

**REDSTAR GOLD CORP.**  
**UNAUDITED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**  
**(Unaudited - Prepared by Management)**

### **NOTICE OF NO AUDITOR REVIEW**

The accompanying unaudited interim financial statements have been prepared by management and approved by the Audit Committee and Board of Directors.

The Company's independent auditors have not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

**REDSTAR GOLD CORP.****BALANCE SHEETS**

December 31, 2004

(Unaudited - Prepared by Management)

|  | December 31<br>2004 | March 31<br>2004 |
|--|---------------------|------------------|
|  | (Unaudited)         | (Audited)        |
| <b>ASSETS</b>                            |                     |                  |
| <b>CURRENT ASSETS</b>                    |                     |                  |
| Cash and short term deposits             | \$ 10,033           | \$ 46,217        |
| Accounts receivable                      | 4,836               | 35,242           |
| Prepaid expenses and advances            | 9,431               | 32,114           |
|  | 24,300              | 113,573          |
| MINERAL PROPERTIES (Note 3)              | 1,575,324           | 1,398,742        |
| EQUIPMENT (Note 4)                       | 16,121              | 14,385           |
|  | \$ 1,615,745        | \$ 1,526,700     |
| <b>LIABILITIES</b>                       |                     |                  |
| <b>CURRENT LIABILITIES</b>               |                     |                  |
| Accounts payable and accrued liabilities | \$ 46,335           | \$ 49,065        |
| Due to related parties                   | 298,086             | 261,168          |
|  | 344,421             | 310,233          |
| <b>SHAREHOLDERS' EQUITY</b>              |                     |                  |
| SHARE CAPITAL (Note 5)                   | 6,349,775           | 6,100,427        |
| OPTION COMPENSATION                      | 196,622             | 132,113          |
| SHARE PURCHASE WARRANTS                  | 14,500              | 14,500           |
| CONTRIBUTED SURPLUS                      | 71,806              | 71,806           |
| DEFICIT                                  | (5,361,379)         | (5,102,379)      |
|  | 1,271,324           | 1,216,467        |
|  | \$ 1,615,745        | \$ 1,526,700     |

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)  
SUBSEQUENT EVENTS (Note 10)

APPROVED BY THE BOARD

*"J. Patrick Nicol"*

Director - J. Patrick Nicol

*"Douglas A. Fulcher"*

Director - Douglas A. Fulcher

**REDSTAR GOLD CORP.**

**STATEMENTS OF OPERATIONS AND DEFICIT**

**For the Nine Months Ended December 31, 2004**

**(Unaudited - Prepared by Management)**

|  | For the Three Months Ended<br>December 31, |                     | For the Nine Months Ended<br>December 31, |                     |
|--|--|---------------------|---|---------------------|
|  | 2004                                       | 2003                | 2004                                      | 2003                |
| <b>EXPENSES</b>                                      |  |                     |   |                     |
| Stock-based compensation                             | \$ 21,503                                  | \$ 8,859            | \$ 64,509                                 | \$ 26,498           |
| Management fees                                      | 19,150                                     | 37,000              | 59,450                                    | 60,500              |
| Business promotion                                   | 20,638                                     | 18,513              | 51,295                                    | 42,194              |
| Salaries and benefits                                | 12,500                                     | (21,193)            | 44,355                                    | 37,177              |
| Professional fees                                    | 7,906                                      | 4,190               | 29,464                                    | 24,511              |
| Rent   | 7,649                                      | 6,598               | 28,984                                    | 25,116              |
| Investor relations                                   | 2,500                                      | 14,250              | 27,500                                    | 15,750              |
| Office and miscellaneous                             | 3,695                                      | 11,551              | 16,620                                    | 18,832              |
| Regulatory fees                                      | 1,047                                      | 3,018               | 9,039                                     | 9,835               |
| Transfer agent                                       | 1,426                                      | 1,227               | 6,626                                     | 10,250              |
| Telephone  | 1,331                                      | 1,081               | 3,787                                     | 4,288               |
| Amortization   | 1,277                                      | 765                 | 3,263                                     | 2,038               |
| Less: Interest earned                                | (54)                                       | (123)               | (152)                                     | (1,259)             |
| Expense recoveries                                   | (3,723)                                    | -                   | (4,993)                                   | -                   |
|  | 96,845                                     | 85,736              | 339,747                                   | 275,730             |
| <b>OTHER (INCOME) EXPENSES</b>                       |  |                     |   |                     |
| Option income  | -  | -                   | (83,247)                                  | -                   |
| General exploration                                  | -  | -                   | 2,500                                     | 253                 |
| <b>LOSS FOR THE PERIOD</b>                           | <b>96,845</b>                              | <b>85,736</b>       | <b>259,000</b>                            | <b>275,983</b>      |
| <b>DEFICIT, BEGINNING OF PERIOD</b>                  | <b>5,264,534</b>                           | <b>4,693,343</b>    | <b>5,102,379</b>                          | <b>4,503,096</b>    |
| <b>DEFICIT, END OF PERIOD</b>                        | <b>\$ 5,361,379</b>                        | <b>\$ 4,779,079</b> | <b>\$ 5,361,379</b>                       | <b>\$ 4,779,079</b> |
| <b>BASIC AND DILUTED LOSS PER SHARE</b>              |  |                     |   |                     |
|  | \$ 0.00                                    | \$ 0.01             | \$ 0.01                                   | \$ 0.02             |
| <b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b> |  |                     |   |                     |
|  | 20,604,903                                 | 15,563,777          | 20,604,903                                | 15,563,777          |

