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President & CEO

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IMA EXPLORATION INC.

(AN EXPLORATION STAGE COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
DECEMBER 31, 2003, 2002 AND 2001

(Expressed in Canadian Dollars)

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PRICEWATERHOUSECOOPERS

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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF  
IMA EXPLORATION INC.

We have audited the consolidated balance sheets of IMA EXPLORATION INC. as at

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December 31, 2003 and 2002 and the consolidated statements of loss and deficit and cash flows for the years ended December 31, 2003, 2002 and 2001. 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 generally accepted auditing standards in Canada and the United States. 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 consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years ended December 31, 2003, 2002 and 2001 in accordance with Canadian generally accepted accounting principles.

/s/ PricewaterhouseCoopers LLP

CHARTERED ACCOUNTANTS

Vancouver, B.C., Canada

April 27, 2004 (except for note 12(b) which is as of May 3, 2004)

COMMENTS BY AUDITORS FOR US READERS ON CANADA-US REPORTING DIFFERENCE

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when there is a change in accounting principles that has a material effect on the comparability of the company's financial statements such as the changes described in Note 2 to the financial statements. Our report dated April 27, 2004 is expressed in accordance with Canadian reporting standards, which do not require reference to such a change in accounting principles in the auditor's report when the change is properly accounted for and adequately disclosed in the financial statements.

/s/ PricewaterhouseCoopers LLP

CHARTERED ACCOUNTANTS

Vancouver, BC, Canada

April 27, 2004

IMA EXPLORATION INC.  
(AN EXPLORATION STAGE COMPANY)  
CONSOLIDATED BALANCE SHEETS  
AS AT DECEMBER 31, 2003 AND 2002  
(EXPRESSED IN CANADIAN DOLLARS)

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	2003 \$	2002 \$
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	4,454,241	1,436,124
Amounts receivable and prepaids	176,030	79,661
Marketable securities (Note 4)	543,460	23,460
	-----	-----
	5,173,731	1,539,245
EQUIPMENT net of accumulated depreciation of \$228,692 (2002 - \$201,771)	40,472	45,517
MINERAL PROPERTIES AND DEFERRED COSTS (Note 5)	6,883,641	5,847,727
	-----	-----
	12,097,844	7,432,489
	=====	=====
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	426,494	108,351
	-----	-----
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 6)	27,707,597	21,354,823
CONTRIBUTED SURPLUS	1,541,116	128,260
DEFICIT	(17,577,363)	(14,158,945)
	-----	-----
	11,671,350	7,324,138
	-----	-----
	12,097,844	7,432,489
	=====	=====
NATURE OF OPERATIONS (Note 1)		
SUBSEQUENT EVENTS (Note 12)		

APPROVED BY THE BOARD

/s/ Joseph Grosso , Director

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/s/ Art Lang , Director  
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The accompanying notes are an integral part of these consolidated financial statements.

IMA EXPLORATION INC.  
(AN EXPLORATION STAGE COMPANY)  
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT  
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

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(EXPRESSED IN CANADIAN DOLLARS)

	2003	2002
	\$	\$
<b>EXPENSES</b>		
Administrative and management services	243,515	224,109
Bank charges and interest	10,319	10,492
Corporate development and investor relations	352,706	249,373
Depreciation	26,920	22,772
General exploration	226,956	180,321
Office and sundry	57,959	34,823
Printing	46,388	22,304
Professional fees	297,763	172,828
Rent, parking and storage	72,192	72,268
Salaries and employee benefits	199,411	196,042
Stock based compensation (Note 6 (d))	1,487,235	128,260
Telephone and utilities	37,934	34,368
Transfer agent and regulatory fees	34,078	35,831
Travel and accommodation	105,950	80,485
Cost recoveries (Note 7(d))	(35,110)	(6,000)
	3,164,216	1,458,276
<b>OTHER EXPENSE (INCOME)</b>		
Foreign exchange	25,916	8,415
Interest and other income	(66,561)	(26,585)
Gain on options and disposition of mineral properties	(481,779)	-
Write-off of mineral properties and deferred costs	776,626	-
Write-down of marketable securities	-	-
Loss on sale of marketable securities	-	-
	254,202	(18,170)
<b>LOSS FOR THE YEAR</b>	(3,418,418)	(1,440,106)
<b>DEFICIT - BEGINNING OF YEAR</b>	(14,158,945)	(12,718,839)
<b>DEFICIT - END OF YEAR</b>	(17,577,363)	(14,158,945)
	=====	=====
<b>BASIC AND DILUTED LOSS PER COMMON SHARE</b>	\$ (0.11)	\$ (0.06)
	=====	=====
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>	32,251,753	23,188,485
	=====	=====

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

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IMA EXPLORATION INC.  
 (AN EXPLORATION STAGE COMPANY)  
 CONSOLIDATED STATEMENTS OF CASH FLOWS  
 FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001  
 (EXPRESSED IN CANADIAN DOLLARS)

