

CROWFLIGHT MINERALS INC.
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2003

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AUDITORS' REPORT

To the Shareholders of Crowflight Minerals Inc.

We have audited the consolidated balance sheets of Crowflight Minerals Inc. as at December 31, 2003 and 2002 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 audit.

We conducted our 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

LEE & KIM, LLP

SIGNED: "LEE & KIM, LLP"

TORONTO, Canada
March 27, 2004

CHARTERED ACCOUNTANTS

CROWFLIGHT MINERALS INC.
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31

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	2003 \$	2002 \$
ASSETS		
CURRENT		
Cash and equivalents	6,924,080	421,836
Sundry receivables	110,276	2,974
Prepaid expenses	<u>32,015</u>	<u>30,057</u>
	7,066,371	454,867
CAPITAL ASSET (Note 3)	27,915	1,122
INTEREST IN MINERAL PROPERTIES (Note 4)	<u>3,663,568</u>	<u>2,208,435</u>
	<u>10,757,854</u>	<u>2,664,424</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	458,604	463,792
Advances from shareholder	-	82,232
Advances from related corporation	-	6,218
Loans payable	<u>-</u>	<u>233,743</u>
	458,604	785,985
CONTINGENT LIABILITIES (Note 12)		
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 5(a))	21,132,600	13,686,782
COMMON SHARE PURCHASE WARRANTS (Note 5(d))	910,808	-
COMMON SHARES TO BE ISSUED (Note 5(a) (1))	-	423,000
CONTRIBUTED SURPLUS (Notes 5(a) and (c))	1,808,655	-
DEFICIT	<u>(13,552,813)</u>	<u>(12,231,343)</u>
	<u>10,299,250</u>	<u>1,878,439</u>
	<u>10,757,854</u>	<u>2,664,424</u>
APPROVED ON BEHALF OF THE BOARD		
Signed _____ "Gerry McCarvill", Director		
Signed _____ "Paul Carroll", Director		

CROWFLIGHT MINERALS INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
FOR THE YEAR ENDED DECEMBER 31

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	2003	2002
	\$	\$
EXPENSES		
Salaries and benefits	8,240	40,372
Office and general	99,489	77,289
Shareholders' expenses	176,705	4,296
Investor communications	514,126	20,756
Promotion	55,660	9,403
Professional fees	102,857	5,505
Interest and bank charges	47,425	18,979
Travel	49,918	115
Consulting and management fees	343,405	24,000
Stock based compensation (Note 5(c))	1,764,780	-
Amortization	10,852	1,346
(Gain) on foreign exchange	<u>(304)</u>	<u>(603)</u>
	<u>3,294,153</u>	<u>201,458</u>
Loss before the undernoted	(3,294,153)	(201,458)
Interest	31,704	-
Write-down of interest in mineral properties	(1)	(183,868)
Gain on settlement of accounts payable	<u>105,980</u>	<u>-</u>
Net loss for the year	(3,156,470)	(385,326)
Future income tax recovery (Note 8)	<u>1,835,000</u>	<u>-</u>
NET (LOSS) FOR THE YEAR	(1,321,470)	(385,326)
DEFICIT , beginning of year	<u>(12,231,343)</u>	<u>(11,846,017)</u>
DEFICIT , end of year	<u>(13,552,813)</u>	<u>(12,231,343)</u>
(Loss) per share – Basic (Note 7)	<u>(0.040)</u>	<u>(0.017)</u>

