

Consolidated Financial Statements of

**PACIFIC COMOX
RESOURCES LTD.**
(A DEVELOPMENT STAGE ENTERPRISE)

Years ended October 31, 2004 and 2003



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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Pacific Comox Resources Ltd. (a Development Stage Enterprise) as at October 31, 2004 and 2003 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating 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 October 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a single horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Accountants

Toronto, Canada

January 7, 2005

PACIFIC COMOX RESOURCES LTD.

(A DEVELOPMENT STAGE ENTERPRISE)

Consolidated Balance Sheets

October 31, 2004 and 2003

	2004	2003
Assets		
Current assets:		
Cash	\$ 62,915	\$ 45,809
Accounts receivable	9,135	2,042
Advances and prepaid expenses	492	833
	<u>72,542</u>	<u>48,684</u>
Investment in related party (note 3)	138,367	82,471
Mineral properties and intangible assets (note 5)	1,496,251	830,208
Capital assets (note 4)	4,059	5,799
	<u>\$ 1,711,219</u>	<u>\$ 967,162</u>

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 143,722	\$ 112,363
Due to a shareholder and officer (note 3)	118,213	7,504
	<u>261,935</u>	<u>119,867</u>
Shares to be issued (note 10)	75,000	40,000
Shareholders' equity:		
Share capital (note 9)	13,226,763	12,466,050
Warrants (note 9)	101,287	52,000
Deficit	(11,953,766)	(11,710,755)
	<u>1,374,284</u>	<u>807,295</u>
Going concern basis (note 1)		
Commitments (note 5)		
Subsequent events (note 10)		
	<u>\$ 1,711,219</u>	<u>\$ 967,162</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"Marvin Wolff" _____ Director

"Donald Empey" _____ Director

PACIFIC COMOX RESOURCES LTD.

(A DEVELOPMENT STAGE ENTERPRISE)

Consolidated Statements of Operations and Deficit

Years ended October 31, 2004 and 2003

	2004	2003
Expenses:		
Administrative (note 3)	\$ 239,767	\$ 202,447
Interest, net	3,244	2,531
Recovery on receivable previously written off (note 6)	—	(380,000)
Net income (loss)	(243,011)	175,022
Deficit, beginning of year	(11,710,755)	(11,885,777)
Deficit, end of year	\$ (11,953,766)	\$ (11,710,755)
Basic and diluted income (loss) per share (note 2(f))	\$ (0.00)	\$ 0.00

See accompanying notes to consolidated financial statements.

PACIFIC COMOX RESOURCES LTD.

(A DEVELOPMENT STAGE ENTERPRISE)

Consolidated Statements of Cash Flows

Years ended October 31, 2004 and 2003

	2004	2003
Cash provided by (used in):		
Operating activities:		
Net income (loss)	\$ (243,011)	\$ 175,022
Item which does not affect cash:		
Depreciation	1,740	1,024
Change in non-cash operating working capital	24,607	60,833
	(216,664)	236,879
Financing activities:		
Shares issued on private placements	710,000	451,000
Shares issued on exercise of warrants	20,000	12,000
Due to a shareholder and officer	110,709	(5,050)
Shares to be issued	75,000	40,000
	915,709	497,950
Investing activities:		
Deferred exploration expenditures (note 5)	(626,043)	(692,274)
Due from related party	(55,896)	(80,059)
Capital assets	—	(6,823)
	(681,939)	(779,156)
Increase (decrease) in cash	17,106	(44,327)
Cash, beginning of year	45,809	90,136
Cash, end of year	\$ 62,915	\$ 45,809
Supplemental disclosure of non-cash transactions:		
Shares issued for non-cash consideration:		
Mineral claims	\$ 40,000	\$ 62,500
Issue costs	22,540	8,750

See accompanying notes to consolidated financial statements.

PACIFIC COMOX RESOURCES LTD.

(A DEVELOPMENT STAGE ENTERPRISE)

Notes to Consolidated Financial Statements

Years ended October 31, 2004 and 2003

Pacific Comox Resources Ltd. (the "Company") was incorporated to seek mineral exploration and development opportunities. To date, the Company has not earned significant revenue from any of its activities and is considered to be in the development stage.

