

Moydow Mines International Inc.

Consolidated Financial Statements

December 31, 2004 and 2003

(expressed in U.S. dollars, unless otherwise stated)

March 8, 2005

Management's Responsibility for Financial Reporting

The annual report and consolidated financial statements have been prepared by management who, when necessary, has made informed judgements and estimates of the outcome of events and transactions, with due consideration given to materiality. Management acknowledges its responsibility for the fairness, integrity and objectivity of all information contained in the annual report, including the consolidated financial statements.

As a means of fulfilling its responsibility, management relies on the company's system of internal control. This system has been established to ensure, within reasonable limits, that the assets are safeguarded, transactions are properly recorded and are executed in accordance with management's authorization and that the accounting records provide a solid foundation from which to prepare the consolidated financial statements.

The Board of Directors carries out its responsibility for the consolidated financial statements principally through its Audit Committee, consisting solely of non-management directors. This committee meets periodically, reviews the scope of the external audit, the adequacy of the system of internal control and the appropriateness of the financial reporting and then makes its recommendations to the Board of Directors. Based on those recommendations, the Board of Directors approves the consolidated financial statements.

(Signed) Mr. Brian Kiernan

Brian Kiernan
Chief Executive Officer

March 8, 2005

Auditors' Report

To the Shareholders of Moydow Mines International Inc.

We have audited the consolidated balance sheets of **Moydow Mines International Inc.** as at December 31, 2004 and 2003 and the consolidated statements of operations, 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.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants

Toronto, Ontario

Moydow Mines International Inc.

Consolidated Balance Sheets

As at December 31, 2004 and 2003

(expressed in U.S. dollars, unless otherwise stated)

	2004 \$	2003 \$
Assets		
Current assets		
Cash and cash equivalents	808,321	1,114,070
Newmont common shares (cost - \$6,888,000; 2003 - \$9,840,000)	6,217,400	9,722,000
Loan receivable	-	200,000
Accounts receivable and prepaid expenses	177,786	27,920,450
	<u>7,203,507</u>	<u>38,956,520</u>
Mineral properties (note 4)	2,064,293	726,582
Other assets (note 5)	28,904	29,840
	<u>9,296,704</u>	<u>39,712,942</u>
Liabilities		
Current liabilities		
Current income taxes (note 8)	1,274,481	-
Distribution payable (note 3(d))	-	27,752,267
Accounts payable and accrued liabilities	379,158	759,514
	<u>1,653,639</u>	<u>28,511,781</u>
Future income taxes (note 8)	740,546	2,816,578
	<u>2,394,185</u>	<u>31,328,359</u>
Shareholders' Equity		
Capital stock (note 6)	16,480,245	16,425,950
Contributed surplus	402,406	-
Deficit	(9,980,132)	(8,041,367)
	<u>6,902,519</u>	<u>8,384,583</u>
	<u>9,296,704</u>	<u>39,712,942</u>

Commitments (note 10)

Approved by the Board of Directors

(Signed) Mr. Brian Kiernan Director

(Signed) Mr. Sylvester P. Boland Director

The accompanying notes to the consolidated financial statements are an integral part of these financial statements.

Moydow Mines International Inc.
Consolidated Statements of Operations
For the years ended December 31, 2004 and 2003

(expressed in U.S. dollars, unless otherwise stated)

	2004 \$	2003 \$
Expenses		
General and administrative	1,281,817	972,400
Writedown of mineral properties (note 4)	432,901	1,421,450
Stock-based compensation (note 6)	365,206	-
Amortization of plant and equipment	936	5,944
Foreign exchange gain	(181,502)	(144,973)
	<u>1,899,358</u>	<u>2,254,821</u>
Other income and expenses		
Gain on sale of Moydow Limited (Isle of Man) (note 3(a))	-	37,847,947
Loss on Newmont common shares (note 3(c))	(894,567)	(2,062,000)
Gain on other assets	-	1,733
Interest income	11,534	9,659
Dividend income	42,075	28,800
	<u>(840,958)</u>	<u>35,826,139</u>
(Loss) income before income taxes	(2,740,316)	33,571,318
(Recovery of) provision for income taxes (note 8)	(801,551)	2,663,125
(Loss) net income for the year	<u>(1,938,765)</u>	<u>30,908,193</u>
Basic and diluted (loss) earnings per common share (note 2)	<u>(0.07)</u>	<u>1.10</u>
Weighted average number of common shares outstanding (note 2)	<u>28,798,190</u>	<u>28,123,689</u>

The accompanying notes to the consolidated financial statements are an integral part of these financial statements.

