



MBA Gold Corp.  
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*Financial Statements of*

**MBA GOLD CORP.**

*January 31, 2005*



MANNING ELLIOTT  
CHARTERED ACCOUNTANTS

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## AUDITORS' REPORT

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To the Shareholders of  
MBA Gold Corporation

We have audited the consolidated balance sheet of MBA Gold Corporation as at January 31, 2005 and the consolidated statements of loss and deficit and cash flows for the year 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 January 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures as at January 31, 2004 and for the fiscal year then ended were audited by another firm of Chartered Accountants which expressed an opinion without reservation on those financial statements in its report dated March 5, 2004.

*Manning Elliott*

Chartered Accountants

Vancouver, British Columbia

April 21, 2005

**MBA GOLD CORP.**  
**Consolidated Balance Sheets**  
As at January 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ 71,648	\$ 68,904
Cash committed for exploration	102,500	-
Amounts receivable	15,670	33,623
Prepaid expenses and deposits	1,985	1,985
Advances for exploration expenditures	245,773	-
	<u>437,576</u>	<u>104,512</u>
RESTRICTED CASH [note 4]	111,420	118,674
PROPERTY AND EQUIPMENT [note 6]	17,495	22,984
MINERAL PROPERTIES [note 4]	32,630	898,247
OIL AND GAS PROPERTIES [note 5]	448,247	-
INVESTMENT	-	1
	<u>\$ 1,047,368</u>	<u>\$ 1,144,418</u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 18,365	\$ 71,189
Due to related parties	20,000	-
Short-term debt	10,000	-
	<u>48,365</u>	<u>71,189</u>
<b>SHAREHOLDERS' EQUITY</b>		
Common shares [note 7]	11,155,592	9,914,704
Treasury stock [note 7]	(40,928)	(40,928)
Contributed surplus [note 7]	390,775	37,540
Deferred compensation [note 7]	(138,394)	(16,900)
Deficit	(10,368,042)	(8,821,187)
	<u>999,003</u>	<u>1,073,229</u>
	<u>\$ 1,047,368</u>	<u>\$ 1,144,418</u>

NATURE OF OPERATIONS [note 1]  
COMMITMENT [note 11]

Approved on behalf of the Board:

"Cam White"  
Cam White, Director

"Stephen Cheikes"  
Stephen Cheikes, Director

# MBA GOLD CORP.

## Consolidated Statements of Loss and Deficit

Year Ended January 31, 2005 and 2004

	2005	2004
REVENUE	\$ -	\$ -
EXPENSES		
Accounting and audit	22,983	21,377
Amortization	6,974	3,936
Foreign exchange loss	4,738	24,324
Investor relations	46,638	70,605
Legal	13,565	2,116
Office	31,286	77,517
Project investigation fees	109,717	-
Rent	21,851	11,499
Stock-based compensation	231,740	14,544
Transfer agent and filing fees	19,466	39,053
Wages, benefits and consulting	77,028	141,035
Impairment loss on mineral properties	961,407	-
Less: Interest income	(538)	(3,258)
	<b>1,546,855</b>	<b>402,748</b>
NET LOSS	<b>(1,546,855)</b>	<b>(402,748)</b>
DEFICIT, BEGINNING OF THE YEAR	<b>(8,821,187)</b>	<b>(8,418,439)</b>
DEFICIT, END OF THE YEAR	<b>\$ (10,368,042)</b>	<b>\$ (8,821,187)</b>
BASIC AND DILUTED LOSS PER SHARE	<b>(0.11)</b>	<b>(0.04)</b>
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	<b>14,379,000</b>	<b>9,458,000</b>