**REDSTAR GOLD CORP.****STATEMENTS OF CASH FLOWS**

For the Nine Months Ended December 31, 2004

(Unaudited - Prepared by Management)

|   | For the Three Months Ended<br>December 31, |             | For the Nine Months Ended<br>December 31, |              |
|---|--|-------------|---|--------------|
|   | 2004                                       | 2003        | 2004                                      | 2003         |
| CASH PROVIDED BY (USED FOR):                              |  |             |   |              |
| OPERATING ACTIVITIES                                      |  |             |   |              |
| Loss for the period                                       | \$ (96,845)                                | \$ (85,736) | \$ (259,000)                              | \$ (275,983) |
| Items not involving cash                                  |  |             |   |              |
| Amortization  | 1,277                                      | 765         | 3,263                                     | 2,038        |
| Stock-based compensation                                  | 21,503                                     | 8,859       | 64,509                                    | 26,498       |
|   | (74,065)                                   | (76,112)    | (191,228)                                 | (247,447)    |
| Net change in non-cash working capital items              |  |             |   |              |
| Accounts receivable                                       | 8,351                                      | (7,328)     | 30,405                                    | (32,124)     |
| Prepaid expenses and advances                             | 12,058                                     | 10,751      | 22,683                                    | 55,919       |
| Accounts payable and accrued liabilities                  | 13,710                                     | 24,644      | (2,730)                                   | 14,355       |
| Due to related parties                                    | 14,662                                     | -           | 36,918                                    | -            |
|   | (25,284)                                   | (48,045)    | (103,952)                                 | (209,297)    |
| INVESTING ACTIVITIES                                      |  |             |   |              |
| Mineral property exploration and development expenditures | (6,784)                                    | (24,918)    | (30,270)                                  | (347,345)    |
| Mineral property acquisition costs                        | (5,000)                                    | -           | (125,312)                                 | (159,626)    |
| Equipment   | (3,778)                                    | (2,557)     | (4,999)                                   | (4,473)      |
|   | (15,562)                                   | (27,475)    | (160,581)                                 | (511,444)    |
| FINANCING ACTIVITIES                                      |  |             |   |              |
| Issuance of share capital for cash                        | -  | 193,135     | 228,349                                   | 615,442      |
| INCREASE (DECREASE) IN CASH                               | (40,846)                                   | 117,615     | (36,184)                                  | (105,299)    |
| CASH, BEGINNING OF PERIOD                                 | 50,879                                     | 5,626       | 46,217                                    | 228,540      |
| CASH, END OF PERIOD                                       | \$ 10,033                                  | \$ 123,241  | \$ 10,033                                 | \$ 123,241   |

Supplemental disclosure with respect to cash flows (Note 8)

**REDSTAR GOLD CORP.**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the Nine Months Ended December 31, 2004**

**(Unaudited - Prepared by Management)**

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**1. NATURE OF OPERATIONS AND GOING CONCERN**

The Company is an exploration stage company engaged principally in the acquisition, exploration and development of mineral properties. The recovery of the Company's investment in mineral properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development and the future proceeds from the disposition of those reserves.

At December 31, 2004, the Company has working capital deficiency of \$320,121. The Company will require additional financing or outside participation, to undertake further exploration and subsequent development of its mineral properties. The Company's ability to continue as a going concern is dependent on continued financial support from its shareholders, the ability of the Company to raise equity financing, and the attainment of profitable operations, external financings and further share issuances to meet the Company's liabilities as they become payable.

These financial statements have been prepared on a going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of business. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary, should the Company be unable to continue as a going concern.

**2. SIGNIFICANT ACCOUNTING POLICIES**

These financial statements have been prepared in accordance with accounting policies generally accepted in Canada and reflect the following policies.

