

WINFIELD RESOURCES LIMITED

Consolidated Financial Statements

December 31, 2003

Auditors' Report

**To the Directors of
WINFIELD RESOURCES LIMITED**

We have audited the consolidated balance sheets of Winfield Resources Limited as at December 31, 2003 and December 31, 2002 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Corporation'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 Corporation as at December 31, 2003 and December 31, 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian Generally Accepted Accounting Principles.

"Signed"

Calgary, Alberta
May 13, 2004

**MPG
CHARTERED ACCOUNTANTS**

WINFIELD RESOURCES LIMITED
Consolidated Balance Sheets

As at December 31

	Note	2003	2002
		\$	\$
Assets			
Current Assets			
Cash		24	10,978
Accounts receivable		2,010	10,350
Prepaid expenses and deposits	9	73,960	88,093
Due from shareholder corporation	11	2,113	-
		<u>78,107</u>	<u>109,421</u>
Deferred Expenditures	3	120,194	134,355
Property and Equipment	4, 8	120,638	121,511
		<u>318,939</u>	<u>365,287</u>
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities		95,527	74,881
Due to shareholder corporation	11	-	43,245
		<u>95,527</u>	<u>118,126</u>
Shareholders' Equity			
Share Capital	5	1,975,613	1,708,313
Contributed Surplus	6	70,400	187,700
Deficit		<u>(1,822,601)</u>	<u>(1,648,852)</u>
		<u>223,412</u>	<u>247,161</u>
		<u>318,939</u>	<u>365,287</u>

Approved on Behalf of the Board:

"signed"

Richard Haderer, Director

"signed"

Michael Foley, Director

WINFIELD RESOURCES LIMITED
Consolidated Statements of Operations and Deficit

For the Years Ended December 31

	Note	2003	2002
		\$	\$
Revenue			
Interest		9	155
Expenses			
Rent and occupancy costs		64,035	55,525
Management fees	11	24,000	24,000
Investor relations		23,591	1,098
Public company costs		12,757	16,126
Legal and audit	11	9,222	31,919
Consulting fees	11	8,377	66,205
Office and general		5,912	4,281
Bank charges		2,510	2,224
Amortization		873	1,091
Compensation costs	5, 6	-	187,700
		<u>151,277</u>	<u>390,169</u>
		(151,268)	(390,014)
Loss on Foreign Exchange		<u>(22,481)</u>	-
Loss before the following		(173,749)	(390,014)
Gain on Expropriation of Mineral Resource Properties	4	-	2,158
Loss on Abandonment of Mineral Resource Properties	4	-	<u>(37,000)</u>
Loss before income taxes		(173,749)	(424,856)
Income Taxes	7	-	-
Net Loss		(173,749)	(424,856)
Deficit, beginning of year		<u>(1,648,852)</u>	<u>(1,223,996)</u>
Deficit, end of year		<u>(1,822,601)</u>	<u>(1,648,852)</u>
Loss per share			
On loss before loss on abandonment	5	<u>(0.013)</u>	<u>(0.031)</u>
On net loss		<u>(0.013)</u>	<u>(0.034)</u>

WINFIELD RESOURCES LIMITED
Consolidated Statements of Cash Flows

For the Years Ended December 31

	Note	2003	2002
		\$	\$
Operating Activities			
Net loss		(173,749)	(424,856)
Items not affecting cash flow			
Amortization		873	1,091
Compensation costs		-	187,700
Loss on foreign exchange		22,481	-
Gain on expropriation of mineral resource properties		-	(2,158)
Loss on abandonment of mineral resource properties		-	37,000
Cash flow deficiency from operations		(150,395)	(201,223)
Change in non-cash working capital	9	34,799	(65,174)
		<u>(115,596)</u>	<u>(266,397)</u>
Financing Activities			
Advances (to) from shareholder corporation		(45,358)	40,022
Issuance of share capital		150,000	273,750
		<u>104,642</u>	<u>313,772</u>
Investing Activities			
Deferred expenditures		-	(134,355)
Mineral resource properties		-	(9,137)
Proceeds of expropriation of mineral resource properties		-	100,000
Change in non-cash working capital	9	-	13,667
		<u>-</u>	<u>(29,825)</u>
Increase (decrease) in cash		(10,954)	17,550
Cash (deficiency), beginning of year		10,978	(6,572)
Cash end of year		<u>24</u>	<u>10,978</u>
Supplemental Information on Non-Cash Transactions			
Issuance of shares for mineral resource properties		-	35,000