See accompanying notes to the consolidated financial statements

**MBA GOLD CORP.**  
**Consolidated Statements Cash Flows**  
Year ended January 31, 2005 and 2004

	2005	2004
<b>OPERATING ACTIVITIES</b>		
Net loss	\$ (1,546,855)	\$ (402,748)
Items not involving cash		
Amortization	6,974	3,936
Foreign exchange loss	7,255	22,338
Amortization of deferred compensation and other stock-based compensation	231,740	14,544
Impairment loss on investment	1	-
Impairment loss on mineral properties	961,407	-
	<b>(339,478)</b>	<b>(361,930)</b>
Changes in non-cash operating assets and liabilities	-	
Amounts receivable	17,953	(26,304)
Prepaid expenses	-	(1,985)
Accounts payable and accrued liabilities	(2,824)	51,067
	<b>(324,349)</b>	<b>(339,152)</b>
<b>FINANCING ACTIVITIES</b>		
Issue of shares, net of costs	1,166,888	1,286,233
Proceeds from related parties	20,000	-
Short-term debt	10,000	-
	<b>1,196,888</b>	<b>1,286,233</b>
<b>INVESTING ACTIVITIES</b>		
Exploration and acquisition costs on mineral properties	(317,563)	(859,908)
Exploration costs on oil and gas properties	(448,247)	-
Property and equipment	(1,485)	(26,920)
	<b>(767,295)</b>	<b>(886,828)</b>
<b>INCREASE IN CASH</b>	<b>105,244</b>	<b>60,253</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>68,904</b>	<b>8,651</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>174,148</b>	<b>68,904</b>
<b>CASH AND CASH EQUIVALENTS</b>		
Are comprised of the following balance sheet accounts:		
Cash	71,648	68,904
Cash committed for exploration	102,500	-
	<b>174,148</b>	<b>68,904</b>
<b>NON-CASH FINANCING AND INVESTING ACTIVITIES</b>		
Shares issued for settlement of accounts payable	50,000	-
Shares issued for acquisition of mineral property	24,000	-
Shares issued for finance fee	-	21,250
Shares issued for finder's fee on deferred exploration costs	-	65,000

See accompanying notes to the consolidated financial statements

# **MBA GOLD CORP.**

## **Notes to the Consolidated Financial Statements**

**Years ended January 31, 2005 and 2004**

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### **1. NATURE OF OPERATIONS**

The Company has interests in mining assets at the exploration stage, the economic viability of which has not been assessed. The realization of the Company's investment in mineral properties is dependent upon various factors, including the existence of economically recoverable mineral reserves, the ability to obtain the necessary financing to complete the exploration and development of the properties, future profitable operations, or, alternatively, upon disposal of the investment on an advantageous basis.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern which assume that the Company will realize its assets and discharge its liabilities in the normal course of business. Realization values of assets may be substantially different from the carrying values as shown in these financial statements should the Company be unable to continue as a going concern.

### **2. SIGNIFICANT ACCOUNTING POLICIES**

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant policies outlined below.

#### *(a) Basis of presentation*

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All intercompany transactions and balances have been eliminated upon consolidation.

#### *(b) 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, liabilities, revenues and expenses and disclosure of contingent assets and liabilities at the date of the financial statements and for the periods presented. Estimates are used for, but not limited to, accounting for doubtful accounts, income taxes, the carrying value of long-lived assets, and contingencies. Actual results may differ from those estimates.

#### *(c) Cash committed for exploration*

Cash committed for exploration consists of proceeds of flow-through shares which will be used to fund the costs of drilling the initial well on the Dover Prospect (see also note 7 (c)).

#### *(d) Mineral Properties*

All costs related to the acquisition, exploration and development of mineral and resource properties are capitalized. Upon commencement of commercial production, the related accumulated costs are amortized against future income of the project using the unit of production method over estimated recoverable mineral reserves. Management periodically assesses carrying values of non-producing properties and if management determines that the carrying values cannot be recovered or the carrying values are related to properties that are allowed to lapse, the unrecoverable amounts are expensed.

The recoverability of the carried amounts of mineral properties is dependent on the existence of economically recoverable ore reserves and the ability to obtain the necessary financing to complete the development of such ore reserves and the success of future operations. The Company has not yet determined whether any of its mineral properties contains economically recoverable reserves. Amounts capitalized as mineral properties represent costs incurred to date, less write-downs and recoveries, and does not necessarily reflect present or future values.