**(a) Basis of Presentation**

The accompanying unaudited interim financial statements are prepared in accordance with generally accepted accounting principles ("GAAP") in Canada with respect to the preparation of interim financial statements. Accordingly, they do not include all of the information and disclosures required by Canadian GAAP in the preparation of annual financial statements. The accounting policies used in the preparation of the accompanying unaudited interim financial statements are the same as those described in the annual financial statements and the notes thereto for the year ended March 31, 2004. In the opinion of management, all adjustments considered necessary for fair presentation have been included in these financial statements. The interim financial statements should be read in conjunction with the Company's financial statements including the notes thereto for the year ended March 31, 2004.

**(b) Use of Estimates**

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

**3. MINERAL PROPERTIES**

**(a) West Red Lake Properties, Red Lake Division, Ontario**

Subject to regulatory approval, the Company renegotiated their letter option agreement to acquire a 51% interest in 51 mineral claims located in the Red Lake District of Ontario. To exercise the option the Company must make, in stages, cash payments of \$200,000, issue 250,000 common shares, and issue \$75,000 of common shares at market value to the optionor and incur \$1,100,000 in exploration expenditures on the property as follows:

**REDSTAR GOLD CORP.**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the Nine Months Ended December 31, 2004**

**(Unaudited - Prepared by Management)**

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**3. MINERAL PROPERTIES (continued)**

(i) Shares and cash payments

- 250,000 common shares on regulatory approval and \$25,000 on or before February 28, 2005
- \$25,000 worth common shares at market value and \$25,000 on or before February 28, 2006
- \$25,000 worth common shares at market value and \$50,000 on or before February 28, 2007
- \$25,000 worth common shares at market value and \$100,000 on or before February 28, 2008

(ii) Work expenditures

- \$200,000 on or before February 28, 2007
- \$500,000 (aggregate) on or before February 28, 2008
- \$1,100,000 (aggregate) on or before February 28, 2009

An additional 9% interest can be earned by incurring \$3,000,000 in exploration expenditures on the property on or before February 28, 2013.

Certain of the mineral claims are subject to a 2% net smelter return royalty.

(b) **Newman Todd Property, Red Lake Division, Ontario**

The Company acquired a 100% interest in 12 freehold mineral claims located in the Red Lake District of Ontario by paying \$25,000 and issuing 50,000 common shares at a deemed value of \$10,000 and 100,000 share purchase warrants that have been assigned a fair value of \$14,500. The vendor has retained a 1.5% net smelter return royalty if the gold price is less than or equal to US \$400 per ounce or 2% if greater than \$400 per ounce. The property is also subject to an underlying 15% net profits interest.

The Company has granted an option on the Newman Todd Property to permit the optionee to acquire a 60% interest in the property by incurring up to US\$750,000 in exploration expenditures and cash payments to the Company of up to US\$215,000, in stages, to June 2, 2007. On exercise of the option the Company's interest in the property would be reduced to 18% under the area of influence terms of the West Red Lake Properties agreement.

During the period ended December 31, 2004, the Company received an option payments of \$85,709 (US \$65,000) of which \$83,247 has been taken into income in these financial statements.

**3. MINERAL PROPERTIES (continued)**

(c) **Atikokan Property, Thunder Bay Division, Ontario**

The Company signed a letter agreement, to acquire a 100% interest in 11 mineral claims located in the Thunder Bay Mining Division of Ontario. To exercise the option the Company must make, in stages, cash payments of \$220,000 and issue 350,000 common shares, to the optionor and incur \$875,000 in exploration expenditures on the properties as follows:

(i) Shares and cash payments

- 75,000 common shares and \$15,000 upon regulatory approval (issued and paid)
- 60,000 common shares and \$25,000 on or before April 30, 2005
- 60,000 common shares and \$30,000 on or before April 30, 2006
- 55,000 common shares and \$50,000 on or before April 30, 2007
- 100,000 common shares and \$100,000 on or before April 30, 2008

(ii) Work expenditures

**REDSTAR GOLD CORP.****NOTES TO THE FINANCIAL STATEMENTS**

For the Nine Months Ended December 31, 2004

(Unaudited - Prepared by Management)

- \$450,000 on or before April 30, 2005
- \$600,000 on or before April 30, 2006
- \$650,000 on or before April 30, 2007
- \$875,000 on or before April 30, 2008

The mineral claims are subject to a 3% net smelter return royalty, 2% of which may be purchased for \$1,000,000 per percentage point.

An additional 13 mineral claims were acquired in consideration of \$10,270 in staking costs.

