Auditors' Report

To the Shareholders of
Azimut Exploration Inc.

We have audited the balance sheets of Azimut Exploration Inc. (an exploration company) as at August 31, 2004 and 2003 and the statements of earnings, 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 August 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.

PricewaterhouseCoopers LLP

Chartered Accountants

Quebec, Quebec, Canada
October 7, 2004

Balance Sheets

As at August 31, 2004 and 2003

	2004 $	2003 $
Assets		
Current assets		
Cash	227,964	45,782
Amounts receivable (note 3)	114,028	29,666
Prepaid expenses (note 4)	29,185	13,865
	371,177	89,313
Exploration funds (note 2)	99,063	23,534
Long-term investment (note 5)	12,000	24,000
Property, plant and equipment (note 6)	573	716
Intangible assets (less accumulated amortization of $75; $0 in 2003)	424	-
Mining properties (note 7)	109,369	-
	592,606	137,563
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities		
Related companies (note 11)	85	402
Others	136,126	30,679
	136,211	31,081
Shareholders' Equity		
Convertible debentures (note 8)	488,200	350,000
Share capital (notes 9 and 10)	4,202,910	3,887,960
Warrants (note 9)	177,300	-
Stock options (note 10)	128,685	24,695
Deficit	(4,540,700)	(4,156,173)
	456,395	106,482
	592,606	137,563

Nature of activities and going concern (note 1)

Subsequent events (note 15)

Approved by the Board of Directors

_______________ Director _______________ Director

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

Statements of Deficit

For the years ended August 31, 2004 and 2003

	2004 $	2003 $
Balance – Beginning of year	4,156,173	3,422,971
Interest on convertible debentures (notes 8 and 9)	33,335	39,988
Net loss for the year	351,192	693,214
Balance – End of year	4,540,700	4,156,173

Statements of Earnings

For the years ended August 31, 2004 and 2003

	2004 $	2003 $ (note 16)
Revenues		
Interest income	5,520	1,636
Gain on sale of mining properties	-	16,000
	5,520	17,636
Expenses		
Salaries and fringe benefits	129,769	31,673
Professional and maintenance fees	80,408	38,737
Management fees and office expenses	78,285	40,608
Travelling and entertainment	10,021	2,371
Interest and bank charges	237	191
Depreciation of property, plant and equipment	143	250
Amortization of intangible assets	75	-
Search for properties	87,944	39,615
Tax credits and mining rights	(42,170)	(15,822)
Loss on abandonment of mining properties	-	563,696
Writedown of long-term investment	12,000	10,000
Gain on disposal of property, plant and equipment	-	(469)
	356,712	710,850
Net loss for the year	(351,192)	(693,214)
Basic and diluted net loss per share (note 13)	(0.035)	(0.082)

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

Statements of Cash Flows

For the years ended August 31, 2004 and 2003

	2004 $	2003 $
Cash flows from operating activities		
Net loss for the year	(351,192)	(693,214)
Items not affecting cash		
Depreciation of property, plant and equipment	143	250
Amortization of intangible assets	75	-
Gain on disposal of property, plant and equipment	-	(469)
Gain on sale of mining properties	-	(16,000)
Loss on abandonment of mining properties	-	563,696
Writedown of long-term investment	12,000	10,000
Stock options	103,990	24,695
	(234,984)	(111,042)
Change in non-cash working capital items		
Amounts receivable	(32,494)	6,168
Prepaid expenses	(15,320)	(12,575)
Accounts payable and accrued liabilities	105,130	10,480
	57,316	4,073
	(177,668)	(106,969)
Cash flows from financing activities		
Increase in exploration funds	(75,529)	(23,534)
Issuance of convertible debentures	138,200	-
Issuance of share capital	281,615	103,458
Issuance of warrants	177,300	-
	521,586	79,924
Cash flows from investing activities		
Additions to intangible assets	(499)	-
Increase in mining properties	(161,237)	(1,465)
Proceeds from sale of property, plant and equipment	-	1,175
	(161,736)	(290)
Net change in cash	182,182	(27,335)
Cash – Beginning of year	45,782	73,117
Cash – End of year	227,964	45,782
Additional information		
Tax credits and mining rights receivable applied against mining properties (note 3)	(51,868)	(9,807)
Shares issued and to be issued in consideration of the payment of interest on convertible debentures	33,335	39,988
Shares received in consideration of the sale of a mining property	-	16,000

