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**TINKA RESOURCES LIMITED**

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED

SEPTEMBER 30, 2004 AND 2003

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# ELLIS FOSTER

CHARTERED ACCOUNTANTS

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## AUDITORS' REPORT

To the Shareholders of

**TINKA RESOURCES LIMITED**

We have audited the consolidated balance sheets of Tinka Resources Limited ("the Company") as at September 30, 2004 and 2003 and the consolidated statements of loss 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 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 September 30, 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 7, 2005

**"ELLIS FOSTER"**

Chartered Accountants



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- members in principal cities throughout the world*

**TINKA RESOURCES LIMITED**  
**CONSOLIDATED BALANCE SHEETS**  
**AS AT SEPTEMBER 30**

	<b>2004</b>	<b>2003</b>
	<b>\$</b>	<b>\$</b>
<b>A S S E T S</b>		
<b>CURRENT ASSETS</b>		
Cash	967,669	267,208
Amounts receivable and prepaids	<u>24,536</u>	<u>7,009</u>
	992,205	274,217
<b>MINERAL PROPERTY INTERESTS</b> (Note 3)	302,129	126,048
<b>EQUIPMENT</b> (Note 4)	<u>59,711</u>	<u>-</u>
	<u><u>1,354,045</u></u>	<u><u>400,265</u></u>
<b>L I A B I L I T I E S</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	<u>17,675</u>	<u>16,126</u>
<b>S H A R E H O L D E R S '   E Q U I T Y</b>		
<b>SHARE CAPITAL</b> (Note 5)	3,621,068	2,065,346
<b>CONTRIBUTED SURPLUS</b>	171,836	98,736
<b>DEFICIT</b>	<u>(2,456,534)</u>	<u>(1,779,943)</u>
	<u>1,336,370</u>	<u>384,139</u>
	<u><u>1,354,045</u></u>	<u><u>400,265</u></u>

APPROVED BY THE DIRECTORS

"Andrew Carter" , Director

"Nick DeMare" , Director

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

**TINKA RESOURCES LIMITED**  
**CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT**  
**FOR THE YEARS ENDED SEPTEMBER 30**

	2004 \$	2003 \$
<b>EXPENSES</b>		
Accounting and administration	17,710	27,405
Amortization	774	-
Audit	10,600	4,100
Consulting	13,798	38,672
Corporate development	18,393	-
Fiscal advisory fees	-	20,000
General exploration	63,623	-
Investor relations	25,750	5,000
Legal	1,058	1,646
Management fees	45,000	-
Office and general	32,164	10,108
Regulatory	11,063	14,040
Rent	4,050	9,800
Shareholder costs	4,424	899
Stock based compensation	73,100	98,736
Transfer agent	9,499	10,984
Travel and related	30,646	14,514
	<u>361,652</u>	<u>255,904</u>
<b>LOSS BEFORE OTHER ITEMS</b>	<u>(361,652)</u>	<u>(255,904)</u>
<b>OTHER ITEMS</b>		
Interest income	3,501	1,465
Foreign exchange	(14,069)	-
Write-off of mineral property interests (Note 3)	(304,371)	-
	<u>(314,939)</u>	<u>1,465</u>
<b>NET LOSS FOR THE YEAR</b>	(676,591)	(254,439)
<b>DEFICIT - BEGINNING OF YEAR</b>	<u>(1,779,943)</u>	<u>(1,525,504)</u>
<b>DEFICIT - END OF YEAR</b>	<u><u>(2,456,534)</u></u>	<u><u>(1,779,943)</u></u>
<b>BASIC AND DILUTED LOSS PER SHARE</b>	<u><u>\$(0.08)</u></u>	<u><u>\$(0.10)</u></u>
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>	<u><u>8,609,932</u></u>	<u><u>2,452,771</u></u>