	2003	2002
	\$	\$
CASH PROVIDED FROM (USED FOR)		
OPERATING ACTIVITIES		
Net loss for the year	(3,418,418)	(1,440,106)
Items not affecting cash		
Depreciation	26,920	22,772
Stock based compensation	1,487,235	128,260
Gain on options and disposition of mineral properties	(481,779)	-
Write-down of marketable securities	-	-
Loss on sale of marketable securities	-	-
Write-off of mineral properties and deferred costs	776,626	-
	-----	-----
Increase in amounts receivable and prepaids	(1,609,416)	(1,289,074)
Increase (decrease) in accounts payable and accrued liabilities	(96,369)	(9,772)
	318,143	(7,365)
	-----	-----
	(1,387,642)	(1,306,211)
	-----	-----
INVESTING ACTIVITIES		
Expenditures on mineral properties and deferred costs	(1,850,761)	(1,266,555)
Purchase of equipment	(21,875)	(11,201)
Proceeds on sale of marketable securities	-	-
	-----	-----
	(1,872,636)	(1,277,756)
	-----	-----
FINANCING ACTIVITIES		
Issuance of common shares	6,467,245	3,453,382
Share issuance costs	(188,850)	(189,056)
	-----	-----
	6,278,395	3,264,326
	-----	-----
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,018,117	680,359
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,436,124	755,765
	-----	-----
CASH AND CASH EQUIVALENTS - END OF YEAR	4,454,241	1,436,124
	=====	=====

CASH AND CASH EQUIVALENTS IS COMPRISED OF:

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CASH	1,654,241	631,255
TERM DEPOSITS	2,800,000	804,869
	-----	-----
	4,454,241	1,436,124
	=====	=====

SUPPLEMENTARY CASH FLOW INFORMATION (Note 11)

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

IMA EXPLORATION INC.  
(AN EXPLORATION STAGE COMPANY)  
CONSOLIDATED SCHEDULE OF MINERAL PROPERTY INTERESTS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
(EXPRESSED IN CANADIAN DOLLARS)

	ARGENTINA		
	LIRIO GROUP \$	NAVIDAD \$	RIO DE LAS TAGUAS \$
Balance, beginning of year	1,966,934	5,090	543,889
	-----	-----	-----
Expenditures during the year			
Assays	-	62,232	-
Contractors - access	-	10,923	-
Contractors - surveying	-	102,595	-
Contractors - environmental	-	40,664	-
Drilling	-	193,836	-
Field supplies	-	28,423	-
Field workers	-	-	-
Geological	2,250	297,005	-
Geological supplies	-	50,317	-
Geochemistry	-	1,659	-
Geophysics	-	88,886	-
Geophysics supplies	-	29,702	-
Legal fees	2,382	198	-
Option payments	90,810	-	-
Staking and statutory fees	1,900	2,900	-
Taxes	204	669	191
Travel	-	37,369	-
Office	746	9,924	704
Other	5,327	-	-
Project management	659	10,879	279
Vehicles	-	28,940	-
	-----	-----	-----
	104,278	997,121	1,174
	-----	-----	-----
Option payments received and cost recoveries	(94,803)	-	-

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Write-off of mineral properties	(649,094)	-	-
Proceeds on sale of mineral properties	-	-	-
Foreign value added tax	-	-	-
	-----	-----	-----
	(743,897)	-	-
	-----	-----	-----
Balance, end of year	1,327,315	1,002,211	545,063
	=====	=====	=====

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

CONSOLIDATED SCHEDULE OF MINERAL PROPERTY INTERESTS, 2003 - CONTINUED

	ARGENTINA		PERU
	MOGOTE	OTHER	RIO
	\$	\$	TABACONAS
			\$
Balance, beginning of year	107,940	312,012	2,666,450
	-----	-----	-----
Expenditures during the year			
Assays	8,050	13,233	1,580
Contractors - access	1,483	-	-
Contractors - surveying	-	-	-
Contractors - environmental	-	-	104,844
Drilling	-	-	-
Field supplies	9,013	501	12,036
Field workers	-	-	18,850
Geological	52,011	4,626	146,576
Geological supplies	3,859	2,244	-
Geochemistry	-	-	-
Geophysics	-	-	-
Geophysics supplies	-	-	-
Legal fees	2,375	3,760	54,336
Option payments	15,291	-	41,247
Staking and statutory fees	825	80,979	49,260
Taxes	237	21,899	14
Travel	718	285	38,176
Office	1,434	826	18,286
Other	-	-	1,958
Project management	2,431	7,557	-
Vehicles	498	4,970	8,849
	-----	-----	-----
	98,225	140,880	496,012
	-----	-----	-----
Option payments received and cost recoveries	(206,165)	(45,979)	-
Write-off of mineral properties	-	(127,532)	-
Proceeds on sale of mineral properties	-	(22,981)	-
Foreign value added tax	-	55,929	2,092
	-----	-----	-----
	(206,165)	(140,563)	2,092

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Balance, end of year	----- -	----- 312,329	----- 3,164,554
	=====	=====	=====

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

IMA EXPLORATION INC.  
(AN EXPLORATION STAGE COMPANY)  
CONSOLIDATED SCHEDULE OF MINERAL PROPERTY INTERESTS  
FOR THE YEAR ENDED DECEMBER 31, 2002  
(EXPRESSED IN CANADIAN DOLLARS)

	ARGENTINA		
	LIRIO GROUP \$	NAVIDAD \$	RIO DE LAS TAGUAS \$
Balance, beginning of year	1,879,134	-	540,720
Expenditures during the year			
Assays	-	-	19
Contractors - access	-	-	-
Contractors - surveying	-	-	-
Contractors - environmental	-	487	-
Drilling	-	-	-
Field supplies	-	-	100
Field workers	-	-	-
Geological	1,941	785	-
Geological supplies	-	-	-
Geochemistry	-	-	-
Geophysics	-	-	-
Geophysics supplies	-	-	-
Legal fees	2,343	-	-
Option payments	71,585	-	-
Staking and statutory fees	-	3,818	3
Taxes	1,653	-	1,653
Travel	-	-	-
Office	10,278	-	385
Other	-	-	-
Project management	-	-	1,009
Vehicles	-	-	-
	----- 87,800	----- 5,090	----- 3,169
Foreign value added tax	-	-	-
Balance, end of year	----- 1,966,934	----- 5,090	----- 543,889
	=====	=====	=====

