

**Sur American  
Gold Corporation**  
**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2005 and 2004**

*The interim consolidated financial statements which follow are prepared by management and are neither audited nor reviewed by the Company's auditors.*

# Sur American Gold Corporation

## INTERIM CONSOLIDATED BALANCE SHEETS

	March 31, 2005 <u>(Unaudited)</u>	December 31, 2004 <u>(Audited)</u>
<b>ASSETS</b>		
CURRENT ASSETS		
Cash	\$ 1,939,055	\$ 2,171,284
Amounts receivable and advances	21,394	16,123
Prepaid expenses	<u>6,766</u>	<u>6,766</u>
	1,967,215	2,194,173
DEFERRED EXPLORATION COSTS (Note 3 and Schedule)	2,854,225	-
INVESTMENTS IN AND ADVANCES TO AFFILIATES (Note 3)	-	3,496,793
CAPITAL ASSETS	<u>275,785</u>	<u>49,393</u>
	\$ <u>5,097,225</u>	\$ <u>5,740,359</u>
<b>LIABILITIES</b>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 424,960	\$ 293,132
Loans payable	<u>43,936</u>	<u>43,936</u>
	468,896	337,068
NON-CONTROLLING INTEREST IN SUBSIDIARIES	<u>342,188</u>	<u>211,326</u>
	<u>811,084</u>	<u>548,394</u>
<b>SHAREHOLDERS' EQUITY</b>		
SHARE CAPITAL (Note 4)	13,700,863	13,574,085
CONTRIBUTED SURPLUS	1,947,612	1,966,290
RETAINED EARNINGS (DEFICIT)	<u>(11,362,334)</u>	<u>(10,348,410)</u>
	<u>4,286,141</u>	<u>5,191,965</u>
	\$ <u>5,097,225</u>	\$ <u>5,740,359</u>
GOING CONCERN AND NATURE OF OPERATIONS (Note 1)		
SUBSEQUENT EVENT (Note 9)		

*See accompanying summary of accounting policies and notes to interim consolidated financial statements.*

Approved by the Board “J. Rennie Blair” Director “Alicia Nicholson” Director

# Sur American Gold Corporation

## UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

	Three months ended March 31,	
	2005	2004
EXPENSES		
Bank charges and interest	\$ 278	\$ 503
Depreciation and amortization	4,298	4,967
Foreign exchange loss	2,606	6,454
Interest on loan payable	2,407	11,260
Legal and professional	22,964	19,891
Office and miscellaneous	7,069	6,838
Regulatory and shareholder costs	37,233	42,704
Rent	10,125	6,000
Salaries and benefits	19,722	32,202
Telephone and fax	2,461	1,983
Travel and accommodations	4,504	1,400
Stock-based compensation	-	1,445,095
INCOME (LOSS) BEFORE OTHER ITEM	<u>(113,667)</u>	<u>(1,579,297)</u>
OTHER ITEM		
Interest income	<u>443</u>	<u>105,231</u>
NET INCOME (LOSS) BEFORE NON-CONTROLLING INTEREST	(113,224)	(1,474,066)
NON-CONTROLLING INTEREST	<u>340</u>	<u>-</u>
NET INCOME (LOSS) FOR THE PERIOD	(112,884)	(1,474,066)
RETAINED EARNINGS (DEFICIT), beginning of period	<u>(10,348,410)</u> <u>(10,461,294)</u>	<u>(8,906,411)</u> <u>(10,380,477)</u>
CUMULATIVE EFFECT OF ADOPTION OF NEW ACCOUNTING STANDARD (Note 3)	<u>(901,040)</u>	<u>-</u>
RETAINED EARNINGS (DEFICIT), end of period	\$ <u>(11,362,334)</u>	\$ <u>(10,380,477)</u>
EARNINGS (LOSS) PER SHARE, basic and diluted	\$ <u>(0.00)</u>	\$ <u>(0.03)</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – basic and diluted	<u>62,712,447</u>	<u>57,352,180</u>

See accompanying summary of accounting policies and notes to interim consolidated financial statements.