Moydow Mines International Inc.
Consolidated Statements of Deficit
For the years ended December 31, 2004 and 2003

(expressed in U.S. dollars, unless otherwise stated)

	2004	2003
	\$	\$
Deficit - Beginning of year	(8,041,367)	(10,126,092)
(Loss) net income for the year	(1,938,765)	30,908,193
Distribution to shareholders (note 3(d))	-	(27,752,267)
Repurchase and cancellation of shares (note 3(b))	-	(1,071,201)
	<hr/>	<hr/>
Deficit - End of year	(9,980,132)	(8,041,367)

The accompanying notes to the consolidated financial statements are an integral part of these financial statements.

Moydow Mines International Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2004 and 2003

(expressed in U.S. dollars, unless otherwise stated)

	2004 \$	2003 \$
Cash provided by (used in)		
Operating activities		
(Loss) net income for the year	(1,938,765)	30,908,193
Adjustments for non-cash items		
Gain on sale of Moydow Limited (Isle of Man) (note 3(a))	-	(37,847,947)
Writedown of mineral properties	432,901	1,421,450
Amortization of plant and equipment	936	5,944
Loss on Newmont common shares	894,567	2,062,000
Future income taxes	(2,076,032)	2,663,125
Gain on other assets	-	(1,733)
Stock-based compensation	365,206	-
	<u>(2,321,187)</u>	<u>(788,968)</u>
Changes in non-cash working capital		
Loan receivable	200,000	(200,000)
Accounts receivable and prepaid expenses	(9,603)	(307,830)
Accounts payable and accrued liabilities	894,125	311,776
	<u>1,084,522</u>	<u>(196,054)</u>
	<u>(1,236,665)</u>	<u>(985,022)</u>
Investing activities		
Proceeds from sale of Newmont common shares	30,186,033	-
Costs on sale of Moydow Limited (Isle of Man)	-	(491,665)
Exploration of mineral properties	(1,686,912)	(467,408)
	<u>28,499,121</u>	<u>(959,073)</u>
Financing activities		
Proceeds from issue of capital stock	7,795	1,985,328
Distribution to shareholders (note 3(d))	(27,576,000)	-
	<u>(27,568,205)</u>	<u>1,985,328</u>
(Decrease) increase in cash and cash equivalents during the year	<u>(305,749)</u>	<u>41,233</u>
Cash and cash equivalents - Beginning of year	<u>1,114,070</u>	<u>1,072,837</u>
Cash and cash equivalents - End of year	<u>808,321</u>	<u>1,114,070</u>
Supplemental information		
Income taxes paid	5,570	-

The accompanying notes to the consolidated financial statements are an integral part of these financial statements.

Moydow Mines International Inc.

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

(expressed in U.S. dollars, unless otherwise stated)

1 Nature of operations

Moydow Mines International Inc. (Moydow Mines or the company) is engaged in the acquisition and exploration of gold properties, principally in Africa and North America and has operating offices in Ireland, Ghana and Canada. Moydow Mines' common shares are listed on the Toronto Stock Exchange.

On December 8, 2003, the company sold all of the issued and outstanding shares of its subsidiary, Moydow Limited (Isle of Man), which held all of the company's interest in the Ntotoroso property, to Newmont Mining Corporation (Newmont) and recognized a gain on sale of \$37.8 million before taxation (note 3(a)).

