

*Northern Abitibi  
Mining Corp.*

*2004  
Annual Report*

## ***Letter to Shareholders***

Northern Abitibi is looking to the coming year with great anticipation. A replenished treasury will allow the Company to continue negotiations on a number of pending property acquisitions and review other promising early stage exploration projects. We are pleased that the capital markets seem to be supporting the junior mineral exploration sector again.

Northern Abitibi's current short-term plans are to aggressively pursue acquisitions of two early stage, drill ready projects centered on gold and silver. Finalizing property agreements on these projects will allow the company to conduct first pass exploration programs, including drilling, by summer's end.

Increased activity in Quebec in the Douay area is also a positive development for Northern Abitibi. Vior Inc. is currently proceeding with a significant drilling program on its Douay West project, where gold mineralization has previously been identified within a few hundred meters of the Company's Douay NW project, which is held in Joint Venture with Vior and Soquem. Positive results from that exploration program may stimulate exploration plans for Northern Abitibi's Joint Venture. Management will be watching that program and its results with interest, as this activity represents another positive change in the exploration scene after previous years of inactivity in this region.

The Company looks forward to a busy exploration year and will continue to appraise new exploration opportunities as they become available. With an enhanced treasury we anticipate that 2005 holds the potential for a solid year of exploration in a climate that rewards success.

Respectfully submitted on  
behalf of the Board of Directors

A handwritten signature in black ink, appearing to read 'J. Devonshire', written in a cursive style.

James Devonshire  
President

## **MANAGEMENT DISCUSSION FOR THE YEAR ENDED SEPTEMBER 30, 2004**

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### **1) Principal Business of the Company**

The Company has been engaged exclusively in the business of mineral exploration and development and, as the Company has no mining operations, is considered to be in the development stage.

The recoverability of the amounts comprising mineral properties is dependent upon the existence of economically recoverable mineral reserves; the acquisition and maintenance of appropriate permits, licenses and rights; the ability of the Company to obtain financing to complete the development of the properties where necessary and upon future profitable production; or, alternatively, upon the Company's ability to recover its costs through a disposition of its interests.

The Company has no operating income and no earnings; exploration and operating activities are financed by the sale of common shares. None of the Company's properties are in production. Consequently, the company's net income is not a meaningful indicator of its performance or potential.

### **2) Mineral Properties**

#### **South Voisey Bay, Labrador**

During the year ended September 30, 2004 the Company wrote-off its most significant mineral property interest which is in South Voisey Bay, located approximately 260 kilometres northwest of Goose Bay, Labrador. The Company has approximately a 47% interest in the property, and Donner Minerals Ltd., (Donner), the operator of the joint venture, has approximately a 53% interest.

During fiscal 2001, Falconbridge Limited, (Falconbridge), entered into an option earn-in agreement on the South Voisey Bay property that includes the Company's jointly held property as well as certain adjoining properties held by other companies. Falconbridge conducted a drilling program on the South Voisey's bay properties, including the Company's. One drill hole was completed on the Company's property that intersected a thin interval of copper/nickel-bearing massive sulphides at the base of the North Gabbro, (news release 03-08). Subsequent local ground geophysical work in the direct vicinity of the drill hole did not justify further drilling at this location and the 2003 field program was completed by the end of October. The 2003 drilling occurred in an area roughly 1.5 kilometers from where previous high-grade intersections had been found in 1996 and 1997. On April 15, 2004, the Company was informed that Falconbridge had terminated its Option and Joint Venture Agreement with Northern Abitibi. Although work performed to date on the project would have allowed Falconbridge to maintain its rights under the Option until December 31, 2004, Falconbridge waived that right in terminating the agreement immediately.

While Management continues to believe that the project has the potential to host a major nickel-copper massive sulphide deposit, the Company has insufficient funds to further exploration and has been unable to interest a third party in earning an interest in the property. For these reasons the carrying costs of the property, that aggregated approximately \$2.1 million, were written-off at June 30, 2004.

