

Argosy Minerals Inc.

CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2004, 2003 and 2002
(expressed in Canadian dollars)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements and the information contained in the annual report have been prepared by the management of the Corporation. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and, where appropriate, reflect management's best estimates based on currently available information. A system of internal accounting control is maintained to provide reasonable assurance that financial information is accurate and reliable.

The Corporation's independent auditors, Horwath Orenstein LLP, who have been appointed by the directors, conduct an audit in accordance with generally accepted auditing standards in Canada and the United States to allow them to express an opinion on the financial statements.

The Audit Committee of the Board of Directors meets periodically with management and the independent auditors to review the scope and result of the annual audit, and to review the financial statements and related reporting matters prior to submission to the Board.



Cecil R. Bond
Chief Executive Officer



Marcus N. Foster
Chief Financial Officer

February 18, 2005

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders of Argosy Minerals Inc

We have audited the consolidated balance sheet of Argosy Minerals Inc as at December 31, 2004 and the consolidated statements of operations and deficit and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian and Public Company Accounting Oversight Board (United States) generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated 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 consolidated financial statement presentation.

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

The financial statements as at December 31, 2003 and 2002 and for the years then ended were audited by other auditors who expressed an opinion without reservation on those financial statements in their report dated January 16, 2004. Those financial statements were prepared in all material respects in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Toronto, Canada

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

February 18, 2005

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Argosy Minerals Inc
(an Exploration stage corporation)
CONSOLIDATED BALANCE SHEETS
As At December 31, 2004 and 2003
(Expressed in Canadian Dollars)

	<u>2004</u>	<u>2003</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 4,616,407	\$ 8,058,383
Accounts receivable and prepaids	<u>166,960</u>	<u>163,555</u>
	4,783,367	8,221,938
Office Equipment and Furniture	<u>29,560</u>	<u>39,413</u>
	<u>\$ 4,812,927</u>	<u>\$ 8,261,351</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	<u>\$ 151,001</u>	<u>\$ 451,173</u>
SHAREHOLDERS' EQUITY		
Capital Stock	<i>Note 5</i>	
Authorised - unlimited		
Issued - 95,969,105 common shares (2003: 95,969,105)	44,075,384	44,075,384
Deficit	<u>(39,413,458)</u>	<u>(36,265,206)</u>
	<u>4,661,926</u>	<u>7,810,178</u>
	<u>\$ 4,812,927</u>	<u>\$ 8,261,351</u>

APPROVED BY THE DIRECTORS



Cecil R. Bond, Director



John Nicholls, Director

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

Argosy Minerals Inc**(an Exploration stage corporation)****CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT****For the Years Ended December 31, 2004, 2003 and 2002**

(Expressed in Canadian Dollars)

	2004	2003	2002
Income			
Interest	\$ 214,247	\$ 363,362	\$ 411,203
Gain on Disposal of Mineral Property	-	125,500	-
Foreign exchange gain / (loss)	(255,686)	670,724	899,844
Gain on sale of Marketable Securities	-	14,548	-
	<u>(41,439)</u>	<u>1,174,134</u>	<u>1,311,047</u>
Expenses			
Accounting and audit	\$ 98,606	\$ 105,121	\$ 86,227
Arbitration	<i>Note 3(c)</i> 789,871	366,310	96,255
Bank charges	6,386	7,721	7,002
Capital taxes	-	334	832
Depreciation	13,088	15,292	9,725
Directors' fees	76,136	68,750	24,982
Insurance	83,894	77,812	53,950
Legal	52,373	55,268	107,940
Management and consulting fees	668,664	428,827	377,383
Office	25,292	25,029	25,589
Project assessment expenditures	<i>Note 4(c)</i> 587,244	1,721,363	181,358
Rent	63,611	60,403	66,219
Salaries and benefits	434,665	427,394	418,374
Shareholder communications	35,930	33,740	85,278
Telecommunications	15,558	18,249	19,454
Transfer agent and stock exchange	57,254	46,146	51,518
Travel	98,241	189,725	265,626
Write-off of mineral properties and deferred costs	<i>Note 3</i> -	19,783	10,512,674
	<u>3,106,813</u>	<u>3,667,267</u>	<u>12,390,386</u>
Loss for the Year	(3,148,252)	(2,493,133)	(11,079,339)
Deficit - Beginning of Year	(36,265,206)	(33,772,073)	(22,692,734)
Deficit - End of Year	<u>\$ (39,413,458)</u>	<u>\$ (36,265,206)</u>	<u>\$ (33,772,073)</u>
Basic & Diluted Loss per Common Share	<u>\$ (0.03)</u>	<u>\$ (0.03)</u>	<u>\$ (0.12)</u>
Weighted Average Number of Common Shares Outstanding	<u>95,969,105</u>	<u>95,969,105</u>	<u>95,969,105</u>

