

MILLSTREAM MINES LTD.
FINANCIAL STATEMENTS
AUGUST 31, 2004

LITVACK, ADELMAN
CHARTERED ACCOUNTANTS
PROFESSIONAL CORPORATION

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AUDITORS' REPORT

To the Shareholders of
Millstream Mines Ltd.

We have audited the Balance Sheet of Millstream Mines Ltd. as at August 31, 2004 and August 31, 2003 and the Statements of Income 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 audit.

We conducted an audit 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 financial statements present fairly, in all material respects, the financial position of the company as at August 31, 2004, and as at August 31, 2003 and the results of its operations and the changes in its financial position for the years then ended in accordance with Canadian generally accepted accounting principles.

Richmond Hill, Ontario
January 14, 2005

Chartered Accountants
Professional Corporation

MILLSTREAM MINES LTD.
(INCORPORATED UNDER THE LAWS OF THE PROVINCE OF NEW BRUNSWICK)
BALANCE SHEET
AS AT AUGUST 31, 2004

	2004	2003
ASSETS		
CURRENT		
Bank	\$ 386,517	\$ 65,857
GST receivable	2,032	5,022
Prepaid expenses	<u>1,500</u>	<u>-</u>
	<u>390,049</u>	<u>70,879</u>
 OIL AND GAS INTERESTS (Note 1)	 1	 1
 MINING CLAIMS AND DEFERRED EXPLORATION EXPENDITURES (Note 2)	 <u>8,707,054</u>	 <u>8,542,726</u>
	<u>8,707,055</u>	<u>8,542,727</u>
	<u>\$ 9,097,104</u>	<u>\$ 8,613,606</u>
 LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 20,055	\$ 314,230
 LONG TERM		
Due to related parties (Note 3)	<u>3,458,139</u>	<u>3,551,291</u>
	<u>3,478,194</u>	<u>3,865,521</u>
 SHAREHOLDERS' EQUITY		
ISSUED CAPITAL		
Authorized	Issued	
Unlimited	39,932,043	Common shares (Note 4)
		11,603,736
		10,775,736
 CONTRIBUTED SURPLUS	 123,928	 123,928
DEFICIT	<u>(6,108,754)</u>	<u>(6,151,579)</u>
	<u>5,618,910</u>	<u>4,748,085</u>
	<u>\$ 9,097,104</u>	<u>\$ 8,613,606</u>

Approved on behalf of the Board

"Ernest Harrison"

"E.F. Martinello"

MILLSTREAM MINES LTD.
STATEMENT OF INCOME AND DEFICIT
FOR THE YEAR ENDED AUGUST 31, 2004

	<u>2004</u>	<u>2003</u>
REVENUE		
Income	\$ -	\$ 19,862
EXPENSES		
Abandoned mining claims	-	5,000
Corporate services	7,200	7,200
Office and general	4,014	1,637
Professional fees	7,224	6,229
Shareholder information	53,343	32,855
Sub-contract	96,345	78,241
Transfer agent fee	5,403	4,401
Travel	1,646	-
	<u>175,175</u>	<u>135,563</u>
LOSS BEFORE UNUSUAL ITEMS	(175,175)	(115,701)
LITIGATION SEVERENCE COSTS (RECOVERED) (Note 2a)	(218,000)	-
INTEREST FORGIVEN (Note 3b)	<u>-</u>	<u>(359,176)</u>
NET INCOME	42,825	243,475
DEFICIT, beginning of year	<u>(6,151,579)</u>	<u>(6,395,054)</u>
DEFICIT, end of year	<u>\$ (6,108,754)</u>	<u>\$ (6,151,579)</u>
Basic earnings per common share (Note 5)	<u>\$ 0.01</u>	<u>\$ 0.01</u>
Diluted earnings per common share (Note 5)	<u>\$ 0.01</u>	<u>\$ 0.01</u>