#### **Quebec**

The Douay/Joutel property continues to be held on a "care and maintenance" basis. No funds were committed for exploration on the property and no significant exploration expenditures were incurred during the year ended September 30, 2004. Discussions had been held with a third party regarding the possible disposition of the Company's interest in the property by way of an outright sale or option earn-in arrangement. No agreement was reached however. The operator of the joint venture has not proposed a program or budget for this property. As a result of stalled exploration, the Company's shortage of cash, and failed attempts to sell the property, Management determined that the carrying costs of Douay/Joutel, aggregating approximately \$230,000 would be written-off at June 30, 2004.

#### **Nunavut -Keni property**

During the year ended September 30, 2004, the Company and its joint venture partner, Tyler Resources Inc., (Tyler), returned the Keni property to the vendors and wrote-off the capitalized costs of approximately \$278,000. Management determined that the Company did not have sufficient resources to warrant further exploration. Prior to writing-off the property the Company and Tyler had jointly incurred \$442,000 in exploration costs, (the Company - \$221,000), and each had issued 150,000 common shares pursuant to the option agreement.

## **MANAGEMENT DISCUSSION FOR THE YEAR ENDED SEPTEMBER 30, 2004**

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### **3) Operating Results**

The loss for the year ended September 30, 2004 increased approximately \$2.4 million from the comparative year. The write-down of mineral properties of \$2.6 million comprised the bulk of the increase, (refer to (2) above), which was offset by a decrease in operating expenditures.

The loss before mineral property write-downs and abandonments and gain on sale of investments for the year ended September 30, 2004 decreased \$122,000 from the comparative year. The bulk of the decrease is attributable to recording stock-based compensation of \$79,000 in the comparative year. During the prior year the Company had adopted the "fair value" method of accounting for stock-based compensation. The \$79,000 expense represented the fair value, on the grant date, of options granted during the period.

During the year ended September 30, 2004 general and administrative expenses decreased \$34,000. The more material changes from the comparative period were comprised of a \$7,500 decrease in Investor relations costs due to the termination of the Investor Relations consulting contract effective January 1, 2003, a reduction in administrative consulting expenses of approximately \$12,000, a decrease in office costs of \$6,000, a decrease in occupancy costs of \$4,000 and a reduction in travel and promotional costs of approximately \$3,000. Consulting and office costs decreased as a result of the sharp decrease in exploration activity in the Company and promotional costs, which are largely discretionary, were cut back due to a shortage of cash. The Company was able to negotiate a reduction in their monthly office lease payments effective July 1, 2004.

The decline in professional fees of \$8,000 from the year ended September 30, 2003 to the current year, was due to a sharp decline in the number of news releases during the current year and the increased legal fees in the prior year pertaining to the review of new disclosure requirements.

During the comparative year the Company sold its remaining portfolio investments in Donner Minerals Ltd. and Beaufield Consolidated Resources Inc. resulting in a gain on sale of \$3,000. These investments were received pursuant to option agreements. The Company has no investments at September 30, 2004.

### **4) Liquidity and Capital Resources**

The Company had positive working capital of approximately \$37,000 at September 30, 2004, (September 30, 2003 - \$106,000). The Company is reducing discretionary costs wherever possible, however additional equity or debt financing will be required in order to cover operating expenditures and to undertake any exploration programs in 2004 and beyond.

### **5) Future Developments**

Given the Company's limited working capital, the immediate goal is to conserve cash by limiting operating expenses as much as possible. Exploration expenditures will be limited to "care and maintenance" on existing properties until financing can be arranged. Management is looking at options to optimize shareholder value through a reorganization or through project generation and equity financing.

