Consolidated Financial Statements of

GOLDSTAKE EXPLORATIONS INC.
(A DEVELOPMENT STAGE ENTITY)

Years ended December 31, 2004 and 2003

KPMG

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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, 2004 and 2003 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, 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.

KPMG LLP

Chartered Accountants

Toronto, Canada

March 24, 2005

GOLDSTAKE EXPLORATIONS INC.
(A DEVELOPMENT STAGE ENTITY)

Consolidated Balance Sheets

December 31, 2004 and 2003

	2004	2003
Assets		
Current assets:		
Cash	$ 454,813	$ 43,714
Sundry receivables and other assets	11,948	106,105
	466,761	149,819
Deposits for reclamation costs	–	26,200
Mining properties and related expenditure (note 3)	290,375	225,000
	$ 757,136	$ 401,019
Liabilities and Shareholders' Deficiency		
Current liabilities:		
Accounts payable and accrued liabilities	$ 922,884	$ 1,213,380
Due to directors, unsecured (note 4)	1,485,931	1,260,395
Current portion of loans payable (note 5)	681,243	889,079
Current portion of long-term debt	–	4,450
	3,090,058	3,367,304
Long-term portion of loans payable (note 5)	150,250	164,050
Long-term debt	–	53,316
Shareholders' deficiency:		
Capital stock (note 6):		
Authorized:		
Unlimited common shares		
Issued:		
57,298,160 common shares (2003 - 50,105,660)	20,399,132	19,676,039
Warrants	58,500	–
Contributed surplus	239,682	140,525
Deficit	(23,180,486)	(23,000,215)
	(2,483,172)	(3,183,651)
Going concern (note 1)		
Subsequent event (note 3)		
Commitment (note 6)		
	$ 757,136	$ 401,019

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, 2004 and 2003

	2004	2003
Interest and other income	$ 27,810	$ 38,482
Net gain on sale of mining properties and related expenditures	289,372	318,437
	317,182	356,919
Expenses:		
General, administration and office	43,829	44,362
General exploration	121,099	301,236
Write-down of mining properties and related expenditures (note 3)	–	4,474,033
Software development	–	20,000
Foreign exchange loss	1,398	24,828
Interest	144,912	182,711
Interest on long-term debt	465	20,347
	311,703	5,067,517
Net income (loss)	5,479	(4,710,598)
Deficit, beginning of year:		
As previously reported	(23,000,215)	(18,289,617)
Restatement of opening retained earnings, resulting from change in accounting policy for stock-based compensation (note 2(d))	(185,750)	–
Deficit, end of year	$ (23,180,486)	$ (23,000,215)
Basic and diluted loss per share	$ 0.00	$ (0.09)

See accompanying notes to consolidated financial statements.

GOLDSTAKE EXPLORATIONS INC.
(A DEVELOPMENT STAGE ENTITY)

Consolidated Statements of Cash Flows

Years ended December 31, 2004 and 2003

	2004	2003
Cash provided by (used in):		
Operating activities:		
Net income (loss)	$ 5,479	$ (4,710,598)
Items not involving cash:		
Write-down of mining properties and related expenditures	–	4,474,033
Gain on sale of mining properties and capital assets	(289,372)	(318,437)
Foreign exchange	(47,626)	–
Stock-based compensation	2,000	–
Change in non-cash operating working capital:		
Sundry receivables and other assets	94,157	(102,697)
Accounts payable and accrued liabilities	(290,496)	(55,883)
	(525,858)	(713,582)
Financing activities:		
Loans payable	(192,401)	(74,348)
Due to directors	225,536	169,861
Issue of common shares	693,000	337,000
Repayment of long-term debt	(57,766)	(56,245)
	668,369	376,268
Investing activities:		
Deposits for reclamation costs	26,200	5,000
Additions to mining properties	(65,375)	–
Payment to reacquire Martin property	(451,678)	–
Proceeds from sale of mining properties and capital assets	759,441	381,337
	268,588	386,337
Increase in cash	411,099	49,023
Cash (bank overdraft), beginning of year	43,714	(5,309)
Cash, end of year	$ 454,813	$ 43,714
Supplemental cash flow information:		
Interest paid	$ 119,747	$ 20,348
Supplemental disclosure of:		
Non-cash financing and investing activities:		
Redesignation of director's loan to contributed surplus	–	31,250
Settlement of debt by common share issue	48,000	–
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.

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 expenditure:

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 administration expenditure, 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.

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 denominated 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 consolidated statements of operations.