Expenditures made on mineral properties by the Company during the period were as follows:

|                                   | <b>West Red<br/>Lake</b> | <b>Newman<br/>Todd</b> | <b>Atikokan</b> | <b>Total</b> |
|-----------------------------------|--------------------------|------------------------|-----------------|--------------|
| Acquisition costs                 | \$ 17,000                | \$ -                   | \$ 34,270       | \$ 51,270    |
| Deferred exploration expenditures |                          |                        |                 |              |
| Assay                             | 1,747                    | -                      | 10,751          | 12,498       |
| Camp and support costs            | -                        | -                      | 3,633           | 3,633        |
| Contract labour                   | 13,125                   | -                      | 37,750          | 50,875       |
| Drilling                          | 5,153                    | -                      | -               | 5,153        |
| Equipment rental                  | 14,650                   | -                      | -               | 14,650       |
| Geological consulting             | -                        | -                      | 5,127           | 5,127        |
| Materials and supplies            | 3,501                    | -                      | -               | 3,501        |
| Recording fees                    | 3,037                    | -                      | -               | 3,037        |
| Recoveries                        | -                        | (2,462)                | -               | (2,462)      |
| Travel                            | 204                      | -                      | 29,096          | 29,300       |
|                                   | 41,417                   | (2,462)                | 86,357          | 125,312      |
|                                   | 58,417                   | (2,462)                | 120,627         | 176,582      |
| Balance at beginning of period    | 1,396,280                | 2,462                  | -               | 1,398,742    |
| Balance at end of period          | \$ 1,454,697             | \$ -                   | \$ 120,627      | \$ 1,575,324 |

**4. EQUIPMENT**

Equipment is comprised of office furniture and computer equipment are recorded at cost net of accumulated amortization of \$18,247.

**REDSTAR GOLD CORP.**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the Nine Months Ended December 31, 2004**

**(Unaudited - Prepared by Management)**

**5. SHARE CAPITAL**

Authorized:  
99,953,125 common shares without par value

| <b>Issued:</b>                               | <b>Number<br/>of Shares</b> | <b>Amount</b>    |
|--|-----------------------------|------------------|
| Balance at March 31, 2002                    | 22,944,573                  | \$ 4,005,891     |
| Consolidation (1:6)                          | (19,120,477)                | -                |
| Escrow shares cancelled                      | (46,875)                    | (49,103)         |
|  | <b>3,777,221</b>            | <b>3,956,788</b> |
| Issued during the year                       |                             |                  |
| Private placement for cash                   | 7,786,348                   | 1,009,622        |
| Exercise of share purchase warrants for cash | 97,361                      | 19,472           |
| Debt settlement                              | 810,824                     | 121,624          |
| Mineral properties                           | 190,000                     | 48,650           |
|  | <b>8,884,533</b>            | <b>1,199,368</b> |
| Balance at March 31, 2003                    | 12,661,754                  | 5,156,156        |
| Private placement for cash (net)             | 4,367,333                   | 486,732          |
| Exercise of share purchase warrants for cash | 997,000                     | 190,135          |
| Exercise of stock options for cash           | 671,834                     | 124,017          |
| Mineral properties                           | 325,000                     | 49,750           |
| Stock-based compensation                     | -                           | 93,637           |
|  | <b>6,361,167</b>            | <b>944,271</b>   |
| Balance at March 31, 2004                    | 19,022,921                  | 6,100,427        |
| Private placement for cash (net)             | 2,570,000                   | 228,348          |
| Mineral properties                           | 225,000                     | 21,000           |
| Balance at December 31, 2004                 | 21,817,921                  | \$ 6,349,775     |

**(a) Share Purchase Warrants**

The Company has outstanding share purchase warrants as at December 31, 2004, which entitle the holders to purchase common shares as follows:

| <b>Number of Shares</b> | <b>Exercise Price</b> | <b>Expiry Date</b> |
|-------------------------|-----------------------|--------------------|
| 1,285,000               | \$0.15                | July 29, 2005      |
| 506,000                 | \$0.15                | July 29, 2005      |
| <b>1,791,000</b>        |                       |                    |

**REDSTAR GOLD CORP.**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the Nine Months Ended December 31, 2004**

**(Unaudited - Prepared by Management)**

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**5. SHARE CAPITAL (continued)**

**(b) Stock Options**

As at December 31, 2004, the Company had stock options outstanding to directors, employees and consultants for the purchase of up to 1,663,334 common shares exercisable as follows:

| <b>Number of Shares</b> | <b>Exercise Price</b> | <b>Expiry Date</b> |
|-------------------------|-----------------------|--------------------|
| 10,834                  | \$0.20                | March 5, 2005      |
| 260,000                 | \$0.20                | June 12, 2007      |
| 680,000                 | \$0.12                | April 4, 2008      |
| 712,500                 | \$0.18                | September 11, 2008 |
| <hr/>                   |                       |                    |
| 1,663,334               |                       |                    |

**6. RELATED PARTY TRANSACTIONS**

- (a) The Company conducts the majority of its exploration activities through an exploration services contractor in which a director is a principal. The Company paid or accrued amounts due to that contractor of \$90,392 for exploration costs and \$140,262 to reimburse office and administrative costs including \$37,950 for management fees. As at December 31, 2004, the Company owed \$292,204 to that contractor.
- (c) Management fees of \$21,500 and \$22,552 for rental of shared office premises was paid to a company in which a director is a principal; as at December 31, 2004, the Company owed that company \$5,881.
- (c) As at December 30, 2004, the Company owed \$4,015 to a company with two directors in common.

