

*Auditors' Report and Consolidated Financial Statements of*

**MBA GOLD CORP.**

*January 31, 2004 and 2003*

## **Auditors' Report**

To the Shareholders of  
MBA Gold Corp.  
(formerly Manele Bay Ventures Inc.)

We have audited the consolidated balance sheets of MBA Gold Corp. (formerly Manele Bay Ventures Inc.) as at January 31, 2004 and 2003 and the consolidated statements of loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at January 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

***(Signed) Deloitte & Touche LLP***

Chartered Accountants  
Vancouver, British Columbia  
March 5, 2004

**MBA GOLD CORP.**  
(formerly Manele Bay Ventures Inc.)  
**Consolidated Balance Sheets**  
January 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
<b>ASSETS</b>		
CURRENT		
Cash	\$ 68,904	\$ 8,651
Amounts receivable	33,623	7,319
Prepaid expenses	1,985	-
	<u>104,512</u>	15,970
DEFERRED EXPLORATION COSTS (Note 3)	898,247	38,339
RESTRICTED CASH (Note 3)	118,674	141,012
PLANT AND EQUIPMENT (Note 5)	22,984	-
INVESTMENT (Note 4)	1	1
	<u>\$ 1,144,418</u>	<u>\$ 195,322</u>

**LIABILITIES**

CURRENT		
Accounts payable and accrued liabilities	\$ 71,189	\$ 20,122

**SHAREHOLDERS' EQUITY**

Contributed surplus	20,640	6,096
Common shares (Note 6)	9,914,704	8,628,472
Treasury stock (Note 6)	(40,928)	(40,928)
Deficit	(8,821,187)	(8,418,440)
	<u>1,073,229</u>	175,200
	<u>\$ 1,144,418</u>	<u>\$ 195,322</u>

CONTINUING OPERATIONS (Note 1)

APPROVED BY THE BOARD

(Signed) Cameron White

Cameron White, Director

(Signed) Stephen G. Cheikes

Stephen G. Cheikes, Director

**MBA GOLD CORP.****Consolidated Statements of Loss and Deficit**

Years ended January 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
EXPENSES		
Accounting and audit	\$ 21,377	\$ 7,084
Amortization	3,936	-
Consulting	155,579	80,096
Investor relations	70,605	-
Legal	2,116	30,436
Office	77,517	41,107
Project investigation fees	-	9,260
Rent	11,499	-
Transfer agent and filing fees	39,053	-
	<u>381,682</u>	<u>167,983</u>
OTHER		
Foreign exchange loss	24,324	-
Interest income	(3,258)	(777)
	<u>21,066</u>	<u>(777)</u>
NET LOSS	(402,748)	(167,206)
DEFICIT, BEGINNING OF YEAR	(8,418,439)	(8,251,234)
DEFICIT, END OF YEAR	\$ (8,821,187)	\$ (8,418,440)
BASIC AND DILUTED LOSS PER SHARE	\$ (0.04)	\$ (0.03)
WEIGHTED-AVERAGE NUMBER OF SHARES OUTSTANDING	<u>9,457,732</u>	<u>5,834,006</u>

**MBA GOLD CORP.**  
**Consolidated Statement of Cash Flows**  
Year ended January 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
<b>OPERATING ACTIVITIES</b>		
Net loss	\$ (402,748)	\$ (167,206)
Items not involving cash		
Amortization	3,936	-
Unrealized foreign exchange loss	22,338	-
Non-cash stock based compensation	14,544	6,096
Changes in non-cash operating assets and liabilities		
Amounts receivable	(26,304)	(5,386)
Prepays	(1,985)	-
Accounts payable and accrued liabilities	51,067	(28,725)
	<u>(339,152)</u>	<u>(195,221)</u>
<b>FINANCING ACTIVITIES</b>		
Issue of shares for cash, net of costs	1,238,380	390,000
Loans payable	-	(5,000)
	<u>1,238,380</u>	<u>385,000</u>
<b>INVESTING ACTIVITIES</b>		
Reclamation deposits	-	(141,012)
Deferred exploration costs	(794,908)	(38,339)
Plant and equipment	(26,920)	-
	<u>(821,828)</u>	<u>(179,351)</u>
<b>NET CASH INFLOW</b>	<b>77,400</b>	<b>10,428</b>
<b>CASH (BANK INDEBTEDNESS), BEGINNING OF YEAR</b>	<b>8,651</b>	<b>(1,777)</b>
<b>CASH, END OF YEAR</b>	<b>\$ 86,051</b>	<b>\$ 8,651</b>

**SUPPLEMENTARY NON-CASH INVESTING AND  
FINANCING DISCLOSURES:**

Shares issued for corporate finance fee	\$ 21,250	\$ -
Shares issued for finder's fee on deferred exploration costs	\$ 65,000	\$ -

# **MBA GOLD CORP.**

(formerly Manele Bay Ventures Inc.)