See Accompanying Notes to Consolidated Financial Statements

CROWFLIGHT MINERALS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31

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	2003	2002
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss) for the year	(1,321,470)	(385,326)
Charges to income not involving cash:		
Amortization	10,852	1,346
Stock based compensation	1,764,780	-
Future income tax recovery	(1,835,000)	-
Write-down of exploration expenditures	<u>1</u>	<u>183,868</u>
	<u>(1,380,837)</u>	<u>(200,112)</u>
Changes in non-cash working capital balances:		
Decrease (increase) in sundry receivables	(107,301)	21,608
(Decrease) increase in accounts payable	(5,188)	76,723
(Decrease) increase in advances from related corporation	(6,218)	86,896
Increase in prepaid expenses	(1,960)	(29,417)
(Decrease) increase in advances from shareholder	<u>(82,232)</u>	<u>76,443</u>
	<u>(202,899)</u>	<u>232,253</u>
Net cash flows in operating activities	<u>(1,583,736)</u>	<u>32,141</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
(Decrease) increase in loans payable	(233,743)	112,768
Exercise of warrants	388,875	-
Exercise of options	317,500	-
Issuance of units pursuant to private placement	9,976,299	-
Share issue costs	(898,672)	-
Common shares to be issued	<u>-</u>	<u>423,000</u>
Net cash flows from financing activities	<u>9,550,259</u>	<u>535,768</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest in mineral properties	(1,426,633)	(145,139)
Purchase of capital assets	<u>(37,646)</u>	<u>-</u>
	<u>(1,464,279)</u>	<u>(145,139)</u>
Increase (decrease) in cash	6,502,244	(422,770)
CASH (BANK INDEBTEDNESS), beginning of year	<u>421,836</u>	<u>(934)</u>
CASH AND EQUIVALENTS, end of year	<u>6,924,080</u>	<u>421,836</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Common shares issued for interest in mineral Properties	<u>28,500</u>	<u>-</u>

See Accompanying Notes to Consolidated Financial Statements

1. NATURE OF OPERATIONS AND GOING CONCERN

The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. The recoverability of amounts shown for mineral properties and related deferred expenditures is dependent upon the discovery 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, and upon future profitable production or proceeds from the disposition thereof. The ability of the Company to continue as a going concern is dependent on the Company's ability to obtain future financing. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company are in accordance with generally accepted accounting principles in Canada and their basis of application is consistent with that of the previous year. Outlined below are those policies considered particularly significant:

Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its 100% owned subsidiary, Crowflight Minerals Ireland Limited.

Mineral Properties and Deferred Exploration Expenditures

Mineral properties are carried at cost until they are brought into production, at which time they are depleted on a unit-of-production method based on proven and probable reserves. If a property is subsequently determined not to be economic, the property and related deferred costs are written down to net realizable value.

Exploration expenses relating to mineral properties in which the Company has an interest are deferred until the properties are brought into production, at which time they are amortized on a unit-of-production basis. Other general exploration expenses are charged to operations as incurred. The cost of mineral properties abandoned or sold and their related deferred exploration costs are charged to operations in the current year.

Costs include the cash consideration and the fair market value of the shares issued for the acquisition of mineral properties. The carrying value is reduced by option proceeds received until such time as the property cost and deferred expenditures are reduced to nominal amounts. Properties acquired under option agreements or by joint ventures, whereby payments are made at the sole discretion of the Company, are recorded in the accounts at the time of payment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The Company reviews its mineral properties on an annual basis to determine if events or changes in circumstances have transpired which indicate that the carrying value of its assets may not be recoverable. The recoverability of costs incurred on the mineral properties is dependent upon numerous factors including exploration results, environmental risks, commodity risks, political risks, and the Company's ability to attain profitable production. In reviewing its mineral properties, the Company estimates the potential future cash flows expected to result from each asset and its eventual disposition. If the sum of the undiscounted, expected future cash flow is less than the carrying value of the asset, an impairment loss is recognized. It is reasonably possible, based on existing knowledge, that changes in future conditions in the near-term could require a change in the determination of the need for and amount of any write down.

Environmental Expenditures and Land Reclamation Costs

During the course of acquiring and exploring potential mining properties, the Company must comply with government regulated environmental evaluation, updating and reclamation requirements. The costs of complying with these requirements are capitalized as incurred, as deferred costs, until such time as the properties are put into commercial production, at which time the costs incurred will be charged to operations on a unit-of-production basis over the estimated mine life.