MILLSTREAM MINES LTD.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2004

	<u>2004</u>	<u>2003</u>
CASH PROVIDED BY (USED FOR)		
OPERATIONS		
Net income	\$ 42,825	\$ 243,475
Net change in operating working capital	<u>(292,685)</u>	<u>(3,704,721)</u>
	<u>(249,860)</u>	<u>(3,416,246)</u>
FINANCING		
Common shares issued	828,000	-
Due to related parties	<u>(93,152)</u>	<u>3,551,291</u>
	<u>734,848</u>	<u>3,551,291</u>
INVESTMENT		
Mining claims and deferred exploration	<u>(164,328)</u>	<u>(24,841)</u>
INCREASE IN CASH	320,660	65,204
CASH – beginning of year	<u>65,857</u>	<u>653</u>
CASH – end of year	<u>\$ 386,517</u>	<u>\$ 65,857</u>

MILLSTREAM MINES LTD.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2004

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The accompanying financial statements have been prepared on the basis of accounting principles applicable to a going concern which presumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

The Company is in the process of exploring its resource properties and has not yet determined whether the properties contain economically recoverable reserves. The recovery of the amounts shown for resource properties and the related deferred expenditures is dependent upon the existence of economically recoverable reserves, confirmation of the Company's interest in the underlying mining claims, the ability of the Company to obtain necessary financing to complete the development, future profitable production and the support of the Company's trade creditors.

The financial statements do not give effect to any adjustments to the amount of assets and liabilities that might be necessary should the Company be unable to continue as a going concern and therefore, be required to realize its assets and discharge its liabilities in other than the ordinary course of business.

Mining Claims

Mining claims are carried at cost until they are brought into production at which time they are depleted on a unit-of-production basis.

Exploration expenditures relating to mining claims are deferred until the properties are brought into production at which time they are amortized on a unit-of-production basis.

The cost of claims abandoned or sold and the deferred exploration costs relating to claims abandoned or sold are charged to operations in the current year.

Administrative Expenses

Administrative expenses are charged to operations in the year incurred.

Oil and Gas Interests

The Company follows the successful efforts method of accounting for oil and gas interests whereby all costs relating to the acquisition, exploration and development of petroleum and natural gas reserves are capitalized until their economic status has been evaluated.

All costs of successful wells are amortized over their useful lives.

Use of Estimates

The preparation of the corporation's financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates that affect the amounts reported and disclosed in the financial statements. Actual results could differ from those estimates.

Income Taxes

The company provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between financial statement values and tax values of assets and liabilities using enacted income tax rates expected to be in effect for the year in which the differences are expected to reverse.

MILLSTREAM MINES LTD.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2004

1. OIL AND GAS INTERESTS

The Company holds a 6.25% interest in a producing well in Canadian County, Oklahoma, U.S.A. with royalty interests not exceeding 25%. The well is recorded on the books of the Company at the nominal value of \$1.

2. MINING CLAIMS AND DEFERRED EXPLORATION EXPENDITURES

	<u>Opening</u>	<u>Additions</u>	<u>Reductions</u>	<u>Closing</u>
a) Potter Mine, Ontario				
Acquisition	\$ 4,360,000	\$ -	\$ -	\$ 4,360,000
Exploration	3,672,555	6,927	-	3,679,482
b) Falconbridge, Ontario				
Exploration	-	73,863	-	73,863
c) Tamarack, Montana				
Acquisition	231,089	-	-	231,089
Exploration	279,082	29,992	-	309,074
d) Koval Property, Ontario				
Acquisition	-	10,000	-	10,000
Exploration	-	43,546	-	43,546
e) Falcon Gold, Ontario				
Exploration	-	-	-	-
	<u>\$ 8,542,726</u>	<u>\$ 164,328</u>	<u>\$ -</u>	<u>\$ 8,707,054</u>

a) Potter Mine, Ontario

The company holds 100% interest in the Potter Mine Property. An officer of the company controlling and directing the control block of shares in the company has divested his declared minority 10% interest in Harrison Mining and Engineering Corporation, the vendor of the property, but remains the sole director and chief executive officer of all of the companies within Harrison Group of Companies. The vendor retains a 2.5% net smelter return royalty on the property, which the company may purchase at any time for \$3,000,000. A \$1,600,000 promissory note was issued by the company to the vendor as part of the purchase consideration and remains outstanding to date.