**7. SEGMENTED INFORMATION**

The Company has one operating segment, mineral exploration and development. All of the Company's assets are located in Canada.

**8. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

During the period ended December 31, 2004 the Company issued 225,000 common shares valued at \$21,000 for mineral property interests.

**9. COMMITMENT**

During 2003, the Company entered into a lease agreement for the rental of office premises for a six-year period October 31, 2009. The cost of the entire premises is shared primarily between the Company and two companies related by a common director. The Company's proportionate share of minimum annual rental payments under this arrangement is approximately \$33,000.

**REDSTAR GOLD CORP.**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the Nine Months Ended December 31, 2004**

**(Unaudited - Prepared by Management)**

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**10. SUBSEQUENT EVENTS**

**(a) Debt Settlement**

The Company has agreed, subject to regulatory approval, to issue 1,500,000 units at the price of \$0.15 per unit to two creditors, to settle outstanding debt totaling \$225,000. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant will entitle the holder to acquire one common share exercisable for a period of two years from the date of closing at a price of \$0.18.

**(b) West Red Lake Agreement**

The Company has renegotiated the West Red Lake option agreement (Note 3(a)). Under the terms of the new agreement, Redstar is required to make a \$25,000 cash payment and issue 250,000 shares by February 28, 2005. Over the four-year term of the new agreement Redstar must make additional cash payments of \$175,000, and issue an additional \$75,000 worth of Redstar shares and complete an additional \$1,100,000 in work expenditures for a 51% interest in the property.

**(c) Exploration Partnership**

The Company and AngloGold Ashanti North America Inc. ("AngloGold Ashanti") have signed a letter agreement outlining the terms of an exploration partnership to explore within Nevada. The terms are subject to the completion of a formal agreement.

The agreement will give the Company exclusive rights to the AngloGold Ashanti database for a period of 18 months in exchange for 100,000 shares of Redstar Gold Corp. AngloGold Ashanti will retain a back-in right on any property interest Redstar acquires in Nevada. Once Redstar has spent a total of \$750,000 on any particular project AngloGold Ashanti will have the one time right to back into the project for a 60% interest by spending \$1,500,000 within three years. The agreement is renewable on both parties consent for additional one-year terms. Once Redstar has spent \$2,000,000 on Nevada exploration they will acquire a full copy of the database and the agreement will be terminated.

**(d) Option Agreement**

The Company has signed a letter agreement with AngloGold Ashanti giving the Company the option to earn a 100% interest in all of AngloGold Ashanti's Red Lake properties. The properties consist of 26-patented claims and 13 staked claims in the West Red Lake area of northern Ontario and includes the Newman Todd property where previous work has outlined 3 zones of gold mineralization.

Under the terms of the agreement, Redstar will issue 700,000 shares to AngloGold Ashanti over a three-year period as well as a retained royalty. In addition Redstar will convey to AngloGold Ashanti \$1,000,000 worth of shares if a mine is put into production within the property. An additional \$1,000,000 worth of shares will be issued once production exceeds 250,000 ounces of gold.

**REDSTAR GOLD CORP.**  
**Management's Discussion & Analysis**

**FORM 51-102F1**

**For the Period Ending  
December 31, 2004**

The following management discussion and analysis of the financial position of Redstar Gold Corp. ("Redstar" or the "Company") and results of operations of the Company should be read in conjunction with the unaudited and audited financial statements including the notes thereto for the periods ending December 31, 2004 and March 31, 2004, respectively.

The accompanying unaudited financial statements and related notes are presented in accordance with Canadian generally accepted accounting principles. These statements, together with the following management's discussion and analysis dated February 28, 2005 ("Report Date"), are intended to provide investors with a reasonable basis for assessing the financial performance of the Company as well as forward-looking statements relating to the potential future performance. The information in the MD&A may contain forward-looking statements. These statements are subject to known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those implied by the forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are advised to consider such forward-looking statements in light of the risks as set forth below.

Additional information relating to the Company may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## **Overall Performance**

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The Company is a junior mining and exploration organization engaged in the exploration and subsequent development of prospective mineral targets in the Red Lake region of northwestern Ontario and Nevada, USA. For the period ending December 31, 2004, the Company issued 2,570,000 units (including 40,000 commission units) at a price of \$0.10 to raise gross proceeds of \$253,000.