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

Years ended January 31, 2004 and 2003

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### **1. CONTINUING 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. At January 31, 2004, the Company has a deficit of \$8,821,187 (2003 - \$8,418,440) which creates doubt as to the ability of the Company to continue as a going concern. 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.

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# **MBA GOLD CORP.**

(formerly Manele Bay Ventures Inc.)

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

Years ended January 31, 2004 and 2003

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

(c) *Deferred exploration costs*

Costs of acquiring mining properties and all exploration costs less related recoveries are capitalized.

The costs of properties, which are abandoned or impaired in value, are written down in the year of abandonment or impairment. Upon commencement of commercial production, all related deferred acquisition, exploration and development expenditures will be amortized and matched with future revenues.

The amounts capitalized represents costs to be charged to operations in the future and do not necessarily reflect the present or future values of the particular properties.

(d) *Plant 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.

Plant and equipment are amortized at one half the amortization rate, in year of acquisition.

(e) *Stock options*

The Company has adopted the standard in CICA Section 3870, Stock-based Compensation and Other Stock-based Payments, for accounting for stock options. Stock-based awards made to non-employees are measured and recognized using the fair value of the stock options at the date of grant. For stock options granted to employees, the Company has adopted the disclosure-only provisions of the new standard whereby pro forma net income and pro forma earnings per share are disclosed in Note 6 (c) to the financial statements as if the fair value based method of accounting had been used.

(f) *Share issue costs*

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

(g) *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 included in operations.

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# **MBA GOLD CORP.**

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

Years ended January 31, 2004 and 2003

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

(h) *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.

### **3. DEFERRED EXPLORATION COSTS**

On November 5, 2002, and under an amendment dated December 31, 2003 with Compass Minerals Ltd., a U.S. subsidiary of Compass Minerals NL, NSW, Australia ("Compass"), the Company has the option to acquire up to a 60% interest in Compass' interest in the Worldbeater Gold Project. The Worldbeater Gold Project is located in the Panamint Ranges, near Ballarat, Inyo County California. During fiscal 2004, the Company earned its initial 30% interest by carrying out an exploration program of at least U.S.\$500,000 by December 2003. A further 30% interest can be earned by completing a pre-feasibility study on the property by September 30, 2004. Subject to reasonable extension if additional exploration is warranted, Compass could 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% carried 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.

The Company 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. During the fiscal 2004, an additional 200,000 shares with a fair value of \$65,000 were issued as a finder's fee.

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.\$118,674) for which restricted cash in the same amount is held as collateral.

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# MBA GOLD CORP.

(formerly Manele Bay Ventures Inc.)

## Notes to the Consolidated Financial Statements

Years ended January 31, 2004 and 2003

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### 3. DEFERRED EXPLORATION COSTS (Continued)

Cumulative acquisition and exploration costs as at January 31, 2004 are as follows:

	<u>2004</u>	<u>2003</u>
Geological contractors and consulting	\$ 340,393	\$ 18,820
Engineering	24,940	6,250
Drilling	203,044	-
Assay	25,287	-
Road construction	84,551	-
Travel and accommodation	102,671	6,304
Legal	9,927	6,965
Property payments	56,894	-
Storage and other	50,540	-
	<u>\$ 898,247</u>	<u>\$ 38,339</u>

### 4. INVESTMENT

The Company has an investment in 469,021 common shares of Broadway Television Network, Inc. with a par value of \$0.001 per share for which it is accounting under the cost method.

### 5. CAPITAL ASSETS

	<u>2004</u>			<u>2003</u>
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Computer equipment	\$ 17,678	\$ 2,652	\$ 15,026	\$ -
Furniture and equipment	7,198	1,080	6,118	-
Leaehold improvements	2,044	204	1,840	-
	<u>\$ 26,920</u>	<u>\$ 3,936</u>	<u>\$ 22,984</u>	<u>\$ -</u>

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# MBA GOLD CORP.