# Sur American Gold Corporation

## UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOW

	Three months ended March 31,	
	2005	2004
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net income (loss) for the period	\$ (112,884)	\$ (1,474,066)
Adjustments to reconcile net cash provided by (used in) operating activities		
Depreciation and amortization	16,857	4,967
Stock-based compensation	–	1,445,095
Unpaid interest income	–	(101,902)
Non-controlling interest in subsidiary	(340)	–
Decrease (increase) in		
Amounts receivable and advances	(5,271)	1,822
Increase (decrease) in		
Accounts payable and accrued liabilities	<u>131,918</u>	<u>130,400</u>
	<u>30,280</u>	<u>6,316</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Cash held in subsidiaries at beginning of period	127,027	–
Purchase of capital assets	(49,570)	(7,235)
Advances to affiliates	–	(171,453)
Expenditures on deferred exploration costs	<u>(448,066)</u>	<u>–</u>
	<u>(370,609)</u>	<u>(178,688)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Proceeds from issuances of common shares	108,100	866,500
Share issue costs paid	<u>–</u>	<u>(121,306)</u>
	<u>108,100</u>	<u>745,194</u>
<b>INCREASE (DECREASE) IN CASH DURING THE PERIOD</b>	(232,229)	572,822
CASH, beginning of period	<u>2,171,284</u>	<u>935,315</u>
CASH, end of period	\$ <u>1,939,055</u>	\$ <u>1,508,137</u>

See Note 8.

*See accompanying summary of accounting policies and notes to interim consolidated financial statements.*

# Sur American Gold Corporation

## INTERIM CONSOLIDATED SCHEDULE OF DEFERRED EXPLORATION COSTS

	Panag, Suriganon And Tagpura	Batoto	T'Boli	Total
ACQUISITION COSTS	\$ <u>294,738</u>	\$ <u>267,735</u>	\$ <u>385,244</u>	\$ <u>947,717</u>
DEFERRED EXPLORATION COSTS				
Balance, beginning of period	<u>703,282</u>	<u>445,811</u>	<u>477,100</u>	<u>1,626,193</u>
Incurred during the period				
Administration and general	78,333	13,474	9,399	101,206
Assaying	-	2,408	-	2,408
Community development	6,511	6,301	6,965	19,777
Consultants	21,232	41,504	4,112	66,848
Depreciation and amortization	8,519	2,476	1,564	12,559
Environmental rehabilitation	-	-	2,963	2,963
Geological	8,267	17,477	2,398	28,142
Taxes, licenses and fees	1,106	1,673	8,632	11,411
Transportation	3,247	11,595	12,566	27,408
Travel	<u>5,417</u>	<u>462</u>	<u>1,714</u>	<u>7,593</u>
	<u>132,632</u>	<u>97,370</u>	<u>50,313</u>	<u>280,315</u>
Balance, end of period	<u>835,914</u>	<u>543,181</u>	<u>527,413</u>	<u>1,906,508</u>
	\$ <u>1,130,652</u>	\$ <u>810,916</u>	\$ <u>912,657</u>	\$ <u>2,854,225</u>

# Sur American Gold Corporation

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### March 31, 2005

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#### 1. GOING CONCERN AND NATURE OF OPERATIONS

Sur American Gold Corporation (the "Company") is incorporated under the laws of the Province of Alberta. Its principal business activity is natural resource exploration, presently focusing on unproven mineral interests located in the Philippines.

For the period ended March 31, 2005, the Company incurred a net loss of \$112,884 (December 31, 2004 - \$1,441,999) and as at March 31, 2005, had a deficit of \$11,362,334 (December 31, 2004 - \$10,348,410). The Company's ability to continue in operation is dependent on its ability to secure additional financing to fund ongoing administrative, planned exploration and expenditures, and while it has been successful in doing so in the past, there can be no assurance that it will be able to do so in the future.

These consolidated financial statements are prepared on a going concern basis, which contemplates that the Company will continue to realize its assets and discharge its liabilities in the normal course of business. Accordingly, these consolidated financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and settle its liabilities in other than the normal course of business, possibly at amounts different from those presented in these consolidated financial statements.

#### 2. ACCOUNTING POLICIES

##### **Basis of presentation**

These interim consolidated financial statements are presented using accounting principles and methods of application consistent with those applied to the year ended December 31, 2004, except that the following accounting policies were adopted on January 1, 2005, due to the adoption of a new accounting standard discussed in Note 3.

These interim financial statements should be read in conjunction with the December 31, 2004, annual financial statements.

##### **Basis of consolidation**

These interim consolidated financial statements include the accounts of the Company, its wholly-owned subsidiary, Exploradora La Esperanza S.A., its 70% owned subsidiary Sabena Limited and 100% of three Philippine corporations as required under CICA Accounting Guideline 15, Philco Mining Corporation, Batoto Resources Corporation and TMC Tribal Mining Corporation. All intercompany transactions and balances are eliminated on consolidation.