The funds raised from the private placement have been primarily spent on the Company's Red Lake and Atikokan properties. Capitalized costs for the year to date on the Red Lake properties increased \$58,417 to \$1,454,697 while \$34,720 in acquisition costs and \$86,357 in exploration costs were spent on the Atikokan properties. Monies that were received from the private placement will not be sufficient to achieve the Company's planned exploration program and administrative expenses. As at the date thereof, the Company has a working capital deficiency of \$320,121.

Administrative expenses during the period (\$96,845) represent a 13% increase over the same period last year (\$85,736). The increase is primarily due to an overall increase in corporate activity associated with the addition of administrative staff and business promotion. The Company anticipates that administrative expenses for the remainder of Fiscal 2005 will not change materially from current levels.

Subsequent to the period ending December 31, 2004, the Company has agreed, subject to regulatory approval, to issue 1,500,000 units at the price of \$0.15 per unit to two creditors, to settle outstanding debt totaling \$225,000. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant will entitle the holder to acquire one common share exercisable for a period of two years from the date of closing at a price of \$0.18.

## **Results of Operations**

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In fiscal 2004, the Company completed a mechanical stripping, mapping and surface sampling program on the Biron Bay property in Red Lake. Detailed sampling and mapping outlined a gold

mineralized structural zone within mafic and felsic volcanic rocks and sulphidized iron formations. The zone has been exposed in a series of four stripped outcrops (L1 – L4) along a strike length of approximately 1.1 kilometres. Zones L1, L2 and L3 are interpreted to occur along a single mineralized structure whereas the L4 zone is hosted within sulphidized iron formations.

Anomalous gold values were collected along the entire strike of the exposed areas, with significant values as high as 22.10 grams per ton over 0.50 meters (see Table 1 for significant values.) A table of results from the L1, L2 and L3 zones are set out below:

| <u>Zone</u> | <u>Au</u><br><u>g/t</u> | <u>Channel Length</u><br><u>(m)</u> |
|-------------|-------------------------|-------------------------------------|
| L1          | 19.25                   | 0.60                                |
| L1          | 8.54                    | 0.50                                |
| L1          | 8.04                    | 0.50                                |
| L1          | 4.94                    | 0.60                                |
| L1          | 4.60                    | 0.50                                |
| L1          | 4.47                    | 0.50                                |
| L2          | 22.1                    | 0.50                                |
| L2          | 5.97                    | 0.50                                |
| L2          | 3.56                    | 0.50                                |
| L2          | 2.77                    | 1.00                                |
| L3          | 1.15                    | 1.00                                |
| L4          | 2.70                    | 2.00                                |
| L4          | 1.18                    | 1.00                                |
| L4          | 7.78                    | 0.10                                |

Field crews also completed a geochemical soil sampling program on the Pipestone North and Wolf Bay properties. The Pipestone North property is located immediately north of Biron Bay and the Wolf Bay property is adjacent to the Redstar/Rubicon/AngloGold held Newman Todd property.

In January and February 2004, the Company completed a 1,500 metre diamond drill program designed to test previously undrilled high-grade surface showings discovered on the Biron Bay and Pipestone North targets. Of the four drill holes that were completed, three holes tested the ledge showings on the Biron Bay properties and one hole tested the 991 showing on the Pipestone North property.

#### Biron Bay Drilling

The intersections in these holes are very similar to the mineralization observed on surface, and confirm the continuity of the Ledge showing at depth.

Hole WRL04-003 was drilled under the Ledge showing and intersected 7.66 g/t gold over 0.91 metres including 30.9 g/t gold over 0.14 metres. Hole WRL04-001 was drilled 200 metres along strike from WRL04-003 and intersected 3.25 g/t gold over 1.34 metres including 4.27g/t gold over 0.85 metres. This intersection is within a strongly biotite altered felsic volcanic unit with minor chalcopyrite bearing quartz veins. Drill hole WRL04-002 was drilled midway between holes 1 and 3 and encountered a mafic dyke unit at depth, and consequently no significant gold values were returned.

#### Pipestone North Drilling

Drill hole WRL04-004 was drilled under the 991 showing, and intersected a 200 metre wide zone of strongly quartz and sericite altered felsic stratigraphy with pyrite and chalcopyrite stringer mineralization and anomalous gold values. The zone consists of numerous intersections of copper up to 0.23% over 5.5 metres with isolated gold values up to 228 ppb. This is the widest zone of anomalous copper mineralization observed on the property, and previous work has indicated a correlation between gold grades and copper mineralization. In order to establish a framework for future drilling, the hole was designed to test stratigraphy and therefore did not test the north-south oriented gold bearing quartz veins previously sampled on surface. Additional drilling is planned to test these veins, as the 200 metre wide zone confirms the presence of a large mineralized system.

