock property. The Company expenditures were of a nature that caused them to be capitalized in those periods and to be depleted over the life of the mine. The Company maintained only one staff member and subcontracted administrative services in British Columbia. In the third quarter staff was hired in Nova Scotia and the marketing of the quartz products and operating of the mine created a shift towards expenditures of an operations nature.

The fair value of stock based compensation in 2004 was \$192,259 for Q1, \$2,890 for Q2, \$233,808 for Q3 and \$145,320 for Q4. The entire \$496,362 inventory write-down was included in Q4. The provision for income taxes of \$35,943 which represents the Nova Scotia Large Corporation Tax was also included in Q4.

Liquidity

The Company considers the available cash along with the cash to be generated by options and warrants in 2005 to be sufficient to sustain operations and capital requirements until the Company can create cash flow through profitable operations. The Company expects this to occur in the second quarter of 2006.

Capital Resources

In 2005 the Company intends to purchase the equipment and build a production facility sufficient to meet its first three to five year quartz production requirements. The Company plans to meet these requirements at a cost of \$6 million from working capital. The Company also intends to use working capital to further develop infrastructure and to continue exploration, testing, and product development for quartz and kaolinite.

Transactions with Related Parties

During 2004 the Company paid R.E. Condon Accounting Services \$10,195 versus \$5,675 in 2003 for accounting services and preparing quarterly reports. R.E. Condon Accounting Services is owned by a Director of the Company. The Company expects this to be reduced in 2005 due to existing staff.

The Company paid Double Check Consulting Ltd. \$23,815 for administrative services in 2004 versus \$25,179 in 2003. Double Check Consulting Ltd. is controlled by an associate of a Director. The Company expects this to be reduced in 2005 due to existing staff.

Joseph MacDonald, Director, was paid \$27,650 in 2004 versus \$0 in 2003 for consulting with regards to marketing. The Company expects to continue these expenditures in 2005.

The Company retained 1582877 Ontario Inc. for share placement services related to the various financings during the year. Fees of \$336,000 were paid in 2004 versus \$74,265 in 2003. 1582877 Ontario Inc. is owned by the Interim CEO of the Company. The Company expects this to be reduced in 2005. The Company also paid 1582877 Ontario Inc./Don Hilton \$47,383 in consulting fees during the year versus \$90,000 in 2003. The Company expects to continue these expenditures in 2005.

Changes in Accounting Policies

The Company has a Stock Option Plan. Effective October 1, 2003, the Company adopted prospectively, the new CICA accounting standard for Stock-Based Compensation and Other Stock-Based Payments for employee stock options. Under this standard, the Company accounts for stock options using the fair value method, whereby the compensation expense for stock options is measured at the fair value at the grant date and is recognized over the vesting period of the options granted. The Company uses the Black-Scholes model to estimate fair value. Previously, no compensation expense was recognized when stock options were granted or exercised.

Effective October 1, 2003, the Company retroactively adopted the new Canadian accounting standard with respect to asset retirement obligations. Under the new standard, legal obligations associated with the retirement of tangible long-lived assets are recorded as liabilities. The liabilities are calculated using the net present value of the estimated cash flows required to settle the obligation. A corresponding amount is capitalized to the related asset. Asset retirement costs are charged to earnings in a manner consistent with the depreciation, depletion, and amortization of the underlying asset. The liabilities are subject to accretion over time for changes in the fair value of the liability through charges to accretion

which is included in cost of sales and operating expenses. There was no obligation balance at the beginning of the year.

It is possible that the Company's estimates of its ultimate asset retirement obligations could change as a result of changes in regulations, the extent of environmental remediation required, the means of reclamation, or cost estimates. Changes in estimates are accounted for prospectively from the period the estimate is revised.

Other MD&A Disclosures

Mineral Claims

	Burn	Car	Horn	Yarmouth	2004	2003
Balance, beginning of year	\$6,542	\$0	\$26,660	\$670,275	\$703,477	\$716,737
Asset Retirement Obligation				114,380	114,380	0
Expenses for the period	0		0	114,380	114,380	0
Costs expensed	6,542	0	26,660	0	33,202	13,260
Less: Recoveries						
Balance, end of Period	\$0	\$0	\$0	\$784,655	\$784,655	\$703,477

Deferred Exploration and Development Costs

	Burn	Horn	Yarmouth	Other	2004	2003
Balance, beginning of year	\$16,783	\$24,590	\$1,894,913	(\$40,897)	\$1,895,389	\$1,744,217
Drilling/trenching			2,180		2,180	15,886
Engineering			0		0	0
Geological consulting			45,436		45,436	7,480
Miscellaneous			1,827		1,827	6,702
Permitting			175,019		175,019	88,206
Report preparation			738		738	16,114
Sample processing			20,928		20,928	16,784
Research			27,129		27,129	0
Mining Costs			453,890		453,890	0
Expenses for the period	0	0	727,147	0	727,147	151,172
Costs expensed	16,783	24,590	0	(40,897)	476	
Less: Recoveries						
Balance, end of Period	\$0	\$0	\$2,622,060	\$0	\$2,622,060	\$1,895,389

General and Administration

	2004	2003
Accounting & Legal Fees	77,340	89,430
Advertising & Promotion	23,038	10,334
Consulting Fees	570,744	175,124
Insurance	30,287	11,792
Investor Relations	60,541	51,000
Listing & Transfer Agent Fees	54,790	37,163
Office, Rent & Telephone	73,855	44,925
Travel & Entertainment	115,229	40,527
Wages & Benefits	519,244	111,698
Other	26,083	9,749
	<u>1,551,151</u>	<u>581,742</u>

Forward Looking Statements

Certain statements in this Management's Discussion & Analysis of Financial and Operating Results are forward-looking statements subject to risks and uncertainties. A number of factors could cause actual results to differ materially from those expressed in the forward-looking statements, including but not limited to: transportation availability and fluctuation in cost, construction of the processing facility, success level of U.S. Silica's marketing of the quartz products, hiring of executives, currency fluctuations, and local political stability.

The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required by applicable law.

Approved on behalf of the Board

"Robert E. Condon", Director

"James W. Gogan", Director