Upon abandonment or sale of a property, all deferred costs relating to the property will be expended in the year of such abandonment or sale. The cost and extent of future site cleanup, reclamation or remediation cannot be determined at this time and no amount has been recorded in these financial statements.

Cash and Equivalents

Cash and equivalents comprise cash on hand and short-term investments generally which mature within 90 days from the date of acquisition. The investments are held in a Canadian chartered bank or a financial institution controlled by a Canadian chartered bank.

Income Taxes

The Company uses the liability method of accounting for income taxes. Under the liability method of tax allocation, future income taxes are determined based on the differences between the financial reporting and tax bases of assets and liabilities. These income tax assets and liabilities are measured using the substantially enacted tax rates in which the income tax assets or liabilities are expected to be settled or realized. A valuation allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Stock-Based Compensation

The Company has a stock-based compensation plan which is described in Note 5(b). Effective January 1, 2003 the Company adopted, on a prospective basis, the fair value based method of accounting for stock option awards granted to employees and directors, as prescribed by CICA 3870 "Stock-based Compensation and Other Stock-based Payments". Under this method, the fair value of the stock options at the date of grant is amortized over the vesting period, with the offsetting credit to contributed surplus. If the stock options are exercised, the proceeds are credited to share capital. Prior to January 1, 2003 the Company had elected to recognize no stock compensation expense for grants to employees and directors where the stock option awards had no cash settlement features and the exercise price was equal to the stock price on the date of grant.

Earnings (loss) Per Share

Basic per share amounts are calculated using the weighted number of shares outstanding during the year. Under this standard, the treasury method is used to determine the dilutive effect of stock options and other dilutive instruments.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. CAPITAL ASSETS

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net 2003</u>	<u>Net 2002</u>
	\$	\$	\$	\$
Computer equipment	25,888	10,969	14,919	1,122
Furniture & fixtures	4,149	829	3,320	-
Storage containers	<u>12,096</u>	<u>2,420</u>	<u>9,676</u>	<u>-</u>
	<u>42,133</u>	<u>14,218</u>	<u>27,915</u>	<u>1,122</u>

4. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES

The Company has acquired mineral properties and conducted mineral exploration within certain portions of the properties in Sudbury, Ontario area during 2002 and 2003. The acquisition costs and deferred exploration expenditures are as follows:

	<u>2003</u>	<u>2002</u>
	\$	\$
Acquisition costs:		
Opening balance	901,600	875,480
Staking costs and option payments	<u>351,000</u>	<u>100,000</u>
	1,252,600	975,480
Less: Write down during the year	<u>-</u>	<u>73,880</u>
Ending balance	<u>1,252,600</u>	<u>901,600</u>
Deferred Exploration Expenditures:		
Opening balance	1,306,835	1,371,684
Geological and geophysical	266,497	-
Site activities	705,752	45,139
Consulting and report writing	<u>131,885</u>	<u>-</u>
	2,410,969	1,416,823
Less: Write down during the year	<u>1</u>	<u>109,988</u>
	<u>2,410,968</u>	<u>1,306,835</u>
	<u>3,663,568</u>	<u>2,208,435</u>

(a) AER-Kidd Property

The property covers approximately two kilometers of the Worthington Off Dyke and consists of about 272 hectares. The Company acquired the property for \$150,000 cash, issue of 1,000,000 common shares, and 1,000,000 common share purchase warrants for a two year period exercisable at \$0.45 per share in the first year and \$0.55 per share if exercised in the second year and a 3% net smelter royalty. The Company can purchase up to 50% of this royalty for \$1.25 million up to the time when commercial production commences and there is a \$50,000 advance royalty payments payable semi-annually, beginning January 31, 2001 (total of \$300,000 was paid to December 31, 2003).