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

CONSOLIDATED SCHEDULE OF MINERAL PROPERTY INTERESTS, 2002 - CONTINUED

	ARGENTINA		PERU
	MOGOTE \$	OTHER \$	RIO TABACONAS \$
Balance, beginning of year	74,565	203,169	1,803,714
Expenditures during the year			
Assays	-	-	24,428
Contractors - access	-	-	-
Contractors - surveying	-	-	20,923
Contractors - environmental	-	-	112,689
Drilling	-	-	-
Field supplies	1,220	-	18,122
Field workers	-	-	49,790
Geological	14,034	57,075	236,231
Geological supplies	-	-	-
Geochemistry	-	-	-
Geophysics	-	-	-
Geophysics supplies	-	-	-
Legal fees	469	-	63,266
Option payments	13,969	-	227,079
Staking and statutory fees	757	39,753	-
Taxes	424	-	-
Travel	1,710	-	41,856
Office	792	-	19,266
Other	-	-	12,882
Project management	-	-	-
Vehicles	-	-	36,204
	33,375	96,828	862,736
Foreign value added tax	-	12,015	-
Balance, end of year	107,940	312,012	2,666,450

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

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(AN EXPLORATION STAGE COMPANY)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001  
(EXPRESSED IN CANADIAN DOLLARS)

## 1. NATURE OF OPERATIONS

The Company is in the process of exploring its mineral properties in South America and evaluating other mineral properties. The Company presently has no proven or probable reserves and on the basis of information to date, it has not yet determined whether these properties contain economically recoverable ore reserves. Consequently the Company considers itself to be an exploration stage company. The amounts shown as mineral properties and deferred costs represent costs incurred to date, less amounts amortized and/or written off, and do not necessarily represent present or future values. The underlying value of the mineral properties and deferred costs is entirely dependent on the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain the necessary financing to complete development, and future profitable production. The Company considers that it has adequate resources to maintain its core operations for the next fiscal year. See also Note 12.

## 2. CHANGE IN ACCOUNTING POLICY

Effective January 1, 2003, the Company prospectively adopted the fair value method of accounting for the stock options granted to employees and directors, as recommended by the Canadian Institute of Chartered Accountants' Handbook ("CICA 3870") Stock-Based Compensation and Other Stock Based Payments. CICA 3870 provides alternative methods of transition for the adoption of the fair value method and as permitted, the Company has elected the prospective application, which allows the fair value method to be applied to stock options granted, modified or settled on or after January 1, 2003 to employees and directors. Pro-forma disclosure for stock options issued prior to January 1, 2003, as required by the standard, had the Company used the fair value method is presented in Note 6 (d).

Stock-based compensation has been credited to contributed surplus.

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

For stock options granted to other than employees and directors the Company continues to apply the fair value method.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The significant measurement differences between those principles and those that would be applied under United States generally accepted accounting principles ("US GAAP") as they affect the

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Company are disclosed in Note 10.

IMA EXPLORATION INC.  
(AN EXPLORATION STAGE COMPANY)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001  
(EXPRESSED IN CANADIAN DOLLARS)

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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 assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Significant areas requiring the use of management estimates relate to the determination of environmental obligations and impairment of mineral properties and deferred costs. Actual results may differ from these estimates.

#### PRINCIPLES OF CONSOLIDATION

These consolidated financial statements include the accounts of the Company and all its subsidiaries. The Company's principal subsidiaries are IMPSA Resources Corporation (80.69%), Minera Imp-Peru S.A. (100%) and Inversiones Mineras Argentinas S.A. (100%). All intercompany transactions and balances have been eliminated.

#### CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and short-term investments maturing within 90 days of the original date of acquisition.

#### MARKETABLE SECURITIES

Marketable securities are carried at the lower of cost or market.

#### MINERAL PROPERTIES AND DEFERRED COSTS

Direct costs related to the acquisition and exploration of mineral properties held or controlled by the Company are deferred on an individual property basis until the viability of a property is determined. Administration costs and general exploration costs are expensed as incurred. When a property is placed in commercial production, deferred costs will be depleted using the units-of-production method. Management of the Company periodically reviews the recoverability of the capitalized mineral properties. Management takes into consideration various information including, but not limited to, results of exploration activities conducted to date, estimated future metal prices, and reports and opinions of outside geologists, mine engineers and consultants. When it is determined that a project or property will be abandoned or its carrying value has been impaired, a provision is made for any expected loss on the project or

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property.

The Company also accounts for foreign value added taxes paid as part of mineral properties and deferred costs. The recovery of these taxes will commence on the beginning of foreign commercial operations. Should these amounts be recovered they would be treated as a reduction in carrying costs of mineral properties and deferred costs.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, 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.

IMA EXPLORATION INC.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

#### EQUIPMENT

Equipment, which comprise leasehold improvements and office furniture and equipment, are recorded at cost less accumulated depreciation calculated using the straight-line method over their estimated useful lives of 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 allocated to expenses using a systematic and rational method and is adjusted to reflect period-to-period changes in the liability resulting from passage of time and revisions to either timing or the amount of the original estimate of the undiscounted cash flow. As at December 31, 2003, the Company does not have any asset retirement obligations.