The company is exploring its remaining mineral properties and, as at December 31, 2004, had not determined the existence of economically recoverable reserves (note 4). The recoverability of the amounts shown for mineral properties is dependent upon the existence of economically recoverable mineral reserves, the preservation of the company's interest in the underlying mineral claims, the ability to obtain necessary financing, to obtain government approval and to attain profitable production or, alternatively, upon the company's ability to profitably dispose of its interests.

2 Summary of significant accounting policies

Basis of presentation and consolidation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include the accounts of the company, its subsidiaries and a proportionate share of the company's interests in joint ventures. All significant intercompany accounts and transactions have been eliminated.

Use of estimates

The preparation of financial statements in accordance 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 reporting period. Significant areas requiring the use of management's estimates are recoverability of mineral property deferred costs and impairment of investments. Financial results as determined by actual events could differ materially from those estimates.

Cash and cash equivalents

Cash and cash equivalents consist of highly liquid investments that are readily convertible to known amounts of cash and have maturities of three months or less at acquisition.

Moydow Mines International Inc.

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

(expressed in U.S. dollars, unless otherwise stated)

Investments

Investments in companies where the company has the ability to exercise significant influence over the operating, financing and investing activities of the companies are accounted for using the equity method, whereby the cost of the investment is adjusted for the company's share of post-acquisition earnings or losses of these companies.

Current asset investments are carried at the lower of cost and market value. Long-term investments in shares of other companies are carried at cost less any provision for impairment in value.

Plant and equipment

Plant and equipment are stated at cost less accumulated amortization. Amortization is provided using the straight-line method at rates sufficient to amortize costs over the estimated useful lives of the assets, which range between four and six years. Amortization of equipment used in exploration activities has been included in exploration expenditures.

Mineral properties

Acquisition costs of mineral properties, together with direct exploration and development expenses incurred thereon, are deferred and capitalized on a property-by-property basis. Upon reaching commercial production, these capitalized costs are transferred from exploration properties to producing properties on the consolidated balance sheets and are amortized into operations using the unit-of-production method over the estimated useful lives of the estimated related ore reserves.

In the event that the long-term expectation is that the net carrying amount of these capitalized exploration costs will not be recovered, the carrying amount is written down accordingly and the writedown amount charged to operations. Such would be indicated when:

- exploration activities have ceased;
- exploration results are not promising such that exploration will not be planned for the foreseeable future;
- lease ownership rights expire; or
- insufficient funding is available to complete the exploration program.

The amount shown for mineral properties represents costs incurred to date, net of recoveries from option or joint venture participants and writedowns, and does not necessarily reflect present or future values.

Translation of foreign currency

The consolidated financial statements are presented in U.S. dollars, unless otherwise stated. Transactions denominated in foreign currencies are translated into U.S. dollars at the rate prevailing at the date of the transactions.

At the balance sheet dates, monetary assets and liabilities denominated in foreign currencies are translated at the year-end rate of exchange. Exchange gains and losses arising on translation or settlement of foreign currency denominated monetary items are included in the determination of income (loss) for the year.

Moydow Mines International Inc.

Notes to Consolidated Financial Statements

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(expressed in U.S. dollars, unless otherwise stated)

Earnings (loss) per common share

Basic earnings (loss) per common share are computed by dividing the earnings (loss) for the year by the weighted average number of common shares outstanding during the year, including contingently issuable common shares, which are included when the conditions necessary for issuance have been met, but excluding contingently returnable common shares until all conditions necessary for their release from escrow have been satisfied. Diluted earnings (loss) per common share are calculated in a manner similar to basic earnings (loss) per common share, except the number of weighted average common shares outstanding is increased to include potential common shares from the assumed exercise of options and warrants, if dilutive. The number of additional common shares included in the calculation is based on the treasury stock method for options and warrants and on the as-if-converted method for convertible securities.

Financial instruments

As at December 31, 2004 and 2003, the carrying values of the company's cash and cash equivalents, loan receivable, investment in Newmont common shares, accounts receivable and accounts payable and accrued liabilities approximate their fair values.