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

**TINKA RESOURCES LIMITED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED SEPTEMBER 30**

	<b>2004</b>	<b>2003</b>
	<b>\$</b>	<b>\$</b>
<b>CASH PROVIDED FROM (USED FOR)</b>		
<b>OPERATING ACTIVITIES</b>		
Net loss for the year	(676,591)	(254,439)
Adjustment for items not involving cash		
Amortization	774	-
Stock-based compensation	73,100	98,736
Write-off of mineral property interests	304,371	-
	<u>(298,346)</u>	<u>(155,703)</u>
Increase in amounts receivable and prepaids	(17,527)	(6,574)
Increase in accounts payable and accrued liabilities	1,549	11
	<u>(314,324)</u>	<u>(162,266)</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of equipment	(61,807)	-
Expenditures on mineral property interests	(244,630)	(62,148)
	<u>(306,437)</u>	<u>(62,148)</u>
<b>FINANCING ACTIVITIES</b>		
Issuance of common shares	1,395,290	615,000
Share issue costs	(74,068)	(84,401)
Repayment of advances	-	(40,000)
	<u>1,321,222</u>	<u>490,599</u>
<b>INCREASE IN CASH DURING THE YEAR</b>	<b>700,461</b>	<b>266,185</b>
<b>CASH - BEGINNING OF YEAR</b>	<u><b>267,208</b></u>	<u><b>1,023</b></u>
<b>CASH - END OF YEAR</b>	<u><u><b>967,669</b></u></u>	<u><u><b>267,208</b></u></u>

See Note 10 for supplementary cash flow information.

**TINKA RESOURCES LIMITED**  
**CONSOLIDATED SCHEDULE OF MINERAL PROPERTY INTERESTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

	Peru						Argentina	Total \$
	Tinka Prospect \$	Pancoy Prospect \$	Pampa Property \$	Luminaria Property \$	Demetrio Property \$	Other \$	Sierra I Property \$	
<b>BALANCE - BEGINNING OF YEAR</b>	56,533	69,515	-	-	-	-	-	126,048
<b>EXPLORATION EXPENDITURES DURING THE YEAR</b>								
Amortization		-	-	1,322	-	-	-	1,322
Assays	2,599	-	-	-	-	-	2,426	5,025
Consulting	4,867	-	-	7,034	-	-	-	11,901
Drilling	25,490	-	-	-	-	-	-	25,490
Geological	34,540	-	4,830	13,409	-	-	9,590	62,369
IVA tax	-	-	-	-	-	22,225	-	22,225
Mapping	876	-	2,534	-	-	-	-	3,410
Office	3,455	-	-	2,023	-	-	-	5,478
Other	1,762	-	-	192	-	-	2,658	4,612
Permit and filing fees	2,272	1,374	-	-	-	-	-	3,646
Supplies	453	-	-	-	-	-	61	514
Travel	5,073	-	-	1,347	-	-	4,716	11,136
	<u>81,387</u>	<u>1,374</u>	<u>7,264</u>	<u>25,327</u>	<u>-</u>	<u>22,225</u>	<u>19,451</u>	<u>157,128</u>
<b>ACQUISITION COSTS DURING THE YEAR</b>	<u>-</u>	<u>8,546</u>	<u>28,469</u>	<u>66,673</u>	<u>72,636</u>	<u>-</u>	<u>147,000</u>	<u>323,324</u>
	137,920	79,435	35,833	92,000	72,636	22,225	166,451	606,500
<b>LESS WRITE-OFF MINERAL PROPERTY INTERESTS</b>	<u>(137,920)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(166,451)</u>	<u>(304,371)</u>
<b>BALANCE - END OF YEAR</b>	<u>-</u>	<u>79,435</u>	<u>35,833</u>	<u>92,000</u>	<u>72,636</u>	<u>22,225</u>	<u>-</u>	<u>302,129</u>

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

**TINKA RESOURCES LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

**1. NATURE OF OPERATIONS**

The Company is in the process of exploring mineral properties located in Peru and Argentina. On the basis of information to date, it has not yet determined whether these properties contain economically recoverable ore reserves. The underlying value of the mineral properties and related deferred costs is entirely dependent on the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete development and upon future profitable production. Mineral property interests represent costs incurred to date, less amounts amortized and/or written off, and do not necessarily represent present or future values.

**2. SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Presentation*

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Tinka Resources S.A. (Peru). Intercompany balances and transactions are eliminated on consolidation.

*Use of Estimates*

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results could differ from these estimates.

*Mineral Property Costs*

Mineral property costs and exploration, development and field support costs directly relating to mineral properties are deferred until the property to which they relate is placed into production, sold or abandoned. The deferred costs will be amortized over the life of the orebody following commencement of production or written off if the property is sold or abandoned. Administration costs and other exploration costs that do not relate to any specific property are expensed as incurred.