#### LONG-LIVED ASSETS IMPAIRMENT

Long-lived assets are reviewed for impairment when changes in circumstances suggest their carrying value has become impaired. Management considers assets to be impaired if the carrying value exceeds the estimated undiscounted future projected cash flows to result from the use of the asset and its eventual disposition. If

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impairment is deemed to exist, the assets will be written down to fair value. Fair value is generally determined using a discounted cash flow analysis.

### TRANSLATION OF FOREIGN CURRENCIES

The Company's foreign operations are integrated and translated using the temporal method. Under this method, the Company translates monetary assets and liabilities denominated in foreign currencies at period-end rates. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at average rates in effect during the period except for depreciation and amortization which are translated at historical rates. The resulting gains or losses are reflected in the operating results in the period of translation.

### CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash and cash equivalents and amounts receivable. The Company limits its exposure to credit loss by placing its cash and cash-equivalents with major financial institutions.

IMA EXPLORATION INC.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair value of the Company's financial instruments consisting of cash and cash equivalents, amounts receivable and accounts payable and accrued liabilities approximate their carrying values. As of December 31, 2003, the market value of marketable securities was \$1,032,546 (2002 - \$78,200).

#### INCOME TAXES

The Company uses the liability method of accounting for future income taxes. Under this method of tax allocation, future income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the consolidated financial statements and their respective tax bases, using substantively enacted tax rates and laws that are expected to be in effect in the periods in which the future income tax assets or liabilities are expected to be settled or realized. 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.

#### EARNINGS (LOSS) PER SHARE

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Basic earnings (loss) per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the year. The computation of diluted earnings per share assumes the conversion, exercise or issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share by application of the treasury stock method.

### COMPARATIVE FIGURES

Certain of the 2002 and 2001 fiscal year figures have been reclassified to conform with the presentation used in fiscal 2003.

#### 4. MARKETABLE SECURITIES

	2003		2002
	RECORDED VALUE \$	QUOTED MARKET VALUE \$	RECORDED VALUE \$
Ballad Gold & Silver Ltd.			
- 500,000 common shares	250,000	325,000	-
Amera Resources Corporation ("Amera")			
- 600,000 common shares	270,000	546,000	-
Other	23,460	161,546	23,460
	543,460	1,032,546	23,460
	543,460	1,032,546	23,460

The Company has entered into option and sale agreements on certain of its non-core mineral property holdings in which the Company received common shares of publicly-traded companies as partial consideration.

IMA EXPLORATION INC.  
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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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#### 5. MINERAL PROPERTIES AND DEFERRED COSTS

	2003		2002
	ACQUISITION COSTS \$	DEFERRED EXPLORATION COSTS \$	TOTAL \$

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Argentina			
Navidad	-	1,002,211	1,002,211
Lirio Group	221,020	1,106,295	1,327,315
Rio de las Taguas	133,262	411,801	545,063
Evelina	-	391,302	391,302
Laguna de los Toros	-	140,867	140,867
Other	11,639	300,690	312,329
	-----	-----	-----
	365,921	3,353,166	3,719,087
Peru			
Rio Tabaconas	741,293	2,423,261	3,164,554
	-----	-----	-----
	1,107,214	5,812,132	6,883,641
	=====	=====	=====

(a) Argentinean Properties

The Company has either staked, fully paid or holds options to acquire 100% working interests in mineral properties, located in San Juan Province and Chubut Province in Argentina.

As of December 31, 2003, the Company must make further payments with respect to option agreements on the Lirio Group of properties, totalling US \$240,000, as follows:

YEAR	US \$
2004	70,000
2005	170,000
	-----
	240,000
	=====

The Company has also agreed to pay net smelter return royalties ("NSR") of up to US \$7,000,000 once commercial production is achieved on the Lirio Group of properties.

During fiscal 2003, the Company reviewed its non-core mineral properties and determined to write off mineral properties and related deferred exploration costs of \$776,626.

(b) Rio Tabaconas, Peru

The Company holds an option to acquire a 100% interest in three concessions, in the Cajamarca Department of San Ignacio Province in northern Peru. In addition, the Company owns ten concessions, which surround and overlie the optioned concessions. Collectively these are known as the Rio Tabaconas Project.

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### 5. MINERAL PROPERTIES AND DEFERRED COSTS (continued)

Under the terms of the option agreement, the Company has paid US \$185,000 and was required to make further payments totalling US \$1,340,000. On June 28, 2002, the Company suspended further exploration activities at the Rio Tabacanos project. This decision was made in response to the local community expressing its concerns with mineral exploration activities. The Company has deferred any further exploration until an agreement with the local community has been finalized. As a result the Company declared force majeure, as allowed under its option agreement. Accordingly, the Company and the optionor have deferred payment of the remaining US \$1,155,000 option payments until the force majeure is discontinued. On August 1, 2003, the Company commenced paying US \$1,500 per month to the optionor as compensation during this waiting period.

(c) During fiscal 2003, the Company entered into agreements with Amera, a publicly-traded company with common management and shareholders, whereby the Company:

(i) optioned its Mogote Property in the NW San Juan Region of Argentina. Amera has the option to earn a 51% interest in the 8,009 hectare Mogote Property by issuing a total of 1,650,000 common shares of Amera to the Company and by incurring US \$1.25 million of expenditures, including work programs and underlying option payments, all over a five year period ending July 1, 2007. Amera has also agreed to reimburse the Company for past payments made and expenditures which had been incurred by the Company on the Mogote Property. As at December 31, 2003, Amera has reimbursed the Company \$192,952, and \$4,902 remained outstanding and is included in amounts receivable. The Company has also received 100,000 shares of Amera at a recorded amount of \$45,000.