As at the date hereof, the Company has not completed any additional exploration on the Red Lake properties. At the period ending June 30, 2004, the Company has spent a total of \$1,443,655 in exploration on its Red Lake properties and to date has met the work expenditures as outlined in the agreement between the Company and Rubicon Minerals Corp. On or before September 1, 2004, the Company is required to make cash payments of \$201,000 pursuant to underlying agreements with respect to the Red Lake properties and spend \$650,000 in exploration by May 6, 2005. Pursuant to an amending agreement between the Company and Rubicon, the Company has been granted an extension until December 31, 2004 to make the cash payments.

#### Atikokan Property

In late July, exploration crews began the Phase One program on the Sunshine Road project. The program, consisting of regional analysis, mapping, stripping and sampling was designed to follow up on historical work that included grab samples grading as high as 66.0 grams per tonne gold.

Approximately 400 vein and wall rock samples were taken over the three week program. While geologically interesting, the results of the sampling did not meet the high grade gold samples encountered in the historical samples. Geologists are currently evaluating the potential for other areas of the Sunshine Road property. The total cost of the Phase One exploration program was \$86,357.

### **Summary of Quarterly Results**

|                    | Income (Loss) before<br>discontinued operations<br>\$ | Net Income<br>(Loss) per share<br>\$ | Revenue<br>\$ |
|--------------------|---|--------------------------------------|---------------|
| December 31, 2004  | (96,845)  | 0.00                                 | -             |
| September 30, 2004 | (58,352)  | 0.00                                 | 51,864*       |
| June 30, 2004      | (82,300)  | (0.01)                               | 31,383*       |
| March 31, 2004     | (188,651)   | (0.01)                               | -             |
| December 31, 2003  | (85,736)  | (0.01)                               | -             |
| September 30, 2003 | (93,692)  | (0.01)                               | -             |
| June 30, 2003      | (96,555)  | (0.01)                               | -             |
| March 31, 2003     | (86,015)  | (0.01)                               | -             |

\*Option income.

Fluctuations in the Company's expenditures reflect the seasonal variations of exploration and the ability of the Company to raise capital for its projects. For example in June 2003, the Company had an exploration program on the Red Lake properties and Atikokan properties, which in turn, raised costs associated with promotion, travel, and general expenses. The loss in the quarter ending March 31, 2004 is significantly higher due to stock-based compensation expense associated with the exercise of 671,834 options.

## Liquidity

The financial statements are prepared on a 'going concern' basis, which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. As at December 31, 2004, the Company had a working capital deficiency of \$320,121 and an accumulated deficit of \$5,361,379. The Company's ability to continue as a going concern is dependent on the ability of the Company to raise additional funds or the attainment of profitable operations.

The Company also has the following share purchase warrants and incentive stock options as at the date hereof available for exercise:

### Warrants

| Number of Shares | Exercise Price | Expiry Date   |
|------------------|----------------|---------------|
| 1,285,000        | \$0.15         | July 29, 2005 |
| 506,000          | \$0.15         | July 29, 2005 |
| <b>1,791,000</b> |                |               |

### Options

| Number of Shares | Exercise Price | Expiry Date        |
|------------------|----------------|--------------------|
| 10,834           | \$0.20         | March 5, 2005      |
| 260,000          | \$0.20         | June 12, 2007      |
| 680,000          | \$0.12         | April 4, 2008      |
| 712,500          | \$0.18         | September 11, 2008 |
| <b>1,663,334</b> |                |                    |

The Company has no long-term liabilities. Outstanding obligations include rent of an office premise, which is in the second year of a six-year lease.

## Capital Resources

The Company's primary capital assets are mineral property assets. The company capitalizes all costs related to the mineral properties until the properties are abandoned and written-off.

All of the Company's mineral property agreements are non-binding.

**Red Lake Properties**

Subject to regulatory approval, the Company renegotiated their letter option agreement to acquire a 51% interest in 51 mineral claims located in the Red Lake District of Ontario. To exercise the option the Company must make, in stages, cash payments of \$200,000, issue 250,000 common shares, and issue \$75,000 of common shares at market value to the optionor and incur \$1,100,000 in exploration expenditures on the property as follows:

- (i) Shares and cash payments
  - 250,000 common shares on regulatory approval and \$25,000 on or before February 28, 2005
  - \$25,000 worth common shares at market value and \$25,000 on or before February 28, 2006
  - \$25,000 worth common shares at market value and \$50,000 on or before February 28, 2007
  - \$25,000 worth common shares at market value and \$100,000 on or before February 28, 2008
  
- (ii) Work expenditures
  - \$200,000 on or before February 28, 2007
  - \$500,000 (aggregate) on or before February 28, 2008
  - \$1,100,000 (aggregate) on or before February 28, 2009

An additional 9% interest can be earned by incurring \$3,000,000 in exploration expenditures on the property on or before February 28, 2013.

Certain of the mineral claims are subject to a 2% net smelter return royalty.