##### **Impairment in 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.

##### **Asset retirement obligation**

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 March 31, 2005, the Company does not have any asset retirement obligation.

### 3. ADOPTION OF NEW ACCOUNTING STANDARD

On January 1, 2005, the Company adopted Accounting Guideline 15 Consolidation of Variable Interest Entities ("ACG-15"), of the Canadian Institute of Chartered Accountants' Handbook. The adoption of AcG-15 required the Company to consider whether it held interests in other entities that expose the Company to the majority of the financial risk of those entities. In cases where the Company determines it is the "primary beneficiary" of another entity, consolidation of that entity is required.

The Company has determined that its investments in and advances to its Philippine affiliates meet the consolidation criteria of AcG-15, though the Company continues to hold a 40% voting interest in these entities. The Company has not otherwise changed its legal relationship with these entities, as Philippine law prohibits foreign corporations from holding a greater than 40% equity interest in natural resource exploration ventures.

The Company has adopted AcG-15 effective on January 1, 2005, and as permitted by the standard, did so on a retroactive basis without restatement of the comparative periods.

As a consequence of adopting AcG-15, the Company has eliminated, on consolidation, certain previously recognized financial statement line items, in particular the investments in and advances to the Philippine affiliates, and has recognized certain new line items, in particular the deferred exploration costs. In addition, the Company has eliminated the previously recognized interest income earned on the advances, which represents a charge to retained earnings of \$ 901,040 as at January 1, 2005.

### 4. SHARE CAPITAL

Authorized

Unlimited common shares without par value

	Three months ended March 31, 2005		Year ended December 31, 2004	
	Shares	\$	Shares	\$
Issued				
Beginning of period	62,636,114	\$ 13,848,828	50,379,348	\$ 9,900,824
Common shares issued for:				
Private placements	—	—	1,074,766	1,150,000
Exercise of warrants	458,000	91,600	7,702,000	1,728,700
Exercise of stock options	110,000	35,178	3,350,000	994,334
Acquisition of subsidiary	—	—	—	—
Settlement of debt	—	—	130,000	74,970
	63,204,114	13,975,606	62,636,114	13,848,828
Less: Share issue costs	—	274,743	—	274,743
	<u>63,204,114</u>	<u>\$ 13,700,863</u>	<u>62,636,114</u>	<u>\$ 13,574,085</u>

At March 31, 2005, the Company had outstanding warrants issued, pursuant to various private placements, which may be exercised to purchase 1,759,626 common shares. The warrants expire at various dates through April 2006

## Sur American Gold Corporation

### NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2005

4. **SHARE CAPITAL** (continued)

Details of warrants issued during the period ending March 31, 2005 and years ended December 31, 2004 are as follows:

	Three months ended March 31, 2005	Year ended December 31, 2004
Issued, beginning of period	2,217,626	9,350,000
Issued pursuant to private placements	-	569,626
Exercised	<u>(458,000)</u>	<u>(7,702,000)</u>
	<u>1,759,626</u>	<u>2,217,626</u>

The following table summarizes information about warrants issued and exercisable at March 31, 2005.

Exercise price	Warrants outstanding	Expiry date
\$ 0.50	1,190,000	November 19, 2005
1.07	32,243	April 30, 2006
1.07 <sup>(1)</sup>	<u>537,383</u>	April 30, 2006
	<u>1,759,626</u>	

<sup>(1)</sup> \$ 1.55 after April 30, 2004, and \$ 2.10 after April 30, 2005

5. **STOCK-BASED COMPENSATION**

The Company has an incentive stock option plan (the "Plan"). Under the Plan a total of 10% of the Company's outstanding common shares are reserved for the issuance of stock options to directors, officers, employees and consultants. The terms of the option and the option price are fixed by the directors at the time of grant subject to price restrictions imposed by the TSX Venture Exchange. Stock options awarded have a maximum term of five years and vest on the date of award.