1. Going concern basis:

The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles on a going concern basis which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company has no source of operating cash flow and its ability to continue as a going concern is dependent on the continuing financial support of its shareholders and other related parties. These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

2. Significant accounting policies:

(a) Basis of consolidation:

The consolidated financial statements include the accounts of the Company's wholly owned subsidiary in Mexico, Pacific Comox S.A. de C.V. All intercompany balances and transactions have been eliminated.

(b) Mineral properties and intangible assets:

Mineral properties represent the cost of acquired mineral claims and deferred exploration and development activity. Where the Company has not yet acquired the mineral rights these are recorded as intangible assets. Expenditures are capitalized on an area-of-interest basis and include direct costs of obtaining, maintaining and exploring properties, the costs of structures and equipment which are employed directly in the exploration process and other direct costs related to specific properties. All other costs, including administrative overhead, are expensed as incurred.

PACIFIC COMOX RESOURCES LTD.

(A DEVELOPMENT STAGE ENTERPRISE)

Notes to Consolidated Financial Statements (continued)

Years ended October 31, 2004 and 2003

2. Significant accounting policies (continued):

Management periodically reviews the carrying value of its investments in mineral leases and properties. A decision to abandon, reduce or expand a specific project is based upon many factors, including general and specific assessments of mineral reserves, anticipated future mineral prices, the anticipated future costs of exploring, developing and operating a producing mine, the expiration term and ongoing expense of maintaining leased mineral properties and the general likelihood that the Company will continue exploration.

The Company does not set a predetermined holding period for properties; however, properties which have not demonstrated suitable mineral values at the conclusion of each phase of an exploration program are reevaluated to determine if future exploration is warranted and their carrying values are appropriate. No reserves have been found to date.

If an area of interest is abandoned or it is determined that its carrying value cannot be supported by future production or sale, the related costs are charged against operations in the year of abandonment or decline in value.

(c) Capital assets:

Computer equipment is depreciated using the straight-line method at the rate of 30% per annum.

(d) Income taxes:

The Company uses the asset and liability method in accounting for income taxes. Under this method of tax allocation, future income and mining tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using the enacted tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the year in which the change is enacted or substantively enacted. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

PACIFIC COMOX RESOURCES LTD.

(A DEVELOPMENT STAGE ENTERPRISE)

Notes to Consolidated Financial Statements (continued)

Years ended October 31, 2004 and 2003

2. Significant accounting policies (continued):

(e) Stock-based compensation plans:

The Company has a stock-based compensation plan, which is described in note 9. No compensation expense is recognized for these plans when stock or stock options are issued to employees or directors. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital.

Compensation expense is recognized using the fair value-based method when stock options are issued to non-employees. The Company uses the settlement method for stock-based compensation issued to employees.

(f) Income (loss) per share:

Income (loss) per share has been calculated based on the weighted average number of shares outstanding during the year.

No stock options or warrants were included in the computation of diluted income (loss) per share because exercise prices exceeded the average market price of the Company's common shares during the year.

(g) Measurement uncertainty:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

PACIFIC COMOX RESOURCES LTD.

(A DEVELOPMENT STAGE ENTERPRISE)

Notes to Consolidated Financial Statements (continued)

Years ended October 31, 2004 and 2003

2. Significant accounting policies (continued):

(h) Foreign currency translation:

The accounts of the Company's foreign operations are considered to be integrated and are translated into Canadian dollars using the temporal method. Foreign currency transactions of the Company and its integrated subsidiaries are translated into Canadian dollars at the rates prevailing on the dates of the transactions. Realized and unrealized exchange gains and losses resulting from foreign currency transactions are included in current earnings. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange prevailing at the end of the accounting period and any gains or losses are included in current earnings. Non-monetary assets are translated at the rates of exchange prevailing when the assets were acquired.

3. Related party transactions:

Amounts due to/from related parties as at October 31 are as follows:

	2004	2003
Due to a shareholder and officer	\$ 118,213	\$ 7,504
Investment in a corporation under common management	138,367	82,471

The amount due to a shareholder and officer represent amounts advanced which are non-interest bearing and due on demand.

The investment in a corporation under common management represents amounts invested. While management believes that the amount is not impaired, there can be no assurance that the full amount will be recovered.

Amounts recorded during the year are as follows:

	2004	2003
Rent paid to a corporation under common management	\$ 10,103	\$ 9,476
Consulting fees to an officer of the Company	60,000	50,000

Transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

PACIFIC COMOX RESOURCES LTD.