Stock option plan

The company has a stock option plan (the plan), which has been approved by the shareholders, that allows the company to grant up to 4,000,000 stock options to officers, directors, employees and consultants. Under the plan, options are non-assignable and may be granted for a term not exceeding ten years. The number of common shares that may be reserved for issuance to any one person pursuant to options must not exceed 5% of the outstanding common shares. The exercise price of an option may not be lower than the closing price of the common shares on the Toronto Stock Exchange on the business day immediately preceding the date the options are granted. The company estimates the fair value of awards of stock-based compensation at the grant date and recognizes this expense over the period in which entitlement to the awards vest.

Income taxes

The provision for future income taxes is based on the asset and liability method. Future income taxes arise from the recognition of the income tax consequences of temporary differences by applying statutory income tax rates applicable to future years to differences between the consolidated financial statements' carrying amounts and the income tax amounts of assets and liabilities. The company records a valuation allowance against any portion of those future income tax assets that it believes will, more likely than not, fail to be realized. Future income tax balances relating to expenditures funded by the issue of flow-through shares are recognized as liabilities and share issue costs when the income tax benefits are renounced.

Moydow Mines International Inc.

Notes to Consolidated Financial Statements

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(expressed in U.S. dollars, unless otherwise stated)

3 Significant transactions

a) Sale of Moydow Limited (Isle of Man)

On December 8, 2003, the company sold its wholly owned subsidiary, Moydow Limited (Isle of Man), which, following an internal restructuring, owned the company's 50% joint venture interest in the Ntotoroso property but no other mineral properties, to Newmont for aggregate consideration of:

- i) 800,000 Newmont common shares; and
- ii) CAN\$2,519,176 (\$1,943,359) and \$210,000 in cash.

In connection with the sale, the company entered into a royalty agreement whereby the company acquired the right to a net smelter return royalty of 2% in respect of all gold and silver contained in products derived from the Ntotoroso property in consideration for \$250,000. No value has been ascribed to the royalty rights acquired by the company due to the uncertainty associated with this asset.

The company recognized a gain on sale of Moydow Limited (Isle of Man) as follows:

	\$	\$
Consideration received		
800,000 Newmont common shares valued at \$49.20 per share		39,360,000
Cash		
Canadian funds received from Newmont (CAN\$2,519,176)	1,943,359	
US funds received from Newmont	210,000	
Funds paid to Newmont for royalty interest	<u>(250,000)</u>	1,903,359
Total value attributed to consideration		41,263,359
Less: Cost of transaction and assets sold		
Carrying value of Ntotoroso (note 4)		(2,709,808)
Cost of transaction		<u>(705,604)</u>
Gain on sale before taxation		<u>37,847,947</u>

b) Repurchase and cancellation of shares

In connection with the above noted transaction, the company purchased from Newmont and cancelled 1,325,882 common shares of the company for CAN\$2,519,176 (\$1,943,359).

The cost of those shares has been allocated to capital stock up to the weighted average amount of their issued value (\$872,158) and the balance (\$1,071,201) has been allocated to deficit.

Moydow Mines International Inc.

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(expressed in U.S. dollars, unless otherwise stated)

c) Sale of Newmont common shares

During 2004, the company sold 60,000 Newmont common shares and received cash of \$2,610,033. The company recognized a loss of \$306,567 on the sale of these shares. The company also recorded a loss of \$588,000 on the writedown of its remaining 140,000 Newmont common shares to their market value on December 31, 2004.

On December 30, 2003, the company sold 600,000 Newmont common shares and received cash of \$27,576,000 on January 6, 2004. The company recognized a loss of \$1,944,000 on the sale of these shares. The company also recorded a loss of \$118,000 on the writedown of its remaining 200,000 Newmont common shares to their market value on December 31, 2003.

d) Distribution to shareholders

On December 12, 2003, the Board of Directors declared a distribution to the shareholders of the company in the amount of CAN\$1.25 per common share, comprising a return of capital of CAN\$1.15 per common share for income tax and legal purposes, and a special dividend of CAN\$0.10 per common share. The distribution was paid on January 6, 2004 to holders of common shares of record as at December 23, 2003.

4 Mineral properties

The company, either directly or through certain joint ventures, has obligations to expend various amounts on its mineral properties and projects in order to keep its mineral property rights in good standing. All agreements are in the normal course of business.