The following is a summary of the total number of stock options outstanding:

	Options outstanding	Weighted average exercise price
Balance at January 1, 2004	4,950,000	\$ 0.19
Awarded	5,900,000	0.67
Expired	(85,000)	1.00
Cancelled	(1,510,000)	0.45
Exercised	<u>(3,350,000)</u>	<u>0.45</u>
Balance at January 1, 2005	5,905,000	\$ 0.19
Awarded	-	-
Expired	-	-
Cancelled	-	-
Exercised	<u>(110,000)</u>	<u>0.15</u>
Balance at March 31, 2005	<u>5,795,000</u>	<u>0.19</u>

# Sur American Gold Corporation

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### March 31, 2005

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#### 5. STOCK-BASED COMPENSATION (continued)

The following summarizes information about stock options outstanding at March 31, 2005:

Exercise price	Number outstanding and exercisable	Expiry date
\$ 0.10	50,000	May 2007
0.11	465,000	September 2008
0.15	40,000	September 2008
0.45	740,000	December 2008
0.40	<u>4,500,000</u>	September 2009
	<u>5,795,000</u>	

The fair value of stock options awarded to employees, directors and consultants was estimated on the dates of award using the Black-Scholes option pricing model with the following assumptions:

	March 31, 2005	December 31, 2004
Risk-free interest rate	-	3.0%
Estimated volatility	-	116%
Expected life	-	5 years

The average fair value of stock options awarded during the 2004, calculated using the Black-Scholes option pricing model, was \$ 0.27.

The Black-Scholes option pricing model was developed for use in estimating the fair value of stock options that have no vesting provisions and are fully transferable. Also, option-pricing models require the use of estimates and assumptions including the expected volatility. The Company uses expected volatility rates which are based upon historical volatility rates. Change in the underlying assumptions can materially affect the fair value estimates.

#### 6. RELATED PARTY TRANSACTIONS

Included in amounts receivable and advances is \$ 1,519 (December 31, 2004 - \$ 1,519) due from directors.

Included in accounts payable and accrued liabilities is \$ 120,047 (December 31, 2004 - \$ 185,672) payable to directors and a corporation controlled by a director.

The Company paid gross rent of \$6,000 to a director during the period.

# Sur American Gold Corporation

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### March 31, 2005

#### 7. SEGMENTED INFORMATION

The Company's corporate assets are located in Canada and the Company has investments in and advances to corporations located in the Philippines and Australia and natural resource exploration activities have occurred in Colombia in past years.

	Mar 2005				
	Canada	Australia	Philippines	Colombia	Consolidated
Current assets	\$ 1,757,764	\$ 2,509	\$ 200,014	\$ 6,928	\$ 1,967,215
Deferred exploration costs	–	–	2,854,225	–	2,854,225
Capital assets	<u>35,940</u>	<u>–</u>	<u>228,475</u>	<u>11,370</u>	<u>275,785</u>
	\$ <u>1,793,704</u>	\$ <u>2,509</u>	\$ <u>3,282,714</u>	\$ <u>18,298</u>	\$ <u>5,097,225</u>
	Dec 2004				
	Canada	Australia	Philippines	Colombia	Consolidated
Current assets	\$ 2,181,794	\$ 5,451	\$ –	\$ 6,928	\$ 2,194,173
Investments in and advances to affiliates	–	–	3,496,793	–	3,496,793
Capital assets	<u>38,023</u>	<u>–</u>	<u>–</u>	<u>11,370</u>	<u>49,393</u>
	\$ <u>2,219,817</u>	\$ <u>5,451</u>	\$ <u>3,496,793</u>	\$ <u>18,298</u>	\$ <u>5,740,359</u>

#### 8. SUPPLEMENTAL CASH FLOW INFORMATION

The Company has conducted non-cash financing activities as follows:

	Mar 2005	Dec 2004
Investing activities		
Acquisition of subsidiary	\$ –	\$ –
Financing activities		
Debt settled for common shares	–	74,970
Shares issued to settle debt	<u>–</u>	<u>(74,970)</u>
	\$ <u>–</u>	\$ <u>–</u>

The Company has paid interest of \$ Nil (December 31, 2004 - \$ 24,060).

#### 9. SUBSEQUENT EVENT

Subsequent to March 31, 2005, the Company:

- Proposed to acquire the remaining 30% equity interest in Sabena Limited, that is presently held by two directors, in exchange for the issue of 10,000,000 common shares from treasury. The TSX Venture Exchange has conditionally approved the purchase subject to filing of additional documentation and ratification of the proposal by the Company's shareholders. The Company intends to table this matter at the Company's next Annual General Meeting, which is scheduled to be held on June 17, 2005.