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

Argosy Minerals Inc
(an Exploration stage corporation)
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2004, 2003 and 2002
(Expressed in Canadian Dollars)

	2004	2003	2002
Cash Provided from (Used for)			
Operating Activities			
Loss for the year	\$ (3,148,252)	\$ (2,493,133)	\$ (11,079,339)
Adjustments for:			
Depreciation	13,088	15,292	9,725
Foreign exchange (gain) / loss	4,173	(641,617)	(804,273)
Gain on marketable securities	-	(14,548)	-
Write-off of mineral properties and deferred costs	-	19,783	10,512,674
Gain on Disposal of Mineral Property	-	(125,500)	-
	<u>(3,130,991)</u>	<u>(3,239,723)</u>	<u>(1,361,213)</u>
Changes in Non-cash Working Capital			
Increase in accounts receivable and prepaids	(3,405)	(120,559)	(16,684)
Increase/(Decrease) in accounts payable and accrued liabilities	<u>(300,172)</u>	<u>125,767</u>	<u>(193,621)</u>
Cash Flows from Operating Activities	<u>(3,434,568)</u>	<u>(3,234,515)</u>	<u>(1,571,518)</u>
Financing Activities			
Cash Flows from Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>
Investing Activities			
Disposal of Mineral Property <i>Note 3(b)</i>	-	500,000	-
Mineral properties and deferred costs	-	(53,771)	(240,441)
(Acquisition)/Disposition of Marketable Securities	-	278,288	(263,740)
Purchase of office equipment and furniture	(3,234)	(11,371)	(43,672)
Restricted cash	-	157,960	(1,960)
Cash Flows from Investing Activities	<u>(3,234)</u>	<u>871,106</u>	<u>(549,813)</u>
Foreign Exchange Gain / (loss) on cash held in Foreign Currency	<u>(4,173)</u>	<u>641,617</u>	<u>804,273</u>
Decrease in Cash and Cash Equivalents	(3,441,975)	(1,721,792)	(1,317,058)
Cash and Cash Equivalents - Beginning of Year	<u>8,058,383</u>	<u>9,780,175</u>	<u>11,097,233</u>
Cash and Cash Equivalents - End of Year	<u>\$ 4,616,407</u>	<u>\$ 8,058,383</u>	<u>\$ 9,780,175</u>

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

ARGOSY MINERALS INC
(An Exploration stage corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2004

1. Nature Of Operations

The Corporation and its subsidiaries are engaged in the exploration and development of mineral properties and is considered to be an exploration stage company. The Corporation is in the process of investigating possible property acquisitions and continues to evaluate the Nevada Gold Project in Nevada, USA. The Corporation is still waiting for the issuance of a prospecting permit for the Albetros Diamond Project in South Africa, consequently, no activity is being undertaken at this time. See Note 4. The Corporation was previously involved in studies for the development of a nickel/cobalt processing facility at Musongati in the Republic of Burundi and in gold exploration in the Slovak Republic. In August 2002 the Corporation's subsidiary, Andover Resources N.L., declared force majeure and curtailed its activities in Burundi as a result of the deterioration of the security situation. See Note 3(a). In July 2003, the Corporation sold its Slovak subsidiary, Kremnica Gold a.s. See Note 3(b).

As yet, it has not been determined if the Corporation's mineral properties contain ore reserves that are economically recoverable. The recoverability of any amount recorded for mineral properties and deferred costs is dependent on the existence of economically recoverable reserves, the ability of the Corporation to obtain necessary financing to complete the development and future profitable production or proceeds from disposition of the mineral properties. The amounts shown as mineral properties and deferred costs, if any, represent costs to date, less amounts recovered or written off, and do not necessarily represent present or future values.

2. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries after elimination of inter-company accounts and transactions:

<u>Company Name</u>	<u>Country</u>
Argosy Mining Corp. ("Argosy")	Canada
Argosy Mining Corporation Pty. Ltd.	South Africa
Andover Resources N.L. ("Andover")	Australia
Balzan Investments Limited ("Balzan")	BVI

Financial Statement Presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The material measurement differences between Canadian and United States GAAP are explained in Note 10, along with their effect on the Corporation's consolidated statements of operations and consolidated balance sheets.

Use of Estimates

The preparation of financial statements in conformity with 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 income and expenses during the period. Significant areas where management's judgement is applied are mineral property valuations, valuation of future income tax benefits and contingent liabilities. Actual results may differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash and short-term deposits maturing within 90 days of the original date of acquisition. In order to limit its exposure to losses, the Corporation deposits its funds with major Canadian, Australian and UK banks. A portion of the cash balances are held in Australian and U.S. dollars, accordingly, the Corporation has exposure to fluctuations in currency exchange rates.

Office Equipment and Furniture

Depreciation is provided on office equipment and furniture using the straight line method over the estimated useful lives of the assets.

Project Assessment Expenditures

Project assessment costs consist of expenditures to evaluate new projects. These expenditures are charged to income when incurred. Once the Corporation decides to acquire the property, costs associated with further exploration or development are accounted for as described under Mineral Properties and Deferred Costs below. Included in project assessment expenditures are option payments for mineral properties. These payments are charged to income when incurred.

Mineral Properties and Deferred Costs

The costs of acquiring mineral properties, and related exploration and development costs, are deferred until the property to which they relate is placed into production, sold or abandoned. Deferred costs will be amortized over the estimated useful life of the ore body following commencement of production, or written off if the property is sold or abandoned.

The Corporation will reduce the carrying value of mineral properties and deferred costs by any amount received from the introduction of a joint venture partner.

Management's estimate of carrying values is subject to risks and uncertainties affecting the recoverability of the Corporation's investment in mineral properties. Although management makes its best estimate of these factors, where applicable, based on current conditions, it is possible that changes could occur in the near term which could adversely affect management's estimate of the recoverability of mineral properties and deferred costs and the need for asset impairment write-downs.

Although the Corporation has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Corporation's title. Such properties may be subject to prior undetected agreements or transfers and title may be affected by such defects.

Stock Based Compensation

The Corporation has prospectively adopted the amended requirements of CICA 3870, Accounting for Stock Based Compensation and Other Stock Based Payments, in the year ended December 31, 2004. These amendments require an expense to be recognized in financial statements for all forms of employee stock-based compensation, including stock options. The income statement impact of stock options granted by the Corporation subsequent to the adoption of CICA 3870 on January 1, 2002 but prior to the adoption of the amendments to CICA 3870, is included in pro-forma disclosure in Note 5 to these financial statements. No compensation expense was recognised in 2004 or 2003 because no stock options were granted or vested in those years. Any consideration paid by employees on the exercise of stock options is credited to capital stock.

Loss per Common Share

Loss per common share is calculated using the weighted average number of common shares issued and outstanding during each year. Basic and diluted loss per share are the same, as the effect of potential issues of shares under stock option arrangements would be anti-dilutive.

Foreign Currency Translation

The Corporation's foreign subsidiaries are integrated foreign operations. Currency translations into Canadian dollars are made as follows:

- (i) monetary assets and liabilities at the rates of exchange prevailing at the balance sheet date;
- (ii) non-monetary items at rates prevailing when they are acquired;
- (iii) exploration costs and administration costs at average rates for the period.

Gains and losses arising on currency translation are included in the statement of operations.

Financial Instruments

The fair value of cash and cash equivalents, accounts receivable and accounts payable approximate their carrying amounts. The Corporation is not exposed to significant interest rate risk due to the short term maturity of its monetary current assets and current liabilities.

Arbitration

Expenditures related to the arbitration are expensed as and when incurred. See Note 3(c)

Income taxes

Income taxes are calculated using the liability method of accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the consolidated balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using the tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. Valuation allowances are established when necessary to reduce future income tax assets arising from loss carry-forwards to amounts expected to be realized.

