Karmin Exploration Inc.

Consolidated Financial Statements
April 30, 2004 and 2003
(expressed in Canadian dollars)

June 18, 2004

Management's Responsibility for Financial Reporting

The annual report and consolidated financial statements have been prepared by management who, when necessary have made informed judgments and estimates of the outcome of events and transactions. Management acknowledges its responsibility for the fairness, integrity and objectivity of all information contained in the annual report, including the consolidated financial statements.

As a means of fulfilling its responsibility, management relies on the Company's system of internal control. This system has been established to ensure, within reasonable limits, that the assets are safeguarded, transactions are properly recorded an executed with management's authorization and that the accounting records provide a solid foundation from which to prepare the consolidated financial statements.

The Board of Directors carries out its responsibility for the annual and interim consolidated financial statements principally through its Audit Committee and ongoing discussion with management who prepare these consolidated financial statements. Based on these discussions, the Board of Directors approves the consolidated financial statements.

William J. Fisher
Chief Executive Officer

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June 18, 2004

Auditors' Report

To the Shareholders of
Karmin Exploration Inc.

We have audited the consolidated balance sheets of **Karmin Exploration Inc.** as at April 30, 2004 and 2003 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our 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 April 30, 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.

PricewaterhouseCoopers LLP

Chartered Accountants

Toronto, Ontario

Karmin Exploration Inc.
Consolidated Balance Sheets
For the years ended April 30, 2004 and 2003

	2004 $	2003 $
Assets		
Current		
Cash	**76,989**	24,966
Accounts receivable	**5,173**	5,607
	82,162	30,573
Property and equipment *(note 3)*	**972,544**	976,603
	1,054,706	1,007,176
Liabilities		
Current		
Accounts payable and accrued liabilities	**114,183**	67,173
Due to related party *(note 4)*	**857,200**	667,841
	971,383	735,014
Shareholders' equity		
Share capital *(note 5)*	**14,659,295**	14,659,295
Deficit	**(14,575,972)**	(14,387,133)
	83,323	272,162
	1,054,706	1,007,176

Going concern *(note 1)*

Approved by the Board of Directors

"signed"
Director

"signed"
Director

The accompanying notes to the consolidated financial statements are an integral part of these financial statements.

Karmin Exploration Inc.

Consolidated Statements of Operation and Deficit

For the years ended April 30, 2004 and 2003

	2004	2003
	$	$
Expenses		
Exploration and prospecting costs	**14,010**	29,422
General and administrative	**109,925**	123,538
Finance charges	**61,412**	47,841
Amortization	**4,059**	4,059
	189,406	204,860
Interest income	**567**	270
Loss for the year	**(188,839)**	(204,590)
Deficit, beginning of year	**(14,387,133)**	(14,182,543)
Deficit, end of year	**(14,575,972)**	(14,387,133)
Basic and diluted loss per common share	**(0.006)**	**(0.006)**

The accompanying notes to the consolidated financial statements are an integral part of these financial statements.

Karmin Exploration Inc.
Consolidated Statements of Cash Flows
For the years ended April 30, 2004 and 2003

(expressed in Canadian dollars)

	2004	2003
	$	$
Cash provided by (used in)		
Operating activities		
Loss for the year	**(188,839)**	(204,590)
Items not affecting cash:		
Amortization	**4,059**	4,059
Non-cash finance charge	**61,412**	47,841
	(123,368)	(152,690)
Net change in other non-cash working capital	**47,444**	46,967
	(75,924)	(105,723)
Financing Activities		
Advances from related party *(note 4)*	**127,947**	111,613
Investing Activities		
Acquisition of capital assets	**-**	-
Net change in cash during the year	**52,023**	5,890
Cash, beginning of year	**24,966**	19,076
Cash, end of year	**76,989**	24,966
Supplemental information		
Income taxes paid	**-**	-
Interest paid	**-**	-

The accompanying notes to the consolidated financial statements are an integral part of these financial statements.

(expressed in Canadian dollars)

1 Nature of business and going concern

The company was incorporated on February 3, 1995 under the Business Corporation Act of Ontario to engage in mineral exploration and development of base metals and gold opportunities in Brazil. The company is a development stage enterprise under Accounting Guideline No. 11 (AcG 11) issued by the Canadian Institute of Chartered Accounts (CICA).