### **6) Exploration Expenditures**

Refer to the Schedule of Mineral Properties attached to the financial statements

### **7) Related Party Transactions**

#### **a) Non-Arm's Length Expenditures**

The following non-arm's length transactions occurred during the year ended September 30, 2004, (rounded to nearest \$1,000):

- i) paid \$10,000 base rent to a corporation related by virtue of certain common officers and directors for rent of shared office space and \$7,000 for related lease operating costs.
- ii) paid or accrued \$7,000 for geological, (some of which is capitalized to mineral properties), accounting and administrative services provided during the period by officers and directors or their companies on a per diem basis.
- iii) paid or accrued to a corporation related by virtue of certain common officers and directors \$17,000 for allocated office and secretarial expenses.

## MANAGEMENT DISCUSSION FOR THE YEAR ENDED SEPTEMBER 30, 2004

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### 7) **Related Party Transactions**

#### **a) Non-Arm's Length Expenditures** (continued)

The amounts due to related parties on the balance sheet relate to the above charges. The purpose of related company office and rent charges is to realize certain economies associated with sharing office space and administrative services. Further, the Company sold office equipment to a company related by virtue of certain officers and directors for proceeds of \$5,000 which represented the book value of the equipment and approximate fair value. The proceeds plus related goods and services tax were receivable at period end. Related party transactions were in the normal course of operations and were measured at the exchange amount, being the amount of consideration established and agreed to by the related parties.

### 8) **Investor Relations**

Effective January 1, 2003 the contract with D.A. Huston & Associates expired without renewal, and the stock options granted to the firm expired without exercise. During the year ended September 30, 2004, the Company paid the firm \$Nil, (2003 - \$7,500).

### 9) **New Accounting Policies**

#### Asset Retirement Obligations

Subsequent to year-end the Company adopted the new recommendation of the Canadian Institute of Chartered Accountants relating to accounting for asset retirement obligations. This recommendation replaces the previous method of accounting for site restoration costs on an accrual basis. The Company will adopt the new standard on a retroactive basis in accordance with the CICA recommendations on Accounting Changes. Under the new standard, a liability for the fair value of environmental and site restoration obligations are recorded when the obligations are incurred and the fair value can reasonably be estimated. The obligations are normally incurred at the time the related assets are brought into production. The Company's activities have been focused on exploration directed toward the discovery of mineral resources and consequently no assets have been brought into production to date. The fair value of the obligations is based on the estimated cash flow required to settle the obligations discounted using the Government of Canada Bond Rate for the applicable term adjusted for the Company's credit rating. The fair value of the obligations is recorded as a liability with the same amount recorded as an increase in capitalized costs. The amounts included in capitalized costs are depleted using the unit-of-production method. The liability is adjusted for accretion expense representing the increase in the fair value of the obligations due to the passage of time. The accretion expense is recorded as an operating expense.

### 10) **Cautionary Statements**

Statements and/or financial forecasts that are unaudited and not historical are to be regarded as forward-looking statements that are subject to risks and uncertainties that can cause actual results to differ materially from those anticipated. Such risks and uncertainties include risks related to the Company's business including, but not limited to: general market and economic conditions, limited operating history, continued industry and public acceptance, regulatory compliance, potential liability claims, additional capital requirements and uncertainty of obtaining additional financing and dependence on key personnel.

## **Auditors' Report**

To the Shareholders of  
Northern Abitibi Mining Corp.

We have audited the balance sheets of Northern Abitibi Mining Corp. as at September 30, 2004 and 2003 and the 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 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 financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2004 and 2003 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

“Grant Thornton LLP”

Calgary, Alberta  
December 2, 2004

Grant Thornton LLP  
Chartered Accountants

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# Northern Abitibi Mining Corp.