3. Mineral Properties

a) Burundi Nickel Project

During 1998, Andover entered into a Protocol agreement with the Republic of Burundi acquiring the exclusive rights to the Musongati nickel project. On February 11, 1999, a Mining Convention setting out Andover's rights and obligations for the completion of a feasibility study on the Musongati nickel project was ratified by the Burundian Parliament. The Mining Convention requires that Andover complete a feasibility study for the development of a nickel/cobalt processing facility by the end of 2001 or such later date as may be determined by extensions granted by the Minister of Mines. On April 19, 2000, Andover declared force majeure and curtailed its activities in Burundi as a result of the deterioration in security in the region. Pursuant to the terms of the Mining Convention the declaration of force majeure may be in place for up to two years during which time Andover's obligations are interrupted and the completion of the feasibility study delayed by the period of force majeure. Pursuant to the terms of the Mining Convention, Andover was required to post a performance bond of US\$100,000.

On March 28, 2002 the Corporation announced the withdrawal of the declaration of force majeure and planned to resume its exploration activities, however security deteriorated ahead of the implementation of an agreed cease-fire between various political parties and the Corporation re-imposed the declaration of force majeure in August 2002. Following improved security conditions, the Corporation lifted force majeure in July 2004 and commenced planning of a drilling program at Musongati. However, following a massacre outside Bujumbura, the Corporation re-imposed force majeure in August, 2004. The Corporation is currently reassessing its continued involvement with the Burundi Nickel Project and at this time, no further activity is planned.

At December 31, 2002, the Corporation wrote off its investment in the project of \$7,973,049, to recognize the reduction in value due to the ongoing political instability in the country and the failure of nickel laterite projects around the world.

The term of the performance bond provided by the Corporation expired during 2002. A new performance bond will be required should the Corporation lift force majeure and re-commence activity in Burundi.

b) Slovak Gold Property

In July 2003 the Corporation sold its Slovak subsidiary, the owner of the Slovak Gold Property for \$500,000. During the year ended December 31, 2001, the Corporation wrote down its investment in the project by \$7,533,332 to recognize the difficulty in being able to sell the project or introduce a joint venture partner. The sale of the project gave rise to a gain on disposal of \$125,500.

c) New Caledonia Nickel Project - Joint Venture Arrangement and Arbitration

On July 25, 2001, the Corporation announced JSC "MMC Norilsk Nickel" ("Norilsk") had taken the positive decision to proceed with the Nakety/Bogota Project in New Caledonia by completing a feasibility study leading to the joint development with the Corporation and Societe des Mines de la Tontouta ("SMT") of the project. The Tripartite Agreement (the "Agreement") between the Norilsk subsidiary, NN Invest Holdings SA ("NNIH"), SMT and the Corporation's subsidiary Balzan was signed on October 16, 2001. Under the terms of the Agreement, NNIH reimbursed the Corporation 45% of its costs incurred, amounting to US\$7,166,000 (C\$11,307,948) which was applied to reduce the carrying value of the project. Thereafter, NNIH had the ability to earn a 45% stake in the project by completing a feasibility study to international standards over two years.

On August 5, 2002, the Corporation received a notice of termination from NNIH terminating the Agreement and its involvement in the New Caledonia Nickel Project. On September 13, 2002, the Corporation and its subsidiary Balzan received a request for arbitration by NNIH from the International Court of Arbitration of the International Chamber of Commerce ("IC"). The request for arbitration sought to recover US\$7,166,000 paid to Balzan plus an additional US\$1,368,222 expended on the project.

The termination notice effectively terminated the Agreement and the Corporation wrote off its remaining investment of \$2,539,625 in the project. Following a meeting between the Corporation and NNIH in November 2004, the arbitration was settled. The terms of the settlement agreement are bound by a confidentiality agreement signed between the parties, however, each party remains responsible for its costs incurred in the arbitration process and neither party has any future claim outstanding against the other regarding this matter. The Corporation does not anticipate that it will incur any further costs related to this matter.

4. Project Assessment Expenditures

a) Albetros Diamond Project

The Albetros Project is an alluvial diamond project situated on the west coast of South Africa near Kleinsee. The Corporation holds its interest in the Albetros Project through an option agreement to purchase up to 85% of the shares of Albetros Inland Diamond Exploration Pty Ltd ("Albetros") the owner of the Project.

