British Columbia

Securities Commission

# QUARTERLY AND YEAR END REPORT
## BC FORM 51-901F (previously Form 61)

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INCORPORATED AS PART OF:

**X** Schedule A

**X** Schedules B and C

(Place X in appropriate category.)

ISSUER DETAILS

| NAME OF ISSUER | FOR QUARTER ENDED | DATE OF REPORT YY/MM/DD |
|---|---|---|
| **MADISON ENTERPRISES CORP.** | **JULY 31, 2004** | **2004/09/22** |

ISSUER'S ADDRESS

Suite 2000 – 1055 West Hastings Street

| CITY | PROVINCE | POSTAL CODE | ISSUER FAX NO. | ISSUER TELEPHONE NO. |
|---|---|---|---|---|
| Vancouver, | B.C. | V6E 2E9 | (604) 331-8773 | (604) 331-8772 |

| CONTACT PERSON | CONTACT'S POSITION | CONTACT TELEPHONE NO. |
|---|---|---|
| James G. Stewart | Secretary | (604) 331-8772 |

| CONTACT EMAIL ADDRESS | WEB SITE ADDRESS |
|---|---|
| Jstewart@mine-tech.com | www.madison-enterprises.com |

CERTIFICATE

The three schedules required to complete this Report are attached and the disclosure contained therein has been approved by the Board of Directors. A copy of this Report will be provided to any shareholder who requests it.

| DIRECTOR'S SIGNATURE | PRINT FULL NAME | DATE SIGNED YY/MM/DD |
|---|---|---|
| *"Chet Idziszek"* | Chet Idziszek | 2004/09/22 |

| DIRECTOR'S SIGNATURE | PRINT FULL NAME | DATE SIGNED YY/MM/DD |
|---|---|---|
| *"James G. Stewart"* | James G. Stewart | 2004/09/22 |

(Electronic signatures should be entered in "quotations".)

# MADISON ENTERPRISES CORP.

# INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## Nine Months Ended July 31, 2004

### (Unaudited – Prepared by Management)

**Unaudited Interim Financial Statements**

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited financial statements for the period ended July 31, 2004.

## Madison Enterprises Corp.
**(An exploration stage company)**
## Consolidated Balance Sheets
## As at

**(expressed in Canadian dollars)**

| | July 31, 2004 | October 31, 2003 |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash and cash equivalents | **$ 507,557** | $ 664,653 |
| Marketable securities | **40,000** | 40,000 |
| Receivables | **121,861** | 241,854 |
| Prepaid expenses and deposits | **3,857** | 3,857 |
| | **673,275** | 950,364 |
| **Resource properties and deferred costs** (Note 4) | **45,165,088** | 43,271,169 |
| **Equipment** | **41,322** | 45,592 |
| | **$ 45,879,685** | $ 44,267,125 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current** | | |
| Accounts payable and accrued liabilities | **$ 265,614** | $ 128,994 |
| **Shareholders' Equity** | | |
| Capital Stock (Note 5) | | |
| Authorized | | |
| 300,000,000 common shares without par value | | |
| Issued | | |
| 85,621,583 (October 31, 2003 – 76,545,583) common shares | **58,132,878** | 55,882,956 |
| Stock options | **238,743** | 188,984 |
| Share purchase warrants | **84,477** | 150,659 |
| Contributed surplus | **1,167,167** | 1,167,167 |
| Deficit | **(14,009,194)** | (13,251,635) |
| | **45,614,071** | 44,138,131 |
| | **$ 45,879,685** | $ 44,267,125 |

**Nature and continuance of operations (note 1)**
**Subsequent event (note 9)**

**Approved by the Board**: ***"Chet Idziszek"*** Director ***"James G. Stewart"*** Director

# Madison Enterprises Corp.
**(An exploration stage company)**
## Consolidated Statements of Loss and Deficit
**(expressed in Canadian dollars, unaudited)**