**4. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES
(cont'd)**

(b) Airport Property

The Company has signed a Participation and Joint Venture Agreement with Millstream Mines Ltd. to earn an undivided 50% interest in the 46 claim Airport Property in the Sudbury Mining Camp. During the year ended December 31, 2003 the Company made a \$60,000 property payment and funded a mutually approved \$325,000 for phase i exploration work. In order to maintain its 50% undivided interest the Company has to fund an additional \$600,000 for phase ii exploration work.

(c) Marble Mountain

The Company has entered into an option agreement to earn 100% interest in the 73 claims in Marble Mountain Property in Parkin Township, Sudbury. The total consideration is as follows:

- (i) Cash payments totaling \$225,000 of which \$10,000 was paid in 2003; \$10,000 payable by January 4, 2004 (paid); \$25,000 payable by December 1, 2004; \$30,000 payable by December 1, 2005 and \$150,000 payable by December 1, 2006.
- (ii) Issue of 100,000 Common shares of which 50,000 shares were issued in 2003 and 50,000 shares to be issued by December 1, 2004.
- (iii) Minimum exploration expenditure of \$43,800 per year.

The vendor will retain a 2.5% Net Smelter Royalty (NSR) and will be paid a semi-annual royalty payment of \$10,000 commencing on June 1, 2007. The Company has the option to purchase 1.5% of the NSR for \$1,500,000 with all advances and regular royalty payments reducing the \$1,500,000 buyout amount on a dollar-for-dollar basis.

4. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (cont'd)

(d) Casierra Diamond Syndicate

The Company acquired a 33.3% interest in the Casierra Diamond Syndicate by the issue of 3,754,505 trading shares and 1,897,194 escrow shares of the Company at \$0.76 per share in 1995. During the year ended December 31, 2003, the Company abandoned its interest in the property and \$1 in acquisition and exploration costs were written off.

5. SHARE CAPITAL

(a) Common Shares

Authorized:

Unlimited number of common shares without par value

Unlimited number of class A preference shares with a par value of \$10 each, issuable in series, cumulative dividends

Unlimited number of class B preference shares with a par value of \$50 each, issuable in series, cumulative dividends

Issued:

50,462,651 Common shares \$21,132,600

	<u>Common Shares</u>	<u>Amount</u>
	#	\$
Transactions during the year are as follows:		
Balance, January 1, 2002 and December 31, 2002	22,608,283	13,686,782
Exercise of options	1,550,000	317,500
Exercise of warrants	1,822,500	388,875
Private placements – May 22, 2003 (1)	2,115,000	423,000
Private placements – June 5, 2003 (2)	7,500,000	856,152
Private placements – August 20, 2003 (3)	8,843,533	3,300,987
Private placements – November 28, 2003 (4)	5,334,995	3,494,292
Private placements – December 10, 2003 (5)	638,340	471,512
Issuance of shares for interest in mineral properties	50,000	28,500
Flow through share tax effect	<u>-</u>	<u>(1,835,000)</u>
Balance, December 31, 2003	<u>50,462,651</u>	<u>21,132,600</u>

5. SHARE CAPITAL (cont'd)

(a) Common Shares (cont'd)

- (1) On May 22, 2003, the Company issued 2,155,000 flow through units at a price of \$0.20 per unit, for total gross proceeds of \$423,000 (received in December, 2002). Each unit includes one common share and one-half of one common share purchase warrant. Each whole common share warrant entitle the holder to purchase an additional common share at a price of \$0.20 for a period of one year, until December 31, 2003 and at a price of \$0.30 until December 31, 2004 (975,000 units were exercised during the year).
- (2) On June 5, 2003, the Company issued 7,500,000 units at a price of \$0.20 per unit for total gross proceeds of 1.5 million. Each unit includes one common share or one flow-through common share and one common share purchase warrant. Each common share warrant entitle the holder to purchase an additional common share at a price of \$0.20 for a period of two years, until June 4, 2005. The gross proceeds, less issue costs have been prorated to common shares and warrants based on the fair value of each component, as follows: common shares - \$856,152; warrants - \$580,871.
- (3) On August 20, 2003, the Company issued 4,761,900 units at a price of \$0.42 per unit for total gross proceeds of \$2 million. Each unit includes one common share and one-half common share purchase warrant. Each whole share warrant entitles the holder to purchase an additional common share at a price of \$0.60 for a period of two years, until August 20, 2005.