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

Notes to Financial Statements
August 31, 2004 and 2003

1 Incorporation, nature of activities and going concern concept

The company, incorporated under Part 1A of the Québec Companies Act, is in the business of acquiring and exploring mining properties. It has not yet determined whether its properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for mining properties is dependent upon the existence of economically recoverable reserves, the ability of the company to obtain necessary financing to complete the exploration and development of its properties, and upon future profitable production or proceeds from the disposal of properties.

The company will periodically have to raise additional funds to continue its operations, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future. Without new funding being available, the company may be unable to continue its operations, and amounts realized for assets may be less than amounts reflected in these financial statements.

Although the company has taken steps to verify title to mining properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the company's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

2 Summary of significant accounting policies

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates that affect the amounts of assets and liabilities reported in the financial statements. Those estimates also affect the disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the years. Significant estimates include the carrying value of mining properties and certain accrued liabilities. Actual results could differ from those estimates.

Exploration funds

Exploration funds, which consist of cash, represent the unexpended proceeds of financing under the terms of which the company committed to spending the amounts on the exploration or acquisition of mining properties.

Long-term investment

The long-term investment is recorded at cost, less any permanent impairment in value.

Property, plant and equipment and depreciation

Property, plant and equipment are recorded at cost less accumulated depreciation and are depreciated using the declining balance method at the rates mentioned in note 6.

Intangible assets and amortization

Intangible assets, which consist of software, are recorded at cost less accumulated amortization and are amortized using the declining balance method at a rate of 30%.

Notes to Financial Statements

August 31, 2004 and 2003

Mining properties

The company records its interests in mining properties and areas of geological interest at cost less option payments and other recoveries. Exploration and development costs relating to these interests and projects are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold or allowed to lapse. Management reviews the carrying values of mining properties on a regular basis to determine whether any write-downs are necessary. These costs will be amortized over the estimated useful life of mining properties following commencement of production or written off if the mining properties or projects are sold or allowed to lapse. General exploration expenditures not related to specific mining properties are expensed as incurred.

Mining rights tax credit and tax credit for mining exploration companies

The company is entitled to a refundable mining rights tax credit on mining exploration expenses incurred in Quebec. This credit has been applied against the costs incurred (note 7).

Furthermore, the company is entitled to the refundable tax credit for mining exploration companies on qualified expenditures. The refundable tax credit may reach 33.75% of qualified expenditures incurred before March 30, 2004 and 38.75% thereafter. This tax credit has been applied against the costs incurred (note 7).

Share capital

Share capital issued for non-monetary consideration is generally recorded at the quoted market price of the shares over a reasonable period of time before and after the date the agreement to issue the shares was announced.

Flow-through shares are issued in consideration of the proceeds received, which represents their fair value. Upon the acquisition of mining properties, the carrying value may exceed the tax basis since the company renounces the deductions in favour of the investors concerned. The company also issues flow-through shares without any premium or discount regarding the renunciation of the tax benefits in favour of investors.

Share issue expenses are recorded as a reduction of share capital.

Income taxes

The company provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between financial statement values and tax values of assets and liabilities using enacted or substantially enacted income tax rates expected to be in effect for the year in which the differences are expected to reverse.

The company establishes a valuation allowance against future income tax assets if, based on available information, it is more likely than not that some or all of the future income tax assets will not be realized.

Basic and diluted earnings per share

Basic earnings per share are determined using the weighted average number of participating shares outstanding during the year.

Notes to Financial Statements
August 31, 2004 and 2003

Diluted earnings per share are determined using the weighted average number of participating shares outstanding during the year, plus the effects of dilutive potential participating shares outstanding during the year. The calculation of diluted earnings per share is made using the treasury stock method, as if all dilutive potential participating shares had been exercised at the later of the beginning of the year or the date of issuance, as the case may be, and that the funds obtained thereby be used to purchase participating shares of the company at the average market value of the participating shares during the year.