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## Notes to the Consolidated Financial Statements

Years ended January 31, 2004 and 2003

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### 6. SHARE CAPITAL

(a) *Authorized*

Unlimited number of common shares with no par value.

Effective July 16, 2003, the name of the Company was changed to MBA Gold Corp. and the issued capital was subdivided (split) on a 2-for-1 basis. Accordingly, all share and per share amounts have been retroactively restated to give effect to the share subdivision.

(b) *Issued*

	<u>Common Shares</u>		<u>Treasury Stock</u>	
	<u>Number of Shares</u>	<u>Amount</u>	<u>Number of Shares</u>	<u>Amount</u>
Balance, January 31, 2002	<b>3,168,598</b>	<b>\$ 8,238,472</b>	(6,826)	\$ (40,928)
Shares issued for				
Private placements	<b>3,333,326</b>	<b>250,000</b>	-	-
Exercise of warrants	<b>933,326</b>	<b>140,000</b>	-	-
Balance, January 31, 2003	<b>7,435,250</b>	<b>8,628,472</b>	(6,826)	(40,928)
Shares issued for cash	<b>3,000,000</b>	<b>1,275,000</b>	-	-
Share issue costs	-	<b>(193,568)</b>	-	-
Shares issued for corporate finance fee	<b>50,000</b>	<b>21,250</b>	-	-
Exercise of warrants	<b>871,500</b>	<b>96,050</b>	-	-
Exercise of stock options	<b>150,000</b>	<b>22,500</b>	-	-
Shares issued for finder's fee (Note 3)	<b>200,000</b>	<b>65,000</b>	-	-
Balance, January 31, 2004	<b>11,706,750</b>	<b>\$ 9,914,704</b>	(6,826)	\$ (40,928)

(b) *Issued*

On June 30, 2003, the Company completed a short form offering of 3,000,000 units for gross proceeds of \$1,275,000. Each unit consists of one common share and one-half share purchase warrant. Each whole warrant entitles the holder to acquire one additional share at a price of \$0.50 per share until June 24, 2004. Costs of the issue totaled \$176,420 which includes the fair value of 50,000 units issued to the Agent on the completion of the offering as a corporate finance fee. The Agent also received share purchase warrants which entitle it to purchase up to 250,000 common shares of the Company at \$0.50 per share.

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# MBA GOLD CORP.

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## Notes to the Consolidated Financial Statements

Years ended January 31, 2004 and 2003

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### 6. SHARE CAPITAL (Continued)

#### (c) *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 and consultants of the Company. At the date options are granted, the exercise price for an option shall not be less than the then market price of common shares of the Company. Options vest over a period of 18 months.

The Company accounts for stock-based compensation awards granted to employees whereby no compensation cost is recognized when their exercise price exceeds or equals the fair value of the Company’s common shares at the date of grant. Accordingly, no compensation cost has been recognized for its fixed stock option plans and its stock purchase plan. During 2004, the Company granted options having a fair value of \$31,144 to consultants (2003 - \$10,450). Compensation cost of \$14,544 (2003 - \$6,096) has been charged to operations and recorded in equity as contributed surplus relating to stock options granted to consultants. The remaining share-based compensation will be recognized in 2004.

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, the Company’s net loss and loss per share would have been increased to the pro forma amounts indicated below:

	<u>2004</u>	<u>2003</u>
Net loss		
As reported	\$ (402,748)	\$ (167,206)
Pro forma	(423,129)	(194,360)
Basic and diluted loss per share		
As reported	(0.04)	(0.06)
Pro forma	(0.04)	(0.07)

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# MBA GOLD CORP.

(formerly Manele Bay Ventures Inc.)