On August 20, 2003, the Company issued 4,081,633 of flow through units at a price of \$0.49 per unit for a total gross proceeds of \$2 million.

The gross proceeds, less issue costs have been prorated to common shares and warrants based on the fair value of each component, as follows: common shares - \$3,300,987; warrants - \$196,968.

As a part of commission, the Company also issued 159,059 warrants to purchase 159,059 common shares at a price of \$0.49 until August 20, 2005; 30,608 warrants to acquire 30,608 shares at a price of \$0.49 until September 3, 2005 and 204,408 compensation units to the underwriter. Each compensation option entitle the holder to purchase one compensation unit as a price of \$0.42 per compensation unit for a period of two years until August 20, 2005. Each compensation unit consists of one common share and one-half common share purchase unit. Each whole share warrant entitles the holder to purchase an additional common share at a price of \$0.60 for the period of two years until August 20, 2005.

5. SHARE CAPITAL (cont'd)

(a) Common Shares (cont'd)

The fair value of compensation units and warrants determined using the Black-Scholes option pricing model to be \$24,549 and \$20,407, have been recorded to contributed surplus and share issue costs respectively. As at December 31, 2003, 204,408 compensation units were outstanding.

- (4) On November 28, 2003, the Company issued 2,361,660 of flow through units at a price of \$0.75 per unit for total gross proceeds of \$1,771,245. Each unit includes one flow through common share and one-half common share purchase warrant. Each whole share warrant entitles the holder to purchase an additional common share at a price of \$1.25 for a period of one year, until November 28, 2004.

On November 28, 2003, the Company issued 2,973,335 units at a price of \$0.75 per unit for total gross proceeds of \$2,230,000. Each unit includes one common share and one-half common share purchase warrant. Each whole share warrant entitles the holder to purchase an additional common share at a price of \$1.00 for a period of one year, until November 28, 2004.

The gross proceeds, less issue costs, have been prorated to common shares and warrants based on the fair value of each component, as follows: common shares - \$3,494,292; warrants - \$106,179.

As a part of commission, the Company also issued 257,191 compensation units to the underwriter. Each compensation option entitle the holder to purchase one compensation unit as a price of \$0.80 per compensation unit for a period of one year, until November 28, 2004. Each compensation unit consists of one common share and one-half common share purchase unit. 139,125 share warrants entitle the holder to purchase 69,562 common shares at a price of \$1.00 until November 28, 2004. 118,066 share warrants entitle the holder to purchase 59,033 common shares at a price of \$1.25 until November 28, 2004.

The fair value of compensation units, determined using the Black-Scholes option pricing model, to be \$18,466, has been recorded to contributed surplus. As at December 31, 2003, 139,125 compensation units were outstanding.

5. SHARE CAPITAL (cont'd)

(a) Common Shares (cont'd)

- (5) On December 10, 2003, the Company issued 638,340 of flow through units at a price of \$0.75 per unit for total gross proceeds of \$478,755. Each unit includes one flow through common share and one-half common share purchase warrant. Each whole share warrant entitle the holder to purchase an additional common share at a price of \$1.25 for a period of one year, until December 10, 2004.

The gross proceeds, less issue costs have been prorated to common shares and warrants based on the fair value of each component, as follows: common shares - \$471,512; warrants - \$6,383.