On a periodic basis, management reviews the carrying values of deferred mineral property acquisition and exploration expenditures with a view to assessing whether there has been any impairment in value. In the event that reserves are determined to be insufficient to recover the carrying value of any property, the carrying value will be written down or written off, as appropriate.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, according to the usual industry standards for the stage of exploration of such properties, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

From time to time, the Company acquires or disposes of properties pursuant to the terms of option agreements. Options are exercisable entirely at the discretion of the optionee and, accordingly, are recorded as mineral property costs or recoveries when the payments are made or received.

**TINKA RESOURCES LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Equipment***

Equipment, which is comprised of office equipment and vehicles is recorded at cost less accumulated amortization calculated using the straight-line method over their estimated useful lives of four to five years.

***Asset Retirement Obligations***

The fair value of a liability for an asset retirement obligation is recognized when a reasonable estimate of fair value can be made. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost is charged to earnings using a systematic and rational method and is adjusted to reflect period-to-period changes in the liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flow. As at September 30, 2004, the Company does not have any asset retirement obligations.

***Impairment of Long-Lived Assets***

Long-lived assets are assessed for impairment when events and circumstances warrant. The carrying value of a long-lived asset is impaired when the carrying amount exceeds the estimated undiscounted net cash flow from use and fair value. In that event, the amount by which the carrying value of an impaired long-lived asset exceeds its fair value is charged to earnings. Fair value is generally determined using a discounted cash flow analysis.

***Stock-Based Compensation***

Stock-based compensation is accounted for at fair value as determined by the Black-Scholes option pricing model using amounts that are believed to approximate the volatility of the trading price of the Company's stock, the expected lives of awards of stock-based compensation, the fair value of the Company's stock and the risk-free interest rate. The estimated fair value of awards of stock-based compensation are charged to expense as awards vest, with offsetting amounts recognized as contributed surplus.

***Income Taxes***

Income tax liabilities and assets are recognized for the estimated income tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax bases, using enacted income tax rates. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period that the change occurs. Future income tax assets are recognized to the extent that they are considered more likely than not to be realized.

***Translation of Foreign Currencies***

Monetary items are translated at the rate of exchange in effect at the balance sheet date. Non-monetary items are translated at average rates in effect during the period in which they were earned or incurred. Gains and losses resulting from the fluctuation of foreign exchange rates have been included in the determination of income.

**TINKA RESOURCES LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Earnings (Loss) Per Share*

Basic earnings (loss) per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is 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 share 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.

**3. MINERAL PROPERTY INTERESTS**

	2004			2003		
	Acquisition Costs \$	Deferred Exploration Costs \$	Total \$	Acquisition Costs \$	Deferred Exploration Costs \$	Total \$
Peru						
Pampa Property	28,469	7,364	35,833	-	-	-
Luminaria Property	66,673	25,327	92,000	-	-	-
Demetrio Property	72,636	-	72,636	-	-	-
Pancoy Prospect	78,061	1,374	79,435	69,515	-	69,515
Tinka Prospect	-	-	-	56,533	-	56,533
IVA Tax	-	22,225	22,225	-	-	-
	<u>245,839</u>	<u>56,290</u>	<u>302,129</u>	<u>126,048</u>	<u>-</u>	<u>126,048</u>

(a) Sierra Exploration Alliance

On May 27, 2004, the Company entered into an agreement with Sierra Peru Pty Ltd. ("Sierra") to form an exploration alliance to identify gold and silver targets in Peru. The Company has issued 250,000 common shares, at a fair value of \$87,500, for the right of first refusal on all targets identified by Sierra and will also issue a further 500,000 shares in the event that a project be subject to a successful feasibility study. Sierra also retains a right to a 1% NSR from any production from a project, which can be purchased for US \$1.0 million.

As at September 30, 2004, Sierra has identified, and the Company has staked, two prospects. The Luminaria Prospect comprise four claims (3,500 hectares) located in the Huraz mining district, department of Ancash. The Demetrio Prospect comprises five claims (5,000 hectares) located between the departments of La Libertad and Cajamarca, within the Pataz mining district.