## Balance Sheets

September 30

2004

2003

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### ASSETS

#### Current

Cash and cash equivalents	\$ 37,053	\$ 108,064
Accounts receivable	<u>1,567</u>	<u>8,716</u>
	38,620	116,780

#### Prepays

#### Mineral properties Note 3

	6,242	6,242
	<u>-</u>	<u>2,612,401</u>
	\$ <u>44,862</u>	\$ <u>2,735,423</u>

### LIABILITIES

#### Current

Accounts payable and accrued liabilities	\$ 222	\$ 3,643
Due to related parties Note 6	<u>1,464</u>	<u>7,568</u>
	<u>1,686</u>	<u>11,211</u>

### SHAREHOLDERS' EQUITY

#### Capital stock Note 4

#### Authorized:

Unlimited number of common shares without par value	8,587,720	8,587,720
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#### Contributed Surplus

#### Deficit

	183,206	183,206
	<u>(8,727,750)</u>	<u>(6,046,714)</u>
	<u>43,176</u>	<u>2,724,212</u>
	\$ <u>44,862</u>	\$ <u>2,735,423</u>

On behalf of the Board

"L.O. Hayes"

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L.O.Hayes Director

"James Devonshire"

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James Devonshire Director

See accompanying notes to the financial statements.

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**Northern Abitibi Mining Corp.**  
**Statements of Operations and Deficit**

Years Ended September 30

**2004**

**2003**

<b>Revenue</b>		
Interest	\$ <u>1,217</u>	\$ <u>2,037</u>
<b>Expenses</b>		
General and administrative	46,954	81,162
Professional fees	10,145	17,803
Reporting to shareholders	10,469	12,933
Stock exchange and transfer agent fees	6,772	5,907
Stock-based compensation	<u>-</u>	<u>79,000</u>
	<u>74,340</u>	<u>196,805</u>
<b>Loss before the undernoted</b>	<b>(73,123)</b>	<b>(194,768)</b>
Gain on sale of investments	-	3,393
Abandonments and write-down of mineral properties	<u>(2,607,913)</u>	<u>(81,437)</u>
<b>Net Loss</b>	<b>(2,681,036)</b>	<b>(272,812)</b>
<b>Deficit, beginning of year</b>	<b><u>(6,046,714)</u></b>	<b><u>(5,773,902)</u></b>
<b>Deficit, end of year</b>	<b>\$ <u>(8,727,750)</u></b>	<b>\$ <u>(6,046,714)</u></b>
<b>Loss per share</b>		
Basic and diluted	\$ <u>(0.10)</u>	\$ <u>(0.01)</u>
<b>Weighted Average Shares Outstanding</b>		
Basic and diluted	<u>27,998,028</u>	<u>27,923,190</u>

See accompanying notes to the financial statements.

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# Northern Abitibi Mining Corp.

## Statements of Cash Flows

Years Ended September 30

2004

2003

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### Increase (decrease) in cash and cash equivalents:

<b>Operating activities</b>		
Interest income received	\$ 1,217	\$ 2,037
Cash operating expenses	<u>(76,716)</u>	<u>(110,350)</u>
	<u>(75,499)</u>	<u>(108,313)</u>
<b>Financing activities</b>		
Issue of shares for cash	-	4,300
Exploration incentives received	<u>-</u>	<u>19,531</u>
	<u>-</u>	<u>23,831</u>
<b>Investing activities</b>		
Mineral property recoveries (additions)	4,488	(14,675)
Camp cost recovery	-	22,500
Proceeds on sale of investments	<u>-</u>	<u>8,093</u>
	<u>4,488</u>	<u>15,918</u>
<b>Decrease in cash and cash equivalents</b>	<b>(71,011)</b>	<b>(68,564)</b>
Cash and cash equivalents, Beginning of year	<u>108,064</u>	<u>176,628</u>
End of year	<u>\$ 37,053</u>	<u>\$ 108,064</u>

### Supplementary Information:

The Company did not expend cash on interest or taxes during the years ended September 30, 2004 and September 30, 2003.

### Non-cash transactions:

During the year ended September 30, 2003 the company issued 75,000 common shares as an option payment for a mineral property. The transaction was valued at \$5,250 based on the trading price of the Company's shares on the transaction date.

See accompanying notes to the financial statements.

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# Northern Abitibi Mining Corp.