As a part of commission, the Company also issued 44,684 compensation units to the underwriter. Each compensation option entitle the holder to purchase one compensation unit at a price of \$0.80 per compensation unit, for a period of one year, until December 10, 2004. Each compensation unit consists of one common share and one-half common share purchase unit. Each whole share warrant entitles the holder to purchase an additional common share at a price of \$1.25 until December 10, 2004.

The fair value of commission units, determined using the Black-Scholes option pricing model, to be \$858, has been recorded to contributed surplus. As at December 31, 2003, 44,684 compensation units were outstanding.

(b) Stock Option Plan

The Company has granted options for the purchase of common shares to its directors, officers and certain consultants. The aggregate number of stock options to be granted under the plan is fixed at 4,900,000. The options are non-transferable and non-assignable and may be granted for a term not exceeding five years. The exercise price of the options is fixed by the board of directors of the Company at the time of grant at the market price of the common shares, subject to all applicable regulatory requirements.

5. SHARE CAPITAL (cont'd)

(b) Stock Option Plan (cont'd)

A summary of changes in stock options during the year is as follows:

	<u>Stock Options</u> #	<u>Weighted Average</u> <u>Exercise Price</u> \$
Balance, December 31, 2001	803,883	0.40
Cancelled	(803,883)	(0.40)
Granted	<u>2,000,000</u>	<u>0.20</u>
Balance, December 31, 2002	2,000,000	0.20
Exercised	(1,550,000)	0.20
Granted	5,225,000	0.35
Cancelled	<u>(1,150,000)</u>	<u>(0.46)</u>
Balance, December 31, 2003	<u>4,525,000</u>	<u>0.41</u>

As at December 31, 2003 the Company had incentive stock options, issued to directors, officers, and key consultants of the Company outstanding as follows:

<u>Date of Grant</u>	<u>Options</u> #	<u>Exercisable</u> <u>Options</u>	<u>Exercise</u> <u>Price</u>	<u>Expiry Date</u>
June 5, 2003	2,550,000	2,550,000	0.20	June 5, 2008
June 18, 2003	325,000	325,000	0.35	June 5, 2008
July 18, 2003	375,000	375,000	0.35	July 18, 2008
Nov 21, 2003	700,000	700,000	0.56	Nov 21, 2008
Sep 18, 2003	150,000	75,000	0.60	Sep 18, 2006
Dec 11, 2003	375,000	275,000	0.62	Dec 11, 2008
Nov 17, 2003	<u>50,000</u>	<u>50,000</u>	0.70	Nov 17, 2008
	<u>4,525,000</u>	<u>4,350,000</u>		

5. SHARE CAPITAL (cont'd)

(c) Stock-based Compensation

The Company has elected for the early adoption of the CICA released amendments to Section 3870, "Stock Based Compensation and Other Stock-based Payments", which require an expense to be recognized in the financial statements for all forms of employee stock-based compensation, including stock options. Prior to the adoption, the Company disclosed the effects of accounting for stock-based compensation to directors and employees as compensation expense, using the fair-value based method, as pro-forma information in the share capital note. The fair value of the options was \$1,764,780 which was charged to the statement of operations and deficit.

The fair value of each option was estimated on the date of the grant using a Black-Scholes option pricing model with the following weighted average assumptions: dividend yield of 0%, expected volatility of 146%, a risk free rate of 2% and an expected life of five years.

75,000 stock options exercisable at \$0.60 expiring September 18, 2003 and 100,000 stock options exercisable at \$0.62 expiring December 11, 2008, are not vested at December 31, 2003. The value assigned to the 175,000 stock option is \$52,860 using the Black-Scholes option pricing model and will be expensed in the statement of operations and deficit when they vest.