Mineral exploration properties in Africa and North America are described below and are recorded with their carrying values as follows:

	West Africa Ntoroso \$	West Africa Kanyankaw \$	Other West Africa \$	Other Africa \$	North America \$	Total \$
Balance - December 31, 2002	2,641,218	1,365,394	158,790	-	218,655	4,384,057
Costs	68,590	23,297	26,550	844	354,502	473,783
Writedown	-	(1,388,691)	-	(844)	(31,915)	(1,421,450)
Sale of mineral properties	(2,709,808)	-	-	-	-	(2,709,808)
Balance - December 31, 2003	-	-	185,340	-	541,242	726,582
Costs	-	299,415	422,247	390,015	658,935	1,770,612
Writedown	-	-	(32,977)	(18,175)	(381,749)	(432,901)
Balance - December 31, 2004	-	299,415	574,610	371,840	818,428	2,064,293

Moydow Mines International Inc.

Notes to Consolidated Financial Statements

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(expressed in U.S. dollars, unless otherwise stated)

West Africa

Ntotoroso property, Ghana

See note 3(a).

Kanyankaw property, Ghana

The company holds a joint venture interest in the Kanyankaw property in Ghana with Antubia Resources Limited (Antubia), a subsidiary of Glencar Mining plc. Antubia earned a 50% interest in the property in 1995. The company and Antubia entered into an agreement on January 25, 2000, that split the property into two licences. Application for the property split was approved by the Ghana Minerals Commission. Pursuant to this agreement, the company holds the licence for the eastern half of the property, which contains the old gold workings at Kanyankaw (the Kanyankaw East Property), and Antubia holds the licence to the western half of the property which contains the old workings at Asheba (the Kanyankaw West Property). Pursuant to the agreement, each party has the right to back-in and to acquire an interest in the other party's property (40% in the case of the Kanyankaw East Property and 44% in the case of the Kanyankaw West Property). In order to exercise a back-in right, the option holder must have performed a minimum of 5,000 metres of drilling on the option holder's property. The payment is calculated by multiplying the number of metres of drilling completed by the option issuer by a figure ranging between \$50 and \$100 (depending on the overall number of drill holes completed by the option issuer). The carrying value of the Kanyankaw property was written off in 2003 in the amount of \$1,388,691, as exploration was not active on this property at that time. During 2004, the company recommenced exploration on the property and incurred exploration expenditures in the amount of \$299,415.

Other West Africa

Hwidem property, Ghana

In 2004, the company applied for an extension with respect to the Hwidem property with the Minister for Mines and Energy in Ghana. The licence area covers 24.7 square kilometres and it adjoins the Kenyase-Ntotoroso area currently under lease to Rank Mining Company Limited. The company incurred exploration expenditures on this property of \$96,720 in 2004. The minimum exploration expenditures required to maintain the licence are \$523,000 of which \$282,060 had been spent as at December 31, 2004. If gold mineralization does not exist in sufficient quantities in the area to warrant completion of the work program, the company is not liable for any shortfall on the minimum exploration expenditures.

Okumpreko property, Ghana

On September 17, 2004, the company signed an agreement with PW Limited, an international engineering and mining contractor. Under the terms of the agreement, the company can earn a majority interest in the Nyaduom and Kushea mining leases, which are collectively known as the Okumpreko gold project. The leases, which extend to 2020, have a combined area of 93 square kilometres. Under the terms of the agreement, the company can earn a 40% interest in the project in return for incurring direct exploration expenditures of \$250,000 within one year of signing the agreement. Following the expenditures of \$250,000, the company will be deemed to have earned its 40% interest in the licences and can increase its interest to 51% by incurring further exploration

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expenditures of \$250,000 within two years of signing the agreement. During 2004, the company incurred exploration expenditures of \$25,147.