(A DEVELOPMENT STAGE ENTERPRISE)

Notes to Consolidated Financial Statements (continued)

Years ended October 31, 2004 and 2003

4. Capital assets:

			2004	2003
	Cost	Accumulated depreciation	Net book value	Net book value
Computer equipment	\$ 6,823	\$ 2,764	\$ 4,059	\$ 5,799

5. Mineral properties and intangible assets:

On July 1, 2002, the Company entered into an agreement with respect of certain exploration properties in Mexico, whereby the Company will acquire a 100% interest in the properties over a five-year period, for an aggregate purchase price payable as follows:

(a) A total cash payment of U.S. \$386,000 payable:

(i) Year one - U.S. \$20,000, which has been paid;

(ii) Year two - U.S. \$60,000, which has been paid; and

(iii) Years three, four and five - U.S. \$102,000 per year, payable either in monthly payments of U.S. \$8,500 or quarterly payments of U.S. \$25,500. U.S. \$51,000 has been paid through October 31, 2004 in respect of year three.

(b) Subject to regulatory approval and conditions, issue a total of 3,500,000 shares of the Company to the vendors, in a five-year period; respectively, 250,000 shares in each of years one and two, 500,000 shares in year three, 1,000,000 shares in year four and 1,500,000 shares in year five. In June 2004, a total of 500,000 shares were issued valued at \$0.08 per share; and

(c) A total work commitment of U.S. \$2,300,000, to be spent on the properties in the five-year period; respectively, U.S. \$75,000 in year one, U.S. \$200,000 in year two, U.S. \$500,000 in each of the years three and four and U.S. \$1,000,000 in year five. As of December 31, 2004, the Company met the requirements for the first two years ended June 30, 2004.

PACIFIC COMOX RESOURCES LTD.

(A DEVELOPMENT STAGE ENTERPRISE)

Notes to Consolidated Financial Statements (continued)

Years ended October 31, 2004 and 2003

5. Mineral properties and intangible assets (continued):

Failure to comply with the above conditions may cause the Company to lose all the rights under the agreement (subject to a six-month default notice by the vendors).

The properties are also subject to a net smelter royalty of 3% rising to 3.5% for periods in which the gold price exceeds U.S. \$350 per ounce and to 4.0% for periods in which the gold price exceeds U.S. \$400 per ounce. The Company has the right to purchase (during the term of the agreement and for two years after the commencement of the commercial production) 50% of the net smelter royalty for U.S. \$4,500,000.

Expenditures relating to the Mexican properties are as follows:

Balance, November 1, 2002	\$	75,434
Acquisition costs		127,887
Deferred exploration costs		626,887
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Balance, November 1, 2003		830,208
Acquisition costs		157,873
Deferred exploration costs		508,170
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Balance, October 31, 2004	\$	1,496,251

6. Investment in Papex Inc.:

During 2001, the Company and Papex Inc. ("Papex"), a private Ontario corporation based in Mississauga, Ontario, completed a definitive agreement, whereby the Company was to acquire a 30% equity interest in Papex in exchange for cash payments of \$500,000 and the issuance of 3,004,000 common shares of the Company.

The Company advanced \$400,000 to Papex in the nine months ended July 31, 2001 as provided in the agreement. In December 2001, the Company terminated the agreement with Papex and recorded an allowance against the \$400,000 which, under the terms of the original agreement was converted to a note receivable due December 20, 2002.

During the year ended October 31, 2003, the Company received \$380,000 from Papex and waived the remaining balance of the note receivable.

PACIFIC COMOX RESOURCES LTD.

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Notes to Consolidated Financial Statements (continued)

Years ended October 31, 2004 and 2003

7. Income taxes:

The provision for (recovery of) income taxes varies from the amounts that would be computed by applying the combined Canadian federal and provincial statutory rate of 36.12% (2003 - 36.5%) to income before income taxes as follows:

	2004	2003
Expected income taxes (recovery) using statutory income tax rate	\$ (87,000)	\$ 63,000
Tax benefit of losses (gains) not previously recognized	87,000	(63,000)
	\$ —	\$ —

The tax effects of temporary differences that give rise to significant portions of the future tax liabilities at October 31, 2004 and 2003 are as follows:

	2004	2003
Canada:		
Capital assets	\$ 14,000	\$ —
Non-capital losses	408,000	385,000
Resource pools	905,000	990,000
Unrealized capital losses	1,200,000	1,100,000
Valuation allowance	(2,527,000)	(2,475,000)
	\$ —	\$ —

At October 31, 2004, the Company has non-capital loss carryforwards of approximately \$1,117,000 available to reduce taxable income in future years. These losses expire through 2011. The benefit of these non-capital loss carryforwards has not been recognized in the financial statements.