| | Three Months Ended July 31, 2004 | Three Months Ended July 31, 2003 | Nine Months Ended July 31, 2004 | Nine Months Ended July 31, 2003 |
|---|---|---|---|---|
| **EXPENSES** | | | | |
| Amortization | $ 2,956 | $ 3,657 | $ 8,477 | $ 14,954 |
| Audit and accounting | 362 | 519 | 362 | 5,019 |
| Bank charges | 578 | 444 | 1,420 | 1,146 |
| Consulting fees | 13,691 | - | 36,454 | - |
| Filing fees | (16,451) | 851 | 20,558 | 29,918 |
| Insurance | - | - | 173 | 3,725 |
| Legal | 19,040 | 13,198 | 67,078 | 61,020 |
| Office and rent | 35,337 | 70,271 | 92,498 | 208,730 |
| Office cost reimbursement | - | (43,679) | - | (127,589) |
| Public relations | 48,121 | 21,417 | 112,822 | 69,204 |
| Shareholder information | - | 455 | 3,046 | 8,143 |
| Stock-based compensation (Note 5) | - | - | 160,799 | 158,853 |
| Transfer agent's fees | 1,451 | 1,327 | 9,393 | 9,139 |
| Travel | 1,793 | 3,839 | 47,113 | 17,827 |
| Wages | 81,322 | 52,841 | 202,484 | 209,717 |
| | (188,200) | (125,140) | (762,677) | (669,806) |
| **OTHER INCOME (EXPENSES)** | | | | |
| Interest earned | 2,887 | 11,767 | 8,810 | 25,204 |
| Loss on sale of marketable securities | - | (15,774) | - | (15,774) |
| Foreign exchange (loss) gain | (6,178) | 5,234 | (3,692) | 12,558 |
| | (3,291) | 1,227 | 5,118 | 21,988 |
| **Loss for the period** | (191,491) | (123,913) | (757,559) | (647,818) |
| **Deficit - Beginning of period** | (13,817,703) | (13,046,494) | (13,251,635) | (12,522,589) |
| **Deficit - End of period** | $(14,009,194) | $(13,170,407) | $(14,009,194) | $(13,170,407) |
| **Basic and diluted loss per share** | $ (0.00) | $ (0.00) | $ (0.01) | $ (0.01) |

## Madison Enterprises Corp.
**(An exploration stage company)**
## Consolidated Statements of Cash Flows

**(expressed in Canadian dollars, unaudited)**

| | Three Months Ended July 31, 2004 | Three Months Ended July 31, 2003 | Nine Months Ended July 31, 2004 | Nine Months Ended July 31, 2003 |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Loss for the period | $ (191,491) | $ (123,913) | $ (757,559) | $ (647,818) |
| Items not affecting cash | | | | |
| Amortization | 2,956 | 3,657 | 8,477 | 14,954 |
| Loss on sale of marketable securities | - | 15,774 | - | 15,774 |
| Stock-based compensation | - | - | 160,799 | 158,853 |
| Change in non-cash working capital items relating to operating activities | | | | |
| Net decrease in prepaid expenses and deposits | - | 4,285 | - | 30,000 |
| Net (increase) decrease in accounts receivable | (7,398) | (43,484) | 119,993 | (194,996) |
| Net (decrease) in accounts payable and accrued liabilities | (28,912) | (21,343) | (28,829) | (15,465) |
| | (224,845) | (165,024) | (497,119) | (638,698) |
| **CASH FLOWS FROM FINANCING ACTIVITY** | | | | |
| Capital stock issued for cash | 673,700 | - | 2,072,700 | 2,702,796 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Purchase of equipment | (1,457) | - | (4,207) | - |
| Proceeds from sale of marketable securities | - | 21,212 | - | 21,212 |
| Expenditures on resource properties | (943,654) | (565,071) | (1,728,470) | (1,387,537) |
| | (945,111) | (543,859) | (1,732,677) | (1,366,325) |
| **(Decrease) increase in cash and cash equivalents** | (496,256) | (708,883) | (157,096) | 697,773 |
| **Cash and cash equivalents - Beginning of period** | 1,003,813 | 1,668,752 | 664,653 | 262,096 |
| **Cash and cash equivalents - End of period** | $ 507,557 | $ 959,869 | $ 507,557 | $ 959,869 |

**Supplemental cash flow information (note 7)**

## 1. NATURE AND CONTINUANCE OF OPERATIONS

The Company was incorporated in the Province of British Columbia and is in the process of exploring its resource properties and has not determined whether these properties contain ore reserves that are economically recoverable. To date, the Company has not earned significant revenues and is considered to be in the exploration stage.

At July 31, 2004, the Company had working capital of $407,661, which management believes will be sufficient to meet the Company's general and administrative expenses and minimum expenditure commitments on its resource properties for the coming year. If the Company is to advance or develop its mineral properties further, it will be necessary to obtain additional funding and while the Company has been successful in the past, there can be no assurance that it will be able to do so in the future.

These interim unaudited consolidated financial statements have been prepared on a going concern basis, which assumes the Company will be able to realize assets and discharge liabilities in the normal course of business for the foreseeable future. These interim unaudited consolidated financial statements do not include the adjustments that would be necessary should the Company be unable to continue as a going concern.

The business of exploring resource properties involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable operations. The recoverability of amounts shown for resource properties is dependent upon the discovery of economically recoverable ore reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain necessary financing to complete exploration and subsequent developments, and upon future profitable production from the properties or proceeds from disposition. The amounts shown as resource properties represent net costs to date, and do not necessarily represent present or future values.

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

## 2. INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

While these interim unaudited consolidated financial statements do not conform in all respects to the requirements of generally accepted accounting principles for annual financial statements, they follow the same accounting policies and methods of their application as the most recent annual financial statements and should be read in conjunction with the consolidated financial statements for the year ended October 31, 2003.

