

**Form 51-102F1**  
*Management's Discussion & Analysis*  
**GFM RESOURCES LIMITED**

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**ITEM 1 - ANNUAL MD&A COVERING UP TO THE FISCAL YEAR ENDED DECEMBER 31, 2004, AND TO THE DATE OF THIS REPORT.**

**1.- Date of this report: April 18, 2005.**

This report covers financial information related to the fiscal year ended December 31, 2004, and other relevant information available up to the date of this report.

**2.- Overall Performance**

**Description of Business**

GFM Resources Limited. (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's shares are listed on the NEX Board of the TSX Venture Exchange under the symbol GFM.H.

During the period, Management has continued to actively explore financing opportunities together with its controlling shareholder, Grupo Ferrominero S.A. de C.V. ("Grupo"). Grupo, through Compañía Minera Autlán S.A. de C.V. ("Autlan") remains active in manganese operations in Mexico and South America and continues to have access to a broad portfolio of resource properties, which will be reviewed by Management of the Company for potential acquisition and exploration, assuming financing is available.

Activities related to financing and a general discussion on working capital can be found in subsequent sections of this document.

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**3.- Selected Annual Information.**

The following are summary figures for the last three fiscal years and are based on audited financial statements:

	Years ended December 31		
	2003 \$	2003 \$	2002 \$
Revenues (interest income)	25	32	21
Income before extraordinary items	(75,734)	(41,322)	(92,660)
Per share, basic & diluted	(0.01)	(0.01)	(0.02)
Net income (loss)	(75,734)	(41,322)	(92,660)
Per share, basic & diluted	(0.01)	(0.01)	(0.02)
Total assets	16,921	2,818	7,007
Long term liabilities	Nil	Nil	Nil
Cash dividends declares	Nil	Nil	Nil

**4.- Results of Operations**

The following table summarizes the year expenses, compared to the previous fiscal year:

<b><u>Cash expenses</u></b>	<b><u>2004</u></b>	<b><u>% of expenses</u></b>	<b><u>2003</u></b>	<b><u>% change</u></b>
Administration and accounting	29,925	33.04%	21,950	36.33%
Audit expenses	6,500	7.18%	4,250	52.94%
Legal expenses	15,741	17.38%	12,348	27.48%
Filing fees	2,830	3.12%	3,770	-24.93%
General prospecting	8,000	8.83%	-	n/a
Transfer agent fees	5,591	6.17%	4,850	15.28%
TSX sustaining fees	5,000	5.52%	2,550	96.08%
Officer rent	7,200	7.95%	6,600	9.09%
Other office expenses	3,766	4.16%	2,779	35.52%
Shareholder communications	725	0.80%	637	13.81%
Travel and automobile	4,506	4.97%	-	n/a
Training and development	800	0.88%	-	n/a
	90,584	100.00%	59,734	
<b><u>Non-cash expenses (gains)</u></b>				
Unrealized foreign exchange	(15,521)		(18,878)	
Amortization expense	242		498	
Write-off of equipment	454		-	
	(14,825)		(18,380)	
<b>Total Expenses</b>	75,759		41,354	

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Loss from operations for the year was \$67,734 (2003: \$42,322). The main contributing differences were as follows:

- Administration fees of \$29,925 (2003: \$21,950) increased mainly due to the additional administration time required to implement new disclosure requirements.
- Audit fees of \$6500 (2003: \$4,250) also increased because of the more complex audit requirements under current legislation.
- During the present fiscal year the company retained the services of a geologist to conduct due diligence work at some of the mining properties controlled by Grupo; the cost for this study was \$8,000 (2003: \$Nil). As no agreement had been signed as at the end of the fiscal year regarding the properties, this amount, which had been recorded as a deferred expense during the interim periods of the fiscal year, was expensed at the end of the year. There were no other exploration expenses incurred.
- Legal fees of \$15,741 (2003: 12,348) were generally comparable to those of the previous year, except for additional work required in connection to the due diligence agreement signed with a geologist for the inspection of Grupo's properties.
- TSX fees of \$5,000 (2003: \$2,550) are due to the new NEX fee structure. The higher annual sustaining fees include most of the regular filings, hence a decrease in the figure corresponding to "filing fees".
- Travel expenses of \$4,506 (2003: \$Nil) were in connection to the due diligence visit to Grupo's properties, and for travelling expenses to Toronto related to determining the feasibility of several business alternatives for the Company; no decisions have been made as at the date of this publication.
- Training of \$800 (2003: \$Nil) were related to attendance to a trade seminar by a Director and the administrator of the Company.

The Company has no revenues other than interest from an interest-bearing chequing account.

