

# **GFM RESOURCES LIMITED**

Financial Statements

December 31, 2004 and 2003

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# ELLIS FOSTER

CHARTERED ACCOUNTANTS

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## AUDITORS' REPORT

To the Shareholders of

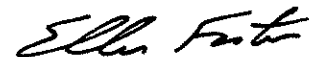
### GFM RESOURCES LIMITED

We have audited the balance sheets of **GFM Resources Limited** as at December 31, 2004 and 2003 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada  
February 24, 2005



Chartered Accountants



*A partnership of incorporated professionals  
An independently owned and operated member of Moore Stephens North America Inc., a member of Moore Stephens International Limited  
- members in principal cities throughout the world*

# GFM RESOURCES LIMITED

Balance Sheets  
December 31, 2004 and 2003

	2004	2003
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 6,101	\$ 114
GST recoverable	1,299	487
Prepaid expenses	550	550
	7,950	1,151
<b>Equipment (note 3)</b>	971	1,667
	\$ 8,921	\$ 2,818
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 17,771	\$ 9,046
Due to a related party (note 4)	199,676	126,564
	217,447	135,610
<b>SHAREHOLDERS' DEFICIENCY</b>		
<b>Share capital (note 5)</b>	1,572,452	1,572,452
<b>Contributed surplus</b>	101,031	101,031
<b>Deficit</b>	(1,882,009)	(1,806,275)
	(208,526)	(132,792)
	\$ 8,921	\$ 2,818

Nature of operations and going concern (note 1)

Approved by the Directors:

"Jose A. Rivero"

Jose A. Rivero

"Roberto Rivero"

Roberto Rivero

# GFM RESOURCES LIMITED

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

	2004	2003
<b>Revenue</b>		
Interest income	\$ 25	\$ 32
<b>Expenses</b>		
Administration and accounting	29,925	21,950
Amortization	242	498
Audit and legal	22,241	16,598
Filing fees and transfer agent fees	13,421	11,169
Foreign exchange gain	(15,521)	(18,878)
General prospecting	8,000	-
Office and sundry	11,766	9,380
Promotion	725	637
Travel	4,506	-
Write off of equipment	454	-
	75,759	41,354
<b>Loss for the year</b>	(75,734)	(41,322)
<b>Deficit, beginning of year</b>	(1,806,275)	(1,764,953)
<b>Deficit, end of year</b>	\$ (1,882,009)	\$ (1,806,275)
<b>Loss per share - basic and diluted</b>	\$ (0.01)	\$ (0.01)
<b>Weighted average number of common shares outstanding - basic and diluted</b>	6,185,016	6,185,016

# GFM RESOURCES LIMITED

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

	2004	2003
<b>Cash flows from (used in) operating activities</b>		
Loss for the year	\$ (75,734)	\$ (41,322)
Adjustments for items not involving cash:		
- amortization	242	498
- write off of equipment	454	-
- unrealized foreign exchange gain	(15,521)	(18,878)
	(90,559)	(59,702)
Changes in non-cash working capital items:		
- increase in GST recoverable	(812)	(112)
- decrease in prepaid expenses	-	147
- Increase (decrease) in accounts payable and accrued liabilities	8,725	(897)
	(82,646)	(60,564)
<b>Cash flows from financing activities</b>		
Advances from a related party	88,633	56,908
<b>Net increase (decrease) in cash</b>	5,987	(3,656)
Cash, beginning of year	114	3,770
<b>Cash, end of year</b>	\$ 6,101	\$ 114
<b>Supplementary information:</b>		
Interest paid in cash	\$ -	\$ -
Income taxes paid in cash	\$ -	\$ -

# GFM RESOURCES LIMITED

Notes to Financial Statements  
December 31, 2004 and 2003

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## 1. Nature of Operations and Going Concern

The Company was incorporated under the laws of British Columbia, Canada. During the year ended December 31, 2000, the Company continued its operation into Yukon under the Business Corporation Act of Yukon and registered as an extra-provincial company in British Columbia under the laws of British Columbia.