## Notes to the Financial Statements

September 30, 2004

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### 1. Nature and continuance of operations

Northern Abitibi Mining Corp. is engaged in the business of mineral exploration and development in Canada. Since inception, the efforts of the Company have been devoted to the acquisition, exploration and development of mineral properties. To date the Company has not received any revenue from mining operations and is considered to be in the development stage.

Mineral properties are recognized in these financial statements in accordance with the accounting policies outlined in Note 2. Accordingly, their carrying values represent costs incurred to date, net of recoveries, abandonments and write-downs, and do not necessarily reflect present or future values. The recoverability of these amounts is dependent upon the existence of economically recoverable mineral reserves; the acquisition and maintenance of appropriate permits, licenses and rights; the ability of the Company to obtain necessary financing to complete the development of properties where necessary, and upon future profitable operations; or alternatively, upon the Company's ability to recover its costs through a disposition of its interests.

Continued operations of the Company are dependent on the Company's ability to complete equity or debt financings. Obtaining financing is contingent upon a number of factors including Management's ability to acquire new mineral property prospects or other business prospects. As mineral properties have been written-off during the current year, the balance sheet is stated on a liquidation basis.

### 2. Summary of significant accounting policies

#### a) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates that affect the reported amounts of assets, such as resource properties (see Note 1), 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 those estimates.

#### b) Cash and cash equivalents

Cash and cash equivalents may include bank and brokerage deposits and term deposits and treasury bills with maturities equal to or less than 90 days.

#### c) Mineral properties

Costs relating to the acquisition, exploration and development of mineral properties are capitalized on an area of interest basis. These expenditures will be charged against income, through unit of production depletion, when properties are developed to the stage of commercial production. If an area of interest is abandoned, or management determines there is a permanent and significant decline in value, the related costs are charged to operations. The Company reviews the carrying values of mineral property interests on a quarterly basis by reference to the project economics, including the timing of the exploration and/or development work, the work programs and exploration results experienced by the Company and others, available financing, and the extent to which optionees have committed, or are expected to commit to, exploration on the property. When it becomes apparent that the carrying value of the property exceeds its estimated net recoverable amount based on the foregoing criteria, an impairment provision is made for the other than temporary decline in value.

Where the Company's exploration commitments for an area of interest are performed under option agreements with a third party, the proceeds of any option payments under such agreements are applied to the area of interest to the extent of costs incurred. The excess, if any, is credited to operations. Option payments made by the Company are recorded as mineral property costs. Options are exercisable entirely at the discretion of the optionee and accordingly, are recorded as mineral property costs or recoveries when the payments are made or received.

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# Northern Abitibi Mining Corp.

## Notes to the Financial Statements

September 30, 2004

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### 2. Summary of significant accounting policies (Continued)

#### d) Flow-through common shares

Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Future income tax liability is increased and capital stock is reduced by the estimated tax benefits transferred to shareholders.

#### e) Joint interest operations

Certain of the Company's exploration and development activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities. Although the Company holds some interests in mineral properties through joint venture agreements, none of its operations are carried on through joint venture entities.

#### f) Earnings (Loss) per share

Basic earnings (loss) per common share is computed by dividing the net earnings (loss) by the weighted average number of common shares outstanding for the year. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. For the years presented this calculation proved to be anti-dilutive. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments. Under the treasury stock method only "in-the-money" dilutive instruments impact the dilution calculations.

#### g) Income taxes

Income taxes are recorded using the liability method of tax allocation. Future income taxes are calculated based on temporary timing differences arising from the difference between the tax basis of an asset or liability and its carrying value using tax rates anticipated to apply in the periods when the timing differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

#### h) Financial instruments

The fair market values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their carrying values as a result of the short-term nature of the instruments and/or the variable interest rate associated with the instrument. Unless otherwise noted, it is Management's opinion that the Company is not exposed to significant interest, currency, or credit risks arising from these financial instruments.

#### i) Reclamation costs

The Company's activities have primarily been focused on exploration directed toward the discovery of mineral resources. When it is determined that a future reclamation cost is likely, and the amount can be reasonably estimated, the costs thereof will be accrued.