(d) Stock-based compensation:

The Company has a stock-based compensation plan, which is described in note 7.

Effective January 1, 2004, the Company adopted the new recommendations of The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments" ("Section 3870") with respect to directors and employees, whereby all stock options granted are accounted for under the fair value-based method. Section 3870 is applied retroactively to all stock-based compensation granted to directors and employees on or after January 1, 2002. Opening deficit as at January 1, 2004 has been adjusted downwards by $185,750; opening share capital has been adjusted upwards by $88,593 and opening contributed surplus has been adjusted upwards by $97,157 to reflect the cumulative effect of the change in prior periods. Prior periods have not been restated.

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 7) 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.

3. Mining properties and related expenditure:

(a) Larder Lake:

	2004	2003
Canada:		
Option on Larder Lake, Ontario properties	$ 290,375	$ 225,000

The option to participate in mining properties related to an option agreement entered into by the Company and Transpacific Resources Inc. The Company could have earned 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 issued 1,500,000 common shares to Transpacific Resources Inc. at market value in 2003.

Subsequent to December 31, 2004, the Company entered into an amendment to the agreement with Transpacific Resources Inc. The Company will earn up to a 75% interest in properties owned by Transpacific Resources Inc. in the Larder Lake Mining District of Ontario, subject to the Company incurring $2,500,000 of expenses in relation to these properties, with $500,000 to be spent by December 31, 2005 for a 30% interest and an additional $1,000,000 by December 31, 2007 for a further 30% and $1,000,000 by December 31, 2009 for the remaining 15%. The agreement is subject to a 3% net smelter return royalty. As consideration for this option, the Company has issued an additional 1,500,000 common shares to Transpacific Resources Inc. at market value. This agreement replaces and supersedes the option agreement noted above and will enable the Company to earn a greater interest in the properties than provided for in the original option agreement.

During the year, the Company capitalized $65,375 (2003 - nil) of general exploration expenses as part of the Larder Lake project.

(b) Indonesia and the Hemlo area:

The mining properties in Indonesia and the Hemlo area were 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 CICA, these are considered impaired and have been written off.

4. Due to directors:

Due to directors includes $195,254 (2003 - $210,153) accrued as payable to the President of the Company (who is also a director) for management services during the year. This amount is included in the total loan payable to the President of $929,487. Amounts due to directors also include directors' fees, directors' loans that are interest-free, and a director's loan of $143,380 (2003 - $136,768), bearing interest at 10% compounded quarterly, repayable when funds are available. Interest expense includes $12,129 (2003 - $11,738) 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 $43,672 (2003 - $24,772). This advance has no specified repayment date, is not callable and does not bear interest.

5. Loans payable:

	2004	2003
Loan 1	$ 641,988	$ 593,605
Loan 2	150,250	164,050
Loan 3	39,255	295,474
	831,493	1,053,129
Less current portion	681,243	889,079
	$ 150,250	$ 164,050

Loan 1 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. The Whitewood Creek development is land held in the Black Hills area of South Dakota. This is a mining property that was impaired for accounting purposes in prior years and written off.

Loan 2 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.

5. Loans payable (continued):

Loan 3 was a demand promissory note in the amount of U.S. $225,140, 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 was secured by a first mortgage on certain properties in the Whitewood Creek development.

During fiscal 2004, the U.S. $225,140 was repaid to the lender through gains made on sales of various Whitewood Creek properties. Subsequently, the Company found a buyer for the Martin Property, which was foreclosed in August 2003. However, as per South Dakota laws, the Company was given one year to repurchase the land. Therefore, a simultaneous transaction involving the redemption and subsequent sale of this property occurred in 2004, where the Company repurchased the Martin Property for U.S. $344,327 and sold it for U.S. $312,500. The deficiency of cash, U.S. $31,827 for the repurchase was borrowed from the same lender in relation to Loan 3 under the same terms as the original loan.