## Notes to the Consolidated Financial Statements

Years ended January 31, 2004 and 2003

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### 6. SHARE CAPITAL (Continued)

(c) *Stock-based compensation plans (continued)*

The fair value of each option granted on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: no dividends are to be paid; expected volatility of 67% (2003 - 75%); risk-free interest rate of 4.00% (2003 - 4.78%); and expected lives of five years. Option pricing models require the input of highly subjective input assumptions including the expected price volatility. Changes in the subjective input assumption can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure or the fair value of the Company's stock options. A summary of the status of the Company's stock option plan as of January 31, 2004 and changes during the period ending on those dates is presented below:

Options	2004		2003	
	Stock Options	Weighted- Average Exercise Price	Stock Options	Weighted- Average Exercise Price
Outstanding at beginning of year	600,000	\$ 0.15	3,333	\$ 7.20
Issued	470,000	0.55	600,000	0.15
Exercised	(150,000)	0.15	-	-
Cancelled/expired	(20,000)	0.55	(3,333)	7.20
Outstanding at end of year	900,000	\$ 0.35	600,000	\$ 0.15
Exercisable at end of year	900,000	\$ 0.35	600,000	\$ 0.15

Of the stock options outstanding at January 31, 2004, 450,000 stock options, which are exercisable at \$0.15 per share, expire in June 2007 and 450,000 stock options, which are exercisable at \$0.55 per share, expire in August 2008.

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# MBA GOLD CORP.

(formerly Manele Bay Ventures Inc.)

## Notes to the Consolidated Financial Statements

Years ended January 31, 2004 and 2003

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### 6. SHARE CAPITAL (Continued)

(e) *Share purchase warrants*

	<u>Warrants</u>	<u>Weighted-Average Exercise Price</u>
Balance, January 31, 2002	-	\$ -
Issued in connection with private placements	3,333,326	0.12
Exercised	(933,326)	(0.15)
	<u>2,400,000</u>	<u>0.10</u>
Issued on short-form offering	1,750,000	0.50
Exercised	(871,500)	(0.11)
Balance, December 31, 2003	<u>3,278,500</u>	<u>0.31</u>

A summary of warrants outstanding at year end are as follows:

<u>Number Outstanding</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
1,540,000	\$ 0.105	May 22, 2004
1,738,500	0.500	June 24, 2004

### 7. RELATED PARTY TRANSACTIONS

Related party transactions include the following:

	<u>2004</u>	<u>2003</u>
Consulting fees paid to directors	\$ 112,435	\$ 74,000
Consulting fees paid to a director capitalized as deferred exploration costs	\$ 57,000	\$ -

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# MBA GOLD CORP.

(formerly Manele Bay Ventures Inc.)

## Notes to the Consolidated Financial Statements

Years ended January 31, 2004 and 2003

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### 8. FINANCIAL INSTRUMENTS

(a) *Fair value*

The Company has 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, 2004 and 2003.

(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.

### 9. INCOME TAXES

The reported income tax recovery differs from the amount computed by applying the Canadian basic statutory rates to the nets results of operations. The reasons for this difference and related tax effects are as follows:

	<u>2004</u>	<u>2003</u>
Canadian basic statutory tax rate	<b>37.6%</b>	39.6%
Expected income tax recovery	\$ (154,050)	\$ (65,908)
Losses producing no current tax benefit	<b>153,248</b>	63,799
Non-deductible expenses	<b>802</b>	2,109
	<b>\$ -</b>	<b>\$ -</b>

Future income taxes result principally from temporary differences in the recognition of certain revenue and expense items for financial and income tax purposes. Significant components of the Company's future tax assets are as follows:

	<u>2004</u>	<u>2003</u>
Future income tax assets		
Tax loss carryforwards	\$ <b>1,080,117</b>	\$ 1,554,476
Valuation allowance for future income tax assets	<b>(1,080,117)</b>	(1,554,476)
Net future income tax assets	<b>\$ -</b>	<b>\$ -</b>

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# **MBA GOLD CORP.**

(formerly Manele Bay Ventures Inc.)

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

Years ended January 31, 2004 and 2003

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### **9. INCOME TAXES (Continued)**

Due to the uncertainty surrounding the realization of future income tax assets in future income tax returns, the Company has a 100% valuation allowance against its future income tax assets. The Company has no future income tax liabilities at January 31, 2004 and 2003.

At January 31, 2004, the Company has approximately \$3 million of non-capital losses for tax purposes available at various dates until 2011, to be carried forward and applied to future income for tax purposes. The potential future tax benefits relating to this item has not been reflected in these financial statements. The Company also has approximately \$900,000 of resource deductions available to be carried forward against future mining income for tax purposes.

### **10. COMMITMENT**

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

2005	\$	14,210
2006		14,616
2007		7,308
	\$	<u>36,134</u>

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