# Northern Abitibi Mining Corp.

## Notes to the Financial Statements

September 30, 2004

### 2. Summary of significant accounting policies (Continued)

#### j) Stock Options

Effective October 1, 2002, in accordance with the recommendations of the Canadian Institute of Chartered Accountants, (CICA), the Company prospectively adopted, with no restatement or disclosure pertaining to awards granted prior to October 1, 2002, new rules for the accounting for, and disclosure of, stock-based compensation.

The recommendations of the CICA establish financial accounting and reporting standards for stock-based compensation plans as well as transactions in which an entity issues its equity instruments to acquire goods or services from non-employees. The Company has elected to follow the "fair value" method of accounting for stock-based compensation arrangements, whereby the fair value of the stock options at the date of grant is recorded as compensation cost. The fair value is determined using an option-pricing model that takes into account the exercise price and expected life of the option, the current price of the underlying stock, its expected volatility, the expected dividends on the stock, and the current risk-free interest rate for the expected life of the option. Stock options were granted to purchase 200,000 common shares at \$0.10 per share and 650,000 common shares at \$0.14 per share during the year ended September 30, 2003. No material value was associated with the 200,000 options and a value of \$79,000 was associated with the 650,000 options using the Black-Scholes Option Pricing Model under the following assumptions:

	<u>200,000 options grant</u>	<u>650,000 options grant</u>
Expected stock price volatility	169.75	172.41%
Risk-free interest rate	4.46%	4.02%
Expected option life	5 years	3 years
Expected dividend yield	-	-

#### k) Government incentives

Through its exploration in Quebec, the Company has benefited from refundable exploration tax credits. These incentives are not repayable provided that they apply to qualifying expenditures. The incentives reduce the mineral property costs to which they pertain in the year that the qualifying expenditures are incurred or when eligibility becomes apparent, should this be later.

### 3. Mineral properties

2004		Labrador	Quebec	Nunavut
Exploration and Development expenditures:	Total	SouthVoisey Bay	Douay Joutel	Keni
Balance Sept 30, 2003	\$2,260,474	\$ 1,954,594	\$ 84,506	\$ 221,374
Geological consulting	512	200	312	-
Recoveries	(5,000)	(5,000)	-	-
Abandonments and write-offs	(2,255,986)	(1,949,794)	(84,818)	(221,374)
<b>Balance Sept 30, 2004</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Property acquisition costs:				
Balance Sept 30, 2003	351,927	150,126	144,780	57,021
Costs incurred	-	-	-	-
Abandonments and write-offs	(351,927)	(150,126)	(144,780)	(57,021)
<b>Balance Sept 30, 2004</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total mineral properties Sept. 30, 2004</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

# Northern Abitibi Mining Corp.

## Notes to the Financial Statements

September 30, 2004

### 3. Mineral properties (continued)

2003	Total	Labrador		Quebec		Nunavut
		SouthVoisey Bay	Douay Joutel	Caniapiscau	QC Diamond	Keni
Exploration and Development expenditures:						
Balance Sept 30, 2002	\$2,367,589	\$1,952,994	\$ 80,893	\$14,716	\$ 60,422	\$ 258,564
Geological consulting	10,514	1,600	3,613	100	2,001	3,200
Camp cost recovery	(22,500)	-	-	-	-	(22,500)
Exploration tax credits	(19,531)	-	-	-	(19,531)	-
Abandonments and write-offs	(75,598)	-	-	(14,816)	(42,892)	(17,890)
<b>Balance Sept 30, 2003</b>	<b>2,260,474</b>	<b>1,954,594</b>	<b>84,506</b>	-	-	<b>221,374</b>
Property acquisition costs:						
Balance Sept 30, 2002	348,355	150,126	141,970	568	3,920	51,771
Costs incurred	9,411	-	2,810	-	1,351	5,250
Abandonments and write-offs	(5,839)	-	-	(568)	(5,271)	-
<b>Balance Sept 30, 2003</b>	<b>351,927</b>	<b>150,126</b>	<b>144,780</b>	-	-	<b>57,021</b>
<b>Total mineral properties Sept. 30, 2003</b>	<b>\$2,612,401</b>	<b>\$2,104,720</b>	<b>\$ 229,286</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 278,395</b>