The Option Agreement provides for:

- a) an option exercise date of August 31, 2004. *
- b) monthly option fees totalling R4,050,000 (\$799,000) payable as follows:
 - 2003 – R2,400,000 (\$469,000) – paid.
 - 2004 – R1,650,000 (\$344,000) – of which R550,000 has been paid, and
- c) a purchase price of R17,000,000 (\$3,609,000) less all option fees paid at the date of exercise of the option. Should the Corporation exercise its option to acquire Albetros the purchase price of R17,000,000 less option fees totalling R4,050,000 (R2,950,000 has been paid to date) will be paid in two payments as follows:
 - R7,000,000 (\$1,486,000) on August 31, 2004. *
 - R5,950,000 (\$1,263,000) on December 1, 2004. *

An application for a new prospecting permit (“Permit”) was submitted in January, 2004 as the expiry date of the Permit was March 15, 2004. However with the new Minerals and Energy Act in South Africa coming into force in May 2004, processing of the application has been delayed and the new Permit has not yet been issued. Consequently, no work can be conducted on the Project at this time.

*Pursuant to the agreement with the shareholders of Albetros, the Corporation had until August 31, 2004 (the option exercise date) to fully evaluate the Project. As a new Permit has not yet been issued, the Corporation ceased its obligation to make option payments subsequent to March 2004 and advised the shareholders of Albetros that all payment obligations will be extended by the number of days that Albetros does not hold a valid Permit.

The Corporation can withdraw from the option agreement to acquire Albetros at any time.

If the Corporation exercises its option to acquire 85% of Albetros, it has agreed to sell a 5.5% interest in Albetros to Umnotho weSizwe Diamond Company Pty Ltd. (“Umnotho”), its Black Economic Empowerment partner in South Africa, for a cash consideration of R1,100,000 (\$233,000), which would result in the Corporation retaining a 79.5% interest in Albetros should the Corporation exercise its option to acquire Albetros. In addition, Umnotho will refund the Corporation a pro rata portion of the expenditures incurred in assessing the Albetros Project.

In January 2004, the owners of Albetros transferred 14% of the shares of Albetros to the Corporation for options fees paid to that time of R2,700,000 (\$538,000). The Corporation has not attributed any value to these shares, since no decision has been made to proceed with the Project.

In addition, recent announcements regarding Black Economic Entity (“BEE”) participation in new prospecting permits over state owned minerals have indicated a requirement for increased BEE participation of 51% from previous requirements of an initial 15% interest rising to a required 26% interest over a number of years. The Corporation is currently evaluating the impact of these new requirements on its continued participation in the Project.

b) Nevada Gold Project

The Nevada Gold Project is situated within the southern boundary area of the Humboldt – Toiyabe National Forest, in Northern Elko County, Nevada and comprises 70 unpatented lode mining claims and 2 unpatented claims covering water rights.

The Corporation holds the Nevada Gold Project under 2 option agreements. The option agreement dated November 17, 2003 over the Gold Creek property covers 37 unpatented mining claims and 2 claims covering water rights. The agreement is for 3 years and has an annual option payment of US\$20,000 and a purchase price of US\$1,250,000 for 100% of the claims. During May 2004 the Corporation entered into an option agreement over the adjoining 33 unpatented claims. The agreement is for 3 years and has an annual option payment of US\$20,000 and a purchase price of US\$1,500,000 for 100% of the claims.

c) Project Assessment Expenditures

Details of Project Assessment Expenditures during the years ended December 31, 2004 and 2003 are as follows:

<u><i>Albetros Diamond Project</i></u>	<u>2004</u>	<u>2003</u>
Geological Consulting, Supervision and Legal	\$ 44,565	\$ 218,115
Drilling	80,207	486,693
Gravel Processing and Sorting	57,020	147,866
Travel and Accommodation	55,220	129,608
Option Fees	117,158	469,000