8. Financial instruments:

The carrying values of cash, accounts receivable, accounts payable and accrued liabilities and due to a shareholder and officer approximate fair values due to the short-term maturities of these instruments.

PACIFIC COMOX RESOURCES LTD.

(A DEVELOPMENT STAGE ENTERPRISE)

Notes to Consolidated Financial Statements (continued)

Years ended October 31, 2004 and 2003

9. Share capital:

- (a) The Company's authorized share capital consists of 200,000,000 common shares without par value. Details of shares issued during 2003 and 2004 are as follows:

	Number	Amount
Balance, November 1, 2002	47,712,226	\$ 11,853,550
Issued on completion of private placements	6,987,500	541,950
Issued to acquire mineral claims (note 5(b))	500,000	62,500
Issued on exercise of warrants	120,000	16,800
Issue costs	–	(8,750)
Balance, October 31, 2003	55,319,726	12,466,050
Issued on completion of private placements	7,533,166	715,253
Issued to acquire mineral claims (note 5(b))	500,000	40,000
Issued on exercise of warrants	200,000	28,000
Issue costs	–	(22,540)
Balance, October 31, 2004	63,552,892	\$ 13,226,763

- (b) In December 2002, the Company completed two private placements and raised \$165,000.
- (i) A total of \$100,000 was raised through the issuance of 2,000,000 units priced at \$0.05, consisting of one common share and one-half of a common share purchase warrant exercisable at \$0.10 per share until November 3, 2003. The net proceeds of \$100,000 were allocated \$60,000 to common shares and \$40,000 to warrants. 120,000 of the warrants were exercised on October 30, 2003 for proceeds of \$12,000 and consequently \$4,800 was reclassified from warrants to share capital. A further 200,000 of warrants were exercised on November 3, 2003 for proceeds of \$20,000 and consequently \$8,000 was reclassified from warrants to share capital. The remaining warrants expired unexercised during the year.
- (ii) A total of \$65,000 was raised through 650,000 units priced at \$0.10, consisting of one common share and one common share purchase warrant exercisable until November 3, 2003 at \$0.15 per share. An officer of the Company participated for \$50,000. No value was assigned to warrants due to immateriality. The warrants expired unexercised during the year.

PACIFIC COMOX RESOURCES LTD.

(A DEVELOPMENT STAGE ENTERPRISE)

Notes to Consolidated Financial Statements (continued)

Years ended October 31, 2004 and 2003

9. Share capital (continued):

- (c) In June 2003, the Company raised \$425,000 through 4,250,000 units priced at \$0.10 consisting of one common share and one-half of a common share purchase warrant exercisable until May 26, 2004. Each warrant was exercisable at \$0.15 per share. Three directors of the Company subscribed for a total of \$187,000 of the financing and hold 935,000 of the warrants. A finders' fee of 7% was paid in the current year on \$50,000 of the total financing in shares of the Company valued at \$0.10 per share. The net proceeds of \$425,000 were allocated \$408,200 to common shares and \$16,800 to warrants. The warrants expired unexercised during the year.
- (d) On February 10, 2004, the Company completed and received approval from the TSX, for a number of private placements and raised \$500,000 through 4,166,666 units priced at \$0.12 per unit. Each unit consists of one common share and one common share purchase warrant exercisable at \$0.20 until February 2005. A director of the Company subscribed for \$322,000 of the financing. A finder's fee of 7% was paid on \$138,000 of the total financing in shares of the Company valued at \$0.12 per share. The fee was settled by issuing 80,500 common shares. \$0.01 was assigned to the warrants.
- (e) On August 24, 2004, the Company completed and received approval from the TSX for a number of private placements and raised \$250,000 through 3,125,000 units priced at \$0.08. Each unit consists of one common share and one-half common share purchase warrant exercisable at \$0.12 until August 2006. A director of the Company subscribed for \$50,000 of the financing. A finder's fee of 7% was paid on \$184,000 of the total financing in shares of the Company valued at \$0.08 per share. The fee was settled by issuing 161,000 common shares. \$0.01 value was assigned to the warrants.