The Company is in the business of acquisition, exploration and development of mineral properties.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a forced liquidation. Continued operations of the Company are dependent on the Company's ability to obtain public equity financing, receive continued financial support from its controlling shareholder, Grupo Ferrominero S.A. de C.V. ("Grupo"), or generate profitable operations in the future.

These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

## 2. Significant Accounting Policies

### (a) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results may differ from those estimates.

### (b) Foreign Currency Translations

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at the balance sheet date for monetary items and at exchange rates prevailing at the transaction dates for non-monetary items. Revenues and expenses are translated at the average exchange rates prevailing during the year. Gain and losses on translations are included in operations for the year.

### (c) Equipment

Equipment is recorded at historical cost. Amortization is provided on a declining balance basis at the following annual rates:

Furniture and equipment	20%
Computer equipment	30%
Computer software	100%

One one-half year of amortization is recorded in the year of acquisition.

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Notes to Financial Statements  
December 31, 2004 and 2003

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## 2. Significant Accounting Policies (Cont'd)

### (d) Earnings (Loss) Per Share

Basic earnings (loss) per share is calculated using the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share amounts are calculated in accordance with the treasury stock method which assumes that proceeds received from the exercise of stock options and warrants would be used to repurchase common shares at the prevailing market rate. Under the treasury stock method, the basic and diluted loss per shares are the same, as the effect of common shares issuable upon the exercise of warrants and stock options of the Company would be anti-dilutive.

### (e) Income Taxes

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

### (f) Asset Retirement Obligations

Effective January 1, 2004, the Company adopted the standard for the accounting for *Asset retirement obligations* ("CICA 3110") of tangible long-lived assets, leased assets and rights to explore for or exploit natural resources under leasing and other agreements as recommended by CICA.

The Company recognizes as liability the estimated fair value of an asset retirement obligation in the period in which it is incurred when a reasonable estimate of the fair value can be made, with a corresponding increase in the carrying amount of the related asset. The Company applies the expected cash flow approach to estimate the fair value of the liability in which multiple cash flow scenarios that reflect the range of possible outcomes and a credit-adjusted risk-free rate are used. The asset retirement cost is amortized over the asset's useful life and charged to operations. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. Revisions to the estimated fair value would result in an adjustment to the liability and carrying amount of the related assets.

# GFM RESOURCES LIMITED

Notes to Financial Statements  
December 31, 2004 and 2003

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## 2. Significant Accounting Policies (Cont'd)

The adoption of the standard has no impact to the financial statements of prior years as the Company currently does not own any assets that has retirement obligations.

### (g) Stock Based Compensation

Effective January 1, 2004, the Company adopted the revised standard for the accounting of *Stock-Based Compensation and Other Stock-Based Payments*, as recommended by the Canadian Institute of Chartered Accountants. Under the revised standard, all stock option awards granted to employees and directors of the Company require the application of the fair value method. As permitted by the revised standard, the Company has elected the prospective application method, which allows the fair value method to be applied to awards granted, modified or settled on or after January 1, 2003 to employees and directors.

The fair value of stock options is determined by the *Black-Scholes Option Pricing Model* with assumptions for risk-free interest rates, dividend yields, volatility factors of the expected market price of the Company's common shares and an expected life of the options. The fair value of direct awards of shares is determined by the quoted market price of the Company's stock.

For stock option awards granted to other than employees and directors and all direct awards of shares, the Company applies the fair value method.

For the years ended December 31, 2004 and 2003 the Company had granted no stock options to employees or non-employees of the Company, and as such, the adoption of the standard has no impact to the financial statements.

## 3. Equipment

Equipment consists of the following:

	2004		
	Cost	Accumulated amortization	Net book value
Furniture and equipment	\$ 4,860	\$3,889	\$971

	2003		
	Cost	Accumulated amortization	Net book value
Furniture and equipment	\$ 4,860	\$ 3,647	\$ 1,213
Computer equipment and software	4,496	4,042	454
	\$ 9,356	\$ 7,689	\$ 1,667

# GFM RESOURCES LIMITED

Notes to Financial Statements  
December 31, 2004 and 2003

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## 4. Due to a Related Party

The amount due to the controlling shareholder, Grupo, is repayable in US dollars in the amount of US\$166,200 (2003 – US\$97,620). The amount owed is non-interest bearing and unsecured. There are no stated terms of repayment.