**Newman Todd Property**

The Company has signed a letter agreement with AngloGold Ashanti giving the Company the option to earn a 100% interest in all of AngloGold Ashanti's Red Lake properties. The properties consist of 26-patented claims and 13 staked claims in the West Red Lake area of northern Ontario and includes the Newman Todd property where previous work has outlined 3 zones of gold mineralization.

Under the terms of the agreement, Redstar will issue 700,000 shares to AngloGold Ashanti over a three-year period as well as a retained royalty. In addition Redstar will convey to AngloGold Ashanti \$1,000,000 worth of shares if a mine is put into production within the property. An additional \$1,000,000 worth of shares will be issued once production exceeds 250,000 ounces of gold.

**Nevada Geological Database**

The Company and AngloGold Ashanti North America Inc. ("AngloGold Ashanti") have signed a letter agreement outlining the terms of an exploration partnership to explore within Nevada. The terms are subject to the completion of a formal agreement.

The agreement will give the Company exclusive rights to the AngloGold Ashanti database for a period of 18 months in exchange for 100,000 shares of the Company. AngloGold Ashanti will

retain a back-in right on any property interest Redstar acquires in Nevada. Once Redstar has spent a total of \$750,000 on any particular project AngloGold Ashanti will have the one time right to back into the project for a 60% interest by spending \$1,500,000 within three years. The agreement is renewable on both parties consent for additional one-year terms. Once Redstar has spent \$2,000,000 on Nevada exploration they will acquire a full copy of the database and the agreement will be terminated.

### **Atikokan Properties**

To maintain its interests in the Atikokan Property, the Company must commit to the following:

- 75,000 common shares and \$15,000 upon regulatory approval; (issued and paid)
- 60,000 common shares and \$25,000 on or before April 30, 2005;
- 60,000 common shares and \$30,000 on or before April 30, 2006;
- 55,000 common shares and \$50,000 on or before April 30, 2007; and
- 100,000 common shares and \$100,000 on or before April 30, 2008.

Work expenditures

- \$450,000 on or before April 30, 2005;
- \$600,000 on or before April 30, 2006;
- \$650,000 on or before April 30, 2007; and
- \$875,000 on or before April 30, 2008.

### **Transactions with Related Parties**

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- a) The Company conducts the majority of its exploration activities through an exploration services contractor in which a director is a principal. The Company paid or accrued amounts due to that contractor of \$90,392 for exploration costs and \$140,262 to reimburse office and administrative costs including \$37,950 for management fees. As at December 31, 2004, the Company owed \$292,204 to that contractor.
- b) Management fees of \$21,500 and \$22,552 for rental of shared office premises was paid to a company in which a director is a principal; as at December 31, 2004, the Company owed that company \$5,881.
- c) As at December 30, 2004, the Company owed \$4,015 to a company with two directors in common.

### **Changes in Accounting Policies and Initial Adoption**

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Effective April 1, 2003, the Company adopted CICA 3870 "Stock-Based Compensation and Other Stock-Based Payments" for accounting for stock-based compensation expense. Under this standard, stock-based payments to non-employees and employee awards that are direct awards of stock, call for settlement in cash or other assets, or stock appreciation rights that call for settlement by issuance of equity instruments, granted on or after April 1, 2003, are accounted for using the fair value based method and are recorded as an expense in the period the stock-based payment are vested or the awards or rights are granted.

During 2003, the CICA released amendments to Section 3870, which require an expense to be recognized in the financial statements for all forms of employee stock-based compensation, including stock options, commencing on January 1, 2004. The Company has elected for the early adoption of the amendments during the fourth quarter of fiscal 2004. Prior to the adoption, no compensation expense was recognized when stock options were granted to directors and employees if the exercise price of the stock options granted were at market value. However, the effects of accounting for stock-based compensation to directors and employees as compensation expense, using the fair-value based method, was disclosed as pro-forma information in the notes to the financial statements.

### **Risks and Uncertainties**

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The Company's principal activity is mineral exploration and development. Companies in this industry are subject to many and varied kinds of risks, including but not limited to, environmental, metal prices, political and economical.

Although the Company has taken steps to verify the title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

The Company has no significant source of operating cash flow and no revenues from operations. None of the Company's mineral properties currently have reserves. The Company has limited financial resources. Substantial expenditures are required to be made by the Company to establish ore reserves.

The property interests owned by the Company, or in which it has an option to earn an interest are in the exploration stages only, are without known bodies of commercial mineralization and have no ongoing mining operations. Mineral exploration involves a high degree of risk and few properties, which are explored, are ultimately developed into producing mines. Exploration of the Company's mineral exploration may not result in any discoveries of commercial bodies of mineralization. If the Company's efforts do not result in any discovery of commercial mineralization, the Company will be forced to look for other exploration projects or cease operations.

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.