On June 1, 1999 the company entered into an agreement with Hunter Dickinson Group Inc. of Vancouver, B.C. ("farmee"), granting to the farmee an exclusive farmout right to earn interests in the property by incurring approved phased exploration expenditures on the property. Upon completing each phase of expenditure, the company has the right to reacquire the interests so earned. Failing such exercise to reacquire, the parties will form a joint venture to coordinate further exploration and development of the property. The maximum earnable interest must be achieved in each phase to have the right to proceed to the following phase as:

- phase 1 - terminating December 31, 1999, maximum 30% earnable interest for \$4,000,000 of expenditures;
- phase 2 - terminating December 31, 2000, maximum 25% earnable interest for \$10,000,000 of expenditure;
- and,
- phase 3 - terminating December 31, 2001, maximum 5% earnable interest for \$5,000,000 of expenditures.

MILLSTREAM MINES LTD.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2004

2. MINING CLAIMS AND DEFERRED EXPLORATION EXPENDITURES (continued)

a) Potter Mine, Ontario (continued)

In September, 1999, the farmee acknowledged insufficient funds had been secured and a deficit existed regarding the approved work program. That further raising of money was being undertaken to fund the existing deficit and the continuation of work on site. As of December 31, 1999, the farmee had not raised nor supplied any additional monies and remained in default within the terms of the agreement. This situation has yet to be resolved and the farmee remains in default with accounts to be paid and other matters within the agreement.

On April 11, 2001, the company sold a 10% net profit interest royalty in and to the Potter Mine Tailings property for \$300,000 in cash. Net profits are determined quarterly and the final payment of net profits are due no later than 6 months after the end of the Project Operation's accounting year.

The claims by the company against Hunter Dickenson Group Inc. and related interests were severed from the claims in which the company was a co-defendant as between another company that performed drilling and related services on the Potter property. The company, in an effort to mitigate its damages and quantify some aspects of its claims against Hunter Dickenson Group Inc. and related interests, settled with the drilling company by agreeing to consent, effective June 30, 2003 to Judgment in the amount of \$218,000 inclusive of damages, interest and costs which was paid for by the company September 16, 2003. Subsequent to September 2003 and within the current year, The Harrison Group of Companies has assumed financial responsibility for the Judgment and has reduced it's receivable from the company accordingly.

b) Falconbridge Twp. Airport Property

August 7, 2000 the company, as stated in its August 11, 2000 press release, negotiated to increase its purchase option agreement from a 50% interest to 100% interest in the Falconbridge Township Airport Property located in Ontario. The property consists of 45 mining claims. A payment of \$60,000 is to be made on or before the third anniversary date of this new agreement and an advance royalty payment of \$60,000 per year commencing November 1, 2000 is due up to the date when commercial production commences in lieu of further work commitments. The property now has a 3% net smelter return (NSR) royalty for which the company has the right to purchase two thirds (2/3 being 2%) for a payment of \$2,000,000 up to the date when commercial production commences.

The company is in the process of negotiating an extension to pay the advance royalty payments to cover the years commencing November 1, 2000, 2001, 2002, 2003 and 2004 under the condition that the company actively pursue Crowflight Minerals Inc. and that partial payments are made before November 1, 2004. In October 2004, a partial payment of \$30,000 was made by Crowflight Minerals Inc.

August 11, 2000 the company entered into an agreement with Crowflight Minerals Inc. whereby Crowflight can earn a 50% undivided interest in Airport Property. To earn its interest, Crowflight has to make a cash payment totaling \$100,000 and issuing 200,000 Crowflight common shares and incur exploration expenditures of \$1.0 million within a 2-year period. Crowflight is committed to a 6 month Phase 1 program requiring a \$25,000 cash payment, the issuing of 50,000 Crowflight common shares and completion of a \$150,000 exploration program. Effective September 25, 2001, the company terminated the 50% option granted to Crowflight Minerals Inc. On March 4, 2003 the company commenced proceedings against Crowflight Minerals Inc. and related interests seeking damages for breach of agreement in the amount of \$200,000; damages for slander of property title in the amount of \$400,000; and declaratory relief including a declaration that Crowflight Minerals Inc. has no right, title or other interest in or to the Airport property. The company has resolved its' differences with Crowflight Minerals Inc. and has signed a Participation and Joint Venture Agreement. In order for Crowflight Minerals Inc. to earn its' 50% interest, it must make a \$60,000 property payment and fund a mutually approved \$325,000 initial exploration program with the company.