# MBA GOLD CORP.

## Notes to the Consolidated Financial Statements

Years ended January 31, 2005 and 2004

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (e) *Oil and gas properties*

The Company follows the full-cost method of accounting for oil and gas properties whereby all costs relating to the acquisition, exploration and development activities are capitalized. These costs include land acquisition costs, geological and geophysical expenses, the cost of drilling both productive and non-productive wells and directly related overhead. Proceeds from the disposal of properties are deducted from the full cost pool without recognition of a gain or loss unless such a sale would significantly alter the rate of depletion and depreciation. Upon commercial production, the related accumulated costs are amortized against future income using the unit-of-production method based on production volumes before royalties in relation to total estimated proved reserves as determined by independent engineers.

#### (f) *Property and equipment*

Computer, furniture and equipment are recorded at cost and are amortized using the declining balance method at 30% per annum. Leasehold improvements are amortized on a straight-line basis over five years. Property and equipment are amortized at one half the amortization rate, in year of acquisition.

#### (g) *Income taxes*

The Company follows the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are determined based on temporary differences between the accounting and tax bases of existing assets and liabilities, and are measured using the tax rates expected to apply when these differences reverse. A valuation allowance is recorded against any future tax asset if it is more likely than not that the asset will not be realized.

#### (h) *Stock-based compensation*

The Company recognizes stock-based compensation expense in accordance with CICA Handbook Section 3870 "Stock-based Compensation and Other Stock-based Payments". When stock or stock options are issued to non-employees, compensation expense is recognized based on the fair value of the stock or stock options issued. In February, 2004, the Company changed its accounting policy related to employee stock options, and began to recognize compensation expense for stock or stock option grants to employees, based on the fair value of the stock or stock options issued. See Note 3 and 7(e).

#### (i) *Share issue costs*

Direct costs relating to the issuance of shares are charged directly to share capital.

#### (j) *Flow-through Shares*

The Company has adopted EIC-146, which is effective for all flow-through share transactions initiated after March 19, 2004. Canadian tax legislation permits a company to issue securities referred to as flow-through shares whereby the investor may claim the tax deductions arising from the related resource expenditures. When resource expenditures are renounced to the investors and the Company has reasonable assurance that the expenditures will be completed, a future income tax liability is recognized and the shareholders' equity is reduced.

If the Company has sufficient unused tax loss carryforwards to offset all or part of this future income tax liability and no future income tax assets have been previously recognized for these carryforwards, a portion of such unrecognized losses is recorded as income up to the amount of the future income tax liability that was previously recognized on the renounced expenditures.

# **MBA GOLD CORP.**

## **Notes to the Consolidated Financial Statements**

**Years ended January 31, 2005 and 2004**

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### **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### *(k) Foreign exchange*

The accounts of the Company are expressed in Canadian dollars. Foreign currency monetary assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. Other balance sheet items were translated into Canadian dollars at the exchange rate in effect on the respective transaction dates. Translation gains and losses relating to monetary items are included in operations.

#### *(l) Income (loss) per share*

Income (loss) per share is calculated using the weighted-average number of common shares outstanding during the year. The treasury stock method is used in the calculation of diluted earnings per share. Diluted earnings per share are computed using the weighted-average number of common and common equivalent shares outstanding during the year. Common equivalent shares consist of the incremental common shares exercisable upon the exercise of stock options and are excluded from the computation if their effect is anti-dilutive.

#### *(m) Comparative figures*

Comparative figures have been reclassified, where applicable, to conform to the current period's presentation.

### **3. CHANGE IN ACCOUNTING POLICY**

In February, 2004 the Company adopted the provisions of CICA Handbook Section 3870, "Stock-based Compensation and Other Stock Based Payments", as it relates to employee stock options. In accordance with the provisions of this section, the Company has accounted prospectively for all employee stock options granted, settled, or modified since February 1, 2004 as a charge to operations based upon the fair value method. The fair value method requires the Company to expense the fair value, as determined using the Black Scholes option-pricing model, of the employee options granted or modified during a period. Accordingly, the Company has recorded an amount in respect of employee options granted in 2005 (see Note 7(e)). Pro forma loss would continue to be disclosed as it relates to employee stock options granted during 2004.

