

**Waseco Resources Inc.**

**Audited  
Financial Statements**

**Years Ended  
February 28, 2005 and  
February 29, 2004**

## **parker simone LLP**

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### **Auditors' Report**

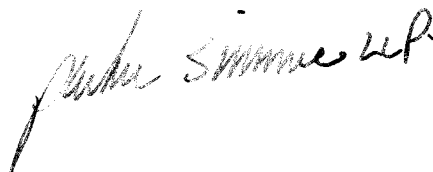
To the Shareholders of  
Waseco Resources Inc.

We have audited the balance sheets of Waseco Resources Inc. as at February 28, 2005 and February 29, 2004 and the statements of operations and deficit and cash flow 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 February 28, 2005 and February 29, 2004 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

May 18, 2005

A handwritten signature in black ink, appearing to read "Parker Simone LLP", is written in a cursive style.

## Waseco Resources Inc.

### Balance Sheet

<i>As at</i>	February 28, 2005	February 29, 2004
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 196,237	\$ 73,393
Share subscription receivable	-	5,500
	<b>196,237</b>	<b>78,893</b>
<b>Mineral Properties and Deferred Costs (Note 2)</b>	<b>16,243</b>	<b>72,781</b>
	<b>\$ 212,480</b>	<b>\$ 151,674</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable and accruals	\$ 208,282	\$ 112,121
	<b>208,282</b>	<b>112,121</b>
<b>Shareholders' Equity</b>		
<b>Capital Stock (Note 4)</b>	<b>5,213,214</b>	<b>5,213,214</b>
<b>Deficit</b>	<b>(5,209,016)</b>	<b>(5,173,661)</b>
	<b>4,198</b>	<b>39,553</b>
	<b>\$ 212,480</b>	<b>\$ 151,674</b>

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Approved by the Board:

("Signed") James Richardson \_\_\_\_\_, Director

("Signed") Richard Williams \_\_\_\_\_, Director

**Waseco Resources Inc.**  
**Statement of Operations and Deficit**

<b>Years Ended</b>	<b>February 28, 2005</b>	<b>February 29, 2004</b>
<b>Expenses</b>		
Professional fees	\$ 17,702	\$ 16,905
Shareholder relations and regulatory fees	16,177	30,252
Miscellaneous	1,476	-
Interest <i>(Note 3)</i>	-	17,185
	<b>35,355</b>	64,342
<b>Loss Before Other Item</b>	<b>(35,355)</b>	<b>(64,342)</b>
Conversion of promissory note <i>(Note 3)</i>	-	250,000
<b>Net Income (Loss)</b>	<b>(35,355)</b>	<b>185,658</b>
Deficit at beginning of year	<b>(5,173,661)</b>	(5,359,319)
<b>Deficit at End of Year</b>	<b>\$ (5,209,016)</b>	<b>\$ (5,173,661)</b>
<b>Net earnings (loss) per share - basic and fully diluted</b>	<b>\$ (0.001)</b>	<b>\$ 0.008</b>
<b>Weighted average number of shares outstanding</b>	<b>26,201,321</b>	<b>23,370,763</b>

**Waseco Resources Inc.**

**Statement of Cash Flow**

<b>Years Ended</b>	<b>February 28, 2005</b>	<b>February 29, 2004</b>
<b>Operations</b>		
Net income (loss)	\$ (35,355)	\$ 185,658
Adjustments to reconcile net income (loss) to cash flow from operating activities:		
Net change in non-cash operating working capital items:		
Share subscription receivable	5,500	-
Accounts payable and accrued liabilities	96,161	8,172
Cash Flow from Operating Activities	66,306	193,830
<b>Financing</b>		
Due to affiliated company	-	(229,807)
Issuance of common shares	-	105,500
Cash Flow from Financing Activities	-	(124,307)
<b>Investing</b>		
Expenditures related to interest in mining properties	(143,462)	(54)
Option payments received	200,000	-
Cash Flow from Investing Activities	56,538	(54)
<b>Net Increase in Cash</b>	<b>122,844</b>	<b>69,469</b>
Cash at beginning of year	73,393	3,924
<b>Cash at End of Year</b>	<b>\$ 196,237</b>	<b>\$ 73,393</b>