New accounting policies

In September 2003, the Canadian Institute of Chartered Accountants ("CICA") amended Section 3870 "Stock-Based Compensation and Other Stock-Based Payments", which is effective for fiscal years beginning on or after January 1, 2004. These amendments require that compensation costs arising from all types of stock-based payments granted to directors, officers, employees and non-employees, including stock options, be accounted for in the financial statements using the fair value-based method. The company has implemented these amendments prospectively since September 1, 2003. For the year ended August 31, 2003 the company was required to provide pro-forma disclosures relating to the loss and loss per share as if stock-based compensation costs had been recognized in the financial statements for options granted using the fair value-based method (note 10).

In November 2003, the CICA made a change to Section 3860 "Financial Instruments – Disclosure and Presentation", which is effective for fiscal years beginning on or after November 1, 2004. This change will affect the treatment of debt obligations that give the issuer the right to make payments in cash or an equivalent value of its own common shares, being the convertible debentures as regards the company. Whereas an issuer of such securities now must include these obligations as part of shareholders' equity, in the future it will have to classify them as liabilities. Furthermore, interest on convertible debentures which is presently charged to deficit will be henceforth recognized in the statement of earnings. For the year ended August 31, 2004, the company did not proceed to an earlier application of this change.

3 Amounts receivable

	2004 $	2003 $
Tax credit receivable for mining exploration companies and mining rights receivable	91,120	23,703
Commodity taxes	22,908	5,843
Others	-	120
	114,028	29,666

4 Prepaid expenses

	2004 $	2003 $
Permits and claims	22,995	10,000
Others	6,190	3,865
	29,185	13,865

Notes to Financial Statements

August 31, 2004 and 2003

5 Long-term investment

	Interest %	2004 $	2003 $
Target Exploration and Mining Corp. (previously Leceister Diamond Mines Ltd.), a public mining exploration company, at cost less any permanent impairment in value (quoted market value : $9,000; $24,000 in 2003)	2.4 (2.4 in 2003)	12,000	24,000

6 Property, plant and equipment

		2004		2003	
	Depreciation rate %	Cost $	Accumulated depreciation $	Cost $	Accumulated depreciation $
Office furniture	20	2,149	1,699	2,149	1,587
Office equipment	20	625	502	625	471
		2,774	2,201	2,774	2,058
Less: Accumulated depreciation		2,201		2,058	
Net amount		573		716	

Notes to Financial Statements
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7 Mining properties

	Balance as at August 31, 2003 $	Costs incurred $	Tax credits and mining rights $	Balance as at August 31, 2004 $
De Romer (26 claims)				
Mining property	-	2,469	-	2,469
Exploration costs	-	14,426	(7,315)	7,111
	-	16,895	(7,315)	9,580
Eastmain (218 claims)				
Mining property	-	22,890	-	22,890
Exploration costs	-	1,835	(926)	909
	-	24,725	(926)	23,799
Gillet Lake (86 claims)				
Mining property	-	8,178	-	8,178
Exploration costs	-	20,518	(10,406)	10,112
	-	28,696	(10,406)	18,290
Opinaca (65 claims)				
Mining property	-	6,825	-	6,825
Exploration costs	-	1,042	(524)	518
	-	7,867	(524)	7,343
Retty (199 claims)				
Mining property	-	18,612	-	18,612
Exploration costs	-	64,442	(32,697)	31,745
	-	83,054	(32,697)	50,357
	-	161,237	(51,868)	109,369

	Balance as at August 31, 2002 $	Costs incurred $	Tax credits and mining rights and mining properties abandoned $	Balance as at August 31, 2003 $
Flavrian (263 claims)				
Mining property	44,465	1,465	(45,930)	-
Exploration costs	527,573	-	(527,573)	-
	572,038	1,465	(573,503)	-