### **4. MINERAL PROPERTIES**

#### **Worldbeater Gold Project**

The Company has acquired an option from Compass Minerals NL, NSW, Australia ("Compass") to acquire up to a 60% interest in the Worldbeater Gold Project. The Worldbeater Gold Project is located in the Panamint Ranges, near Ballarat, Inyo County, California. The Company has earned a 30% interest in the project by carrying out an exploration program of U.S. \$500,000. A further 30% interest can be earned by completing a pre-feasibility study on the property on or before September 30, 2004 provided that this date can be extended if additional exploration is warranted. The Company elected not to complete the pre-feasibility study by September 30, 2004 and is currently reviewing various options. Compass will retain the remaining 40% interest as a joint venture partner if Compass elects to contribute to the cost of a bankable feasibility study, otherwise Compass's interest will be converted to a 20% interest and the Company will acquire the remaining 20% interest.

The Company has agreed to make annual land rental payments of U.S. \$20,000. and has agreed to issue 200,000 shares to Compass upon completion of the pre-feasibility study and a further 200,000 shares upon commencement of commercial production. As a condition to enter into the agreement with Compass, the Company posted a letter of credit in the amount of U.S. \$90,000 (Cdn \$111,420) for which a short-term investment in the same amount is held as collateral.

# MBA GOLD CORP.

## Notes to the Consolidated Financial Statements

Years ended January 31, 2005 and 2004

### 4. MINERAL PROPERTIES (continued)

#### Worldbeater Gold Project (continued)

As at January 31, 2005 the Board of Directors resolved to write-down the carrying value to nil and the Board will make a decision on whether to continue with this project. An impairment charge of \$961,407 has been charged to operations as at January 31, 2005.

#### S310 Gold Property

The Company, through its wholly-owned subsidiary Manele Bay Goldfields Inc. ("MBG"), has acquired an option to acquire a 100% interest in a group of 12 unpatented mining claims in Humboldt County, Nevada. The Company made an initial payment of \$10,000 and issued 75,000 common shares related to this project. In order to maintain the option in good standing the Company must pay a further US\$7,500 and issue an additional 50,000 shares over each of the next three years and incur exploration expenditures of US\$400,000 by July 31, 2007. The Company can acquire a 100% interest in the property by paying US\$100,000 and issuing an additional 100,000 shares by January 31, 2008. The vendor will retain a 3% net smelter return royalty, 1.5% of which can be bought out for US\$1.5 million within 24 months of the commencement of commercial production. MBG subsequently acquired a 100% interest in an additional 12 contiguous mining claims through staking.

Cumulative exploration and acquisitions costs are as follows:

2005	Worldbeater	S310 Gold	Total
Balance – Beginning of Year	\$ 898,247	\$ –	\$ 898,247
Deferred during the year			
Engineering	16,445	–	16,445
Geological contractors and consulting	12,093	25,203	37,296
Legal	771	–	771
Property payments	29,559	750	30,309
Storage and other	2,375	6,677	9,052
Travel and accommodation	1,917	–	1,917
	63,160	32,630	95,790
	961,407	32,630	994,037
Impairment charge	961,407	–	961,407
Balance – End of Year	\$ –	\$ 32,630	\$ 32,630
2004	Worldbeater	S310 Gold	Total
Balance – Beginning of Year	\$ 38,339	\$ –	\$ 38,339
Deferred during the year			
Assaying	25,287	–	25,287
Drilling	203,044	–	203,044
Engineering	18,690	–	18,690
Geological contractors and consulting	321,573	–	321,573
Legal	2,962	–	2,962
Property payments	56,894	–	56,894
Road construction	84,551	–	84,551
Storage and other	50,540	–	50,540
Travel and accommodation	96,367	–	96,367
	859,908	–	859,908
Balance – End of Year	\$ 898,247	\$ –	\$ 898,247

# MBA GOLD CORP.

## Notes to the Consolidated Financial Statements

Years ended January 31, 2005 and 2004

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### 5. OIL AND GAS PROPERTIES

#### Dover and Gautreau Oil and Gas Project

On August 18, 2004 the Company entered into an oil and gas farm-in agreement with Contact Exploration Inc. (TSX-V: CEX) of Calgary, Alberta whereby the Issuer has the right to earn a 50% working interest in the Dover and Gautreau oil and gas prospects in Eastern New Brunswick by incurring 100% of the costs of drilling and completing an initial exploration well on each prospect.