**TINKA RESOURCES LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

**3. MINERAL PROPERTY INTERESTS (continued)**

(b) Pancoy Prospect

On February 26, 2003, as amended the Company entered into an option agreement to acquire a 100% interest in three concessions (the "Pancoy Prospect"), comprising of 2,700 hectares, located in southern central Peru. To exercise the option, the Company paid US \$10,000 and must issue a total of 1.2 million common shares (180,000 shares issued) and incur \$300,000 exploration expenditures. See also Note 11.

(c) Tinka Prospect

On February 19, 2003, the Company entered into an option agreement (the "Tinka HOA") with Tumi Resources Limited ("Tumi") and a Peruvian national to acquire a 70% interest in three contiguous concessions (the "Tinka Prospect"), comprising of 1,400 hectares, located in the district of Yauca del Rosario within the department and province of Ica, Peru. Certain officers and directors of the Company are also directors and officers of Tumi, a public company which also trades on the TSX Venture Exchange ("TSXV"). During the 2004 fiscal year the Company withdrew from the Tinka HOA and, accordingly, has written off \$137,920 of acquisition costs and related exploration expenditures relating to the Tinka Prospect.

(d) Sierra 1 Property

On December 11, 2003 the Company entered into an option agreement with an arms-length public company on the Sierra 1 Property, located in the Patagonia region of Argentina. To exercise the option, the Company issued 300,000 common shares, at a fair value of \$147,000. During the 2004 fiscal year the Company withdrew from the option agreement and, accordingly, has written off \$166,451 for acquisition costs and related exploration expenditures relating to the Sierra 1 Property.

**4. EQUIPMENT**

	2004	2003
Vehicles	51,590	-
Office equipment	10,217	-
	<u>61,807</u>	<u>-</u>
Less: accumulated amortization	(2,096)	-
	<u><u>59,711</u></u>	<u><u>-</u></u>

**TINKA RESOURCES LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

**5. SHARE CAPITAL**

Authorized - 100,000,000 common shares without par value

Issued	2004		2003	
	Shares	\$	Shares	\$
Balance, beginning of year	6,171,462	2,065,346	1,501,462	1,470,847
Issued during the year				
For cash				
Private placements	3,110,000	1,313,500	4,400,000	615,000
Warrants	411,450	81,790	-	-
For mineral properties	550,000	234,500	270,000	63,900
For agent's fee	55,000	24,750	-	-
	4,126,450	1,654,540	4,670,000	678,900
Share issue costs	-	(98,818)	-	(84,401)
	4,126,450	1,555,722	4,670,000	594,499
Balance, end of year	10,297,912	3,621,068	6,171,462	2,065,346

(a) During the 2004 fiscal year, the Company:

- i) completed a non-brokered private placements of 860,000 units, at \$0.35 per unit, for cash proceeds of \$301,000. Each unit comprised one common share and one share purchase warrant. Each warrant entitles the holder to purchase an additional common share for a period of two years, at a price of \$0.40 per share on or before December 23, 2004, and at \$0.50 per share on or before December 23, 2005. The Company incurred \$2,005 of costs associated with the private placement. The Company applied the residual approach and allocated the gross proceeds of \$301,000 to the common shares and \$nil to the attached warrants.
  
- ii) completed a 1,250,000 units on a non-brokered basis and a 1,000,000 units on a brokered basis, at \$0.45 per unit, for total cash proceeds of \$1,012,500. Each unit comprised one common share and one-half share purchase warrant. One full warrant entitles the holder to purchase an additional common share for a period of one year, at a price of \$0.60 per share on or before March 15, 2005, on the non-brokered portion, and March 25, 2005, on the brokered portion. The Company paid a finder's fee of \$43,200, cash commission of \$18,000 and additional costs of \$10,863. In addition, the Company issued to the agent 55,000 units having the same terms as the brokered private placement and issued warrants to purchase 255,000 shares at a price of \$0.60 per share on or before March 25, 2005. The Company applied the residual approach and allocated the gross proceeds of \$1,012,500 to the common shares and \$nil to the attached warrants.

