

# **Financial Statements**

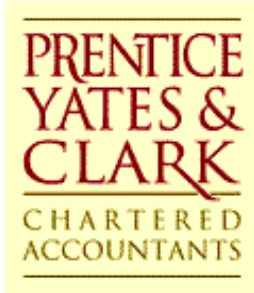
## **Alyattes Enterprises Inc.**

Toronto, Ontario

*December 31, 2004*

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## Auditors' Report

### To the Shareholders of Alyattes Enterprises Inc.:

We have audited the balance sheets of **Alyattes Enterprises Inc.** as at December 31, 2004 and 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 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 financial statements present fairly, in all material respects, the financial position of the company as at December 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.

Toronto, Ontario  
January 20, 2005

**"Prentice Yates & Clark"**

Chartered Accountants

D.L.S. ROBERTSON, C.A.  
C.A. PETRALITO, B.A., C.A.  
L.K. TURNER, B.A., C.A.  
T.W. McGIVNEY, C.A.  
J.J. PAUZE, B.Acc., C.A.

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Professional Corporations

**Alyattes Enterprises Inc.**

*December 31*

<b>Balance Sheet - Assets</b>	2004	2003
<b>Current</b>		
Cash	\$ 10,686	\$ 8,392
GST recoverable	360	292
Accounts receivable	0	8,604
	<u>11,046</u>	<u>17,288</u>

**Balance Sheet - Liabilities and Shareholders' Deficiency**

<b>Current</b>		
Accounts payable and accrued liabilities	<u>39,988</u>	<u>40,488</u>
<b>Shareholders' Deficiency</b>		
Capital stock, Note 4	159,500	159,500
Deficit	<u>(188,442)</u>	<u>(182,700)</u>
	<u>(28,942)</u>	<u>(23,200)</u>
	<u>11,046</u>	<u>17,288</u>

**Approved by The Board**

J. Patrick Sberidan Jr. (signed)

Director

Alan Ferry (signed)

Director

The notes on page 7 through 10 form an integral part of these financial statements.

**Alyattes Enterprises Inc.***Years Ended December 31*

<b>Statement of Income and Deficit</b>	2004	2003
<b>Expenses</b>		
Audit and accounting fees	\$ 3,060	\$ 3,305
Bank charges and courier	132	1,511
Filing and OSC fees	2,550	1,785
Loss on sale of investments	0	100
	<hr/>	<hr/>
<b><i>Loss for the Year</i></b>	(5,742)	(6,701)
Deficit, beginning	(182,700)	(175,999)
	<hr/>	<hr/>
<b><i>Deficit, Ending</i></b>	(188,442)	(182,700)
	<hr/>	<hr/>
<b><i>Basic and diluted net loss per share</i></b>	0.007	0.008
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**Alyattes Enterprises Inc.***Years Ended December 31*

<b>Statement of Cash Flows</b>	2004	2003
<b>Operating Activities</b>		
Loss	\$ (5,742)	\$ (6,701)
Changes in non-cash working capital components:		
Marketable securities	0	10,050
GST recoverable	(68)	(95)
Accounts receivable	8,604	(8,604)
Accounts payable and accrued liabilities	(500)	1,372
<b>Cash Increase (Decrease) During the Year</b>	2,294	(3,978)
Cash position, beginning	8,392	12,370
<b>Cash position, Ending</b>	10,686	8,392

**Notes to Financial Statements**

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**Note 1            Nature of Operations**

Alyattes Enterprises Inc. was incorporated on July 5, 1996 to engage in the acquisition and exploration of mineral properties. The Company is in the development stage and has yet to generate any revenue from operations.

**Note 2            Summary of Significant Accounting Policies**

**Going Concern Basis of Accounting**

These financial statements have been prepared in accordance with accounting principles that apply to a going concern. This presupposes that the Company will continue its operations in the foreseeable future and that it will be able to realize its assets and discharge its liabilities in the normal course of operations.

Unfavorable conditions have left some doubt as to the appropriateness of this assumption. The Company continues to experience operating losses and its working capital is deficient. The Company does not have a revenue source that can provide it with a regular source of cash flows and is dependent on financing for future operations.

These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate.

**Stock-Based Compensation**

The Company has adopted the CICA handbook section 3870 "Stock-Based Compensation and other Stock-Based Payments" which recommends the fair-value based method to account for stock-based compensation and other stock-based payments. The Company has elected to adopt the fair value method for all stock-based payments made both to employees and non-employees on a prospective basis.

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**Note 2      Summary of Significant Accounting Policies – continued**

**Use of Estimates**

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

**Note 3      Tax Losses Carry Forward**

As at December 31, 2004 the Company had losses available for carry forward to reduce future taxable income expiring as follows:

December 31, 2005	11,717
December 31, 2006	27,736
December 31, 2007	15,113
December 31, 2008	18,409
December 31, 2009	14,234
December 31, 2010	6,711
December 31, 2014	5,742

In assessing the realizability of future income tax assets, management considers whether it is more likely than not that some portion or all of the future income tax assets will be realized. The ultimate realization of future income tax assets is dependent upon the generation of future taxable income during the year in which the temporary differences are deductible. The potential income tax benefits of these losses are not recognized in these financial statements because management believes that the realization of future income tax assets does not meet the more likely than not realization criteria.



**Note 4      Capital Stock****Authorized**

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preference shares, issuable in series.

	Common Shares	Amount
Issued and outstanding	797,501	\$ 159,500

**Stock Option Plan**

The shareholders have approved a stock option plan. The number of shares to be reserved for issuance under the plan is limited to 20% of the company's issued and outstanding common shares less the number of options outstanding when the plan was approved.

Options will not be permitted to exceed a term of five years if the company is classified by the TSX Venture Exchange as a Tier 2 issuer or ten years if classified as a Tier 1 issuer.

The plan provides that options granted thereunder are vested over a minimum eighteen month period.

During the years ended December 31, 2003 and 2004 no stock options were granted, exercised or expired.

At year end Directors and Officers of the company hold 30,881 options to purchase common shares of the Company at an exercise price of \$0.10 per share. These options expire November 9, 2005.

**Note 5      Financial Instruments**

The Company's financial instruments consist of cash, accounts receivable and accounts payable. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The carrying values of these financial instruments approximate their fair values.