Rehabilitation	30,934	-
	<u>385,104</u>	<u>1,451,282</u>
<u>Nevada Gold Project</u>		
Geological Consulting, Supervision and Legal	81,995	-
Assessment and Data	8,894	-
Option Fees	59,317	-
Claim Fees	12,904	-
Travel and Accommodation	53,135	-
	<u>216,245</u>	<u>-</u>
<u>Other Projects</u>		
Legal, Consulting	40,331	142,216
Data Acquisition	-	74,463
Travel, Accommodation and other	62,367	53,402
Expenses Recovered	(116,804)	-
	<u>(14,106)</u>	<u>270,081</u>
<u>Total</u>	<u>\$ 587,243</u>	<u>\$ 1,721,363</u>

5. Capital Stock

a) Authorised Capital Stock

The Corporation is authorised to issue an unlimited number of common shares without par value.

b) Issued

	Number of Shares	Amount
Total Issued – December 31, 2004 and 2003	95,969,105	\$ 44,075,384

Stock Options

The Corporation grants stock options to employees as determined by the Corporation's Board of Directors. Stock options granted to the directors of the Corporation are granted subject to approval of the Corporation's shareholders.

No stock options were granted during the years ended December 31, 2004 and 2003. Information relating to compensation expense for the year ended December 31, 2002 of options granted to employees and directors, using the fair value method, pursuant to the adoption of CICA 3870 Accounting for Stock Based Compensation is disclosed as pro-forma information.

The assumptions stated below result in an estimated fair value of the Corporation's stock options granted in 2002 of \$0.20 per stock option. This results in a pro-forma compensation expense of \$835,000, which would increase the Corporation's loss per share as indicated below:

		<u>December 31, 2002</u>
Loss for the Year	<i>As reported</i>	\$ 11,079,339
	<i>Pro forma</i>	\$ 11,914,339
Basic and Diluted Loss per Common Share	<i>As reported</i>	\$ 0.12
	<i>Pro forma</i>	\$ 0.12

The fair value of stock options used to calculate compensation expense is estimated using the Black-Scholes Option Pricing Model with the following assumptions:

Risk-free interest rate	4%
Expected Dividend yield	0%
Expected Stock price volatility	75%
Expected Option life in years	4

Option pricing models such as the Black-Scholes Model require the input of highly subjective assumptions including expected stock price volatility. Differences in input assumptions can materially affect the fair value estimate and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Corporation's stock options.

The status of stock options granted to employees and directors as at December 31, 2004 and 2003 and the changes during the years ended on those dates is presented below:

	December 31, 2004		December 31, 2003	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding				
- Beginning of Year	3,075,000	\$0.34	4,790,000	\$0.44
Cancelled/Expired	(350,000)	\$0.34	(1,715,000)	\$0.68
Options outstanding and exercisable				
- End of Year	<u>2,725,000</u>	<u>\$0.33</u>	<u>3,075,000</u>	<u>\$0.34</u>

All options outstanding at December 31, 2004 have an exercise price of Australian \$0.35 (C\$0.33). The weighted average remaining contractual life of these options is 1.4 years.

c) Escrow Shares

At December 31, 2004 a total of 905,032 (2003: 1,810,061) common shares of the Corporation were subject to escrow and are eligible for release in March 2005.

6. Related Party Transactions

During the year ended December 31, 2004: \$748,593 (2003: \$461,623, 2002: \$482,389) was paid to five directors of the Corporation, or to companies controlled by them, for director's fees, management consulting services and project management and assessment services. The expenditures of \$748,593 included a termination payment of \$441,814 paid to Peninsular Services Pty Ltd. ("Peninsular"), a company controlled by Mr. Lloyd, a director and Chairman of the Corporation, on the termination of Peninsular's Management Contract.

Following the termination of Peninsular's Management Contract, Mr. Lloyd has continued to provide services to the Corporation on a full time basis, dealing amongst other things with the arbitration initiated by NNIH, without payment, except for fees paid to non-executive directors. Fees paid to each non-executive director does not exceed \$25,000 per annum.

In addition \$117,700 (2003: \$414,181, 2002: \$445,750) was paid to two companies, \$32,236 to an Australian company and \$85,464 to a Canadian company, each controlled by a director of the Corporation for the provision of office facilities and personnel in Australia and Canada respectively. These services are provided at cost. Subsequent to February 2004, personnel in Australia are employed directly by the Corporation.

