

Consolidated Financial Statements of

LEXAM EXPLORATIONS INC.

Years ended December 31, 2004 and 2003

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Lexam Explorations Inc. as at December 31, 2004 and 2003 and the consolidated statements of earnings 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 December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) KPMG LLP

Chartered Accountants
Toronto, Ontario
April 12, 2005

Lexam Explorations Inc.
Consolidated Balance Sheets
(in Canadian dollars)

	<u>As at December 31,</u>	
	<u>2004</u>	<u>2003</u>
Assets		
Current assets		
Cash and short-term investments	\$ 11,932	\$ 124,060
Accounts receivable	1,198	968
Prepaid expenses	<u>2,554</u>	<u>2,281</u>
	15,684	127,309
Resource property (note 4)	<u>-</u>	<u>2,520,229</u>
	<u>\$ 15,684</u>	<u>\$ 2,647,538</u>
Liabilities and Shareholders' Equity (Deficit)		
Current liabilities		
Accounts payable and accrued liabilities (note 7)	\$ 459,286	\$ 472,807
Shareholders' equity (deficit)		
Capital stock (note 5)	16,402,075	16,402,075
Deficit	<u>(16,845,677)</u>	<u>(14,227,344)</u>
	<u>(443,602)</u>	<u>2,174,731</u>
	<u>\$ 15,684</u>	<u>\$ 2,647,538</u>
Going concern (note 1)		
Commitments and contingencies (note 8)		
Subsequent event (note 10)		

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

Approved by the Board,

(Signed) Robert R. McEwen

 Robert R. McEwen
 Director

(Signed) Richard W. Brissenden

 Richard W. Brissenden
 Director

Lexam Explorations Inc.
Consolidated Statements of Earnings and Deficit
(in Canadian dollars)

	<u>Years ended December 31,</u>	
	<u>2004</u>	<u>2003</u>
Revenues		
Interest income	\$ 1,180	\$ 5,272
Expenses		
Administrative	81,261	120,821
Exploration	<u>10,614</u>	<u>1,487</u>
	<u>91,875</u>	<u>122,308</u>
Write-off of resource property balance (note 4)	(2,527,638)	-
Decrease in provision for exploration and development commitments (note 4)	-	66,804
Gain on sale of marketable securities (note 3)	<u>-</u>	<u>219,718</u>
Earnings (loss) for the year	(2,618,333)	169,486
Deficit at beginning of year	<u>(14,227,344)</u>	<u>(14,396,830)</u>
Deficit at end of year	<u>\$(16,845,677)</u>	<u>\$(14,227,344)</u>
Earnings (loss) per share (basic and diluted)	<u>\$(0.07)</u>	<u>\$ -</u>
Weighted average number of shares outstanding (000's)	<u>38,107</u>	<u>38,107</u>

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

Lexam Explorations Inc.
Consolidated Statements of Cash Flows
(in Canadian dollars)

	<u>Years ended December 31,</u>	
	<u>2004</u>	<u>2003</u>
Cash provided by (used in)		
Operating activities		
Earnings (loss) for the year	\$ (2,618,333)	\$ 169,486
Items not affecting cash		
Write-off of resource property balance	2,527,638	-
Decrease in provision for exploration and development commitments	-	(66,804)
Gain on sale of marketable securities (note 3)	-	(219,718)
Change in other non-cash operating working capital	<u>(14,024)</u>	<u>(100,744)</u>
	<u>(104,719)</u>	<u>(217,780)</u>
Investing activities		
Additions to resource properties (note 4(a))	(7,409)	(7,582)
Proceeds on disposal of marketable securities	<u>-</u>	<u>339,418</u>
	<u>(7,409)</u>	<u>331,836</u>
Increase (decrease) in cash and short-term investments	(112,128)	114,056
Cash and short-term investments at beginning of year	<u>124,060</u>	<u>10,004</u>
Cash and short-term investments at end of year	<u>\$ 11,932</u>	<u>\$ 124,060</u>

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

Lexam Explorations Inc.
Notes to Consolidated Financial Statements

1. Going Concern

The consolidated financial statements are prepared in accordance with generally accepted accounting principles and on the assumption that Lexam Explorations Inc. (the “Company” or “Lexam”) will be able to realize the carrying value of its assets and discharge its liabilities in the normal course of business.

The Company has a significant working capital deficiency and is not currently able to continue its exploration programs and discharge its liabilities in the normal course of business, and may not be able to ultimately realize the carrying value of its assets, subject to, among other things, being able to raise sufficient additional financing to fund its exploration programs. There can be no assurance that the Company will be able to raise sufficient additional financing to continue its exploration programs.

The Company is evaluating alternatives to address these issues, including joint venturing certain properties and seeking additional sources of debt or equity financing.

The financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these financial statements, adjustments may be necessary to the carrying value of assets, such as accounts receivable and prepaid expenses, the accounts payable and accrued liabilities balance, and the reported expenses.