MILLSTREAM MINES LTD.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2004

2. MINING CLAIMS AND DEFERRED EXPLORATION EXPENDITURES (continued)

b) Falconbridge Twp. Airport Property (continued)

August 4, 2003 the company entered into purchase agreement with an individual for a 100% undivided interest consisting of 11 mining claims located in Falconbridge Township and 7 mining claims located in Street Township in Ontario. The property is contiguous to the Falconbridge Township Airport Property held by the company as disclosed above. The Company's purchase price is \$30,000 in cash and 600,000 common voting shares equally divided over 3 payment due dates of September 4, 2004; September 4, 2005 and July 5, 2006. In September 2004, the Company paid \$10,000 in cash and issued 200,000 shares to the individual in accordance with the purchase agreement.

The individual retains a 2% net smelter return (NSR) royalty on all production from the property. The Company has the first right of refusal on the sale of the NSR royalty and the right to purchase 50% of the NSR royalty at a fixed price of \$1,000,000 at any time prior to the 4th month after commercial production has commenced.

c) Tamarack, Montana

Pursuant to a Memorandum of Understanding dated April 19, 1998, the company acquired a 50.5% undivided interest in the Tamarack property for \$161,500 US (\$231,089 Cdn). The company has agreed to supply further funding for planned exploration and exploitation and shall be entitled to 80% of all revenues until funding provided by the company has been recaptured and 50.5% thereafter. The company continues to collect historical data of the property in addition to the exploration of the surface and the structural control (faults) to best establish drill targets. Management is of the opinion that the property potential is in finding a high-grade gold - low tonnage per day mine since the milling capacity is already on the site. Funding to advance the property towards production remains to be raised at this time.

d) Koval Property, Ontario

On March 16, 2004, the Company entered in a three year Purchase Option agreement with an individual to purchase a 100% undivided interest in a prospective gold property. The Koval Property, located in the District of Thunder Bay Beckington Lake area in Ontario, consists of 3 contiguous Leased Mining Claim Units. The Company made an initial \$10,000 payment. Additionally, to maintain its option, the Company must issue to the individual, its common voting shares and cash payments as follows:

- 25,000 shares and a \$5,000 cash payment of September 16, 2004;
- 25,000 shares and a \$5,000 cash payment of March 16, 2005;
- 50,000 shares and a \$5,000 cash payment of March 16, 2006;
- a \$30,000 cash payment on or before March 17, 2007.

The individual retains a 1.5 net smelter return (NSR) royalty on all production from the Koval Property. The Company has a first right of refusal on the sale of the NSR royalty and the right to purchase 50% of the NSR royalty or any part thereof, including the right to purchase 50% of the NSR at a fixed price of \$500,000. Additional consideration includes an advance royalty payment of \$10,000 per year to maximum of \$100,000 commencing one day after the fourth anniversary of the Agreement, March 15, 2004, or until a production decision is taken, whichever comes first. Such advance royalty payments shall be credited towards future royalty calculations and payments.

The Company made a cash payment of \$5,000 in December 2004 and issued 25,000 common shares in January 2005 to the individual pursuant to the Purchase Option Agreement.

MILLSTREAM MINES LTD.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2004

2. MINING CLAIMS AND DEFERRED EXPLORATION EXPENDITURES (continued)

e) Falcon Gold Property, Ontario

On September 10, 2003 the company and Crowflight Minerals Inc., represented as a joint venture, entered into a Participation and Joint Venture Agreement with Kinross Gold Corporation. Kinross granted the company a sole irrevocable option for 3 years to earn a 60% undivided interest in and to the Kinross's Falcon Gold Property. Upon execution of their agreement an initial cash payment of \$45,000 was made by Crowflight Minerals Inc. to Kinross Gold Corporation. To maintain the option, the company must make the following amount of exploration expenditures on behalf of the property:

- a) by the first anniversary date \$75,000
- b) by the third anniversary date \$400,000.

Following the earning by the company of it's 60% interest, each party is obligated to fund further expenditures in accordance with its held interest in the property.

The Company is in the process of negotiating an extension to pay the \$75,000 in exploration expenditures to cover the period ending September 10, 2004.