# **SUR AMERICAN GOLD CORPORATION**

## **MANAGEMENT DISCUSSION AND ANALYSIS FOR THE FINANCIAL PERIOD ENDED MARCH 31, 2005**

### **Background**

This discussion and analysis of financial position and results of operation is prepared as at May 27, 2005, and should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2004 and 2003, of Sur American Gold Corporation (the "Company") where necessary. Those financial statements have been prepared in accordance with Canadian generally accepted accounting policies.

### **Company Overview**

The Company is a junior mineral exploration company engaged in the exploration and development of gold projects located in the Philippines. The Company is currently focusing its financial resources in conducting an exploration program for gold and gold-copper in its Comval and T'Boli Projects. As of the date of the MD&A, the Company has not earned any production revenue, but has commenced a long term trial mining and metallurgical test program which is significant enough to produce refined gold (99.99%). Subject to necessary Philippine regulatory approvals the Company intends to continue and expand its trial mining and metallurgical test program in order to generate realistic data suitable for full feasibility studies designed to ascertain the commercial viability of the various mineral deposits. The Company has yet to establish any resources or reserves as no drilling has been undertaken. However the Company has announced that it intends to undertake a two-stage 12,000 metre drilling program at its Batoto Gold project commencing in June 2005. Upon completion of the initial drilling program the Company may be in a position to commence resource estimates and therefore initial feasibility studies.

Based on the results from the initial programs at Batoto, the Company has set two main corporate goals. First, it plans a small high grade operation and then progressively expand this operation as further resources are identified and second and more importantly to establish the extent of the lower grade intervening mineralization. The Company has set two goals for 2005-2006: The building and commissioning of the small plant and determining the full extent of mineralized zone(s) by systematic geological mapping, extensive sampling and drilling.

### **Forward Looking Statements**

Certain information included in this discussion may constitute forward-looking statements. Forward-looking statements are based on current expectations and entail various risks and uncertainties. These risks and uncertainties could cause or contribute to actual results that are materially different than those expressed or implied. The Company disclaims any obligation or intention to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

### **Exploration Projects- Philippines**

### **Results of Work Completed During the Period**

In order to achieve one of its corporate goals, a feasibility Study for an initial small scale (50 t/d) CIP plant at Comval was completed during the quarter and submitted to the Philippines Government. In addition A **Memorandum of Agreement** ("MOA") granting "**Free and Informed Prior Consent**" ("FPIC") for mineral exploration, development and production at Comval has been signed with local Indigenous Peoples under the auspices of the National Commission on Indigenous Peoples ("NCIP"). The granting of the FPIC is an essential prerequisite to being granted permission to proceed to mining in the Philippines.

An **Environmental Impact Study** ("EIS") has also been completed and submitted to the Environmental Management Bureau ("EMB"). A first field visit by the EMB and other Government agencies and local organizations is scheduled for early June. This is part of the review and approval process for CIP plant construction and operation.

The source of the mineralization will be the numerous high grade gold veins within the Batoto porphyry, many of which have returned local grades in excess of 100g/t gold. Construction is expected to commence by the fourth quarter, 2005, with commissioning during the first quarter 2006. The estimated cost of the operation is approximately \$Can 400,000, which will be provided by the treasury of the Company.

As stated above, whilst the high grade operation is an important objective and will assist the Company financially, the major corporate goal of the Company is to aggressively explore and delineate the ultimate extent of the Batoto gold-silver-copper porphyry.

As result of continued geological fieldwork, the Batoto porphyry system is now believed to cover an area of approximately 70 sq km. The system encompasses the Tagpura copper-gold belt to the east and extends more than 10 km to Mainat in the west. The north south extent is at least 7km and includes the Suriganonon polymetallic veins and stockworks several km north of where the initial drilling will start.

Results from prospecting several km to the west and north of the new Santa Fe gold-silver-copper discovery suggest that the limits of this porphyry system may extend considerably further than previously believed. Sampling is in progress in these areas.

In order to determine the extent of the new gold-silver-copper porphyry at Santa Fe, a further geophysical survey to undertake approx. 50 line km of induced polarization and magnetic surveys will commence in early July. A contract for this work was recently signed. Drilling is expected to follow a complete review of the results of the survey.

The Company is currently collecting a representative 60 tonne bulk sample of the new gold-silver-copper porphyry discovery in Batoto Creek for metallurgical purposes and to ascertain the overall grade. This sampling is being undertaken over an interval of nearly 200 metres. Once completed, this bulk sample will be processed. This 60 tonne sample follows very encouraging gold, silver and copper results of an earlier 11 tonne sample.