#### IMPAIRED MINERAL PROPERTIES

##### Keni, Nunavut

During the year ended September 30, 2004, the company and its joint venture partner, Tyler Resources Inc., returned the Keni property to the Vendors. Management of both companies determined that initial exploration results did not warrant expending further option payments on the property.

##### Douay/Joutel, Quebec

Management determined that there were insufficient financial resources to further exploration on the property, and was unable to interest third parties in an option earn-in arrangement. As a result the property costs were written-off in fiscal 2004.

##### South Voisey Bay, Labrador

During fiscal 2004, Falconbridge terminated its Option and Joint Venture Agreement with the Company. Management determined that the property should be written-off in the current year as the Company has insufficient financial resources to further exploration and is unable to interest third parties in an option earn-in arrangement.

##### Caniapiscau and QC Diamond, Quebec

In fiscal 2003 the Company determined that, given exploration results by the Company and others in surrounding areas, the Caniapiscau and QC Diamond, Quebec property claims would be allowed to lapse. Consequently the accumulated costs were written-off during the year. Further, the excess of Keni camp costs over proceeds received for the sale of the camp were written-off during fiscal 2003.

### 4. Capital stock

#### a) Common Shares Issued:

	2004		2003	
	Number of Shares	Stated Value	Number of Shares	Stated Value
Balance, beginning of year	27,998,028	\$ 8,587,720	27,880,028	\$ 8,578,170
Issued for acquisition of Mineral property	-	-	75,000	5,250
Issued for cash upon exercise of options	-	-	43,000	4,300
<b>Balance, end of year</b>	<b>27,998,028</b>	<b>\$ 8,587,720</b>	<b>27,998,028</b>	<b>\$ 8,587,720</b>

# Northern Abitibi Mining Corp.

## Notes to the Financial Statements

September 30, 2004

### 4. Capital stock (continued)

b) Outstanding Options :	Number of Shares		Price
	2004	2003	
Expiry Date			
May 15, 2007	485,000	485,000	\$ 0.12
March 23, 2008	200,000	200,000	\$ 0.10
June 11, 2006	650,000	650,000	\$ 0.14
April 10, 2006	<u>1,187,000</u>	<u>1,187,000</u>	\$ 0.10
	<u>2,522,000</u>	<u>2,522,000</u>	

The Company has an option plan (the Plan), under which up to 10% of the issued and outstanding common shares are reserved for issuance. Under the Plan, the options that have been granted expire at the earlier of five years from the grant date, the date at which the Directors determine, or 60 days from the date from which the optionee ceases to be a director, officer, employee or consultant. The exercise price of the options granted under the Plan will not be less than the market price of the common shares, defined as the weighted average of the trading price per share for the last five trading days before the grant date. All of the above-noted outstanding options vested on the grant date.

### c) Option Transactions:

	Number of Options	Weighted-average Exercise Price
As at September 30, 2002	2,205,000	\$ 0.10
Expired	(490,000)	\$ 0.10
Granted	850,000	\$ 0.13
Exercised	<u>(43,000)</u>	\$ 0.10
As at September 30, 2003 and September 30, 2004	<u>2,522,000</u>	\$ 0.11

### 5. Income Taxes

a) Following is a reconciliation of income taxes calculated at statutory rates to the actual income taxes recorded in the accounts:

	2004	2003
Computed expected tax recovery at a combined Provincial and Federal rate of 34% (2003 – 38%)	\$ (912,000)	\$ (104,000)
Effect on income taxes resulting from:		
Non-recognition of losses and future tax benefits for financial statement purposes	<u>912,000</u>	<u>104,000</u>
Future income tax recovery	\$ -	\$ -