At December 31, 2004, management and consulting expenses payable amounted to \$NIL (2003: \$NIL) and are included in accounts payable and accrued liabilities.

7. Income Taxes

A potential future income tax asset of approximately \$3,081,000 arises from the following loss carry forwards (for Canadian Tax purposes):

a) Non capital loss carry forwards	\$ 7,302,000
b) Other deductible tax pools	\$ 1,348,000
	<u>\$ 8,650,000</u>

In addition, the Corporation has capital losses of approximately \$2,203,000.

The non-capital loss carry forwards can be offset against income for Canadian purposes in future years and expire as follows:

2005	107,000
2006	888,000

	2007	1,576,000
	2008	-
	2009	1,506,000
	2010	1,503,000
	2011	1,722,000
Total		<u>\$ 7,302,000</u>

The Corporation has reduced the value of the potential future income tax asset to \$Nil through the application of a valuation allowance of \$3,081,000 as the Corporation does not have any current source of income to which the tax losses can be applied.

The Corporation's statutory tax rate of 35.62% (2003 –35.62%) has been reduced to an effective rate of nil% (2003 – nil%) due to losses for which no tax benefit has been recognized.

8. Segmented Information

	2004			
	Canada	Australia	UK	Total
Current Assets	\$ 69,699	\$ 40,325	\$ 4,673,343	\$ 4,783,367
Property, Plant & Equipment	5,148	24,412	-	29,560
	<u>\$ 74,847</u>	<u>\$ 64,737</u>	<u>\$ 4,673,343</u>	<u>\$ 4,812,927</u>
	2003			
	Canada	Australia	UK	Total
Current Assets	\$ 291,931	\$ 576,046	\$ 7,353,961	\$ 8,221,938
Property, Plant & Equipment	7,209	32,204	-	39,413
	<u>\$ 299,140</u>	<u>\$ 608,250</u>	<u>\$ 7,353,961</u>	<u>\$ 8,261,351</u>

The Corporation's sole operating segment is the exploration for mineral resources.

9. Commitments

- The Corporation has entered into leases, expiring June 30, 2005, for office premises which require rental payments of approximately \$4,000 per month.
- The Corporation has provided a guarantee to Albetros in the amount of R100,000 (\$21,000) for any environmental rehabilitation which may be required on the Albetros Diamond Project. See Note 4.

10. Differences between Canadian and US Generally Accepted Accounting Principles ("GAAP")

The Corporation's consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada. The material measurement differences between GAAP in Canada and the United States that would have had an effect on these financial statements are as follows:

Statements of Operations and Deficit

	2004	2003	2002
Loss for the Year - under Canadian GAAP	\$ 3,148,252	\$ 2,493,133	\$ 11,079,339
Exploration Expenditures and write-downs - net of recoveries	<u>-</u>	<u>(90,512)</u>	<u>(592,570)</u>
Loss for the Year - under US GAAP	<u>\$ 3,148,252</u>	<u>\$ 2,402,621</u>	<u>\$ 10,486,769</u>
Basic & diluted loss per common share - under US GAAP	<u>\$ (0.03)</u>	<u>\$ (0.03)</u>	<u>\$ (0.11)</u>
Deficit - under US GAAP - Beginning of Year	\$ 36,265,206	\$ 33,862,585	\$ 23,375,816
Loss - under US GAAP	<u>3,148,252</u>	<u>2,402,621</u>	<u>10,486,769</u>
Deficit - under US GAAP - End of Year	<u>\$ 39,413,458</u>	<u>\$ 36,265,206</u>	<u>\$ 33,862,585</u>

Project Assessment Expenditures (Exploration Expenses)

For US GAAP purposes the Corporation expenses exploration expenses when incurred. When proven and probable reserves are determined for a property, subsequent development costs of the property will be capitalized. The capitalized costs of such properties will then be measured, on a periodic basis for recoverability of carrying values. Acquisition costs of mineral properties are capitalized for US GAAP purposes.

Stock Based Compensation

For US GAAP purposes, the Corporation has prospectively adopted the fair value based method of accounting for stock based compensation in accordance with FASB 123(R). As no stock options were granted in fiscal 2004, there is no impact on the Corporation's loss for the year or balance sheet at December 31, 2004 under US GAAP.