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**5.- Summary of quarterly results:**

	Quarter ended (three-month unaudited figures) (\$)							
	Dec 31 2004	Sep 30 2004	Jun 30 2004	Mar 31 2004	Dec 31 2003	Sep 30 2003	Jun 30 2003	Mar 31 2003
Revenues	5	2	5	14	3	7	15	7
Income (loss) before extraordinary items	(22,823)	(7,534)	(22,851)	(22,526)	(5,482)	(14,596)	(11,745)	(9,470)
Per share, basic & diluted	0.00	0.00	0.01	0.00	0.00	0.00	0.00	0.00
Net income (loss)	(22,823)	(7,534)	(22,851)	(22,526)	(5,511)	(14,596)	(11,745)	(9,470)
Per share, basic & diluted	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total assets	8,921	15,038	16,008	19,295	2,818	5,457	9,495	9,261
Long term liabilities	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Cash dividends declares	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

**6.- Liquidity**

At December 31, 2004, the Company had cash and GST receivables of \$7,400 (2003: \$114), but a working capital deficit of \$209,497 (2003: \$134,459). During the fiscal year, the Company received \$88,633 (US \$68,500) from Grupo (2003: \$56,908) as a loan increase to enable the Company to meet its obligations. The total amount due to Grupo on this non-interest bearing, unsecured loan is US\$166,120 as at December 31, 2004..

Given the present level of ongoing obligations and expenses, the Company must rely on the continued financial support from Grupo in order to meet its operational obligations for the foreseeable future.

**7.- Capital resources**

The Company has no active exploration and therefore no capital investments other than the due diligence performed on the properties mentioned in section 11.

**8.- Off-Balance Sheet Arrangements**

There are no off-balance sheet arrangements, and no contingent liabilities or other obligations.

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**9.- Transactions with Related Parties**

The only related party transaction was the increase in the loan provided by Grupo as outlined in section 6 above. Please also refer to Note #9 to the audited financial statements for this fiscal year.

**10.- Fourth quarter 2004**

Please refer to Note #10 to the audited financial statements for the fiscal year ended December 31, 2004.

During the last quarter of the fiscal year there were no significant activities other than the normal administration of the Company and the follow-up activities related to the search of financing opportunities.

**11.- Proposed Transactions**

There are no specific proposed transactions at this stage. However, the Company is actively seeking opportunities to find public equity financing for the exploration of mineral properties. Should this financing be secured, Grupo's mineral properties would be vended into the Company, and the Company would proceed with a suitable exploration program. Grupo is also looking at other possible avenues for the benefit of the Company.

**12.- Critical Accounting Estimates**

Not applicable to the Company at this stage.

**13.-Changes in Accounting Policies, including Initial Adoption**

Effective January 1, 2004, the Company adopted the Canadian Institute of Chartered Accountants Handbook section on *Stock-based compensation and other stock-based payments*. This section has been amended such that the Company is required to expense, over the vesting period, the fair value of the options at the date of grant. As permitted by this amendment, the Company applied this change retroactively, without restatement, for options granted on or after January 1, 2003. Prior to January 1, 2004, no compensation expense was recognized when options were issued to employees or directors but the Company provided pro-forma information as if the fair value-based method had been applied.

The adoption of the new accounting policy has no cumulative effect on the prior year's financial statements. The Company did not grant any stock options during the 2003 fiscal year and, as such, no compensation expense was recognized. The Company has not granted any new options to the date of this publication.

**14.-Financial Instruments and other Instruments**

The Company is not presently using any financing instruments other than an interest-bearing chequing account. The loans provided by Grupo to maintain the Company in good standing with its creditors bear no interest and have not set repayment date.

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**15.-Other MD&A requirements**

- a) The Company, as a "venture issuer", is not required to prepare an Annual Information Form (AIF) at this stage.

Copies of all previously published financial statements, management discussions, meeting materials, etc., are available on the SEDAR website at [www.sedar.com](http://www.sedar.com)

- b) Information pursuant to sections of National Instrument 51-102:
- i) Section 5.3: Please refer to Note #1 to the audited financial statements for this period.
  - ii) Section 5.4: Share Capital: please refer to Note #7 to the audited financial statements for the period. There are no changes between December 31, 2004 and the date of publication of this report.

Class of shares	Par value	Authorized number	Issued amount	Issued value
Common	No	Unlimited	6,185,016	\$ 1,572,452

As per note 7(c) of the audited financial statements for the period, 675,000 shares remained in escrow as at December 31, 2004. On February 20, 2005, a further 37,500 shares were released from escrow; therefore, at the date of this MD&A 637,500 shares remain in escrow. Please refer to that note for details of the escrow release calendar.

Options Outstanding & Exercisable	Weighted average exercise price	Date granted	Expiry date	Weighted average remaining contractual life
270,000	\$0.25	2002-06-26	2005-06-25	0.48 (yr)

- c) Directors and Officers:

<u>Directors</u>	<u>Officers</u>
Bernardo Canales *	
Lizardo Galván *	
José Antonio Rivero *	Chairman, President and Chief Executive Officer
Roberto Rivero	Chief Financial Officer and Corporate Secretary

\* Member of Audit Committee

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