## 3. SIGNIFICANT ACCOUNTING POLICIES

These interim unaudited consolidated financial statements follow the same accounting policies and methods of their application as the most recent annual financial statements of the Company except as described below.

Effective November 1, 2003, the Company elected to follow the fair value-based methodology for measuring all stock-based compensation. The Company had previously used the intrinsic value-based method of accounting for employee and director stock options.

## Madison Enterprises Corp.
## Notes to Interim Consolidated Financial Statements
**For the nine months ended July 31, 2004**
**(Unaudited – Prepared by Management)**

### 4. RESOURCE PROPERTIES AND DEFERRED COSTS

| | Mt. Kare Property, Papua New Guinea | Lewis Property, Nevada | Totals |
|---|---|---|---|
| Balance, October 31, 2003 | $ 41,722,002 | $ 1,549,167 | $ 43,271,169 |
| Assays | 42,244 | 63,306 | 105,550 |
| Camp/Office | 42,712 | 1,639 | 44,351 |
| Communications | 41,303 | 722 | 42,025 |
| Community Relations | 7,079 | - | 7,079 |
| Compensation Payments | 16,258 | - | 16,258 |
| Contractors-Computers/Drafting | 16,662 | 10,341 | 27,003 |
| Contractors-Geophysics | 86,308 | 6,637 | 92,945 |
| Contractors-Other | 2,392 | - | 2,392 |
| Drilling | 108,154 | 35,070 | 143,224 |
| Food Supplies and Catering | 112,177 | - | 112,177 |
| Fuel Supplies | 68,764 | - | 68,764 |
| Genealogy Study and Land Group Incorporation | 1,805 | - | 1,805 |
| Geologic Staff | 147,369 | 105,959 | 253,328 |
| Geological Supplies/Equipment | 12,313 | 559 | 12,872 |
| Helicopter | 348,378 | - | 348,378 |
| KDC Operating Budget | 4,426 | - | 4,426 |
| Land & Legal | 31,938 | 11,268 | 43,206 |
| Lawyer Fees | 40,975 | - | 40,975 |
| Licence Fees | 2,121 | 234 | 2,355 |
| Local Labour-Wages | 95,817 | - | 95,817 |
| Option Fees | - | 118,335 | 118,335 |
| Outside Contractors-Community Relations | 233,247 | - | 233,247 |
| Port Moresby Office | 22,810 | - | 22,810 |
| Property Insurance | 13,256 | 12,500 | 25,756 |
| Security | 1,432 | - | 1,432 |
| Technical reports, printing/copying | 678 | 6,236 | 6,914 |
| Travel & Accommodation | 129,194 | 14,001 | 143,195 |
| VAT Refundable | (122,700) | - | (122,700) |
| | 1,507,112 | 386,807 | 1,893,919 |
| Balance, July 31, 2004 | $ 43,229,114 | $ 1,935,974 | $ 45,165,088 |

## 5. CAPITAL STOCK

The Company's authorized share capital consists of 300,000,000 common shares without par value.

| | Number of Shares | Amount $ |
|---|---|---|
| Balance, October 31, 2003 | 76,545,583 | 55,882,956 |
| Private Placement (a) | 3,179,000 | 632,378 |
| Exercise of Stock Options | 1,075,000 | 313,040 |
| Exercise of Warrants | 4,822,000 | 1,304,504 |
| Balance, July 31, 2004 | 85,621,583 | 58,132,878 |

a) On May 18, 2004 the Company completed a brokered private placement of 3,054,000 units at a price of $0.25 per unit for cash proceeds of $673,700, net of commissions of $57,263 and share issue costs of $32,538. Each unit consists of one share and one half share purchase warrant, every full warrant entitling the purchase of one additional share of the Company at a price of $0.30 per share, if exercised on or before May 18, 2006. The agent received a cash commission of $57,263 representing 7.5% of the gross proceeds pursuant to this private placement. The agent also received a broker's warrant entitling the purchase of up to 366,480 shares of the Company with the same terms as described above, an administration fee of $7,500 (included in share issue costs described above) and a corporate finance fee of 125,000 shares. The fair value of the broker warrants is estimated to be $41,321 with a corresponding share purchase warrants amount recorded in shareholders' equity. The fair value was estimated using the Black-Scholes option pricing model with a risk-free interest rate of 3.07%, an expected life of two years, expected volatility of 81.11% and an expected dividend yield of 0.0%.

b) During the nine months ended July 31, 2004, the Company granted a 100,000 share incentive stock option exercisable at a price of $0.46 per share until December 3, 2008 and 575,000 share incentive stock options exercisable at a price of $0.35 per share until March 10, 2009. Stock-based compensation of $160,799 was recorded pursuant to the granting of these stock options.