6. Capital stock:

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

	2004		2003	
	Shares	Amount	Shares	Amount
Balance, beginning of year	50,105,660	$ 19,676,039	45,860,660	$ 19,114,039
Options exercised	1,650,000	195,000	2,745,000	337,000
Treasury shares issued for:				
Debt settlement	480,000	48,000	–	–
Flow-through transactions	2,812,500	258,750		
Regular issuance (accompanying flow through)	2,250,000	132,750	–	–
Acquisition of mining property (note 3)	–	–	1,500,000	225,000
Restatement due to change in accounting policy	–	88,593	–	–
Balance, end of year	57,298,160	$ 20,399,132	50,105,660	$ 19,676,039

6. Capital stock (continued):

Private placement:

On December 31, 2004, the Company completed a private placement of 5,062,500 units. This included 2,812,500 flow-through units (A), where each unit is made up of one flow-through common share and half of one flow-through common share purchase warrant. Each whole flow-through purchase warrant (A) enables the holder to purchase one flow-through common share at $0.20 up to December 31, 2005. In addition, 2,250,000 units (B), where each unit is made up of one common share and half of one common share purchase warrant. Each whole purchase warrant (B) enables the holder to purchase one common share at $0.15 up to June 30, 2006.

The gross proceeds for this private placement totalled $450,000. The gross proceeds related to the flow-through issuance of $281,250 must be spent on Canadian exploration expenses, as defined in Section 66 of the Income Tax Act (Canada) by December 31, 2005. Under the terms of the flow-through common share issue, the tax attributes of the related expenditures will not be in effect until they are renounced to investors. At the time of renunciation, the share capital is reduced and future tax liabilities are increased by the estimated income tax benefits to be renounced by the Company to the investors. The 1,406,250 (A) warrants have been valued using the Black-Scholes option pricing model to arrive at a fair value per warrant of $0.02. The 1,125,000 (B) warrants have also been valued using the Black-Scholes option pricing model to arrive at a fair value per warrant of $0.03.

7. 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 16,000,000 (2003 - 11,000,000) 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.

7. Stock-based compensation plan (continued):

A summary of the status of the Company's fixed stock option plan as of December 31, 2004 and 2003 and changes during the year ended on those dates is presented below:

	2004		2003	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Balance, beginning of year	4,455,000	$ 0.107	3,450,000	$ 0.100
Granted	750,000	0.125	4,500,000	0.125
Exercised	(1,650,000)	0.118	(2,745,000)	0.122
Expired	(2,755,000)	0.100	(750,000)	0.125
Balance, end of year	800,000	0.125	4,455,000	0.107

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

	Options outstanding and exercisable		
Range of exercise prices	Number outstanding, December 31, 2004	Weighted average remaining contractual life (years)	Weighted average exercise price
$0.125	800,000	2	$ 0.125

During 2004, $2,000 was recorded as a compensation expense.

The determination of the fair value of options is judgmental. The Company uses values calculated by the Black-Scholes option pricing model as a proxy for such fair value. Use of the Black-Scholes model, however, has some inherent weaknesses as it assumes that the options are tradable, having no vesting period and are transferable. Because of its limitations, the values produced from the Black-Scholes model do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

7. Stock-based compensation plan (continued):

The fair value of the options granted subsequent to January 1, 2002 has been estimated at the date of grant using a Black-Scholes option pricing model with the following assumptions:

	2004	2003
Risk-free interest rate	3.53%	3.20%
Dividend yield	–	–
Volatility factor of the future expected market price of common shares	90%	50%
Weighted average expected life of the options	3 years	2 years
Fair value per option	$0.04	$0.13

Section 3870 was adopted by the Company effective January 1, 2004, whereby all stock options granted for employees and directors are accounted for under the fair value method. If Section 3870 had been effective January 1, 2002, the Company would have reported pro forma amounts as indicated below:

	2003
Loss for the year, as reported	$ 4,710,598
Additional expense under Section 3870	127,000
Pro forma net loss	$ 4,837,598
Pro forma earnings per share, basic and diluted	0.10

8. Income taxes:

The provision for income taxes differs from the amount computed by applying the combined federal and provincial income tax rate of 39% (2003 - 38%) to the loss before provision for income taxes as a result of the following:

	2004	2003
Net income (loss)	$ 5,479	$ (4,710,598)
Computed expected tax recovery	$ 2,137	$ 1,790,027
Non-recognition of tax benefit of losses	(2,137)	(1,790,027)
Income tax provision	$ –	$ –

The tax effect of temporary differences that give rise to significant portions of the future tax assets at December 31, 2004 and 2003 is presented below:

	2004	2003
Future tax assets:		
Non-capital losses carried forward	$ 1,481,783	$ 4,433,478
Valuation allowance	(1,481,783)	(4,433,478)
	$ –	$ –

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 $11,629,677 available to reduce future taxable income which expire in the fiscal years 2005 to 2011. The benefit of these losses has not been recognized for accounting purposes.

9. Fair values of financial instruments:

The carrying values of cash, 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. It is not practicable to determine the fair value of the loans payable.