Statements of deferred exploration costs

	For the years ended August 31,	
	2004	**2003**
	$	**$**
Balance – Beginning of year	-	572,038
Expenses incurred during the year		
Claims and permits	58,949	1,465
Geology	491	-
Transport	61,302	-
Salaries	30,810	-
Accommodation	9,685	-
	161,237	1,465
Mining properties abandoned	-	(563,696)
Tax credits and mining rights	(51,868)	(9,807)
	(51,868)	(573,503)
Balance – End of year	109,369	-

8 Convertible debentures

	2004	**2003**
	$	**$**
Debentures convertible at the company's option into common shares		
At a conversion price of $0.18 per share, 14%, interest payable by half-yearly instalments through common shares of the company, at the base rate on the date of payment, non-interest bearing if the share is traded at $0.36 and over during the twenty business days preceding the dates of interest instalments, maturing in March 2005	100,000	100,000
At a conversion price of $0.425 per share, 12%, interest payable by half-yearly instalments through common shares of the company, at the base rate on the date of payment, non-interest bearing if the share is traded at $0.20 and over for each of the six-month periods, maturing in May 2006	250,000	250,000
(forward)	350,000	350,000

(brought forward)	350,000	350,000
At a conversion price of $0.33 per share until November 9, 2005, $0.363 from November 10, 2005 to November 9, 2006, $0.40 per share from November 10, 2006 to November 9, 2007 and $0.44 per share from November 10, 2007 to November 10, 2008, 12%, interest payable by half-yearly instalments through common shares of the company, at the base rate on the date of the payment, non-interest bearing if the share is traded at $0.37 and over during the twenty business days preceding the dates of interest instalments for the first two six-month periods ending May 10, and November 10, 2004, respectively, at $0.45 and over for the third and fourth six-month periods ending May 10, and November 10, 2005, respectively, at $0.55 and over for the fifth and sixth six-month periods ending May 10, and November 10, 2006, respectively, at $0.65 and over for the seventh and eighth six-month periods ending May 10, and November 10, 2007, respectively, and at $0.75 and over for the ninth and tenth six-month periods, maturing on May 10, and November 10, 2008. This debenture has 600,000 accompanying warrants, each of them entitling to subscribe for one common share of the company at a unit price of $0.45, maturing in May 2005	138,200*	-
	488,200	350,000

* This convertible debenture has been presented net of the fair value of warrants amounting to $61,800.

9 Share capital

Authorized

Unlimited number of common shares, without par value, voting and participating

	2004 $	2003 $
Issued and fully paid		
11,594,302 common shares (9,961,522 in 2003) *	4,193,100	3,885,580
To be issued		
35,092 common shares (15,854 in 2003) in payment of interest on convertible debentures (note 8)	9,810	2,380
	4,202,910	3,887,960

* 482,685 shares (482,685 in 2003) are held in escrow and will gradually be released during the next two years.

a) Variation of issued and fully paid share capital:

	2004		2003	
	Number	Amount $	Number	Amount $
Balance – Beginning of year	9,961,522	3,885,580	8,611,729	3,726,180
Private placements	1,392,858	284,500*	1,000,000	100,000
Stock options exercised	155,000	25,500	-	-
Debt redemption	-	-	143,781	14,378
Payment of interest on convertible debentures	84,922	25,905	206,012	55,942
	11,594,302	4,221,485	9,961,522	3,896,500
Share issue expenses for the year	-	(28,385)	-	(10,920)
Balance – End of year	11,594,302	4,193,100	9,961,522	3,885,580

* For the year ended August 31, 2004, private placements have been presented net of the fair value of warrants amounting to $115,500.

b) Variation of warrants

	2004		2003	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Outstanding – Beginning of year	-	-	-	-
Issued	1,742,858*	0.42	-	-
Exercised	-	-	-	-
Cancelled	-	-	-	-
Outstanding and exercisable – End of year	1,742,858	0.42	-	-

* Of this number, 1,142,858 warrants were issued under private placements to common shareholders, and 600,000 warrants were issued pursuant to the subscription agreement of a $200,000 convertible debenture (note 8). These warrants have been presented at their fair value of $115,500 and $61,800, respectively, which was determined using the Black-Scholes model.