Effective September 15, 1999, the company changed its name from Ambrex Mining Corporation (Ambrex) to Karmin Exploration Inc. (Karmin) (stock symbol: YKA). On the same day, the company also consolidated its common shares on the basis of one new share for every three common shares previously issued and outstanding.

Karmin, directly and through an agreement as described below, is in the process of exploring its mining properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. The recoverability of costs incurred on exploration and development is dependent upon the discovery of economically recoverable reserves, the securing and maintenance of the interests in the properties, future production or proceeds from the disposition thereof, and the ability of the company to obtain the necessary financing to continue these operations. As at and for the year then ended April 30, 2004, the company reported a loss of $188,839 and an accumulated deficit of $14,575,972. The company has a loan payable to related party in the amount of $857,200 due on May 1, 2005 and there currently is no financing in place to address this liability. The cash position at April 30, 2004 of $76,989 is not sufficient to continue exploration of the property or to satisfy the loan payable amount. This condition casts significant doubt as to the ability of the company to continue as a going concern and meet its obligations as they come due.

While the financial statements of the company have been prepared on the basis that the company will continue as a going concern, it is uncertain that the company will be able to realize its assets and discharge its liabilities in the normal course of business. Should it be determined that the company is no longer a going concern, the financial statements will need to include material adjustments that reflect a liquidation basis of preparation.

(expressed in Canadian dollars)

2 Summary of significant accounting policies

Basis of presentation and consolidation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include the accounts of Karmin, Karmin Holdings Ltda., a wholly owned Brazilian holding company, and its 95% owned subsidiary, Mineracao Rio Aripuana Ltda. All significant intercompany accounts and transactions have been eliminated.

The company primarily operates in one operating segment as all its property and equipment are located in Brazil, and may be subject to government regulations relating to mining, currency fluctuations, inflation and other economic and political risks, any of which may result in impairment of the company's net assets. The company's corporate headquarters in Canada serve administrative functions and are not a reportable segment.

Income taxes

The asset and liability method is used for determining income taxes. Under this method, future income tax assets and liabilities are recognized for the estimated income taxes recoverable or payable that would arise if assets and liabilities were recovered and settled at the financial statement carrying amounts. Future income tax assets and liabilities are measured using the substantively enacted income tax rates expected to be in effect when the tax assets and liabilities are recovered or settled, respectively. Changes to these amounts are recognized in income in the period in which the changes occur. Valuation allowances are provided to the extent that future income tax assets, including the income tax benefit of losses carried forward, are not more likely than not to be realized.

Property and equipment

Exploration and prospecting costs are expensed as incurred. When a property is determined to have development potential, development and exploration costs related to that property are capitalized. These assets will be amortized on a unit of production basis once the property is brought into production. The company assesses annually whether an impairment condition may exist.

All administrative costs that do not directly relate to and are not necessary for development activity are expensed as incurred.

Property and equipment are recorded at cost and amortized on a straight-line basis over their estimated economic lives.

Foreign currency translation

As the company considers all of its foreign operations to be fully integrated, all items denominated in foreign currencies have been translated using the temporal method. Under this method, monetary assets and liabilities and non-monetary items carried at market values are translated into Canadian dollars at exchange rates prevailing at the balance sheet dates. Other non-monetary assets and liabilities are translated at

(expressed in Canadian dollars)

historical exchange rates applicable at the transaction date. Revenues and expenses are translated at the average exchange rate for the year.

Foreign exchange gains and losses on transactions during the year and on the year-end translation of the accounts are reflected in the statement of operations.

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 and expenses included in the financial statements during the reporting period. Actual results could differ from management's estimates.

Earnings (loss) per common share

Basic earnings (loss) per common share are computed by dividing the earnings (loss) for the year by the weighted average number of common shares outstanding during the year, including contingently issuable common shares, which are included when the conditions necessary for issuance have been met, but excluding contingently returnable common shares until all conditions necessary for their release from escrow have been satisfied. Diluted earnings (loss) per common share are calculated in a manner similar to basic earnings (loss) per common share, except the number of weighted average common shares outstanding are increased to include potential common shares from the assumed exercise of options and warrants, if dilutive. The number of additional common shares in the calculation is based on the treasury stock method for options and warrants and on the as-if-converted method for convertible securities.