PACIFIC COMOX RESOURCES LTD.

(A DEVELOPMENT STAGE ENTERPRISE)

Notes to Consolidated Financial Statements (continued)

Years ended October 31, 2004 and 2003

9. Share capital (continued):

- (f) Under the Employee Stock Option Plan, approved in April 10, 2003, the Company may grant options for up to 10% of the outstanding shares of common stock. Options may be granted to any director, officer, employee or consultant of the Company or any of its subsidiaries. Options granted to directors, officers and employees vest immediately. If the optionee is a consultant or providing investor relations services to the Company, the options must vest in stages over 12 months, with no more than one quarter of the options vesting in any three month period. The number of shares reserved for issuance to any one optionee pursuant to options cannot exceed 5% (2% if the optionee is engaged in providing investor relation services to the Company or is a consultant) of the issued and outstanding common shares of the Company at the date of grant of such options. The exercise price of each option cannot be less than the fair market value of the shares on the last trading day preceding the date of the grant. The maximum term of an option is five years.

The movements in the Company's stock option plan and those outstanding at October 31, 2004 are summarized below:

	Number	Average exercise price
Options outstanding, October 31, 2002	–	\$ –
Issued to employees	3,050,000	0.12
Issued to consultant	250,000	0.12
Options outstanding, October 31, 2003	3,300,000	0.12
Issued to employees	–	–
Issued to consultant	–	–
Options outstanding, October 31, 2004	3,300,000	0.12

The options outstanding at October 31, 2004 expire on May 27, 2008. No value was assigned to options granted to consultant due to immateriality.

PACIFIC COMOX RESOURCES LTD.

(A DEVELOPMENT STAGE ENTERPRISE)

Notes to Consolidated Financial Statements (continued)

Years ended October 31, 2004 and 2003

9. Share capital (continued):

(g) Warrants:

	Number	Average exercise price	Amount
Warrants outstanding, October 31, 2002	–	\$ –	\$ –
Issued on private placements	3,775,000	0.14	56,800
Exercised	(120,000)	0.10	(4,800)
Warrants outstanding, October 31, 2003	3,655,000	0.14	52,000
Issued on private placements	5,729,167	0.18	57,287
Exercised	(200,000)	0.10	(8,000)
Expired during the year	(3,455,000)	(0.14)	–
Warrants outstanding, October 31, 2004	5,729,167	0.18	\$ 101,287

(h) Stock-based compensation:

The Company follows the disclosure-only provisions of CICA Handbook Section 3870 and does not record any compensation expense when options are granted to employees and directors. Had compensation expense for these grants been determined using the fair value method, the Company's net loss from operations would be as follows:

	2004	2003
Net income (loss)	\$ (228,011)	\$ 175,022
Unrecorded stock option compensation adjustment	–	(91,500)
Pro forma net income (loss)	\$ (228,011)	\$ 83,522
Basic and diluted income (loss) per share - pro forma	\$ (0.00)	\$ 0.00

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility.

PACIFIC COMOX RESOURCES LTD.

(A DEVELOPMENT STAGE ENTERPRISE)

Notes to Consolidated Financial Statements (continued)

Years ended October 31, 2004 and 2003

9. Share capital (continued):

For purposes of pro forma disclosures, the following assumptions were used under the Black-Scholes option pricing model: dividend yield of 0.00%, expected volatility of 3.80%, risk-free interest rate of 2.89%; and an expected average term of 1.27 years.

10. Subsequent events:

(a) Private placement:

On November 30, 2004, the Company completed and received TSX approval on a private placement of \$100,000. The financing is in the form of units, with a total of 1,250,000 units priced at \$0.08 per unit, consisting of one common share and one common share purchase warrant exercisable at \$0.12 to November 28, 2006. A director of the Company is subscribing for the entire \$100,000, and \$75,000 of this amount was received as at October 31, 2004.

(b) Chile option agreement:

On November 10, 2004, the Company entered into a letter of intent to option the "Pepa de Oro" property in Chile. The Company has paid U.S. \$20,000 to the vendor and has one year to explore the property.