On April 8, 2004, the Company and Amera entered into a further agreement whereby Amera can earn an additional 24% interest, for a total 75% interest, after earning the initial 51% interest, by issuing 300,000 shares of Amera (issued) and conducting an additional US \$3 million of exploration expenditures over a three year period ending May 20, 2007.

(ii) sold a 100% undivided interest in three mineral properties, comprising 24,280 hectares (the "Chubut Properties"), located in Chubut Province, Argentina, for 500,000 common shares of Amera for a recorded amount of \$225,000. In addition, in the event that a decision is made to place the Chubut Properties into commercial production, Amera will pay the Company a bonus of US\$250,000 and a 3% net smelter returns royalty.

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6. SHARE CAPITAL

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

	NUMBER	\$
Issued - common shares		
Balance, December 31, 2000	13,529,219	16,627,241
Private placements	5,063,000	1,563,940
Less share issue costs	-	(100,684)
	-----	-----
Balance, December 31, 2001	18,592,219	18,090,497
Private placements	5,703,026	2,552,870
Exercise of options	170,000	68,000
Exercise of warrants	2,085,361	837,512
Less share issue costs	-	(194,056)
	-----	-----
Balance, December 31, 2002	26,550,606	21,354,823
Private placement	2,900,000	2,610,000
Exercise of options	1,855,850	895,859
Exercise of warrants	4,969,066	2,940,428
Exercise of agent's options	105,930	95,337
Less share issue costs	-	(188,850)
	-----	-----
Balance, December 31, 2003	36,381,452	27,707,597
	=====	=====

(a) During fiscal 2003, the Company completed a brokered private placement for 2,900,000 units at a price of \$0.90 per unit, for cash proceeds of \$2,421,150, net of share issue costs of \$188,850. Each unit consisted of one common share of the Company and one-half non-transferable common share purchase warrant. One whole warrant entitles the holder to purchase one common share for the exercise price of \$1.10 per share on or before April 28, 2004. Certain officers and directors of the Company purchased 445,000 units of the private placement.

In connection with the financing, the Company granted the agent an option to purchase 195,750 units on the same basis and terms as the private placement. The agent has exercised options to purchase 105,930 units, for \$95,337 cash, and, as of December 31, 2003, 89,820 units remained outstanding.

(b) During fiscal 2002, the Company completed the following private placements:

i) 637,000 units at a price of \$0.38 for cash proceeds of \$222,695, net of share issue costs of \$19,365. Each unit consisted of one common share of the Company and

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one warrant. Two warrants entitled the holder to purchase an additional common share for the exercise price of \$0.45 on or before March 31, 2003. The Company also issued agents warrants to purchase 63,700 common shares at a price of \$0.45 on or before March 31, 2003;

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### 6. SHARE CAPITAL (continued)

- ii) 1,777,778 units at a price of \$0.45 per unit for cash proceeds of \$686,132, net of share issue costs of \$118,868. Each unit consisted of one common share of the Company and one warrant. Two warrants entitle the holder to purchase an additional common share at a price of \$0.54 per share on or before April 9, 2003. The Company also issued 11,111 shares to the agents, at a price of \$0.45 per share. The Company also issued agents warrants to purchase 355,556 common shares at a price of \$0.54 per share on or before April 9, 2003;
  - iii) 1,722,222 units at a price of \$0.45 per unit, for cash proceeds of \$751,000 net of share issue costs of \$24,000. Each unit consisted of one common share of the Company and one warrant. Each warrant entitled the holder to purchase an additional common share of the Company at a price of \$0.53 per share on or before May 23, 2003 and \$0.60 per share on or before May 23, 2004. Certain directors purchased 191,111 units. The Company also issued agents warrants to purchase 66,666 common shares at a price of \$0.53 per share on or before May 23, 2003; and
  - iv) 1,554,915 units at a price of \$0.47 for cash proceeds of \$698,987, net of share issue costs of \$31,823. Each unit consisted of one common share of the Company and one warrant. Each warrant entitles the holder to purchase an additional common share of the Company at a price of \$0.55 per share on or before September 27, 2003 and \$0.60 on or before September 27, 2004. Certain directors purchased 325,000 units. The Company also issued agents warrants to purchase 37,496 common shares at a price of \$0.50 per share on or before September 27, 2003.
- (c) During fiscal 2001, the Company completed the following private placements:
- i) 3,000,000 units at a price of \$0.26 for cash proceeds of \$746,250, net of share issue costs of \$33,750. Each unit consisted of one common share of the Company and one-half warrant. Each full warrant entitled the holder

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to purchase one common share for the exercise price of \$0.40 on or before July 3, 2002. The President of the Company purchased 240,000 units. The Company also issued agents warrants to purchase 259,000 common shares at a price of \$0.35 on or before July 3, 2002;

- ii) 2,063,000 units at a price of \$0.38 for cash proceeds of \$717,006, net of share issue costs of \$66,934. Each unit consisted of one common share of the Company and one-half warrant. Each full warrant entitled the holder to purchase one common share for the exercise price of \$0.45 on or before March 31, 2003. The Company also issued agents warrants to purchase 206,300 common shares for the exercise price of \$0.45 on or before March 31, 2003.