# Waseco Resources Inc.

## Notes to Audited Financial Statements

Years Ended February 28, 2005 and February 29, 2004

### General

Waseco Resources Inc. (Waseco or the Company) is incorporated under the laws of Ontario. The Company's principal business activity is mineral exploration in Canada.

### 1. Significant Accounting Policies

#### ***Going Concern***

Waseco's financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis, under which the Company is assumed to be able to realize its assets and discharge its liabilities in the normal course of business. Waseco is an exploration company and has no revenue to finance its operations. It is therefore required to fund its activities through joint venture arrangements, debt financing and the issuance of equity securities. The Company's ability to continue as a going concern is therefore dependant upon its ability to raise funds in the capital markets.

#### ***Nature of Operations***

Waseco, directly and through joint ventures, is in the process of exploring its mineral properties and has not yet determined whether the properties contain economically recoverable reserves. The recovery of expenditures on mineral properties and the related deferred exploration costs is dependent upon the existence of economically recoverable mineralization, the ability of Waseco to obtain financing necessary to complete the exploration and the development of mineral properties and upon future profitable production or alternatively, on the sufficiency of proceeds from disposition.

#### ***Mineral Properties and Deferred Costs***

Waseco defers the costs of exploration on existing projects and carries them as assets until production commences. The amounts at which mineral properties and deferred exploration costs are recorded do not necessarily reflect present or future values. If a project is successful, the related mineral properties and deferred exploration costs are amortized over the estimated economic life of the project. If a project is unsuccessful, or if exploration has ceased because continuation is not economically feasible, the mineral properties and the related deferred exploration costs are written off. Option payments received are applied against the mineral property or deferred exploration costs.

#### ***Flow-Through Shares***

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced by the Company to the investors in accordance with tax legislation. Under the liability method of accounting for income taxes, the future income taxes related to the temporary difference arising at the later of renunciation and when the qualifying expenditures are incurred, are recorded at that time together with a corresponding reduction to the carrying value of the shares issued.

#### ***Future Income Taxes***

Future income taxes are accounted for using the liability method of tax allocation. Under this method, future income taxes are based on the differences between assets and liabilities reported for financial accounting purposes and those reported for tax purposes. Future tax liabilities and assets are measured using enacted tax rates. The effect on future tax liabilities and assets of a change in tax rates is recognized in the period that the change occurs.

**Waseco Resources Inc.**

**Notes to Audited Financial Statements**

**Years Ended February 28, 2005 and February 29, 2004**

**1. Significant Accounting Policies (Continued)**

**Stock Options**

Waseco has a stock-based compensation plan. All stock-based payments to non-employees as well as direct awards of stock to employees and directors are accounted for in accordance with the fair value method of accounting for stock-based compensation.

**Net Earnings (Loss) per Share**

Net earnings (loss) per share has been calculated using the weighted-average number of common shares outstanding during the year. Net earnings per share, fully diluted, has been calculated assuming the full exercise of stock options.

**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 amounts reported on the financial statements and accompanying notes.