WINFIELD RESOURCES LIMITED

Notes to Consolidated Financial Statements

December 31, 2003

1. Nature of Business

Winfield Resources Limited (the Corporation) was incorporated under the British Columbia Company Act on June 19, 1987. On August 2, 2000, the Corporation completed its initial public offering and its shares were listed on the TSX Venture Exchange (TSX). The Corporation's primary focus is the evaluation, acquisition, exploration and development of resource properties.

2. Significant Accounting Policies

The financial statements of the Corporation have been prepared in accordance with accounting principles generally accepted in Canada. Significant accounting policies are summarized below:

CONSOLIDATION

These consolidated financial statements include the accounts of the Corporation and its wholly owned Bahamian subsidiary, MacAllan Inc. MacAllan Inc has not undertaken any business activity to date.

MINERAL RESOURCE PROPERTIES

All expenditures relating to the acquisition of mining claims and permits and exploration thereof have been capitalized. The Corporation is presently evaluating these properties for the presence of mineral resources. Such resources have yet to be identified and accordingly the costs related to these properties are not yet subject to depletion. When a commercially acceptable level of sales has been attained, these capitalized costs will be depleted, using the unit of production method based upon estimated proven reserves as determined by independent engineers.

Management has determined that, at present, the Corporation has no material obligation for future removal and site restoration costs.

OFFICE EQUIPMENT

Office equipment is recorded at cost and amortized at the rate of 20% per annum, using the declining balance method.

DEFERRED EXPENDITURES

The Corporation defers costs incurred in connection with proposed corporate transactions, where completion is more likely than not. Upon completion of the transaction, these costs are included in the cost of assets acquired or as issuance costs of equity securities. If the transaction is abandoned the costs are expensed, in full, as at the date of abandonment.

FLOW-THROUGH SHARES

Under the provisions of the Income Tax Act (the "Act"), a corporation may issue shares, the proceeds of which are used to incur qualifying expenditures as defined in the Act. The subscriber for these shares, and not the Corporation, is entitled to deduct these qualifying expenditures for Income Tax purposes.

In the year the qualifying expenditures are incurred, share capital is reduced by the estimated benefit of the tax deductions renounced by the Corporation and the future income tax liability is increased by the same amount.

WINFIELD RESOURCES LIMITED

Notes to Consolidated Financial Statements

December 31, 2003

2. Significant Accounting Policies, continued

PER SHARE AMOUNTS

The Corporation uses the treasury stock method of computing diluted earnings and cash flow per share. Under this method, only options having an exercise price greater than the market price are included in the diluted weighted average number of shares. It is also assumed that the proceeds of exercise of those options is used to repurchase the Corporation's at the average market price experienced during the reporting period. The diluted weighted average number of shares is reduced by the number of shares which could have been repurchased.

STOCK BASED COMPENSATION PLAN

Stock-based awards that call for settlement in cash or other assets are measured and recognized using a fair value based method. Awards that the Corporation has the ability to settle in stock are recorded as equity.

Under the fair value method, compensation expense is recorded based on the fair value of the options as estimated using the Black-Scholes option pricing model. The amount of compensation cost so determined is credited to contributed surplus. Upon exercise of the options, the cash payments together with the related contributed surplus are credited to share capital. If options are forfeited, the compensation expense is reversed in the year of forfeiture. If options are not exercised, the amount remains in contributed surplus.

INCOME TAXES

The Corporation records income taxes using the liability method of accounting. Under this method, future income taxes are recorded based on temporary differences between the accounting value and the income tax value of an asset or liability and on the benefit of losses and other deductions available to be carried forward to future years, for income tax purposes, to the extent they are likely to be realized.