(d) Stock Options

The Company grants stock options in accordance with the policies of the TSX Venture Exchange ("TSXV"). A summary of the Company's outstanding options at December 2003, 2002 and 2001 and the changes for the years ending on those dates is presented below:

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6. SHARE CAPITAL (continued)

	2003		2002	
	OPTIONS OUTSTANDING AND EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE \$	OPTIONS OUTSTANDING AND EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE \$
Balance, beginning of year	2,465,500	0.44	1,635,500	0.40
Granted	1,918,500	1.60	1,050,000	0.50
Exercised	(1,855,850)	0.44	(170,000)	0.40
Cancelled	-	-	(50,000)	0.40
	2,528,150	1.32	2,465,500	0.44
	2,528,150	1.32	2,465,500	0.44

Stock options outstanding and exercisable at December 31, 2003 are as follows:

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NUMBER	EXERCISE PRICE \$	EXPIRY DATE
254,150	0.40	July 19, 2006
159,000	0.50	May 2, 2007
225,000	0.50	September 23, 2007
195,000	0.84	March 7, 2008
300,000	0.90	May 30, 2008
1,395,000	1.87	August 27, 2008
-----		
2,528,150		
=====		

During fiscal 2002, the Company granted 540,000 stock options to its employees and directors and applied the intrinsic value based method of accounting. Had the Company followed the fair value based method of accounting in fiscal 2002, the Company would have recorded an additional compensation expense of \$140,840 in respect of its employees and directors' stock options. Pro- forma loss and loss per share information determined under the fair value method in fiscal 2002 are as follows:

	\$
Net loss for fiscal 2002	
- as reported	(1,440,106)
- compensation expense	(140,840)
	-----
- pro-forma	(1,580,946)
	=====
Basic and diluted loss per share	
- as reported	(0.06)
- pro-forma	(0.07)

During fiscal 2002, the Company recognized compensation expense of \$128,260 for stock options granted to consultants.

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6. SHARE CAPITAL (continued)

The fair value of stock options granted to employees, directors and consultants is estimated on the dates of grants using the Black-Scholes option pricing model with the following assumptions used for the grants made during the year:

2003	2002
------	------

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Risk-free interest rate	3.76% - 4.16%	3.89% - 4.25%
Estimated volatility	74% - 78%	73% - 87%
Expected life	2.5 years	2.5 years

The weighted average fair value per share of stock options, calculated using the Black-Scholes option pricing model, granted during the period to the Company's employees, directors and consultants was \$0.63 (2002 - \$0.26) 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.

(e) Warrants

A summary of the number of common shares reserved pursuant to the Company's outstanding warrants and agents warrants outstanding at December 31, 2003, 2002 and 2001 and the changes for the years ending on those dates is as follows:

	2003	2002	2001
Balance, beginning of year	9,511,550	6,588,967	3,592,167
Issued	1,502,965	5,007,944	2,996,800
Exercised	(4,969,066)	(2,085,361)	-
Expired	(3,001)	-	-
	-----	-----	-----
Balance, end of year	6,042,448	9,511,550	6,588,967
	=====	=====	=====

Common shares reserved pursuant to warrants and agent warrants outstanding at December 31, 2003 are as follows:

NUMBER	EXERCISE PRICE	EXPIRY DATE
	\$	
1,477,222	0.60	May 23, 2004
778,471	0.60	September 27, 2004
1,066,822	0.75	September 15, 2004
1,253,667	0.90	March 16, 2005
173,667	0.75	April 19, 2004
1,292,599	1.10	April 28, 2004
-----		
6,042,448		
=====		

(f) See also Note 12.

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### 7. RELATED PARTY TRANSACTIONS

- (a) During fiscal 2003, the Company paid \$330,600 (2002 - \$136,276; 2001 - \$157,825) to companies controlled by current and former directors and officers of the Company, for accounting, management, and consulting services provided.
- (b) The Company has agreements with a company controlled by the President of the Company for the rental of office premises. The Company is required to make monthly rent payments of \$5,077. During fiscal 2003, the Company paid \$60,924 (2002 - \$60,924; 2001 - \$60,924) for rent.
- (c) During fiscal 2003, the Company recorded \$61,067 (2002 - \$64,641; 2001 - \$45,381) for reimbursement of expenditures and disbursements incurred on behalf of the Company by the President of the Company. As at December 31, 2003, \$7,538 (2002 - \$1,496 ; 2001 - \$17,683) remains unpaid and has been included in accounts payable and accrued liabilities.
- (d) The Company shares its office facilities with Amera. Amera is currently paying a minimum of \$2,500 per month to the Company for shared rent and administration costs. During fiscal 2003, the Company received \$35,110 (2002 - \$6,000; 2001 - \$nil) from Amera.
- (e) The President of the Company provides his services on a full-time basis under a contract with a private company controlled by the President. The President is paid an annual amount of \$102,000. The contract also provides that, in the event the services are terminated without cause or upon a change in control of the Company, a termination payment would include a bonus of \$6,500 per month, retroactive to July 1, 1999, plus an additional three years of compensation at \$15,000 per month. If the termination had occurred on December 31, 2003, the amount under the agreement would be \$891,000.
- (f) Other related party transactions are disclosed elsewhere in these consolidated financial statements.