Notes to Financial Statements

August 31, 2004 and 2003

Year ended August 31, 2004

The fair value of warrants issued was estimated using the Black-Scholes model with the following assumptions:

Risk-free interest rate	3.41%
Expected volatility	96%
Dividend yield	Nil
Weighted average expected life	1.5 year
Weighted average fair value of warrants issued	$0.102

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

The following table summarizes the expiry date of the outstanding warrants:

- 600,000 warrants at $0.45 expire in May 2005;
- 892,858 warrants at $0.40 expire in May 2005;
- 250,000 warrants at $0.40 expire in December 2005.

10 Stock option plan

The company maintains a stock option plan under which certain managers, directors, key employees and suppliers may be granted stock options for shares of the company. A maximum of 1,421,685 stock options (1,421,685 in 2003) may be granted (maximum of 5% of the number of common shares outstanding in favour of one person).

Options granted expire after a maximum period of five years following the granting date (ten years for options granted before September 1, 2000). There is no vesting period, except for 280,000 options granted to a director during fiscal years ended August 31, 1996, 1998 and 2000. In June 2003, following this director's separation and his acceptance of an executive counsellor position, the company modified the terms of the initial agreement for the granting of options. Consequently, the options have not been cancelled at the end of the 90-day period ended after the date of separation from service as a director and moreover, out of the 280,000 options that were fully exercisable, 25% became exercisable on June 18, 2003 and the balance is exercisable at the rate of 25% per annum since June 18, 2004. An amount of $15,150 ($16,415 in 2003) representing the fair value of these stock options has been included in the statement of earnings under the item "Salaries and fringe benefits" and in Shareholders' Equity under the item "Stock options".

Notes to Financial Statements

August 31, 2004 and 2003

The following tables present the stock option activity since September 1, 2002 and summarize information about fixed stock options outstanding and exercisable as at August 31:

	2004		2003	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Outstanding – Beginning of year	795,000	0.18	725,000	0.16
Granted	360,000	0.30	120,000	0.24
Exercised	(155,000)	0.16	-	-
Matured or cancelled	-	-	(50,000)	0.16
Outstanding – End of year	1,000,000	0.23	795,000	0.18
Exercisable – End of year	860,000	0.24	585,000	0.19

	Options outstanding		Options currently exercisable
Exercise prices $	Number	Weighted average remaining contractual life (years)	Number
0.16	380,000	1.98	290,000
0.18	140,000	5.39	90,000
0.24	120,000	3.80	120,000
0.26	10,000	4.85	10,000
0.30	350,000	4.51	350,000
	1,000,000	3.59	860,000

Accounting for the stock-based compensation plan

Year ended August 31, 2004

The fair value of options granted was estimated using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	3.38%
Expected volatility	120%
Dividend yield	Nil
Weighted average expected life	58 months
Weighted average fair value of options granted	$0.248

Notes to Financial Statements

August 31, 2004 and 2003

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, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the stock options granted to managers, directors and key employees 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 existing models do not necessarily provide an accurate single measure of the fair value of stock options granted to managers, directors and key employees.

The fair value of stock options granted during the year amounts to $88,840. The entire amount, representing the fair value of options granted, has been included in the statement of earnings under the items "Salaries and fringe benefits", "Professional and maintenance fees" and "Search for properties" and in Shareholders' Equity under the item "Stock options".

Year ended August 31, 2003

The fair value of options granted was estimated using the Black-Scholes option pricing model with the following assumptions:

	Options granted to suppliers	Options granted to a manager or to a director
Risk-free interest rate	2.90%	3.37%
Expected volatility	110%	110%
Dividend yield	Nil	Nil
Weighted average expected life	24 months	36 months
Weighted average fair value of options granted	$0.138	$0.162

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, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the stock options granted to managers, directors and key employees 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 existing models do not necessarily provide an accurate single measure of the fair value of stock options granted to suppliers, managers, directors and key employees.