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

(d) Warrants

A summary of the warrants is as follows:

	<u>Number of Warrants</u> #	<u>Weighted Average Exercise Price</u> \$
Balance, January 1, 2001 and December 31, 2002	-	-
Issued	14,114,776	0.48
Exercised	<u>1,822,500</u>	0.21
Balance, December 31, 2003	<u>12,292,276</u>	0.52

5. SHARE CAPITAL (cont'd)

(d) Warrants (cont'd)

A summary of the outstanding warrants is as follows:

<u>Number of Warrants</u>	<u>Exercise Price</u>	<u>Expiry Date</u>	<u>Amount \$</u>
570,000	\$0.25	May 22, 2005	-
6,165,000	\$0.20	June 4, 2004	580,871
2,380,950	\$0.60	August 20, 2005	196,968
1,180,830	\$1.25	November 28, 2004	21,383
1,486,667	\$1.00	November 28, 2004	84,796
319,170	\$1.25	December 10, 2004	6,383
159,051	\$0.49	August, 20, 2005	17,114
<u>30,608</u>	<u>\$0.49</u>	<u>September 3, 2005</u>	<u>3,293</u>
<u>12,292,276</u>			<u>910,808</u>

6. FLOW-THROUGH FINANCING

The Company finances a portion of its exploration activities through the issue of flow-through shares. Funds raised pursuant to exploration financing agreements must be expended on qualifying exploration expenditures. For income tax purposes, exploration expenses under flow-through agreements are renounced in favour of the investors and are not deductible by the Company.

7. LOSS PER SHARE

The loss per share has been calculated using the weighted average number of shares outstanding at the end of each fiscal period. The existence of warrants and stock options affects the calculation of loss per share on a fully diluted basis. As the effect of the dilution is to reduce the loss per share, the fully diluted loss per share has not been presented.

8. INCOME TAXES

(a) Provision for Income Taxes

Major items causing the Company's income tax rate to differ from the federal statutory rate of 36.62% (2002 – 39%) were as follows:

	<u>2003</u>	<u>2002</u>
	\$	\$
Loss before taxes:	<u>(3,156,470)</u>	<u>(385,326)</u>
Expected income tax (benefit) based on statutory rate	(1,156,000)	(150,000)
Increase (decrease) resulting from:		
Writedown of mineral properties and deferred exploration expenditures	-	72,000
Share issue costs	(76,000)	(7,000)
Stock based compensation	646,000	-
Future tax assets not previously recognized	<u>(1,249,000)</u>	<u>85,000</u>
Provision for income taxes	<u>(1,835,000)</u>	<u>-</u>

During the year, the Company issued \$5,010,875 in flow-through shares, consequently a non-cash future income tax recovery of \$1,835,000 has been recognized during the year ended December 31, 2003. The future income tax recovery was recorded in accordance with CICA HB 3465 and EIC Drafts 39.

As a resource company, Crowflight has future income tax assets that it did not recognize in previous years as a result of applying the "more likely than not" test. During the year, the Company undertook an issuance of flow-through shares that gave rise to taxable temporary differences. The taxable temporary differences are expected to reverse during the loss carry-forward period, so that part of the unrecognized future income tax assets can be applied against the full taxable temporary difference. The Company recognized that portion of its unrecognized future tax assets, by reversing a portion of the previously recorded valuation allowance. The recognition of a portion of previously unrecognized future income tax assets results in a credit to income.

8. INCOME TAXES (cont'd)

(b) Future Tax Balances

The tax effects of temporary differences that give rise to future income tax assets in Canada at December 31, 2003 are as follows:

	<u>2003</u>	<u>2002</u>
	\$	\$
Future income tax assets:		
Non-capital losses	994,233	530,000
Resource properties	(1,457,233)	808,000
Share issue costs	266,000	9,300
Other assets	<u>197,000</u>	<u>226,000</u>
	-	1,573,300
Valuation allowance	<u>-</u>	<u>(1,573,300)</u>
	<u>-</u>	<u>-</u>

The Company has approximately \$2,715,000 of non-capital losses in Canada which under certain circumstances can be used to reduce taxable income of future years. The potential income tax benefit of these losses has not been recognized in the accounts.