## **TARALE ZONE**

A 300 metre channel up the side of the hill which exposes the mostly gently dipping Tarale veins in the SE sector of the Batoto porphyry has commenced. The first 84 metres of this channel (which **does not** include the high grade Tarale 6, 7, 8, 10, 11 and 12 veins) gave a weighted average grade of 1.25g/t gold. Inclusion of the high grade larger veins would considerably increase the overall grade.

## **CLARK ZONE**

A new vein discovery was discovered about 50 metres north east of the entrance to the Clark crosscut. A channel sample cut across the vein returned a true width of 1 metre grading 69.1 g/t gold. Follow up exploration has commenced. This vein is in addition to the more than 100 larger veins already discovered within the Batoto porphyry.

A recent landslip on the lower slopes of Batoto Mountain has revealed a previously unknown strongly mineralized area of gold mineralization within the lower levels of the Batoto porphyry. This new outcrop measures more than 40 metres wide and initial sampling has returned a grade of 3.1g/t gold from initial chip sampling across the landslip area. Follow-up sampling is underway to confirm this new discovery. This new area further extends the limits of potentially economic bulk mineable gold mineralization from an elevation of 900 metres above sea level to this lower elevation of 480 metres, a vertical distance of more than 400 metres.

The Company anticipates mobilizing a Longyear 44 drill rig to Comval by mid June, 2005, subject to finalization of a contract. The initial drilling at the Batoto porphyry will consist of a two stage program totaling 12,000 metres.

## **COPPER-GOLD PORPHYRY DEPOSITS OF TAGPURA, TAGPURA SOUTH, MA-ANGOB AND KALAMATAN**

Limited geological work was undertaken at the Tagpura copper-gold deposit during the quarter. This work consisted of further bench mapping and sampling in and around the high grade copper-gold massive sulphide lenses. This work continued to show the presence of wide areas of low grade (0.5g/t to 1.5g/t ) gold mineralization adjacent to the high grade bodies.

The Tagpura deposit comprises both gold-rich copper porphyry and many multiple, semi-parallel, high grade strata bound copper-gold-silver lenses, occurring within a 400 metre wide 1500 metre long zone defined by a pronounced IP (induced polarization anomaly). The deposit is open to the south and at depth and represents a major and high potential drilling target.

Based on three dimensional reinterpretation of a previous geophysical survey, an unknown and potentially large target has been discovered south of the Tagpura deposit. It is the intent of the Company to confirm this target by a new geophysical survey and to test that target by drilling at a date to be decided.

## **T'BOLI GOLD PROJECT**

This is a steeply dipping gold bearing epithermal vein system located in South Cotabato Province in south Mindanao Island. Previous work by Sabena Limited personnel included drilling 23 core holes totalling 7,050 metres. The drilling and underground development work outlined an Inferred Resource of 2.4 million tonnes grading 55 g/t gold and 21 g/t silver containing 420,000 ozs of gold and 1.6 million ozs of silver.

The veins tested by drilling and underground development are all open at depth and also along strike. Several more gold veins occur nearby which have not yet been tested.

The Company is currently commissioning a 15t/d CIP plant that it purchased in late 2004. The purpose of this plant is to obtain further detailed metallurgical information as part of the overall corporate goal of commencing a feasibility study after further infill drilling has been completed.

No geological work was undertaken during the period.

### Free and Informed Prior Consent (FPIC)

During the period most of the work at T'Boli consisted of arranging meetings with the local indigenous peoples in order to obtain a **Memorandum of Agreement** ("MOA") granting **'Free and Informed Prior Consent'** ("FPIC") for mineral exploration, development and production at T'Boli under the auspices of the National Commission on Indigenous Peoples ("NCIP"). The granting of the FPIC is an essential prerequisite to being granted permission to proceed to mining in the Philippines. The agreement was being prepared at the end of the quarter.

### Selected Financial Data

(CDN \$ in 000, except per share data)

The following selected financial information is derived from the audited annual consolidated financial statements of the Company prepared in accordance with Canadian GAAP.