The fair value of stock options granted during the year amounts to $18,000. Out of this sum, an amount of $8,280, representing the fair value of options granted to suppliers, has been included in the statement of earnings under the item "Search for properties" and in Shareholders' Equity under the item "Stock options", and an amount of $9,720, representing the fair value of options granted to a manager and a director, has not been recognized in the financial statements for the year. If the fair value based method had been used to account for stock-based compensation costs related to stock options granted to a manager and a director, the net loss and related net loss per share would be as follows for the year ended August 31, 2003:

	$
Pro-forma net loss for the year	(702,934)
Interest on debentures	(39,988)
Loss used in the pro-forma net basic and diluted loss per share calculation	(742,922)
Pro-forma net basic and diluted loss per share	(0.083)

11 Related party transactions

The company entered into the following transactions mainly with a director and a company owned by a director:

	2004 $	2003 $
Management fees	-	7,500
Office expenses	762	4,765

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.

12 Income taxes

The company has the following tax benefits, which have not been recorded in the financial statements as at August 31, 2004:

- The company has accumulated non-capital losses which can be carried forward against future years' taxable income and which will expire as follows:

	$
2005	202,000
2006	247,000
2007	199,000
2008	6,000
2009	92,000
2010	151,000
2014	208,000
	1,105,000

- The company has also accumulated capital losses of approximately $17,000 ($17,000 in 2003).
- The tax value of mining properties exceeds the carrying value by approximately $813,000 ($743,000 in 2003). The difference between the tax value and the amounts capitalized in the financial statements mainly results from writeoffs of mining properties.
- The unamortized balance, for income tax purposes, of share issue expenses amounts to $29,259 ($13,625 in 2003) and will be deductible during the next four years.

Notes to Financial Statements
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13 Loss per share

For the years ended August 31, 2004 and 2003, the diluted loss per share was the same as the basic loss per share since the dilutive effect of stock options, warrants and convertible debentures was not included in the calculation; otherwise the effect would have been anti-dilutive. Accordingly, the diluted net loss per share for those years was calculated using the basic weighted average number of shares outstanding (10,852,157 in 2004 and 8,925,857 in 2003).

	Years Ended August 31,	
	2004	**2003**
Net loss for the year	(351,192)	(693,214)
Interest on debentures	(33,335)	(39,988)
Loss used in the basic and diluted net loss per share calculation	(384,527)	(733,202)
Basic weighted average number of shares outstanding	10,852,157	8,925,857
Stock options	298,790	-
Conversion of debentures	555,556	-
Diluted weighted average number of shares outstanding	11,706,503	8,925,857
Items excluded from the calculation of diluted loss per share because the exercise or conversion price was greater than the average market price of the common shares		
Stock options	350,000	-
Shares to be issued upon the conversion debentures	1,194,296	-
Shares to be issued upon the exercise of warrants	1,742,858	-

14 Financial instruments

Fair value

Cash, amounts receivable, exploration funds and accounts payable and accrued liabilities are financial instruments whose fair value approximates their carrying value due to their short-term maturity or to current market rates. The fair value of convertible debentures could not be determined due to the specific characteristics of these financial instruments.

Interest rate risk

As at August 31, 2004, the company's exposure to interest rate risk is summarized as follows:

Cash	0.75%
Amounts receivable	Non-interest bearing
Exploration funds	0.75%
Accounts payable and accrued liabilities	Non-interest bearing
Convertible debentures	As described in note 8

15 Subsequent events

In September 2004, the company undertook, under a long-term operating lease, to make annual payments of $15,264 over the next three years.

In October 2004, the holder of the $100,000 convertible debenture decided to exercise his right of conversion for the full amount as well as for the interest due and unpaid on the conversion date at a conversion price of $0.18 per share, thus leading to an issuance of 581,482 shares of the company's share capital.

In November 2004, the company issued 238,096 common shares of its share capital at a price of $0.42 per share and 119,048 warrants entitling to subscribe for one common share of the company at a price of $0.52 within a twelve-month period and at a price of $0.60 within an additional six-month period.

16 Comparative figures

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