### 8. INCOME TAXES

The recovery of income taxes shown in the consolidated statements of operations and deficit differs from the amounts obtained by applying statutory rates to the loss before provision for income taxes due to the following:

	2003	2002
	\$	\$
Statutory tax rate	37.62%	39.62%
Provision for income taxes based on statutory		

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Canadian combined federal and provincial income tax rates	(1,286,009)	(570,570)
Differences in foreign tax rates	(383,116)	(4,234)
Losses for which an income tax benefit has not been recognized	1,669,125	574,804
	-----	-----
	-	-
	=====	=====

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8. INCOME TAXES (continued)

The significant components of the Company's future tax assets are as follows:

	2003	2002
	\$	\$
Future income tax assets		
Financing costs	116,985	98,934
Operating loss carryforward	4,051,130	4,164,745
Excess of tax values of mineral properties and property, plant and equipment over book value	465,045	330,957
	-----	-----
	4,633,160	4,594,636
Valuation allowance for future tax assets	(4,633,160)	(4,594,636)
	-----	-----
	-	-
	=====	=====

The Company has Canadian non-capital loss carryforwards of \$9,002,084 that may be available for tax purposes. The losses expire as follows:

EXPIRY DATE	\$
2004	1,554,225
2005	1,266,386
2006	1,255,915
2007	1,277,771
2008	845,836
2009	1,319,284
2010	1,482,667
	-----
	9,002,084
	=====

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### 9. SEGMENTED INFORMATION

The Company is involved in mineral exploration and development activities, which are conducted principally in Argentina and Peru. The Company is in the exploration stage and, accordingly, has no reportable segment revenues or operating results for each of fiscal 2003, 2002 and 2001.

The Company's total assets are segmented geographically as follows:

	2003		
	CORPORATE \$	ARGENTINA \$	PERU \$
Current assets	5,075,092	65,637	32,999
Equipment	28,974	7,032	4,466
Mineral properties and deferred costs	-	3,719,087	3,164,554
	5,104,066	3,791,756	3,202,019
	5,104,066	3,791,756	3,202,019

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### 9. SEGMENTED INFORMATION (continued)

	2002		
	CORPORATE \$	ARGENTINA \$	PERU \$
Current assets	4,161,455	49,117	40,914
Equipment	34,323	5,817	5,377
Mineral properties and deferred costs	-	3,181,277	2,666,450
	4,196,278	3,236,211	2,712,741
	4,196,278	3,236,211	2,712,741

### 10. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The consolidated financial statements of the Company have been prepared in accordance with Canadian GAAP, which differ in certain material

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respects from US GAAP.

The significant measurement differences between Canadian GAAP and US GAAP for certain items on the consolidated balance sheets, statements of operations and deficit and statements of cash flows are as follows:

	2003	2002
	\$	\$
<b>CONSOLIDATED STATEMENTS OF OPERATIONS</b>		
Loss for the year under Canadian GAAP	(3,418,418)	(1,440,106)
Mineral properties and deferred costs for the year (i)	(1,812,540)	(1,266,555)
Mineral properties and deferred costs written off during the year which would have been expensed in the year incurred (i)	776,626	-
Stock-based compensation (iii)	(144,000)	(102,150)
	-----	-----
Loss for the year under US GAAP	(4,598,332)	(2,808,811)
Unrealized gains on available-for-sale securities (ii)	434,346	54,740
	-----	-----
Comprehensive loss (iv)	(4,163,986)	(2,754,071)
	=====	=====
Loss per share under US GAAP	(0.14)	(0.12)
	=====	=====
Diluted loss per share under US GAAP	(0.14)	(0.12)
	=====	=====

	2003	2002
	\$	\$
<b>SHAREHOLDERS' EQUITY</b>		
Balance per Canadian GAAP	11,671,350	7,324,138
Mineral properties and deferred costs expensed (i)	(6,883,641)	(5,847,727)
Accumulated other comprehensive income (ii)	489,086	54,740
	-----	-----
Balance per US GAAP	5,276,795	1,531,151
	=====	=====

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10. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (continued)

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	2003	2002
	\$	\$
MINERAL PROPERTIES AND DEFERRED COSTS		
Balance per Canadian GAAP	6,883,641	5,847,727
Mineral properties and deferred costs expensed under US GAAP (i)	(6,883,641)	(5,847,727)
	-----	-----
Balance per US GAAP	-	-
	=====	=====

	2003	2002	2001
	\$	\$	\$
CONSOLIDATED STATEMENTS OF CASH FLOWS			
OPERATING ACTIVITIES			
Cash used per Canadian GAAP	(1,387,642)	(1,306,211)	(898,405)
Mineral properties and deferred costs (i)	(1,850,761)	(1,266,555)	(1,320,777)
	-----	-----	-----
Cash used per US GAAP	(3,238,403)	(2,572,766)	(2,219,182)
	=====	=====	=====

	2003	2002	2001
	\$	\$	\$
INVESTING ACTIVITIES			
Cash used per Canadian GAAP	(1,872,636)	(1,277,756)	(1,311,823)
Mineral properties and deferred costs (i)	1,850,761	1,266,555	1,320,777
	-----	-----	-----
Cash provided (used) per US GAAP	(21,875)	(11,201)	8,954
	=====	=====	=====

i) Mineral properties and deferred costs

Mineral properties and deferred costs are accounted for in accordance with Canadian GAAP as disclosed in Note 3. For US GAAP purposes, the Company expenses acquisition and exploration costs relating to unproven mineral properties as incurred. When proven and probable reserves are determined for a property, subsequent exploration and development costs of the property are capitalized. The capitalized costs of such properties would then be assessed, on a periodic basis, to determine whether the carrying value can be recovered on an undiscounted cash flow basis. If the carrying value cannot be recovered on this basis, the mineral properties would be written down to fair value determined using discounted cash flows.