The following assumptions were used for the Black-Scholes valuation of options granted during the current period.

| | |
|---|---|
| Risk-free interest rate | 3.5 – 4.1% |
| Expected life | 5 years |
| Annualized volatility | 77 – 79% |
| Dividend rate | 0% |

## 6. RELATED PARTY TRANSACTIONS

a) The Company incurred the following expenses with directors and a company related by way of directors in common during the nine months ended July 31, 2004, and 2003:

| | 2004<br>$ | 2003<br>$ |
|---|---|---|
| Consulting fees | 3,000 | - |
| Legal fees | 54,375 | 49,800 |
| Exploration management and other expenditures on resource assets | 25,025 | 27,224 |
| Share issue costs charged to capital stock | - | 22,844 |

b) As at July 31, 2004, accounts payable and accrued liabilities include $Nil (October 31, 2003 - $1,546) due to officers of the Company and companies related by way of directors in common.

c) During the nine months ended July 31, 2004, the Company recorded reimbursements of $Nil (2003 - $127,589) for rental of office space from companies related by way of directors in common, under rental agreements between the related companies.

d) During the nine months ended July 31, 2004, the Company funded some general and administrative expenses for companies related by way of directors in common. At July 31, 2004, receivables include $106,819 (October 31, 2003 - $223,575) due from these related companies.

## 7. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

During the period ended July 31, 2004, the Company conducted the following non-cash transactions:

a) Transferred $111,040 to capital stock on the exercise of stock options for which stock-based compensation had previously been recorded.

b) Transferred $107,504 to capital stock on the exercise of broker warrants.

c) Issued 366,480 broker warrants valued at $41,321 pursuant to a brokered private placement (Note 5a).

## 8. SEGMENTED INFORMATION

The Company has one operating segment being the exploration of resource properties located in Papua New Guinea and the United States (Note 4). All equipment is held in Canada.

## 9. SUBSEQUENT EVENT

Subsequent to July 31, 2004, the Company proposed, subject to shareholder approval and TSX Venture Exchange acceptance, to consolidate it's share capital on a one for five basis, thereby reducing the 85,621,583 shares currently outstanding to 17,124,316 shares. Upon completion of the consolidation, the Company's name will be changed to "Madison Minerals Inc."

# SCHEDULE B

## SUPPLEMENTARY INFORMATION

**MADISON ENTERPRISES CORP.**

**SUPPLEMENTARY INFORMATION**
**FOR THE NINE MONTHS ENDED JULY 31, 2004**

**1. (a) Deferred costs:**

See Schedule A – Notes to Interim Financial Statements, Note 4. *"Resource properties and deferred costs"*

**(b) Breakdown of Office and Rent costs:**

| | | |
|---|---|---|
| Office | $ | 61,995 |
| Rent | | 30,503 |
| | $ | 92,498 |

**(c) Breakdown of Public Relations costs:**

| | | |
|---|---|---|
| Expenses | $ | 4,067 |
| Fax | | 7,239 |
| Investment conferences | | 5,757 |
| Investor relations consultants | | 58,108 |
| Internet | | 29,984 |
| Printing | | 7,667 |
| | $ | 112,822 |

**2. Expenditures made to non-arm's length parties:**

See Schedule A – Notes to Interim Financial Statements, Note 6.

**MADISON ENTERPRISES CORP.**

**SUPPLEMENTARY INFORMATION**
**FOR THE NINE MONTHS ENDED JULY 31, 2004**

## 3. (a) Securities issued during the period:

See Schedule A – Notes to Interim Financial Statements, Note 5 and:

| Date of Issue | Type of Security | Type of Issue | Number of Shares | Price | Net Proceeds | Type of Consideration |
|---|---|---|---|---|---|---|
| | | | | | | |
| 18-Nov-03 | Common shares | Exercise option | 165,000 | $0.17 | $28,050 | Cash |
| 25-Nov-03 | Common shares | Exercise warrants | 100,000 | $0.20 | $20,000 | Cash |
| 28-Nov-03 | Common shares | Exercise warrants | 37,500 | $0.25 | $9,375 | Cash |
| 01-Dec-03 | Common shares | Exercise option | 50,000 | $0.17 | $8,500 | Cash |
| 01-Dec-03 | Common shares | Exercise option | 50,000 | $0.15 | $7,500 | Cash |
| 17-Dec-03 | Common shares | Exercise option | 10,000 | $0.17 | $1,700 | Cash |
| 18-Dec-03 | Common shares | Exercise option | 125,000 | $0.17 | $21,250 | Cash |
| 29-Dec-03 | Common shares | Exercise option | 75,000 | $0.20 | $15,000 | Cash |
| 02-Jan-04 | Common shares | Exercise warrants | 37,500 | $0.25 | $9,375 | Cash |
| 19-Jan-04 | Common shares | Exercise warrants | 10,000 | $0.20 | $2,000 | Cash |
| 22-Jan-04 | Common shares | Exercise option | 100,000 | $0.20 | $20,000 | Cash |
| 30-Jan-04 | Common shares | Exercise warrants | 50,000 | $0.25 | $12,500 | Cash |
| 03-Feb-04 | Common shares | Exercise option | 500,000 | $0.20 | $100,000 | Cash |
| 13-Feb-04 | Common shares | Exercise warrants | 331,500 | $0.25 | $82,875 | Cash |
| 13-Feb-04 | Common shares | Exercise warrants | 17,000 | $.025 | $4,250 | Cash |
| 16-Feb-04 | Common shares | Exercise warrants | 818,750 | $0.25 | $204,688 | Cash |
| 16-Feb-04 | Common shares | Exercise warrants | 1,681,250 | $0.25 | $420,313 | Cash |
| 18-Feb-04 | Common shares | Exercise warrants | 125,000 | $0.25 | $31,250 | Cash |
| 23-Feb-04 | Common shares | Exercise warrants | 250,000 | $0.25 | $62,500 | Cash |