**TINKA RESOURCES LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

**5. SHARE CAPITAL** (continued)

- (b) During the 2003 fiscal year, the Company:
- i) completed a non-brokered private placement of 2,650,000 units, at \$0.10 per unit, for cash proceeds of \$265,000. Each unit consisted of one common share and one share purchase warrant. Each warrant entitles the holder to purchase an additional common share for a period of two years, at a price of \$0.15 per share on or before July 16, 2004, and at \$0.20 per share on or before July 16, 2005. Certain directors of the Company purchased 870,000 units of the private placement. The Company applied the residual approach and allocated the gross proceeds of \$265,000 to the common shares and \$nil to the attached warrants. and
  - ii) completed a brokered private placement of 1,750,000 units, at \$0.20 per unit, for cash proceeds of \$350,000. Each unit consisted of one common share and one-half share purchase warrant. Each whole warrant entitles the holder to purchase an additional share for a period of two years, at a price of \$0.25 per share on or before July 15, 2004, and at \$0.30 per share on or before July 15, 2005. The Company paid the agent a total of \$30,124 for commissions and administration fees. The agent was also issued 115,750 warrants, with each warrant entitling the agent to purchase one common share of the Company at a price of \$0.20 on or before July 17, 2004. The Company applied the residual approach and allocated the gross proceeds of \$350,000 to the common shares and \$nil to the attached warrants.

In connection with the above private placements, the Company incurred additional share issue costs of \$54,277 for legal and filing fees.

- (c) The Company has established a rolling stock option plan (the "Plan"), in which the maximum number of common shares which can be reserved for issuance under the Plan is 10% of the issued and outstanding shares of the Company. The exercise price of the options is set at the Company's closing share price on the day before the grant date, less allowable discounts in accordance with the policies of the TSX Venture Exchange. The options have a maximum term of five years.

A summary of the Company's stock options at September 30, 2004 and 2003 and the changes for the fiscal years then ended on those dates is presented below:

	2004		2003	
	Number of Options Outstanding	Weighted Average Exercise Price \$	Number of Options Outstanding	Weighted Average Exercise Price \$
Balance, beginning of year	617,100	0.25	-	-
Granted	<u>400,000</u>	0.42	<u>617,100</u>	0.25
Balance, end of year	<u><u>1,017,100</u></u>	0.32	<u><u>617,100</u></u>	0.25

**TINKA RESOURCES LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

**5. SHARE CAPITAL (continued)**

The following table summarizes information about the stock options outstanding and exercisable at September 30, 2004:

Number Outstanding	Number Exercisable	Exercise Price \$	Expiry Date
617,100	617,100	0.25	August 8, 2006
130,000	130,000	0.37	January 20, 2007
<u>270,000</u>	<u>240,000</u>	0.45	April 2, 2007
<u><u>1,017,100</u></u>	<u><u>987,100</u></u>		

During the 2004 fiscal year, the Company granted 400,000 (2003 - 617,100) stock options to employees, directors and consultants and recorded compensation expense of \$73,100 (2003 - \$98,736).

The weighted average fair value of stock options granted to employees, directors and consultants is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for the grants made during the 2004 and 2003 years:

	2004	2003
Risk-free interest rate	0.93% - 1.18%	1.63%
Estimated volatility	78% - 83%	93%
Expected life	1.5 years	1.5 years
Expected dividend yield	0%	0%

The fair value per share of stock options, calculated using the Black-Scholes option pricing model, granted during the year to the Company's employees, directors and consultants was \$0.20 (2003 - \$0.16) per share.

Option-pricing models require the use of estimates and assumptions including the expected volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide reliable measure of the fair value of the Company's stock options.

- (d) A summary of the number of common shares reserved pursuant to the Company's outstanding warrants and agents warrants outstanding at September 30, 2004 and 2003 and the changes for the years ending on those dates is as follows:

	2004	2003
Balance, beginning of year	3,640,750	-
Issued pursuant to private placements	2,267,500	3,640,750
Exercised	(411,450)	-
Expired	<u>(74,300)</u>	<u>-</u>
Balance, end of year	<u><u>5,422,500</u></u>	<u><u>3,640,750</u></u>

**TINKA RESOURCES LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

**5. SHARE CAPITAL** (continued)

Common shares reserved pursuant to warrants outstanding at September 30, 2004, are as follows:

Number	Exercise Price \$	Expiry Date
2,460,000	0.20	July 16, 2005
695,000	0.30	July 15, 2005
860,000	0.40 / 0.50	December 23, 2004 / 2005
625,000	0.60	March 15, 2005
<u>782,500</u>	0.60	March 25, 2005
<u><u>5,422,500</u></u>		

See also Note 11.