Port Loko property, Sierra Leone

On September 8, 2004, the company entered into an option agreement with Gondwana Investments Limited (Gondwana), a company incorporated in Luxembourg. The agreement allows Moydow to acquire up to a 60% interest in the Port Loko bauxite deposit in Sierra Leone, West Africa, provided that Moydow spends \$1,000,000 in exploration work and produces and delivers a feasibility study on or before August 1, 2005. Under the terms of the agreement, Moydow also agreed to issue 150,000 common shares and 200,000 warrants. The warrants expire in 2006 and have a strike price of CAN\$0.38. The agreement covers only bauxite, and no other minerals on the property. During 2004, the company incurred exploration expenditures of \$183,703 and capitalized an additional \$83,700 relating to the issuance of common shares and warrants.

Other Africa

Dala project, Angola

On October 1, 2004, the company and partner Concord Minerals LLC (Concord), a private Nevada company, signed an agreement with Empresa Nacional De Diamantes De Angola (Endiama), the Angolan state diamond mining company and Cimader-Comercio Geral Limitada (Cimader), a local Angola company, to explore for alluvial diamonds on the Dala concession, located near the town of Saurimo, north-east Angola. The concession comprises 2,000 square kilometres. Under the terms of the agreement, the company and Concord each have a 16.50% interest in the concession with the remaining percentages held by Endiama and Cimader. To maintain their interest, the company and Concord will have to incur expenditures of not less than \$5,000,000 on or before October 1, 2007. Cimader and Endiama have a free carried interest in the project. During 2004, the company incurred exploration expenditures of \$371,840.

North America

Newfoundland and Labrador

During 2003, the company signed an agreement with Cornerstone Capital Resources Inc. (Cornerstone). The company has the option to earn a 51% interest in a group of claims located in south-central Newfoundland and Labrador. The company is required to incur exploration expenditures on these claims of not less than CAN\$800,000 (cumulative expenditures incurred to date are CAN\$986,081) on or before February 2007 in order to earn a 51% interest in these properties. In addition, the company is required to make cash payments to Cornerstone totalling CAN\$80,000 over a four-year period. On signing the agreement, the company issued 10,000 common shares and granted warrants for the purchase of 200,000 common shares at a price of CAN\$0.90 per share to Cornerstone. The company has earned its 51% interest and has an exclusive option to acquire an additional 29% interest in the claims by incurring additional exploration costs of CAN\$1,200,000.

Moydow Mines International Inc.

Notes to Consolidated Financial Statements

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Botwood Basin property

During 2004, the company decided not to continue with the renewal application of the Botwood Basin licence, located in central Newfoundland and Labrador, as exploration results were not promising, and it has written off its investment in the amount of \$308,319.

Altius Baie d'Espoir property

On March 10, 2004, the company signed an agreement with Altius Resources Inc. (Altius) for an option to earn up to 80% interest in the Altius Baie d'Espoir property located in south-central Newfoundland and Labrador. As exploration results are not promising, the company has written off its investment in the amount of \$70,500.

Other properties

During 2004, the company incurred and wrote off costs of \$54,082 (2003 - \$32,759) relating to other exploration projects which will not be pursued.

5 Other assets

	2004	2003
	\$	\$
Plant and equipment - at cost	157,623	157,623
Less: Accumulated amortization	146,133	145,197
	<hr/>	<hr/>
Net book value	11,490	12,426
Investments - at cost (quoted market value - \$74,800; 2003 - \$75,795)	17,414	17,414
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	28,904	29,840
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Moydow Mines International Inc.

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6 Capital stock

Authorized

Unlimited number of common shares

Issued

	Number of shares	\$
Balance - December 31, 2002	27,714,014	15,466,233
Issue of shares on March 21, 2003	10,000	5,941
Exercise of options for cash	2,117,500	1,806,629
Exercise of warrants for cash	268,750	172,758
Income tax benefits renounced on flow-through shares	-	(153,453)
Cancellation of shares (note 3(b))	(1,325,882)	(872,158)
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Balance - December 31, 2003	28,784,382	16,425,950
Issue of shares on July 17, 2004	30,000	7,795
Issuable shares	150,000	46,500
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Balance - December 31, 2004	28,964,382	16,480,245

In 2004, the company agreed to issue 150,000 shares in connection with the acquisition of its interest in the Port Loko property.