**3. (a) Securities issued during the period (cont'd…):**

| Date of Issue | Type of Security | Type of Issue | Number of Shares | Price | Net Proceeds | Type of Consideration |
|---|---|---|---|---|---|---|
| | | | | | | |
| 23-Feb-04 | Common shares | Exercise warrants | 1,303,500 | $0.25 | $325,875 | Cash |
| 26-Feb-04 | Common shares | Exercise warrants | 60,000 | $0.20 | $12,000 | Cash |
| 18-May-04 | Common shares | Private placement | 3,054,000 | $0.30 | $673,700 | Cash-see note 5a) |
| 18-May-04 | Common shares | Private placement | 125,000 | $0.30 | $0 | Finance fee-see note 5a) |

**(b) Options granted during the period:**

| Date Granted | Number | Type | Name | Exercise Price | Expiry Date |
|---|---|---|---|---|---|
| | | | | | |
| 03-Dec-03 | 100,000 | Director | Douglas Brown | $0.46 | 03-Dec-08 |
| 10-Mar-04 | 250,000 | Consultant | Stewart Armstrong | $0.35 | 10-Mar-09 |
| 10-Mar-04 | 325,000 | Consultant | David Scott | $0.35 | 10-Mar-09 |

**4. (a) Authorized and issued share capital at July 31, 2004**

| | | | Issued | |
|---|---|---|---|---|
| Class | Par Value | Authorized | Number | Amount |
| Common | N.P.V. | 300,000,000 | 85,621,583 | $58,132,878 |

(b) Summary of options and warrants outstanding at July 31, 2004

| Security | Number or Amount | Exercise or convertible price | Expiry Date |
|---|---|---|---|
| | | | |
| Options | 2,140,580 | $0.17 | March 6, 2006 |
| Options | 502,000 | $0.15 | May 21, 2007 |
| Options | 1,843,420 | $0.20 | December 30, 2007 |
| Options | 100,000 | $0.46 | December 3, 2008 |
| Options | 575,000 | $0.35 | March 10, 2009 |
| Warrants | 1,891,666 | $0.20 | November 5, 2004 |
| Agent Warrants | 620,566 | $0.20 | November 5, 2004 |
| Warrants | 1,527,000 | $0.30 | May 18, 2006 |
| Agents Warrants | 366,480 | $0.30 | May 18, 2006 |

**(c) Shares in escrow or subject to a pooling agreement as at July 31, 2004**

| | Number of Shares |
|---|---|
| Escrow | NIL |

**5. List of Directors and Officers as at September 22, 2004**

| **Name** | **Position** |
|---|---|
| | |
| Chet Idziszek | Director, President, Chairman & C.E.O. |
| James Stewart | Director, Secretary |
| Donald Kohls | Director |
| Nell Dragovan | Director |
| Robert Sibthorpe | Director |

# SCHEDULE C

# MANAGEMENT DISCUSSION

# MADISON ENTERPRISES CORP.

(the “Company”)

## MANAGEMENT DISCUSSION FOR
## THE THREE AND NINE MONTHS ENDED JULY 31, 2004

### MT. KARE PROPERTY, PAPUA NEW GUINEA

During the three months ended July 31, 2004, the Company began its current drilling program. The Company has now completed five drill holes totaling 1,200 metres that tested four of the many targets newly identified in the IP geophysical survey. Results from the program are pending. Drilling has been stopped temporarily to allow the Company to complete its final interpretations and compilation of all new drilling results with previous exploration results, including recent IP geophysical data in order to prioritize drill targets at Mt. Kare. Drilling is scheduled to resume in early November. During the period, the Company also continued with its ongoing program of prospecting, pitting and trenching in areas of geologic interest. This program resulted in the discovery of a new high grade zone where a trench testing a weak IP chargeability anomaly located 40 metres to the north of the northernmost known extent of the Western Roscoelite Zone returned 17.2 g/t gold and 150 g/t silver over 4.2 metres. The trench did not completely expose the full width of the zone. Numerous widespread pit samples located no more than 20 metres from the trench returned values from 1.49 g/t gold to 15.5 g/t gold. It appears that the Western Roscoelite Zone is structurally displaced to the northwest beyond the extent of previous drilling and remains open to expansion to the northwest and possibly the southeast. A fan of short drill holes is planned to test the potential of this new high-grade area.