**6. RELATED PARTY TRANSACTIONS**

During the 2004 fiscal year, the Company

- i) incurred \$21,760 (2003 - \$45,705) for accounting and administration services and office rent provided by a corporation controlled by a director of the Company;
- ii) paid \$45,000 (2003 - \$13,000) to the President of the Company for management services; and
- iii) paid \$20,000 (2003 - \$nil) for geological services provided by a director of the Company.

During the 2003 fiscal year, the Company received cash advances totalling \$19,500 from a company controlled by the President of the Company. The advances were repaid during the 2003 fiscal year, without interest.

See also Notes 3(c) and 5(b)(ii).

**7. INCOME TAXES**

As at September 30, 2004, the Company has non-capital losses of approximately \$850,000 and unclaimed resource deductions of approximately \$348,000 available for Canadian income tax purposes, in certain circumstances to offset against future income. The non-capital losses expire commencing 2005 through 2014. The cumulative resource deductions may be carried forward indefinitely. The Company also has non-capital losses of approximately US \$58,000 for Peruvian income tax purposes, which are available for application against future taxable income. These non-capital losses expire in 2008.

Future income tax benefits which may arise as a result of these losses have not been recognized in the financial statements as their realization is unlikely.

**TINKA RESOURCES LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

**8. SEGMENTED INFORMATION**

Substantially all of the Company's operations are in one industry, the exploration for gold. Management reviews the financial results according to expenditures by property. As at September 30, 2004, the Company's mineral properties are located in Peru and its corporate assets are located in Canada. The Company is in the exploration stage and, accordingly, has no reportable segment revenues or operating results during the 2004 and 2003 fiscal years.

	<b>2004</b>		
	<b>Corporate Canada \$</b>	<b>Mineral Operations Peru \$</b>	<b>Total \$</b>
Current assets	983,154	9,051	992,205
Mineral property interests	-	302,129	302,129
Equipment	6,970	52,741	59,711
	<u>990,124</u>	<u>363,921</u>	<u>1,354,045</u>
	<b>2003</b>		
	<b>Corporate Canada \$</b>	<b>Mineral Operations Peru \$</b>	<b>Total \$</b>
Current assets	274,217	-	274,217
Mineral property interests	-	126,048	126,048
	<u>274,217</u>	<u>126,048</u>	<u>400,265</u>

**9. FINANCIAL INSTRUMENTS**

The fair values of financial instruments at September 30, 2004 and 2003, were estimated based on relevant market information and the nature and terms of financial instruments. Management is not aware of any factors which would significantly affect the estimated fair market amounts, however, such amounts have not been comprehensively revalued for purposes of these financial statements. Disclosure subsequent to the balance sheet dates and estimates of fair value at dates subsequent to September 30, 2004 and 2003 may differ significantly from that presented.

Fair value approximates the amounts reflected in the financial statements for cash, amounts receivable, accounts payable and accrued liabilities.

The Company may be subject to currency risk due to the fluctuations of exchange rates between the Canadian dollar and other foreign currencies. However, the Company is not subject to significant interest and credit risks arising from these instruments.

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**10. SUPPLEMENTARY CASH FLOW INFORMATION**

Non-cash investing and financing activities were conducted by the Company as follows:

	2004 \$	2003 \$
Investing activity		
Expenditures on mineral property interests	<u>(234,500)</u>	<u>(63,900)</u>
Financing activities		
Shares issued for mineral property interests	234,500	63,900
Shares issued for share issue costs	24,750	-
Share issue costs	<u>(24,750)</u>	<u>-</u>
	<u>234,500</u>	<u>63,900</u>
Other supplementary cash flow information:		
Interest paid in cash	<u>1,000</u>	<u>-</u>
Income taxes paid in cash	<u>-</u>	<u>-</u>

**11. SUBSEQUENT EVENT**

Subsequent to September 30, 2004, the Company issued 2,157,250 common shares for \$466,375 cash on the exercise of warrants.

During November and December 2004, the Company conducted a comprehensive sampling and mapping program on the Pancoy Prospect at a cost of approximately \$21,000. Results were received in January 2005, and based on the results, the Company determined to terminate the option agreement.