2005 Cumulative exploration and acquisitions costs for Dover and Gautreau are as follows:

Balance – Beginning of Year	\$	–
Deferred during the year		
Drilling		429,226
Engineering		–
Geological contractors and consulting		11,685
Legal		2,202
Property payments		–
Storage and other		665
Travel and accommodation		4,469
		448,247
Balance – End of Year	\$	448,247

### 6. PROPERTY AND EQUIPMENT

	Cost	Accumulated amortization	2005 Net book value	2004 Net book value
Computer equipment	\$ 17,678	\$ 7,160	\$ 10,518	\$ 15,026
Furniture and equipment	8,683	3,137	5,546	6,118
Leasehold improvements	2,044	613	1,431	1,840
	\$ 28,405	\$ 10,910	\$ 17,495	\$22,984

# MBA GOLD CORP.

## Notes to the Consolidated Financial Statements

Years ended January 31, 2005 and 2004

### 7. SHARE CAPITAL

#### (a) Authorized

Unlimited common shares without par value.

#### (b) Issued

	Common shares		Treasury Stock	
	Number of Shares	Amount	Number of Shares	Amount
Balance - January 31, 2003	7,435,250	\$ 8,628,472	(6,826)	\$ (40,928)
Shares issued for cash	3,000,000	1,275,000	-	-
Share issue costs	-	(193,568)	-	-
Shares issued for corporate finance fee	50,000	21,250	-	-
Shares issued of exercise of warrants	871,500	96,050	-	-
Shares issued of exercise of stock options	150,000	22,500	-	-
Shares issued for finder's fee	200,000	65,000	-	-
Balance - January 31, 2004	11,706,750	9,914,704	(6,826)	(40,928)
Shares issued for mineral property [note 4]	75,000	24,000	-	-
Private Placement [(c) below]				
Shares issued for cash	4,750,000	950,000	-	-
Shares issued for accounts payable	250,000	50,000	-	-
Share issue costs	-	(8,562)	-	-
Shares issued on exercise of warrants	1,540,000	161,700	-	-
Shares issued on exercise of stock options	425,000	63,750	-	-
Shares cancelled	(25,252)	-	-	-
Balance - January 31, 2005	18,721,498	\$11,155,592	(6,826)	\$ (40,928)

#### (c) Private Placement

On December 20, 2004 the Company completed a private placement of 5,000,000 units at \$0.20 per unit for gross cash proceeds of \$950,000 and to settle debt of \$50,000. Each unit consists of one common share and one common share purchase warrant. Each warrant will entitle the purchaser to acquire one common share at price of \$0.25 per share expiring December 16, 2005. 3,887,500 common shares were flow-through shares and 1,112,500 common shares were non flow-through shares. Proceeds were used to fund the costs of drilling the initial well on the Dover Prospect.

As part of this private placement the Company issued 250,000 common shares as settlement of accounts payable.

# MBA GOLD CORP.

## Notes to the Consolidated Financial Statements

Years ended January 31, 2005 and 2004

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### 7. SHARE CAPITAL (continued)

#### (d) Escrow shares

On February 24, 2004 a total of 25,252 shares held in escrow were cancelled by regulatory authorities.

#### (e) Stock-based compensation plans

The Company has established a Share Option Plan (the "option plan") which provides for options to purchase common shares to be granted by the Company to directors, officers, employees and consultants of the Company. At the date options are granted, the exercise price for an option shall not be less than the fair value of common shares of the Company. Options vest over a period of 18 months.

	Number of Options	Weighted Average Exercise Price
Balance - January 31, 2003	600,000	\$ 0.15
Issued	470,000	0.55
Exercised	(150,000)	0.15
Cancelled	(20,000)	0.55
Balance - January 31, 2004	900,000	0.35
Issued	750,000	0.45
Issued	1,100,000	0.30
Exercised	(425,000)	0.15
Cancelled	(150,000)	0.55
Cancelled	(25,000)	0.45
Balance - January 31, 2005	2,150,000	\$ 0.38

The following table summarizes the stock options outstanding at January 31, 2005:

Exercise price	Options outstanding		Weighted average exercise price	Options exercisable	
	Number of shares	Weighted average remaining contractual life		Number exercisable	Weighted average exercise price
\$0.30	1,100,000	4.5	\$0.30	1,100,000	\$0.30
\$0.45	725,000	4.3	\$0.45	725,000	\$0.45
\$0.55	300,000	3.6	\$0.55	300,000	\$0.55
\$0.15	25,000	2.4	\$0.15	25,000	\$0.15
	2,150,000	4.3	\$0.38	2,150,000	\$0.38

# MBA GOLD CORP.

## Notes to the Consolidated Financial Statements

Years ended January 31, 2005 and 2004

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### 7. SHARE CAPITAL (continued)

#### (e) Stock-based compensation plans

The expiry date of the Company's stock options are as follows:

	Price	Outstanding	Expiry Date
Options	\$0.55	300,000	August 2008
Options	\$0.15	25,000	June 2007
Options	\$0.45	725,000	April 2009
Options	\$0.30	1,100,000	July 2009
		<u>2,150,000</u>	

During 2005, management adopted the provisions of CICA Handbook Section 3870, "Stock Based Compensation and Other Stock Based Payments", as it relates to employee stock options. See Note 3 for a description of the effects of this change in accounting policy.

The total fair value of employee stock options granted during 2005 was \$353,234, of which \$214,840 fully vested and was recognized as compensation expense in the current year and recorded in equity as contributed surplus relating to stock options granted. The remaining share-based compensation of \$138,394 was recognized as a deferred compensation expense and will be charged to operations in 2006.

The fair value of stock options granted was estimated using the Black-Scholes option pricing model assuming no expected dividends and the following weighted average assumptions:

	2005
Interest rate	3.85%
Expected life (in years)	5
Expected volatility	70%

Had compensation cost for the Company's stock-based compensation plans for employees and directors been determined based on the fair value at the grant dates for awards under those plans consistent with the fair value based method of accounting for stock-based compensation in 2004, the Company's net loss and loss per share would have increased as follows:

	2005	2004
	\$	\$
Net loss		
As reported	(927,854)	(402,748)
Pro forma	(969,760)	(423,129)
Basic and diluted loss per share		
As reported	(0.06)	(0.04)
Pro forma	(0.07)	(0.07)

# MBA GOLD CORP.

## Notes to the Consolidated Financial Statements

Years ended January 31, 2005 and 2004

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### 7. SHARE CAPITAL (continued)

#### (f) Share purchase warrants

	Number of warrants	Exercise price
Balance, January 31, 2003	2,400,000	\$0.10
Issued	1,750,000	0.50
Exercised	(871,500)	0.105
Balance, January 31, 2004	3,278,500	0.105 – 0.50
Issued	5,000,000	0.25
Exercised	(1,540,000)	0.105
Expired	(1,738,500)	0.50
Balance, January 31, 2005	5,000,000	\$0.25

Pursuant to a private placement completed in December 2004, the Company issued warrants to purchase 5,000,000 common shares at a price of \$0.25 per share. Share purchase warrants outstanding at January 31, 2005 expire on December 16, 2005.

Pursuant to a private placement completed in May 2002, the Company issued warrants to purchase 2,400,000 common shares at a price of \$0.105 per share until May 22, 2004. As of January 31, 2005, all warrants have been exercised.

In connection with a short form offering the Company issued 1,750,000 warrants to purchase 1,750,000 common shares at a price of \$0.50 per share on or before June 24, 2004. In accordance with this offering agreement all outstanding warrants were cancelled effective June 24, 2004.

### 8. RELATED PARTY TRANSACTIONS

Related party transactions not otherwise disclosed include the following:

	2005	2004
Consulting fees paid to directors	\$ 60,000	\$ 112,435
Consulting fees paid to a director capitalized as deferred exploration costs	\$ -	\$ 57,000

Related party debt of \$10,000 owing to a director is unsecured, due on demand and non-interest bearing.

### 9. FINANCIAL INSTRUMENTS

#### (a) Fair value

The Company had financial instruments which include cash, amounts receivable, accounts payable and accrued liabilities. The carrying value of these financial instruments approximates fair value at January 31, 2005 and 2004.

# MBA GOLD CORP.

## Notes to the Consolidated Financial Statements

Years ended January 31, 2005 and 2004

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### 9. FINANCIAL INSTRUMENTS

#### (b) Price risk

The Company undertakes transactions denominated in United States dollars and as such is exposed to price risk due to fluctuations in foreign exchange rates. The Company does not use derivative instruments to reduce its exposure.