Financial instruments

The company's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities and amounts due to a related party. Unless otherwise noted, it is management's opinion that the company is not exposed to significant interest or currency risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

Stock-based compensation plans

Effective May 01, 2002, the company adopted the new recommendations of The Canadian Institute of Chartered Accountants which requires stock-based compensation to be expensed. Previously the company used the intrinsic approach to account for stock-based compensation. As the company did not issue any stock-based compensation subsequent to May 01, 2002, there has been no effect on the consolidated financial statements.

(expressed in Canadian dollars)

3 Property and equipment

			2004	2003
	Cost $	Accumulated Amortization $	Net $	Net $
Office equipment	9,391	2,348	7,043	7,982
Building	78,000	15,600	62,400	65,520
Land	38,800	-	38,800	38,800
Mineral property acquisition costs	864,301	-	864,301	864,301
	990,492	17,948	972,544	976,603

Office equipment of $9,391 is held in Canada.

Aripuana property
The Aripuana property is located approximately 20 kilometers from the town of Aripuana in the State of Mato Grasso, Brazil.

In 1996, Karmin acquired the Aripuana 2000 hectare property for $1,112,255. Initially focusing on the gold, the company discovered a large volcanogenic massive sulphide (VMS) showing, called the Valley Deposit.

In 1999, Karmin formed a joint venture with UK-based mining company Anglo American PLC and an unrelated third party to explore Karmin's property and Anglo's adjoining ground, where a similar VMS discovery had been made. Anglo was committed to spending US$3.25 million by December 31, 2003 to earn a 70% interest in the joint venture.

In 2004, Karmin and Anglo amended the agreement to allow a new partner [Votorantim S.A.] to earn into the 70% position of the Aripuana property held by Anglo. Votorantim will earn its position by spending US$1.6 million by December 2005, of which a minimum of US$500,000 is to be spent by December 2004. Karmin's 28.5% interest will remain unchanged.

The company has expensed all exploration costs to date on this property of $1,088,376.

4 Related party balances and transactions

	2004 $	2003 $
Advance from company controlled by a shareholder	747,947	620,000
Accrued interest	109,253	47,841
	857,200	667,841

The advance from a party controlled by a shareholder bears interest at 9% per annum (2003 – 9% per annum) and is repayable on May 01, 2005.

(expressed in Canadian dollars)

Management fees of $40,000 (2003 - $40,000) and office rent of $10,000 (2003 - $10,000) were incurred and payable to a company controlled by a shareholder during the year. The amount payable with respect to these and earlier years' management fees included in accounts payable and accrued liabilities is $85,600 (2003 - $42,800). The basis used to measure the related party transactions was the exchange amount based on the negotiated value between the parties.

5 Share capital

Authorized

The company's authorized share capital consists of an unlimited number of common shares.

Issued and outstanding

	Number of shares	Amount $
Balance - April 30, 2002, 2003, 2004	33,190,434	14,659,295

The weighted average number of common shares in 2004 and 2003 was 33,190,434.

Share options

	Number of options	Exercise price $
Balance - April 30, 2002	1,650,000	0.20 - 0.40
Balance - April 30, 2003	1,650,000	0.20 - 0.40
Balance - April 30, 2004	**1,650,000**	**0.20 - 0.40**

The weighted average exercise price of the options outstanding at April 30, 2003 and April 30, 2004, was $0.22. Of the share options outstanding at April 30, 2003 and April 30, 2004, 150,000 have an exercise price of $0.40 and expire on March 25, 2005. All other share options have an exercise price of $0.20 and expire on September 30, 2004.

All outstanding options are exercisable and at April 30, 2004, have a weighted average remaining contractual life of 1.5 years.

(expressed in Canadian dollars)

6 Income taxes

As at April 30, 2004, the company has available tax losses for Canadian income tax purposes, which may be carried, forward to reduce taxable income derived in future years. A summary of these losses is provided below.

Non-capital losses expiring in:

	$
2004	1,025,426
2005	1,454,044
2006	1,377,216
2007	55,842
2008	316,695
2009	640,759
	4,869,982

The potential income tax benefits of these carry-forward, non-capital losses have not been recognized in the consolidated financial statements. In addition, the company has loss carry forwards arising in Brazil of approximately $9 million, which have not been recognized in the consolidated financial statements.

7 Segmented Disclosures

The Company has one reportable operating segment, being exploration of mineral properties as disclosed in Note 4.