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### ii) Investments

The Company's marketable securities are classified as available-for-sale investments under US GAAP and carried at the lower of cost and market value for Canadian GAAP purposes. Such investments are not held principally for the purpose of selling in the near term and, for US GAAP purposes, must have holding gains and losses reported as a separate component of shareholders' equity until realized or until an other than temporary impairment in value occurs.

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### 10. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (continued)

#### iii) Accounting for stock-based compensation

For US GAAP purposes, the Company accounted for stock-based employee compensation arrangements using the intrinsic value method prescribed in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" until 2003.

Under US GAAP, when stock options are cancelled and immediately reissued at a revised price (the "Repricing"), these options are accounted for as variable compensation from the date of the Repricing. Under this method, following the repricing date, compensation expense is recognized when the quoted market value of the Company's common shares exceeds the amended exercise price. Should the quoted market value subsequently decrease, a recovery of a portion, or all of the previously recognized compensation expense, will be recognized.

During fiscal 2003, for US GAAP purposes, the Company has prospectively adopted the fair based method of accounting for stock-based compensation in accordance with FAS 148. This application is consistent with the early application of CICA 3870 under Canadian GAAP (Note 3). Accordingly there is no difference on accounting for stock-based compensation under Canadian and US GAAP.

#### iv) Comprehensive income

US GAAP requires disclosure of comprehensive income (loss) which is intended to reflect all other changes in equity except those resulting from contributions by and payments to owners.

#### v) New Accounting Standards

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In May 2003, the FASB issued Statement No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" ("SFAS No. 150"), which addresses how to classify and measure certain financial instruments with characteristics of both liabilities (or assets in some circumstances) and equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. Adoption of SFAS No. 150 on July 1, 2003 had no impact on the Company's financial position and results of operations.

In January 2003, the FSAB issued Interpretation No. 46 "Consolidation of Variable Interest Entities" ("FIN No. 46") (revised December 2003). FIN No. 46 clarifies the application of Accounting Research Bulletin No. 51 "Consolidated Financial Statements" to only certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the equity to finance its activities without additional subordinated financial support from other parties. FIN No. 46 applies immediately to variable interest entities created after January 31, 2003, and the variable interest entities obtained after that date. It applies at the end of the first annual reporting period beginning after June 15, 2003, to variable interests in which an enterprise holds a variable interest which was acquired before February 1, 2003. Adoption of FIN No. 46 on January 1, 2004 will not materially impact the Company's financial position or results of operations.

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10. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (continued)

A similar guideline has been introduced in Canada, Accounting Guideline 15 "Consolidation of Variable Interest Entities". This guideline applies to annual and interim periods beginning on or after November 1, 2004. The Company is continuing to evaluate the potential impact of Accounting Guideline 15.

In July 2003, the CICA released Section 1100 "Generally Accepted Accounting Principles". This new section establishes standards for financial reporting in accordance with generally accepted accounting principles. It describes what constitutes Canadian GAAP and its sources, replacing "Financial Statement Concepts" paragraph 1000.59-61. Also, in July 2003, the CICA released Section 1400, "General Standards of Financial Statement Presentation". This section clarifies what constitutes fair presentation in accordance with Canadian GAAP. Both these sections are effective for fiscal years

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beginning on or after October 1, 2003 and the Company is currently evaluating their impact.

### 11. SUPPLEMENTARY CASH FLOW INFORMATION

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

	2003	2002
	\$	\$
Investing activities		
Proceeds on disposition of mineral properties	(272,982)	-
Acquisition of marketable securities	272,982	-
	-----	-----
	-	-
	=====	=====
Financing activities		
Finder's fees payable	-	(5,000)
Shares issued for payment of finder's fees	-	5,000
Shares issued on exercise of options	74,379	-
Contributed surplus	(74,379)	-
	-----	-----
	-	-
	=====	=====
Other supplementary cash flow information:		
	2003	2002
	\$	\$
Interest paid in cash	-	-
	-----	-----
Income taxes paid in cash	-	-
	-----	-----

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### 12. SUBSEQUENT EVENTS

- a) In March 2004, Minera Aquiline Argentina S.A., a wholly-owned subsidiary of Aquiline Resources Inc., commenced a legal proceeding against the Company, asserting that the Company unlawfully used confidential information, and is seeking a constructive trust over the Navidad Project and other surrounding properties in Chubut Province, Argentina. The

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Company is defending this action and, as at the date of the Auditor's Report, the outcome is not determinable.

- b) On May 3, 2004, the Company announced a corporate restructuring which would have the result of dividing its existing portfolio of mineral properties into two separate public companies. Following the corporate restructuring the Company will continue to hold the Navidad project, while the newly created company will hold all other mineral property interests. The proposed reorganization of the Company will be accomplished by way of a statutory plan of arrangement and is subject to shareholder, regulatory and court approvals.
- c) Subsequent to December 31, 2003, the Company:
  - (i) completed a brokered private placement of 1,500,000 units at \$3.10 per unit, for proceeds of \$4,307,500 net of \$279,000 agent's commission and \$63,500 of related issue costs. Each unit consisted of one common share and one half non-transferable share purchase warrant. Each whole warrant entitles the holder to purchase a common share for \$3.70 per share on or before February 23, 2005. The Company also issued 200,000 units, at a recorded amount of \$620,000 to its agent;
  - (ii) granted 1,462,000 stock options for \$3.10 per share to its directors, employees and consultants for a period of five years; and
  - (iii) issued 2,634,291 common shares for \$2,308,015 on the exercises of stock options and warrants.