The known mineral resource at Mt. Kare covers a surface area measuring approximately 600 metres by 800 metres and is characterized by a series of coincident high chargeability and high resistivity anomalies. The IP survey successfully showed that the geophysical signatures associated with this mineralization directly extend well beyond the current resource outline. Both the surface program and the drilling program have confirmed this. Based on contoured results of the IP survey, the total area of coincident high chargeability and resistivity features has increased three-fold and now measures a minimum of 800 metres by 2,400 metres, most of which has not been drill tested. In addition to new targets located in this expanded area, chargeability/resistivity targets also occur within the area of the Company’s current mineral resource outline that have not yet been drilled. The Company intends to undertake an aggressive follow-up surface and drill program beginning in November upon completion of financing following the proposed share consolidation announced subsequent to the end of the period.

As at the end of the previous quarter, the Company had incurred exploration costs of $32,614,643 on its Mt. Kare Property in Papua New Guinea, including 235 diamond drill holes totaling 36,787 metres. To date, the existing mineral resources at Mt. Kare have been estimated by the independent engineering firm of Watts Griffis & McOuat to be indicated mineral resources of 14.68 million tonnes grading 2.36 g/t gold and 33.7 g/t silver and inferred mineral resources of 10.85 million tonnes grading 1.98 g/t gold and 22.7 g/t silver (using a 1.0 g/t gold equivalent cut-off and with the cutting of high grade gold assays to 30 g/t) representing approximately 1.8 million ounces of gold and 23.8 million ounces of silver.

During the three month period ended July 31, 2004, the Company incurred exploration expenditures of $1,001,566 on the Mt. Kare Property. The expenditures on Mt. Kare included assay costs of $36,761, camp costs of $18,556, community relations costs totaling $81,248, contractor and staff costs totaling $230,664, drilling costs of $108,154, food supplies of $61,940, helicopter costs of $253,475 and travel and accommodation costs of $80,309. The total of camp costs, community relations costs and food supplies of $161,744 reflect the Company's need to promote stability in an area with no government infrastructure and include health, education and security costs. The Company expects the proportion of these types of costs to decrease as the Company increases its exploration activities at Mt. Kare. Helicopter costs are a result of the lack of road access to Mt. Kare, resulting in the need for helicopter support for transportation of all required food, supplies and personnel to and from the Mt. Kare camp. The camp is powered by diesel generators which require monthly fuel hauls, also by helicopter. The community relations costs include the rotational employment of two on-site managers and a full-time manager located in Port Moresby. These personnel carry out a wide range of duties, including daily liaison with government staff, arranging police protection for the Mt. Kare area, organizing the health clinic for the Mt. Kare area, continuous dialogue with both the legitimate and non-legitimate landowners of the Mt. Kare area, supervising and paying of vegetation compensation claims, organizing work groups based on clan boundaries, administration of incorporating legal landowner groups, daily logistical management of the camp operations, daily communications with the Company's Vancouver office, assisting with the requests for assistance to schools, churches and individuals. Contractor costs were in respect of a full-time on-site geologist and a part-time consulting geologist supported by two full-time field assistants and various other pitting, trenching, sampling, line-cutting crews and a Vancouver-based geologist responsible for planning and supervising field crews and community relations staff and carrying out data compilation. The Company also operates an on-site sample preparation lab during drilling programs at Mt. Kare in order to reduce shipping costs.

## LEWIS PROPERTY, NEVADA

During the three months ended July 31, 2004, the Company continued its compilation of data obtained from work carried out prior to the period. As at the end of the previous quarter, the Company had incurred exploration costs of $1,629,980 on the Lewis Property, including 33 drill holes totaling 23,885 feet. Results suggest that the Virgin Structural Zone, the main target on the Lewis Property, is comprised of two distinct styles of mineralization: sub-vertical, structurally controlled mineralization and sub-horizontal stratigraphically controlled mineralization. Drilling has confirmed excellent lateral and vertical continuity of mineralization from surface to a minimum depth of 700 feet. The gold-bearing mineralization, at least 1,850 feet in strike extent, takes the form of a continuous sub-vertical, linear body with a series of sub-horizontal, amoeba-shaped zones. The Company intends to continue its detailed evaluation of the Virgin Structural Zone target area using structural geologic mapping, geochemistry, geophysics and drilling, subject to arranging financing for same.