	Years ended December 31,		
	2004 \$	2003 \$	2002 \$
Operations:			
Revenues	-	-	-
Income (loss)	(1,442)	(1,227)	(539)
Income (Loss) per share	(0.03)	(0.03)	(0.02)
Dividends per share	-	-	-
Balance Sheet:			
Working capital	1,857	188	(14)
Total assets	5,740	2,855	142
Total Long-term liabilities	-	-	-

The following selected financial information is derived from the unaudited consolidated interim financial statements of the Company prepared in accordance with Canadian GAAP.

	2005		2004			2003				
	Mar.31 \$	Dec.31 \$	Sept.30 \$	June 30 \$	Mar.31 \$	Dec.31 \$	Sept.30 \$	Jun.30 \$	Mar.31 \$	
Operations:										
Revenues	-	-	-	-	-	-	-	-	-	
Net income (loss)	(113)	(1,442)	(1,551)	(1,476)	(1,474)	(1,226)	(112)	(74)	(80)	
Income (loss) per share	(0.00)	(0.03)	(0.03)	(0.03)	(0.03)	(0.00)	(0.00)	(0.00)	(0.00)	

Dividends per share	-	-	-	-	-	-	-	-	-
Balance Sheet:									
Working capital	1,498	1,857	1,366	1,537	624	188	(41)	363	453
Total assets	5,097	5,740	4,688	4,784	3,706	2,855	1,428	1,045	612
Total long-tem liabilities	-	-	-	-	-	-	354	1,027	1,027

## Results of Operations

During the period ended March 31, 2005, the Company recorded a loss of \$112,884 compared with a loss of \$1,474,066 for the comparable 2004 period.

The difference of \$1,361,182 was due to a decrease in interest income of \$104,788, mainly from loans made by the Company to the Philippine corporations, as well as decreases in bank charges and interest of \$225, depreciation and amortization of \$669, foreign exchange loss of \$3,848, interest on loans payable of \$8,853, regulatory and shareholders costs of \$5,471, salaries and benefits of \$12,480, and stock based compensation expense of \$1,445,095. These decreases were offset by increases in legal and professional of \$3,073, office and miscellaneous of \$231, rent \$4,125, telephone and fax \$478, and travel and accommodation of \$3,104.

The decrease in interest income is the result of the Company adopting Accounting Guideline 15, Consolidation of Variable Interest Entities ("ACG-15"), of the Canadian Institute of Chartered Accountants' Handbook, on January 1, 2005. The decreases in bank charges and interest are the result of having less money in the bank accounts. The decrease in depreciation and amortization result from a decrease in assets amounts. Foreign exchange loss is the result of adopting "ACG-15", and consolidating the Philippine Companies. Interest on loans payable is reduced as a result of the Company repaying the \$250,000 loan. The decrease in regulatory and shareholders' costs is due to a reduction in investors relations expenditures. The decrease in salaries and benefits is the result of allocating a portion of the salaries for the CEO directly to the projects in the Philippines. The decrease in stock based compensation expense of \$1,445,095 is the direct result of not having any stock options exercised in the first quarter of 2005, as opposed to 2004. The increase in legal and professional fees, office and miscellaneous, telephone and fax, and travel and accommodation, is the direct result of increased activity and regulatory and reporting changes requiring expert advice.

The Company believes that the T'Boli and Comval Projects contain demonstrated high grade veins which, based on work completed to date, have a high probability of being successfully exploited to provide significant cash flow. In this regard the company, as stated above, is working towards trial mining and processing operations at both areas in an effort to generate reliable data for the input into feasibility studies to ascertain the viability of building larger plants at both locations. Operating costs in the Philippines are generally low, and combined with the apparent high grades at both T'Boli and Comval projects, and the apparent good metallurgical characteristics of the mineralization, the Company is confident that such feasibility studies will lead to commercial mining operations, and therefore, the advances to our 40 % owned Philippine companies, and the related interest, have a very high probability of collection.

## Share Capital Transactions

During the period ended March 31, 2005 the Company completed the following share capital transactions:

- a) 110,000, stock options were exercised by a director for total cash proceeds of \$16,500.
- b) Issued 458,000 shares upon the exercise of warrants at \$0.20 for total proceeds of \$ 91,600.

### **Financial Condition and Capital Resources**

As at March 31, 2005, the company had a working capital of \$1,498,319, as compared to a working capital of \$ 1,857,105 at December 31, 2004.

The decrease in working capital is mainly the result of the Company adopting Accounting Guideline 15, Consolidation of Variable Interest Entities (“ACG-15”), of the Canadian Institute of Chartered Accountants’ Handbook, on January 1, 2005.