### 10. INCOME TAXES

In assessing the realization of the Company's future tax assets, management considers whether it is more likely than not that some portion or all of the Company's future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of future tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. It is management's opinion that the Company's future tax assets are unlikely to be realized. Based upon this assessment, the Company has provided fully against these assets.

The reconciliation of Canadian income amounts calculated at Canadian statutory rates to the amount recorded in the financial statements is as follows:

	2005	2004
Statutory tax rate	35.62%	37.62%
Loss for the year	\$ (550,990)	\$ (143,459)
Recovery of income taxes based on statutory rates		
Permanent difference	506,378	73,426
Losses for which an income tax benefit has not been recognized	44,612	70,033
	<u>\$ -</u>	<u>\$ -</u>

The significant components of the Company's future tax assets are as follows:

	2005	2004
Future income tax assets:		
Non-capital loss carryforwards	\$ 1,330,739	\$ 1,563,168
Capital loss carryforwards	1,241,666	1,175,655
Resource Pool	287,608	319,956
Property and equipment	4,104	1,401
Total gross future income tax assets	<u>2,864,117</u>	<u>3,016,180</u>
Valuation Allowance	<u>(2,864,117)</u>	<u>(3,016,180)</u>
Net future tax assets	<u>\$ -</u>	<u>\$ -</u>

# MBA GOLD CORP.

## Notes to the Consolidated Financial Statements

Years ended January 31, 2005 and 2004

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### 10. INCOME TAXES (continued)

As at December 31, 2004, the Company has non-capital loss carryforwards of approximately \$2,732,000 which are available to offset future taxable income earned in Canada. These non-capital loss carryforwards expire as follows:

2006	\$ 408,000
2007	770,000
2008	603,000
2009	34,000
2010	186,000
2011	605,000
2014	126,000
	<u>\$2,732,000</u>

- a) \$777,500 of Canadian Exploration Expenditures was renounced to investors on December 31, 2004, Canadian Exploration Expenditures of \$Nil (2004 - \$211,752) can be deducted 100% against future year's taxable income. Canadian Development Expenditures of \$2,202 (2004 - \$Nil) can be deducted 30% against future year's taxable income.
- b) Foreign exploration and development expenses of \$873,000 (2004 - \$667,000) are fully deductible against foreign mineral profits or 10% of taxable income in any given year.
- c) The Company has a capital loss of \$3,300,000 available to reduce future years capital gains.

The value of these tax assets has been reduced to \$Nil because of a valuation allowance.

### 11. COMMITMENT

The Company leases its office premises for which minimum lease payments are as follows:

2006	\$24,000
2007	16,000
	<u>\$40,000</u>

# MBA GOLD CORP.

## Notes to the Consolidated Financial Statements

Years ended January 31, 2005 and 2004

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### 12. SEGMENTED INFORMATION

The Company operates in two industries and two geographic segments, being Canada and the United States. The accounting policies of the segments are the same as those described in Note 2.

	Canada	United States	Total
	Oil & Gas	Mineral Exploration	
	\$	\$	\$
2005			
Revenue	-	-	-
Amortization	3,487	3,487	6,974
Impairment loss on mineral properties	-	(961,407)	(961,407)
Segment operating loss	(237,866)	(1,308,989)	1,546,855
Segment assets	903,318	144,050	1,047,368
2004			
Revenue	-	-	-
Amortization	3,936	-	3,936
Impairment loss on mineral properties	-	-	-
Segment operating loss	-	(402,748)	(402,748)
Segment assets	246,171	898,247	1,144,418

### 13. SUBSEQUENT EVENTS

On March 24, 2005 the Company announced that it is proceeding, subject to regulatory approval, with a non-brokered private placements of up to 1,000,000 Units at a price of \$0.25 per Unit to raise gross proceeds of \$250,000. Each Unit will consist of one "flow-through" common share and one non-flow through warrant to purchase an additional common share at a price of \$0.30 for one year. The proceeds of the placement will be used to fund continuing oil and gas exploration expenditures in Eastern Canada.