During the three month period ended July 31, 2004, the Company incurred exploration expenditures of $34,976. The expenditures on the Lewis Property included contractor and staff costs of $29,341 and travel and accommodation costs of $3,407. Contractor and staff costs were for a full-time on-site geologist and assistant and a Vancouver-based geologist carrying out data compilation and report preparation. The Company also engaged a consulting geologist to undertake preliminary prospecting, mapping, rock sampling and MMI soil geochemical sampling focussed on the Trinity-Cow Canyon area (a structure sub-parallel to the Virgin Structural Zone) and the Hider and White-Shiloh areas (northward extensions and splays of the Virgin Structural Zone). A total of 25 rock samples and 250 MMI geochemical samples were collected.

| Location | Sample # | Au (g/t) | Ag (g/t) | Au Equivalent (g/t) |
|---|---|---|---|---|
| Trinity | 2A | 0.30 | 32.1 | 0.84 |
| | 6A | 0.62 | 97.6 | 2.25 |
| | 7A | 0.63 | 118.0 | 2.60 |
| | 7B | 0.48 | 245.0 | 4.57 |
| | 49 | 1.45 | 198.0 | 4.76 |
| White & Shiloh | 32A | 0.68 | 492.0 | 8.90 |
| | 32B | 4.77 | 751.0 | 17.31 |
| | 45 | 3.76 | 155.0 | 6.35 |
| Hider | 47A | 14.55 | 1,085.0 | 32.67 |
| | 47B | 1.08 | 35.6 | 1.68 |

The Trinity area is located between 500 and 1,000 metres east of the White & Shiloh area, located 500 metres east of the Hider Structural Zone. The Hider Structural Zone is immediately on-trend to the northwest of the Virgin Structural Zone and may represent the northward extensions beyond the Company's present area of drilling. Samples 47A and 47B are located 1,500 metres north of the Company's northernmost drill hole on the Virgin Structural Zone.

**FINANCING**

During the three months ended July 31, 2004, the Company carried out a brokered private placement of 3,054,000 units at a price of $0.25 per unit to generate gross proceeds of $763,500. Each unit is comprised of one share and one half warrant, each full warrant entitling the purchase of one additional share of the Issuer at a price of $0.30 for a period of two years.

The proceeds from this placement were used to fund exploration on the Company's Mt. Kare gold property in Papua New Guinea and the Lewis Property in Nevada.

**OPERATIONS AND FINANCIAL CONDITION**

At July 31, 2004, the Company had total assets of $45,879,685 as compared with $44,267,125 at October 31, 2003. This increase is due to the sale of share capital during the period as a result of the exercise of stock options and warrants that generated cash proceeds of $1,399,000. Included in current assets was receivables of $121,861 of which $106,819 was due from related parties and was repaid subsequent to the end of the period. This related party receivable was comprised of general and administrative expenses incurred by companies related by way of directors in common and is payable on demand. The balance of $15,042 in receivables was comprised of a GST accrual and interest. Working capital at July 31, 2004 decreased to $407,661 from working capital of $821,370 at October 31, 2003. The Company's largest cash outflow in the three month period ended July 31, 2004 was as a result of exploration expenditures of $943,654. During the three month period ended April 30, 2004, the Company's largest cash outflow resulted from exploration expenditures of $434,914.

During the three month period ended July 31, 2004, the Company recorded interest income of $2,887 and a foreign exchange loss of $6,178. During the three month period ended April 30, 2004, the Company recorded interest income of $4,030 and a foreign exchange gain of $2,325.

Expenses for the three month period ended July 31, 2004 were $188,200, down from $381,104 for the three month period ended April 30, 2004. This decrease is due to filing fees which decreased by $51,434 to ($16,451) primarily as a result of repayment of filing fees associated with the brokered private placement paid during the previous quarter; legal fees which decreased by $9,198 to $19,040 primarily as a result of costs associated with the preparation of the Company's annual report; public relations costs which increased by $11,612 to $48,121 as a result of the engagement of an investor relations representative; stock-based compensation which decreased by $130,383 to nil as a result of incentive stock options granted during the previous quarter; and travel costs which decreased by $23,699 to $1,793 as a result of travel expenses incurred in the previous period pursuant to the employment agreement with the Company's chief executive officer. During the three month period ended July 31, 2004, the Company incurred expenses of $16,400 with parties not at arm's length to the Company. These expenses are comprised of legal fees paid to a company controlled by a director of the Company totalling $16,400. The Company also incurred office costs and wages on behalf of companies with directors in common pursuant to cost sharing arrangements with such companies. As at July 31, 2004, the Company had receivables of $106,819 pursuant to such arrangements of which $16,844 were incurred during the three months ended July 31, 2004. All such receivables were repaid subsequent to July 31, 2004.