## 5. Share Capital

(a) Authorized: unlimited number of common shares without par value.

(b) Issued and outstanding:

	Shares	Amount
Balance, December 31, 2002, 2003 and 2004	6,185,016	\$1,572,452

There were no shares issued or cancelled during 2004.

(c) Escrow Shares

675,000 of the common shares issued are held in escrow.

On August 20, 2003, the TSX Venture Exchange approved conversion of the Company's escrow shares to a time released escrow agreement as follows:

Release Dates	Total Number of Escrowed Securities to be Released
February 20, 2005	37,500
August 20, 2005	37,500
February 20, 2006	75,000
August 20, 2006	75,000
February 20, 2007	75,000
August 20, 2007	75,000
February 20, 2008	75,000
August 20, 2008	75,000
February 20, 2009	75,000
August 20, 2009	75,000
Total	675,000

On February 20, 2005, 37,500 common shares were released from escrow in accordance with the escrow agreement.

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Notes to Financial Statements  
December 31, 2004 and 2003

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## 5. Share Capital (Cont'd)

### (d) Stock Options

The Company has reserved 1,033,425 common shares for issuance in accordance with a Stock Option and Share Bonus Plan.

Changes in outstanding stock options were as follows:

	Number	Weighted Average Exercise Price
Options outstanding, December 31, 2002	420,000	\$0.25
Exercised	-	-
Forfeited or expired	(150,000)	0.25
Granted	-	-
<hr/>		
Options outstanding, December 31, 2003 and 2004	270,000	\$0.25

As at December 31, 2004, the 270,000 outstanding stock options are all exercisable at an exercise price of \$0.25 each and will expire on June 25, 2005. Each stock option entitles the holder to acquire one common share of the Company.

## 6. Income Taxes

A reconciliation of the statutory tax rate to the effective rate for the Company is as follows:

	2004	2003
Statutory income tax rate	36%	38%
Tax losses not benefited	(36%)	(38%)
Effective tax rate	0%	0%

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

	2004	2003
Non-capital loss carryforward	\$ 223,000	\$ 249,000
Cumulative exploration and depletion expenses	124,000	127,000
Equipment	1,000	3,000
Less: Valuation allowance	(348,000)	(379,000)
Total	\$ -	\$ -

# GFM RESOURCES LIMITED

Notes to Financial Statements  
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## 6. Income Taxes (Cont'd)

As at December 31, 2004, the Company's non-capital losses of approximately \$615,000 are carried forward for tax purposes and are available to reduce taxable income of future years. The non-capital losses expire commencing from 2005 to 2014.

As at December 31, 2004, the Company has exploration and depletion expenses of approximately \$343,000 carried forward for tax purposes and are available to reduce taxable income of future years.

## 7. Related Party Transactions

- (a) During the year, the Company paid administration and accounting fees of \$nil (2003 - \$12,125) and rent of \$nil (2003 - \$3,300) to a company owned by an officer of the Company.
- (b) The Company received advances of \$88,633 (2003 - \$56,908) from a related party. The advances is non-interest bearing, unsecured and has no stated terms of repayment (see note 4).

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, unless otherwise noted.

## 8. Financial Instruments

The carrying value of cash, accounts payable and accrued liabilities and amount due to a related party approximate their fair value due to the short-term nature of these instruments. The Company has an amount due to a related party denominated in US dollars and may be subject to significant currency risk due to the fluctuations of exchange rate between the Canadian dollar and the US dollar. However, it is management's opinion that Company is not subject to significant interest and credit risks arising from these financial instruments.

## 9. Subsequent Events

Subsequent to the year-end the Company received advance of US\$29,000 from Grupo.

Subsequent to year-end, 37,500 common shares of the Company were released from escrow in accordance with the escrow agreement [see note 5(c)].