The net future income tax asset at September 30, 2004 and 2003 is comprised of:

	2004 (at 34%)	2003 (at 38%)
Income tax values in excess of book value of mineral properties	\$ 1,785,000	\$ 1,005,000
Loss carry forwards	<u>191,000</u>	<u>238,000</u>
Future income tax asset before valuation allowance	1,976,000	1,243,000
Valuation Allowance	<u>(1,976,000)</u>	<u>(1,243,000)</u>
Future income tax asset	\$ -	\$ -

# Northern Abitibi Mining Corp.

## Notes to the Financial Statements

September 30, 2004

### 5. Income Taxes (continued)

b) The Company has incurred losses for income tax purposes of approximately \$560,000. Unless sufficient taxable income is earned in future years these losses will expire as follows:

2006	\$ 32,000	2009	\$137,000
2007	\$123,000	2010	\$115,000
2008	\$ 79,000	2011	\$ 74,000

c) The Company has available the following approximate amounts which may be deducted, at the rates indicated, in determining taxable income of future years.

	<u>Amount</u>	Rate
Canadian exploration expenses	\$ 3,494,000	100%
Canadian development expenses	1,420,000	30%
Foreign exploration and development expenses	328,000	10%
Undepreciated capital cost	<u>9,000</u>	20-30%
	<u>\$ 5,251,000</u>	

### 6. Related Party Transactions and Commitments

CDG Investments Inc., (CDG), a company related by virtue of certain common officers and directors, officers of the Company, and corporations in which certain of the Company's officers and directors are shareholders provided services, billing the amounts presented below for the respective fiscal years. Further Manson Creek Resources Ltd. charged the Company its share of office lease costs during the year as set out below. Manson Creek is related by virtue of certain common officers and directors.

	<u>2004</u>	<u>2003</u>
Geological and administrative consulting	\$ 7,000	\$ 23,000
Office lease and operating	17,000	21,000
Direct administrative	<u>17,000</u>	<u>22,000</u>
	<u>\$ 41,000</u>	<u>\$ 66,000</u>

Related party transactions were in the normal course of operations and were measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

During the 2003 fiscal year, Tyler Resources Inc. ("Tyler"), a company related by virtue of certain common officers and directors acted as operator for the Keni Joint Venture. Accordingly it billed the Company for its share of third party exploration and development expenditures including a mark-up of 5% to 10% on qualifying expenditures to cover administrative overhead. The rates are consistent with rates charged to the Company by non-related joint venture operators. The total exploration and development costs billed to the Company aggregated \$2,910 and total overhead fees billed aggregated \$290 during the year ended September 30, 2003. The company sold office equipment to Tyler during the 2004 fiscal year for \$5,000 which represented the book value and approximate fair value of the asset.

Pursuant to a sublease agreement, as amended with a company related by virtue of certain common officers and directors, the company is committed to pay its share of lease operating costs and base lease expenses. The committed base lease costs for the ensuing five fiscal years are as follows:

<b>2005 and 2006</b>	<b>\$2,430</b>	<b>2008</b>	<b>\$ -</b>
<b>2007</b>	<b>\$ 600</b>	<b>2009</b>	<b>\$ -</b>

In addition, the company is committed to pay its share of annual associated lease operating costs, which aggregated \$8,000 for the year ended September 30, 2004.

## **Corporate Information**

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### **Directors:**

Lesley Hayes  
James Devonshire  
Jean Pierre Jutras  
Shane Ebert

### **Officers:**

James Devonshire, *President*  
Jean Pierre Jutras, *Vice-President*  
Shari Difley, *Chief Financial Officer*  
Barbara O'Neill, *Secretary*

### **Transfer Agent & Registrar:**

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### **Auditors:**

PricewaterhouseCoopers LLP  
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Calgary, Alberta, T2P 5L3

### **Listed:**

TSX Venture Exchange

### **Symbol:**

NAI