Anticipated capital expenditures and exploration programs, as well as administration during the next 12 months, are anticipated to total nearly \$1.5 million. Therefore the Company will need to raise additional capital, by way of a further private placement in order to meet its planned work programs.

### **Changes in Accounting principles**

#### **Stock-based Compensation**

Effective January 1, 2003, the Company adopted the fair value method of accounting for all employee and non-employee stock-based compensation under the amended recommendations of the Canadian Institute of Chartered Accountants Handbook, Section 3870, Stock-based Compensation and Other Stock-based Payments.

Under the fair value method, stock-based compensation expense is recognized at the time of award with an offsetting increase in contributed surplus.

#### **Consolidation of Variable Interest Entities**

In June 2003, the Canadian Institute of Chartered Accountants issued Accounting Guideline 15, *Consolidation of Variable Interest Entities*, which addresses the consolidation of interests in variable interest entities by the enterprise that is the primary beneficiary. A variable interest entity is an entity that does not have sufficient equity investment at risk to permit it to finance its activities without additional subordinated financial support, or whose equity investors lack the characteristics of a controlling financial interest. The primary beneficiary of a variable interest entity is the enterprise that is obligated to absorb the majority of the expected losses, if any, the expected residual returns, or both.

Accounting Guideline 15 applies to interim periods beginning on or after November 1, 2004. The Company has adopted this guidance as of January 1, 2005, and as such, the Company’s March 31, 2005, interim consolidated financial statements, include the financial position and operations of the Philippine corporations in which the Company holds a 40% equity interest, as

the Company has determined that it holds variable interests in these corporations and is the primary beneficiary.

The effect on the Company's financial statements is material as the investments in and advances to affiliates, as well as any interest income on the advances, were eliminated upon consolidation. As of January 1, 2005, the assets and liabilities of the Philippine corporations are reflected in the Company's consolidated financial statements.

### **Transactions with Related Parties**

Included in amounts receivable and advances is \$ 1,519 (December 31, 2005 - \$1,519) due from a director.

Included in accounts payable and accrued liabilities is \$ 120,047 (December 31, 2004 - \$185,672) payable to directors and a corporation controlled by a director.

During the period ending March 31, 2005, gross rent of \$ 6,000 (2004 - \$6,000) was paid to directors of the Company.

### **Risks and Uncertainties**

The company is in compliance with all material regulations applicable to its exploration activities. Existing and possible future environmental legislation, regulations, and actions, could cause additional expense, capital expenditures, restrictions, and delays in the activities of the Company, the extent of which can not be predicted. Before production can commence on any properties, the Company must obtain regulatory and environmental approvals. There is no assurance that such approvals can be obtained on a timely basis. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations.

The Company's mineral properties are located in the Philippines, and consequently are subject to certain risks, including currency fluctuations and possible political and economic instability which may result in the impairment or loss of mining title or other mineral rights, and mineral exploration and mining activities may be affected in varying degrees by political stability and governmental regulations to the mining industry.

### **Investor Relations Activities**

During the period ended March 31, 2005, the Company's expenditures for investors' relations amounted to \$ 28,605. They are included in regulatory and shareholders costs. They relate to updating the web-site, the payment of the Company's investors relations for professional fees to provide market awareness and more exposure in the retail market, the wire distribution of the Company's news releases and costs associated with designing and printing of Company brochures.

### **Outstanding Share Data**

The Company's authorized share capital is an unlimited number of shares without par value. As at March 31, 2005, there were 63,204,114 compared to 62,636,114 shares outstanding at December 31, 2004. The increase is the result of the exercise of stock options and warrants. As at March 31, 2005, there were 5,795,000 stock options outstanding, which were outstanding and exercisable, with exercise prices ranging from \$0.10 to \$0.45 per share. In addition, there

were 1,759,626 warrants outstanding and which expire between November 19, 2005 and April 30, 2006, with exercise prices between \$0.50 and \$2.10 per share.

### **Proposed Transactions**

On April 12, 2005, the Company received conditional acceptance of a transaction for the Company to acquire the remaining 30% interest in Sabena Limited that it does not own. The TSX Venture Exchange requires all relevant documentation and approval of shareholders which will be sought at the Company's AGM on June 17, 2005. The transaction involves the issuance, to two of the current directors of the Company, of 10,000,000 common shares.

Upon receiving shareholder approval the Exchange will be notified in order to receive final approval.