2. General and Summary of Significant Accounting Policies

The Company was incorporated under the laws of the Province of Ontario by articles of incorporation dated November 12, 1993. The Company's principal activity is mineral and oil and natural gas exploration. At December 31, 2004, Goldcorp Inc. (“Goldcorp”) held a 49.8% equity interest in the Company.

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

The principal accounting policies followed by the Company, which have been consistently applied, are summarized as follows:

Lexam Explorations Inc.
Notes to Consolidated Financial Statements

Principles of Consolidation

The consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiary companies, of which the principal subsidiary is Lexam Explorations Corporation of America Inc.

All significant intercompany balances and transactions have been eliminated on consolidation.

Cash and Short-Term Investments

Cash and short-term investments include those short-term money market instruments which, on acquisition, have a term to maturity of three months or less.

Marketable Securities

Marketable securities are accounted for at the lower of cost or market value. The market value of the Company's securities is determined based on the closing price reported on recognized securities exchanges. Such indicated market values do not necessarily represent the realizable value of the total holding of any security, which may be more or less than that indicated by market quotations. Investment transactions are accounted for on the trade date and realized gains and losses from such transactions are calculated on the average cost basis.

Resource Properties

Costs relating to the acquisition and exploration of non-producing resource properties, less recoveries, are deferred until such time as the properties are either put into commercial production, sold, determined not to be economically viable or abandoned. General exploration expenditures which do not relate to specific resource properties are written off in the year incurred.

The costs deferred at any time do not necessarily reflect present or future values. The ultimate recovery of such amounts depends on the discovery of economic reserves and the successful commercial development of the related properties.

Resource properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. If the estimated future net cash flows expected to result from the use of the properties and their eventual disposition are less than the carrying amount, then these properties are written down to their estimated realizable value.

Lexam Explorations Inc.

Notes to Consolidated Financial Statements

Income Taxes

The asset and liability method is used in accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. A reduction in respect of the benefit of a future tax asset (a valuation allowance) is recorded against any future tax asset if it is more likely than not that the asset will not be realized. 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.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at year-end rates of exchange. Non-monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the transaction dates. Transactions denominated in foreign currencies are translated into Canadian dollars at rates of exchange prevailing during the year. The applicable exchange gains and losses arising on translation are reflected in operations.

Stock-Based Compensation

The Company accounts for all stock-based compensation to non-employees granted on or after January 1, 2002, using the fair value based method. Stock options granted to employees are accounted for as capital transactions. The Company has not awarded any stock options subsequent to January 1, 2002.

Earnings (Loss) Per Share

Basic earnings per share is calculated by dividing net earnings by the weighted average number of shares outstanding during the year. The calculation of diluted earnings per share uses the treasury stock method which adjusts the weighted average number of shares for the dilutive effect of options. The impact of outstanding options on the Company's loss per share has been excluded, as it would be anti-dilutive.

3. Marketable Securities

In 2003, Lexam sold its interests in Miramar Mining Corporation and Ariane Gold Corp. for net proceeds of \$339,418, resulting in a gain of \$219,718.

Lexam Explorations Inc.

Notes to Consolidated Financial Statements

4. Resource Property

	<u>Baca Project</u>
Balance at January 1, 2003	2,512,647
Additions, net (a)	<u>7,582</u>
Balance at December 31, 2003	2,520,229
Additions, net (a)	7,409
Write-off of accumulated balance (a)	<u>(2,527,638)</u>
Balance at December 31, 2004	<u>\$ -</u>

(a) Baca Project

The Baca Project consists of the Company's oil and gas property, which is located along the northeastern margin of the San Luis Basin in Colorado. Lexam holds a 75% interest in the property's oil and gas rights.

During the first quarter of 2004, the Company entered into an agreement with an independent and privately held oil & gas company, Petro-Hunt LLC ("Petro-Hunt"), to conduct additional exploration on Lexam's property. Petro-Hunt performed work on the project throughout the second and third quarter of the 2004, however, during the fourth quarter Lexam was informed by Petro-Hunt that they have decided against further exploration and development of the project.

During 2004, Lexam incurred costs of \$7,409 (2003 – \$7,582) related to its resource properties. In light of the Company's financial situation and inability to further develop the project subsequent to Petro-Hunt's decision to discontinue further work, the Company decided during the fourth quarter of 2004 to write-off the resource properties balance of \$2,527,638.

(b) Exploration and Development Commitments

At December 31, 2002, Lexam had accrued \$116,804 for liabilities related to a joint venture agreement on a resource property in British Columbia. During 2003, the Company satisfied all obligations related to this liability in exchange for \$50,000. As a result the Company recorded a non-cash decrease in the provision for exploration and development commitments for \$66,804.

**Lexam Explorations Inc.
Notes to Consolidated Financial Statements**

5. Capital Stock

(a) *Authorized*

The authorized capital stock of the Company consists of an unlimited number of common shares.