**2. Mineral Properties and Deferred Costs**

	2005	2004
<b>Acquisition Costs</b>		
Balance at beginning of year	\$ 50,000	\$ 50,000
Acquisition costs	45,000	-
Option payment received	(35,000)	-
	<b>60,000</b>	50,000
<b>Deferred Exploration Expenditures</b>		
Balance at beginning of year	22,781	22,727
Acquisition costs	98,462	54
Option payment received	(165,000)	-
	<b>(43,757)</b>	22,781
<b>Balance at End of Year</b>	<b>\$ 16,243</b>	<b>\$ 72,781</b>

The following is a summary of mineral properties and deferred costs by area of interest:

Property	Acquisition	Exploration	Total
James Bay Lowlands (Northern Ontario)	\$ 50,000	\$ 121,243	\$ 171,243
Uranium properties (Labrador Trough, Quebec)	10,000	(165,000)	(155,000)
	<b>\$ 60,000</b>	<b>\$ (43,757)</b>	<b>\$ 16,243</b>

## Waseco Resources Inc.

### Notes to Audited Consolidated Financial Statements

Years Ended February 28, 2005 and February 29, 2004

#### 2. Mineral Properties and Deferred Costs (Continued)

During fiscal 2005, the Company entered into an agreement to purchase 210 mining claims in the Labrador Trough, in the Province of Quebec. The agreement required payments by the Company of \$35,000 cash and 1.0 million shares of Waseco, 500,000 shares to be issued following execution of the agreement, the balance to be issued six months from the delivery of the initial allotment. The vendors were granted a 2% net smelter return royalty of which 1% may be purchased by Waseco for \$1.0 million within one year of attaining commercial production. The initial 500,000 shares were issued subsequent to year end (see Note 4).

In 2005, the Company entered into an option agreement under which a third party may earn a 75% interest on 150 of the Labrador Trough mining claims. To acquire the option the optionee paid Waseco \$200,000. Of this amount, \$35,000 was to be applied by Waseco to third party payments with the balance to be applied to an exploration program designed to do a preliminary evaluation of the uranium potential of the property. In addition, the optionee must expend a further \$800,000 of exploration expenditures to earn the property interest.

In 2003, the Company acquired an option to earn up to a 40% interest in a 2,440 acre claim block in the Attawapiskat Region of the James Bay Lowlands in Northern Ontario, together with a right of first refusal to purchase an additional 9% interest.

The Company made a payment of \$50,000 to enter into the agreement. Pursuant to an amended agreement, the Company earned a 5% interest by completing \$100,000 in cumulative expenditures by September 30, 2004, which includes mapping, sampling, magnetic ground surveying and drilling. The Company can:

- (a) earn an additional 20% interest (thereby increasing the total interest to 25%) by spending an additional \$620,000 by July 30, 2005; and
- (b) earn a further 15% interest (for a total of 40%) by spending an additional \$1.0 million prior to July 30, 2006.

The property is subject to a 2% net smelter return ("NSR") with the Company having a right of first refusal to buy out 1%.

The Company has yet to succeed in obtaining financing for its Tewah project but continues to address possibilities and is currently in discussions with a party, which it believes is capable of raising the requisite financing. The Company has received a notice suggesting the termination of its rights with respect to its Tikukur project in 90 days time if certain financial obligations were not met. The 90 day period has elapsed and the Company has not heard further in regard to this matter.



## Waseco Resources Inc.

### Notes to Audited Financial Statements

Years Ended February 28, 2005 and February 29, 2004

#### 3. Due to Former Affiliated Company

During fiscal 2004, Waseco entered into an agreement with Diadem Resources Ltd. ("Diadem") to convert \$250,000 of a note payable into: a) a 2% smelter royalty on its 60% interest in the Tewah Alluvial Gold Project; and b) a 2% gross diamonds royalty on its Attawapiskat Diamond Project. Each of these royalties can be repurchased by the Company for \$500,000 at any time prior to the commencement of commercial production or for \$1.0 million at any time prior to the first anniversary of commercial production. Diadem has agreed to forego all of its other interests in the Tewah Project and the Company has agreed to first offer its interest in the Attawapiskat Diamond Project to Diadem should it sell or joint venture the project.