Stock options

Movements in stock options of the company are set out in the table below:

	Number of options	Weighted average exercise price CAN\$
Balance - December 31, 2002	3,372,500	1.38
Exercised for cash	(2,117,500)	1.14
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Balance - December 31, 2003	1,255,000	1.79
Granted	2,000,000	0.33
Cancelled	(20,000)	1.15
	<hr/>	
Balance - December 31, 2004	3,235,000	0.89

Moydow Mines International Inc.

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The options are exercisable as follows:

Number of options exercisable and outstanding	Exercise price CAN\$	Expiry date
2,000,000	0.33	August 13, 2009
1,010,000	1.70	January 14, 2005
<u>225,000</u>	2.25	January 14, 2005
<u>3,235,000</u>		

Stock-based compensation

The estimated fair value of the 2,000,000 options issued on August 13, 2004 was CAN\$440,000 (CAN\$0.22 per option). The fair value of each option was estimated on the date of grant using the Black Scholes option pricing model with the following assumptions:

Risk-free interest rate	3.75%
Expected life	5 years
Estimated volatility	80.00%
Dividend yield	nil%

Warrants

Movements in warrants of the company are set out in the table below:

	Number of warrants
Balance - December 31, 2002	68,750
Issued - February 28, 2003	200,000
Exercised for cash	<u>(268,750)</u>
Balance - December 31, 2003	-
Warrants issuable	<u>200,000</u>
Balance - December 31, 2004	<u>200,000</u>

In 2004, the company agreed to issue 200,000 warrants for the purchase of 200,000 common shares at a strike price of CAN\$0.38. The warrants were valued at \$37,200 and expire in 2006.

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(expressed in U.S. dollars, unless otherwise stated)

7 Related party transactions

Related party transactions relate primarily to the payment of fees under contracts for services with companies in which a Moydow Mines' director is a shareholder and director. The company was charged a total of \$492,880 during 2004 (2003 - \$263,326) with respect to drilling and administration services. Included in accounts payable and accrued liabilities as at December 31, 2004 is \$26,819 (2003 - \$33,588) payable to these related parties for such services.

The company's primary legal counsel is a firm in which a director of the company is a partner. The company was charged \$49,521 during 2004 (2003 - \$513,418) for legal services provided by this firm. Included in accounts payable and accrued liabilities as at December 31, 2004 is \$nil (2003 - \$253,934) with respect to such services.

These transactions are made in the normal course of business.

8 Income taxes

The effective rate of income taxes recorded in the consolidated statements of operations differs from the normal combined rate of federal and provincial income taxes, as follows:

	2004 %	2003 %
Combined basic federal and Ontario income tax rate	36.12	36.62
Increase (decrease) in rate resulting from		
Currency translation adjustments	(4.59)	-
Tax-free portion of gains	(3.43)	(19.52)
Prior year's income tax losses recognized	-	(2.50)
Prior year's income tax asset recognized	-	(7.70)
Stock-based compensation and other non-deductible items	1.15	1.03
	(6.87)	(28.69)
Effective income tax rate	29.25	7.93
	2004 \$	2003 \$
Current income tax expense	1,274,481	-
Future income tax (recovery) expense	(2,076,032)	2,663,125
	(801,551)	2,663,125

Moydow Mines International Inc.

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

(expressed in U.S. dollars, unless otherwise stated)

Future income taxes are applicable to the following temporary differences:

	2004	2003
	\$	\$
Plant and equipment, subject to amortization	(8,229)	54,333
Losses available for carry-forward	-	(842,649)
Currency translation adjustments	243,055	-
Investments	542,156	3,644,353
Other	(36,436)	(39,459)
	<hr/>	<hr/>
Future income tax liability	740,546	2,816,578
	<hr/>	<hr/>

9 Segmented disclosures

The company has one reportable operating segment, being the exploration of mineral properties in geographic areas disclosed in note 4.

10 Commitments

The future minimum lease payments due under a vehicle operating lease are as follows:

	\$
2005	<hr/> 3,105