(b) *Outstanding Common Shares*

	<u>2004</u>		<u>2003</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>
Outstanding at beginning and end of year	<u>38,107,436</u>	<u>\$ 16,402,075</u>	<u>38,107,436</u>	<u>\$ 16,402,075</u>

(c) *Employee Incentive Plan*

Under the Company's employee incentive plan, options may be granted to directors, officers and employees at the discretion of the Board of Directors. A maximum of 4,500,000 shares may be issued under the plan. The exercise price per share is equal to the greater of \$0.15 per common share and the weighted average price of the common shares for the most recent five days preceding the date of granting of the option on which actual trading in respect of the common shares of the Company takes place. Each option under the employee incentive plan, which allows for the purchase of one share, vests over a maximum of three years and expires not later than ten years from the date on which it was granted. No options have been granted in 2003 or 2004.

At December 31, 2004, there were options for 1,650,000 shares outstanding with an exercise price of \$0.15. The remaining term to expiry of these options is 6.6 years with all options expiring on August 14, 2011. The following is a breakdown of the options currently outstanding:

	<u>Options</u>		<u>Average Exercise Price</u>	
	<u>(000's)</u>		<u>(\$ per share)</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Outstanding at beginning of year	2,850	3,150	\$ 0.17	\$ 0.18
Cancelled /expired	<u>(1,200)</u>	<u>(300)</u>	<u>0.20</u>	<u>0.28</u>
Outstanding at end of year	<u>1,650</u>	<u>2,850</u>	<u>\$ 0.15</u>	<u>\$ 0.17</u>

Lexam Explorations Inc.
Notes to Consolidated Financial Statements

6. Income Taxes

(a) Earnings (loss) Before Taxes

Earnings (loss) before taxes by jurisdiction is comprised of the following:

	<u>2004</u>	<u>2003</u>
Canada	\$ (779,466)	\$ 160,752
United States	<u>(1,838,867)</u>	<u>8,734</u>
Total	<u>\$ (2,618,333)</u>	<u>\$ 169,486</u>

(b) Provision for Income Taxes

The provision for (recovery) of income taxes differs from the amount that would have resulted by applying Canadian federal and provincial statutory tax rates of approximately 36% (2003 – 37%).

	<u>2004</u>	<u>2003</u>
Income taxes		
Income tax (recovery) expense		
Calculated using statutory tax rates	\$ (942,600)	\$ 62,710
Losses not tax-benefitted	966,505	(62,684)
Foreign losses subject to different tax rates	<u>(23,905)</u>	<u>(26)</u>
Income tax provision (recovery)	<u>\$ -</u>	<u>\$ -</u>

(c) Future Tax Balances

The tax effects of temporary differences that give rise to future income tax assets and future income tax liabilities at December 31, 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
United States:		
Future tax liability - long-term portion		
Resource properties	<u>\$ -</u>	<u>\$ 560,449</u>
Future tax assets - long-term portion		
Net operating losses	4,281,167	4,840,199
Resource properties	76,107	-
Valuation allowance	<u>(4,357,274)</u>	<u>(4,279,750)</u>
	<u>-</u>	<u>560,449</u>
Total United States	<u>\$ -</u>	<u>\$ -</u>

Lexam Explorations Inc.
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	<u>2004</u>	<u>2003</u>
Canada:		
Future tax assets - long-term portion		
Resource properties	\$ 572,964	\$ 416,739
Non capital losses	848,976	853,905
Net capital losses	168,161	153,873
Other	<u>5,346</u>	<u>5,346</u>
	1,595,447	1,429,863
Valuation allowance	<u>(1,595,447)</u>	<u>(1,429,863)</u>
Total Canada	<u>\$ -</u>	<u>\$ -</u>

(d) Tax Loss Carryforwards

The Company has non capital loss carryforwards of approximately \$2,345,000 available for Canadian income tax purposes expiring in 2005 to 2011.

The Company's U.S. subsidiary has net operating loss carryforwards of approximately \$11,478,000 expiring in 2005 to 2024.

The benefit of the above losses has not been recognized for financial statement purposes.

7. Related Party Transactions

At December 31, 2004, Goldcorp had a 49.8% equity interest in the Company. Goldcorp provides management and administrative services to the Company. During 2004, the cost of these services recorded at the exchange amount was \$24,000 (2003 - \$24,000). At December 31, 2004, Lexam's total outstanding liability to Goldcorp was \$308,245 (2003 - \$261,260).

8. Contingencies

The Company's exploration activities are subject to various governmental laws and regulations relating to the protection of the environment. These environmental regulations are continually changing and generally becoming more restrictive. The Company believes it has complied in all material respects with all applicable laws and regulations.

Notes to Consolidated Financial Statements

9. Fair Value of Financial Instruments

The carrying value of cash and short-term investments, accounts receivable, and accounts payable and accrued liabilities approximate their fair values due to the short-term nature of these items.

10. Subsequent event

On February 18, 2005, the Company's listing on the TSX Venture Exchange ("TSX-V") was transferred to the NEX board of the TSX-V due primarily to the Company's lack of sufficient operating capital. The NEX board allows Lexam's shares to continue trading while it seeks alternative financing or other joint venture partners to conduct exploration activities and resume active business.