FOREIGN CURRENCY

The Corporation uses the temporal method of translating financial statement amounts that are denominated in a foreign currency.. Under this method

- i) monetary items are translated at the rate of exchange in effect at the balance sheet date.
- ii) non-monetary items are translated at historical exchange rates, unless they are carried at market, in which case they are translated at the rate of exchange in effect at the balance sheet date.
- iii) revenue and expense items are translated at the rate of exchange in effect on the dates they occur.

MEASUREMENT UNCERTAINTY

The carrying value assigned to the mineral resource properties is based on actual costs incurred. The ability of the Corporation to recover these costs is dependent upon the existence of economically recoverable reserves, obtaining the financing necessary to complete their development and upon future profitable operations.

WINFIELD RESOURCES LIMITED

Notes to Consolidated Financial Statements

December 31, 2003

3. Deferred Expenditures

Deferred expenditures at December 31, 2003 includes \$110,194 (2002 - 124,355) representing the prepayment of a fee of \$85,000 US for services to be provided with respect to the identification and acquisition of resource properties and the financing of such acquisition by the Corporation.. Deferred expenditures also include a payment of \$10,000 to be applied against future exploration expenses.

4. Property and Equipment

	<u>2003</u>	<u>2002</u>
	\$	\$
Mineral Resource Properties (Note 8)		
Options on properties	72,500	72,500
Exploration expenses	44,646	44,646
	<u>117,146</u>	<u>117,146</u>
Office Equipment	6,824	6,824
less accumulated amortization	3,332	2,459
	<u>3,492</u>	<u>4,365</u>
	<u>120,638</u>	<u>121,511</u>
Net book value not subject to deduction for income tax purposes, being costs renounced pursuant to the issuance of flow-through shares.	<u>16,099</u>	<u>16,099</u>

During the year ended December 31, 2002, the Corporation determined that there was no commercial value to property on which it had expended \$37,000 and the property was abandoned.

EXPROPRIATION

During the year ended December 31, 2002, settlement was reached with respect to mineral resource property which had been expropriated by the Province of British Columbia. Under the terms of the settlement, the Corporation received a payment of \$100,000.

WINFIELD RESOURCES LIMITED
Notes to Consolidated Financial Statements

December 31, 2003

5. Share Capital

AUTHORIZED

250,000,000 common shares without par value

ISSUED COMMON SHARES

	Number	Amount
	#	\$
Balance, December 31, 2001	12,122,853	1,399,563
For mineral resource properties	100,000	35,000
For cash, on exercise of options	855,000	273,750
Balance, December 31, 2002	13,077,853	1,708,313
On exercise of options	600,000	
Cash proceeds of exercise		150,000
Transfer from contributed surplus (Note 6)		117,300
Balance, December 31, 2003	13,677,853	1,975,613

ESCROWED SHARES

Pursuant to an Escrow Agreement dated March 21, 2000, all 8,877,853 common shares issued prior to the Corporation's initial public offering were deposited with the Pacific Corporate Trust Company to be held in escrow. The Escrow Agreement provides that the escrowed shares may not be traded, released, transferred or dealt in any manner without the consent of the Executive Director of the Alberta Securities Commission. The Executive Director will normally consent to the release of 15% of the escrowed shares upon completion of the offering, a further 25% upon completion of the Corporation's work program and thereafter, a further 15% on each of the second, third, fourth and fifth anniversaries of the initial release, but may consent to an early release. As at December 31, 2003, 4,882,819 shares remain subject to Escrow. A further 1,331,678 were released subsequent to the year end.

VOLUNTARY POOLING AGREEMENT

The holders of all common shares of the Corporation issued prior to the initial public offering have entered into a Voluntary Pooling Agreement. All common shares issued prior to the initial public offering and all common shares which may be acquired by the pooled shareholders upon the exercise of warrants are subject to the Agreement. The Agreement is effective for a three year term, commencing August 2, 2000, during which time the pooled shares will be held by a trustee. During that period, the pooled shareholders may not assign or transfer beneficial ownership or any other interest in the pooled shares. The terms and conditions of the Pooling Agreement may be amended by resolution of pooled shareholders representing not less than 60% of the pooled shares.