The Company has approximately \$8,329,700 of development and exploration expenditures as at December 31, 2003 which, under certain circumstances, may be utilized to reduce taxable income of future years. The potential income tax benefit of these losses has not been recognized in the accounts.

9. FINANCIAL INSTRUMENTS

The carrying amounts for cash and sundry receivables, accounts payable and accrued liabilities and advances from related parties on the balance sheets approximate fair value because of the limited term of these instruments.

Fair value estimates are made at the balance sheet date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgement, and therefore, cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

10. COMMITMENT

The Company is committed to annual minimum rental payments of \$42,000 under a lease for premises in Sudbury, Ontario, expiring on June 30, 2004 and January 31, 2005.

Pursuant to the terms of management & consulting agreements with its directors, officers and certain consultants, the Company is committed to minimum payments of \$50,000 per month. Many of the agreements can be terminated upon 90 days written notice or upon a different period of time as mutually agreed upon.

Pursuant to the terms of a management contract with a director and an officer, the Company is committed to severance pay of \$37,500, when the Company terminated the agreement.

11. RELATED PARTY TRANSACTIONS

- (a) Consulting and management fees include \$28,000 (2002 - \$24,000) for management fees paid to the former president of the Company.
- (b) During the year ended December 31, 2003, a total of \$90,000 (2002 - NIL) for professional consulting fees and deferred exploration expenditures was paid or accrued to three directors and officers of the Company. The consulting fees are subject to the agreement. The related parties are also reimbursed for out-of-pocket expenses related to the business of the Company.
- (c) During the year ended December 31, 2003, a total of \$216,000 (2002 - NIL) for bonuses was paid or accrued to various directors and officers. Included in accounts payable and accrued liabilities at December 31, 2003 is \$70,000 (2002 - NIL) owing to certain directors and officers. The Company also paid \$25,000 bonus to a company of which one of the directors is an officer.
- (d) The Company shares its premises with other companies that have common directors and pays for its proportional share of the expenses.

All of the above transactions are in the normal course of operations and are measured at the exchange amount (the amount of consideration established and agreed to by the related parties), which does not exceed the arm's length equivalent value for these services.

12. CONTINGENCIES

The Company is the defendant in a law suit filed in the Ontario Superior Court of Justice. The plaintiff is claiming damages of 3,370,000 shares of the Company and 3% net smelter royalties on 13 properties acquired by the Company in Sudbury, Ontario. The Company is unable to ascertain the amount of liability, if any, of the above matter.

13. COMPARATIVE FIGURES

The 2002 comparative figures have been reclassified to conform to the financial statement presentation adopted for 2003.

14. SUBSEQUENT EVENTS

On February 4, 2004 the Company entered into an option agreement to acquire 100% interest in 624 hectares (39 units) of the Copenhagen Property in Sudbury Basin.

The total consideration is as follows:

- (i) Cash payments totaling \$230,000; \$90,000 payable on April 2004; \$8,000 payable on May 1, 2004; \$8,000 payable on July 1, 2004; \$25,000 payable on February 19, 2005; \$30,000 payable on February 16, 2006 and \$150,000 payable on February 19, 2007.
- (ii) Issue of 100,000 Common shares of which 15,000 Common shares are to be issued by April, 2004; 15,000 Common shares to be issued by May 1, 2004; 20,000 Common shares by July 1, 2004 and 50,000 Common shares by February 19, 2005.
- (iii) Minimum exploration expenditures of \$33,000 per year.

The vendor will retain 2.5% Net Smelter Royalty (NSR) and will be paid semi-annual royalty payments of \$10,000 commencing on August 19, 2007. The Company has the option to repurchase 60% of NSR for \$1,500,000, with all advances and regular royalty payments reducing \$1,500,000 buyout amount on a dollar-for-dollar basis.