In a related, but separate transaction, private investors, including the Company's President, agreed to purchase from Diadem 2,890,000 common shares of the Company and take an assignment of a demand note for \$225,000 (representing the balance of the note above after the conversion of \$250,000 of the note to a royalty, plus accumulated interest). Diadem retained a 500,000 common share interest in the Company. The investors converted the demand note into 2,050,000 common shares during October 2003. These shares were subject to a one year hold period which ended October 31, 2004.

#### 4. Capital Stock

Waseco is authorized to issue an unlimited number of common shares.

The issued and outstanding share capital consists of common shares as follows:

	Shares	Amount
Balance at February 28, 2003	21,913,821	\$ 4,741,464
Issuance of shares for cash:		
Stock options exercised	420,000	42,000
Flow-through share issue	460,000	69,000
Issuance of shares for non-cash consideration:		
Stock options exercised in lieu of accounts payable	197,500	19,750
Settlement of accounts payable	1,160,000	116,000
Settlement of liability due to affiliated company (Note 3)	2,050,000	225,000
Balance at February 29, 2004 and February 28, 2005	26,201,321	\$ 5,213,214

## Waseco Resources Inc.

### Notes to Audited Financial Statements

Years Ended February 28, 2005 and February 29, 2004

#### 4. Capital Stock (Continued)

Pursuant to flow-through share agreements entered into during 2004, the Company renounced resource expenditures of \$69,000. Waseco incurred qualifying expenditures during the year to fulfill the commitment from 2004.

During fiscal 2004, the following capital stock transactions occurred:

- a) In October 2003, the Company agreed to issue 1,160,000 common shares at \$0.10 per share to an Indonesian company in lieu of accounts payable in the amount of \$116,000.
- b) In January 2004, the Company completed a private placement of 460,000 flow-through shares at \$0.15 per share for gross proceeds of \$69,000.

Subsequent to year end, the Company issued 500,000 common shares as part of the agreement to purchase 210 mining properties in the Labrador Trough, in the Province of Quebec (*see Note 2*).

#### **Stock Options**

Waseco established a stock option plan to provide additional incentive to its directors, officers, employees, service providers, or consultants in their efforts on behalf of the Company in the conduct of its affairs. The total number of shares which may be issued thereunder shall not exceed 10% of the then issued and outstanding shares of the Company. Under the terms of the plan, the options shall vest immediately except that options granted to Consultants or persons employed in Investor Relations activities shall vest over twelve months. All options expire on the fifth anniversary from the grant date, unless otherwise specified.

	2005		2004	
	Weighted Average Exercise Price	No. of Options	Weighted Average Exercise Price	No. of Options
Outstanding at beginning of year	\$ 0.10	1,200,000	\$ 0.11	1,917,500
Transactions during the year:				
Exercised	-	-	0.10	(617,500)
Expired	-	-	0.20	(100,000)
Outstanding at end of year	\$ 0.10	1,200,000	\$ 0.10	1,200,000
Exercisable at end of year	\$ 0.10	1,200,000	\$ 0.10	1,200,000

All of the outstanding options expire on November 15, 2005.

Subsequent to year end, certain directors of the Company exercised 260,000 stock options at an exercise price of \$0.10 per share.

Subsequent to year end, an additional 1.2 million common share options at a price of \$0.10 per share were granted to senior management of Waseco.

## **Waseco Resources Inc.**

### **Notes to Audited Financial Statements**

**Years Ended February 28, 2005 and February 29, 2004**

#### **5. Income Taxes**

The Company has \$565,000 in non-capital losses carried forward for which no benefit has been recognized in the accounts. If these losses are not utilized, they will expire between 2006 and 2015. The future tax benefits attributable to these loss carry-forwards have been offset by a valuation allowance.

#### **6. Contingent Liabilities**

Debts associated with the interest in the Indonesian mining properties written off during 2003 were approximately \$576,000 as at February 28, 2003. This amount relates mainly to unpaid property taxes. Any ultimate disposition of the properties or new exploration or development could require the company to settle such debts or have the acquirer assume such debts in the case of a disposition.