WINFIELD RESOURCES LIMITED
Notes to Consolidated Financial Statements

December 31, 2003

5. Share Capital, continued

STOCK OPTION PLAN

The Corporation has established a Stock Option Plan for the benefit of directors, officers and employees. Under the Plan, the directors may reserve, from treasury, a number of shares not exceeding 10% of the issued and outstanding common shares of the Corporation for the granting of options to designated recipients. A summary of the Plan for 2003 and 2002 is as follows:

	2003		2002	
	Shares	Weighted Average Price	Shares	Weighted Average Price
Outstanding and exercisable, beginning of year	1,100,000	\$0.250	1,055,000	\$0.307
Granted	-	-	900,000	\$0.250
Exercised	(600,000)	\$0.250	(855,000)	\$0.320
Outstanding and exercisable, end of year	500,000	\$0.250	1,100,000	\$0.250

Outstanding options, under the Plan, as at December 31, 2003 are:

Expiry	Exercise Price	Outstanding and Exercisable	Weighted Average Remaining Life (years)
August 2, 2005	\$0.25	200,000	1.6
March 18, 2007	\$0.25	100,000	3.2
July 24, 2007	\$0.25	200,000	3.6
	\$0.25	500,000	2.7

Compensation costs related to options issued was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	2003	2002
Risk free interest rate	-	4.00%
Dividend yield	-	0.00%
Expected life	-	5 years
Volatility	-	133%
Compensation costs (Note 6)	-	\$187,700

The weighted average fair value of stock options granted during 2002 was \$0.2086.

WINFIELD RESOURCES LIMITED
Notes to Consolidated Financial Statements

December 31, 2003

5. Share Capital, continued

PER SHARE AMOUNTS

Per share amounts are calculated using the weighted number of shares outstanding of 13,338,949 (2002 - 12,638,949). Diluted per share amounts are not presented as the effect thereof would be to decrease the loss per share.

6. Contributed Surplus

	<u>2003</u>	<u>2002</u>
	\$	\$
Balance, beginning of year	187,700	-
Compensation cost arising on issuance of options (Note 5)	-	187,700
Transfer to share capital on exercise of options	<u>(117,300)</u>	<u>-</u>
Balance, end of year	<u>70,400</u>	<u>187,700</u>

7. Income Taxes

PROVISION

The provision for income taxes varies from the amounts which would have been computed by applying the combined federal and provincial tax rates (approximately 37.6% (2002 -39.6%)) to the Corporation's loss before income taxes. This difference results from the following items:

	<u>2003</u>	<u>2002</u>
	\$	\$
Expected income tax recovery	(120,000)	(168,000)
Deduction for share issuance costs	-	(14,000)
Amounts not deductible for income tax purposes	63,000	68,000
Losses on which no tax benefit is recorded	<u>57,000</u>	<u>114,000</u>
Income Taxes	<u>-</u>	<u>-</u>

WINFIELD RESOURCES LIMITED
Notes to Consolidated Financial Statements

December 31, 2003

7. Income Taxes, continued

FUTURE INCOME TAX LIABILITY

	<u>2003</u>	<u>2002</u>
	\$	\$
Future Tax Liabilities	-	-
Future Tax Assets		
Excess of tax values of property and equipment over carrying values	99,000	104,000
Share issuance costs	27,000	29,000
Losses for income tax purposes	<u>338,000</u>	<u>366,000</u>
	464,000	499,000
less valuation allowance	<u>(464,000)</u>	<u>(499,000)</u>
	-	-
Net future income tax liability	<u>-</u>	<u>-</u>

LOSSES

The Corporation has losses, for income tax purposes, of approximately \$897,800 available to reduce taxable incomes of future years, as follows:

	\$
2004	33,200
2005	32,500
2006	58,200
2007	217,900
2008	192,400
2009	213,200
2010	<u>150,400</u>
	<u>897,800</u>

TAX POOLS

The Corporation also has income tax pools of approximately \$484,400, available to reduce taxable incomes of future years at the annual rates indicated:

	<u>Rate</u>	\$
Undepreciated capital cost	20% - 30%	6,800
Canadian development expense	30%	160,500
Foreign exploration and development expense	10%	244,900
Share issuance costs	1/5	<u>72,200</u>
		<u>484,400</u>