The net loss for the three month period ended July 31, 2004 was $191,491 or $0.00 per share as compared with a net loss for the three month period ended April 30, 2004 of $374,749 or $0.01 per share.

Expenses for the nine month period ended July 31, 2004 were $762,677, up from $669,806 for the nine month period ended July 31, 2003 due principally to an increase in public relations and travel costs. During the nine month period ended July 31, 2004, the Company incurred expenses of $82,400 with parties not at arm's length to the Company. These expenses are comprised of legal fees paid to a company controlled by a director of the Company totaling $54,375, consulting fees of $3,000 paid to a director and legal fees charged to resource properties of $25,025 paid to a company controlled by a director. The Company also incurred office costs and wages on behalf of companies with directors in common pursuant to cost sharing arrangements with such companies. As at July 31, 2004, the Company had receivables of $106,819 pursuant to such arrangements of which $44,607 were incurred during the nine months ended July 31, 2004. All such receivables were repaid subsequent to July 31, 2004.

The net loss for the nine month period ended July 31, 2004 was $757,559 or $0.01 per share as compared with a net loss for the nine month period ended July 31, 2003 of $647,818, or $0.01 per share.

## CAPITAL STOCK

During the three months ended July 31, 2004, the Company issued 3,054,000 units at a price of $0.25 per unit to generate gross proceeds of $763,500. During the three months ended April 30, 2004, the Company issued 500,000 shares pursuant to the exercise of incentive stock options and 4,587,000 shares pursuant to the exercise of share purchase warrants to generate cash proceeds of $100,000 and $1,143,750, respectively.

## LIQUIDITY AND CAPITAL RESOURCES

In management's view, given the nature of the Company's activities, which consist of the acquisition, exploration, exploration management and sale of mineral properties, the most meaningful and material financial information concerning the Company relates to its current liquidity and capital resources. The Company does not currently own or have an interest in any mineral producing properties and has not derived any revenues from the sale of gold, silver or other materials in the last three financial years.

The Company's mineral exploration activities have been funded through sales of common shares, and the Company expects that it will continue to be able to utilize this source of financing until it develops cash flow from its operations. There can be no assurance, however, that the Company will be able to obtain required financing in the future on acceptable terms, or at all, and should this occur, there is substantial doubt about the ability of the Company to continue as a going concern. In the near term, the Company plans to continue its exploration activities on its currently held properties. Based on its working capital as at July 31, 2004, the Company expects to require additional financing for its currently held properties during the upcoming fiscal year. The Company has not carried out debt financing nor has it made use of any financial instruments for hedging purposes. The Company had no material commitments for capital expenditures at the end of its most recent fiscal year.

Management of the Company regularly reviews the net carrying value of the Company’s interest in each mineral property. Where information is available and conditions suggest impairment, estimated future net cash flows from each property are calculated using estimated future prices, proven and probable reserves, operating capital and reclamation costs on an undiscounted basis. Reductions in the carrying value of each property would be recorded to the extent the net book value of the investment exceeds the estimated future cash flows. Where estimates of future net cash flows are not available and where other conditions such as the exploration results incurred by the Company and others suggest impairment, management assesses if carrying value can be recovered.

At July 31, 2004, the Company had working capital of $407,661, which management believes is insufficient to meet the Company's general and administrative expenses and minimum expenditure commitments on the Lewis Property for the coming year. Subsequent to the end of the period, the Company announced a proposed share consolidation that it believes is necessary to obtain additional financing. If the Company is to advance or develop its mineral properties further, it will be necessary to obtain additional funding and while the Company has been successful in the past, there can be no assurance that it will be able to do so in the future. If such funds are not available or cannot be obtained and its joint venture arrangements are insufficient to cover the costs of the Company's mineral exploration activities, the Company will be forced to curtail its exploration activities to a level for which funding is available or can be obtained.

Other than as discussed herein, the Company is not aware of any trends, demands, commitments, events or uncertainties that may result in the Company's liquidity either materially increasing or decreasing at present or in the foreseeable future. Material increases or decreases in the Company's liquidity will be substantially determined by the success or failure of its exploration programs on its mineral exploration properties.

## INVESTOR RELATIONS ACTIVITIES

The Company handles most investor relations activities internally by assigning various duties to officers, directors and employees. These duties consist primarily of responding to enquiries from the Company's shareholders and the public, distribution of news and information about the Company and other developments in the resource industry, preparation for and attendance at industry conferences, maintenance of web sites on the Internet, increasing the Company's shareholder base and assisting in raising any capital which the Company might require. However, during the period, the Company appointed Stewart Armstrong to act as an investor relations representative for a period of eight months beginning March 1, 2004. His primary responsibilities are to answer investor inquiries and to liaise with investment advisors.

## SUBSEQUENT EVENTS

Subsequent to the end of the period, the Company announced a proposed share consolidation that it believes is necessary to obtain additional financing.