3. DUE TO RELATED PARTIES

An officer of the company controlling and directing the controlling block of shares in the company is also the sole director and chief executive officer of the entities within The Harrison Group of Companies. In January 2005, the Harrison Group of Companies agreed to defer their then existing debt for a period of 12 months.

The Harrison Group of Companies	\$ 583,376
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An officer of the company controlling and directing the control block of shares in the company has divested his declared minority 10% interest in Harrison Mining and Engineering Corporation but remains the sole director and chief executive office of the Harrison Group of Companies.

Harrison Mining & Engineering Corp.

a) demand loan	\$ 1,274,763	
b) promissory note (principal)	<u>1,600,000</u>	<u>2,874,763</u>
		<u>\$ 3,458,139</u>

a) In July 2003, Harrison Mining & Engineering Corp. agreed to defer its debt from the company for a period up to April 2006.

b) This promissory note bears interest at the rate of the Toronto Dominion Bank prime plus 1% per annum, compounded annually, and due on April 3, 2000, provided that a commercial production decision has been announced on or before that date. In consideration of permitting Ernest Harrison to continue to actively control and be the driving force of the company, Harrison Mining & Engineering Corp. has waived the accumulated interest charges to date, and for a further period extending to April 3, 2006 at which time the repayment terms of this note will be revisited.

MILLSTREAM MINES LTD.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2004

4. COMMON SHARES

During the year the company issued 8,300,000 common shares for cash consideration of \$828,000.

Options outstanding at August 31, 2004 are as follows:

- 1,000,000 @ \$0.10 expiring May 25, 2008
- 1,100,000 @ \$0.15 expiring February 24, 2009

Warrants outstanding at August 31, 2004 are as follows:

- 4,200,000 @ \$0.20 expiring December 31, 2005
- 3,000,000 @ \$0.15 expiring September 12, 2005
- 1,000,000 @ \$0.15 expiring August 9, 2005

5. BASIC AND DILUTED EARNINGS PER SHARE

	2004	2003
Net income for the year	\$ 42,825	\$ 243,475
Weighted-average number of common shares	35,782,043	31,632,043
Effect of dilutive stock options	1,000,000	-
Weighted-average number of diluted common shares	36,782,043	31,632,043
Basic earnings per common share	\$ 0.01	\$ 0.01
Diluted earnings per common share	\$ 0.01	\$ 0.01

6. INCOME TAXES

The provision for income taxes reported differs from the amounts computed by applying the cumulative Canadian Federal and Provincial income tax rates to income before income taxes due to the following:

	2004	2003
Income before income taxes	\$ 42,825	\$ 243,475
Combined tax rate	35%	37%
Expected income tax provision (recovery)	15,000	90,000
Increase (decrease) resulting from:		
Non-taxable portion of capital loss (gain)	-	(6,000)
Loss carry forwards recognized	(15,000)	(84,000)
Income tax expense	\$ -	\$ -

MILLSTREAM MINES LTD.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2004

6. INCOME TAXES (continued)

As at August 31, 2004, the Company has non-capital losses for income tax purposes which may be carried forward and used to reduce taxable income in future years as follows:

Year of Expiry	Amount
2007	\$ 375,495
2008	210,426
2009	323,437
2010	182,396
2011	<u>490,871</u>
	<u>\$ 1,582,625</u>

The potential income tax benefit of these losses has not been recognized in these financial statements.

7. FINANCIAL INSTRUMENTS

The Company's financial instruments include cash, GST receivable, accounts payable and amounts due to related parties. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest rate, currency or credit risks arising from these financial instruments. The fair value of the short-term financial instruments approximates their market value.

8. CONTINGENT LIABILITY

A claim for general damages has been made by an individual and a related corporation in the amount of \$600,000. The plaintiffs allege the Company made negligent misrepresentations to the plaintiffs at the time the plaintiffs provided \$300,000 to purchase a 10% net profit interest in the tailings from Potter Mine (Note 2a). The Company is defending the claim on the basis that no misrepresentations were made to the plaintiffs and that the individual, a former director, was aware of the Company's situation. The Company believes the plaintiffs have little chance of being successful in these proceedings.