WINFIELD RESOURCES LIMITED
Notes to Consolidated Financial Statements

December 31, 2003

8. Commitments and Contingencies

PROPERTY OPTION AGREEMENT

The Corporation is committed, pursuant to a Property Option Agreement with respect to a mineral resource property, to the following payments:

	Option Payments	Exploration Expenditures
	\$	\$
2003	35,000	600,000
2004	-	450,000
	<u>35,000</u>	<u>1,050,000</u>

Although payments and expenditures due in 2003 were not made, the grantor of the option has not taken steps to cancel the agreement. It is the Corporation's intent to incur expenditures in 2004 sufficient to satisfy escrow requirements; however, that amount will not fully satisfy the terms of the option agreement. These expenditures will be made with funds to be raised during that year. Once the expenditures have been made, either the property will be sold, the terms of the agreement extended or the rights will revert to the grantor. Should the rights revert to the grantor, the Corporation will be required to write off its investment therein, which is presently carried at \$117,146 as per Note 4.

9. Change in Non-Cash Working Capital

	2003	2002
	\$	\$
Operating Activities		
Accounts receivable	8,340	6,093
Prepaid expenses and deposits	5,813	(85,093)
Accounts payable and accrued liabilities	20,646	13,826
	<u>34,799</u>	<u>(65,174)</u>
Investing Activities		
Accounts payable and accrued liabilities	-	13,667

Prepaid expenses and deposits at December 31, 2003 includes \$66,825 (2002 - \$73,145) representing the prepayment of an investor relations contract in the amount of \$50,000 US. The contract will be implemented at such time as the Corporation identifies a viable investment opportunity requiring additional equity funding.

WINFIELD RESOURCES LIMITED

Notes to Consolidated Financial Statements

December 31, 2003

10. Financial Instruments

The Corporation's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities and an amount due from a shareholder corporation. The Corporation's management has utilized valuation methodologies available as at the year-end and has determined that the carrying amounts of such financial instruments approximate their fair value in all cases.

The Corporation is not exposed to significant credit risk or interest rate risk.

11. Related Party Transactions

	<u>2003</u>	<u>2002</u>
	\$	\$
Legal costs paid to a firm which employed a shareholder of the Corporation	-	6,722
Consulting fees paid to corporations controlled by officers and directors of the Corporation.	6,010	8,783
Management fees paid to a shareholder corporation which is controlled by a director of the Corporation.	24,000	24,000

The above transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

The amount due from/to a shareholder corporation is non-interest bearing and has no formal terms of repayment.

12. Well Development Program

The Corporation has entered into an Agreement (amended as of April 29, 2004) with Rideau Petroleum Ltd. (Rideau) with respect to a five well development program to be carried out in the Daly Field in southwestern Manitoba. Rideau will act as operator for the program.

The Corporation will be responsible for 50% of the drilling and completion costs related to the program. In return, the Corporation will receive net working interests of 50% on two wells, 30% on two wells and 40% on one well. These interests revert, after payout to, 30% on two wells, 18% on two wells and 24% on one well. All production from the wells will be subject to lessor royalties of 12.5% to 16%, with one well on a sliding scale commencing at 15% and reducing to 5% over a ten year period.

The Corporation's costs with respect to the program are expected to be \$522,000. It intends to finance the program with the proceeds of a private placement (Note 13).

Terms of the Agreement require the Corporation to issue, to Rideau, 100,000 common shares at a deemed price of \$0.135 per share. A finders fee will be payable to another, arms length party. These payments are subject to the policies of the TSX Venture Exchange.

WINFIELD RESOURCES LIMITED

Notes to Consolidated Financial Statements

December 31, 2003

13. Subsequent Events

On May 10, 2004, the Corporation announced that it intends to conduct a private placement for a maximum of \$500,000. The private placement will consist of a maximum of 5,000,000 units at a price of \$0.10 per unit with each unit consisting of one common share and a warrant to purchase an additional common share at an exercise price of \$0.18 per share for a period of 12 months from closing. The proceeds from the private placement will be used for the development program on the Daly Field located in southern Manitoba.

Finders fees may be payable on the private placement in accordance with the policies of the TSX Venture Exchange.

The private placement is subject to regulatory approval.

The Corporation has received subscriptions in the amount of \$168,000 with respect to this private placement.