



## Interim Report to Shareholders

**For the Quarter Ended September 30, 2004**

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**LETTER TO SHAREHOLDERS**  
FOR PERIOD ENDING SEPTEMBER 30, 2004

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HIGHLIGHTS

- 9,537 metres drilled in 39 holes during the quarter including 6 holes (1,277) metres in Zone 4 and 33 holes (8,260) metres in Zone 1 and Southeast Zone
- Phase II drilling program has now completed 87 holes including 19,723 metres for 2004
- Zone 1 strike length increased from 700 metres to approximately 1,000 metres, including the Southeast Zone, and remains open to the south
- During the quarter the Company incurred a loss of \$1,832,380
- As at September 30, the Company's cash and cash equivalents net of current liabilities is \$7,855,147

With four drills active exploration of the Maoling Gold Project's Zone 1 progressed very well during the third quarter. With four drills active on the project the definition drilling of Zone 1 progressed very well during the quarter. Infill drilling encountered thicknesses and grades largely predicted by AMEC's (AMEC is the primary engineering consulting firm engaged by the Company) grade model used to generate the existing resource estimate for the two known mineralized zones at Maoling, namely, Zone 1 (including Southeast Zone) and Zone 4. The current resource estimates, using 0.75 and 1.00 gram gold per tonne cut-off grades respectively and cutting individual assays to a maximum of 9.00 grams gold per tonne, are as follows;

	<u>0.75g/t Cut-off Grade</u>			<u>1.00 g/t Cut-off Grade</u>		
	<u>Tonnes (millions)</u>	<u>Grade (Au g/t)</u>	<u>Gold (Millions Ozs)</u>	<u>Tonnes (millions)</u>	<u>Grade (Au g/t)</u>	<u>Gold (Millions Ozs)</u>
<u>ZONE 1</u>						
TOTAL INDICATED RESOURCES	<b>25.9</b>	<b>1.3</b>	<b>1.1</b>	<b>19.2</b>	<b>1.5</b>	<b>0.91</b>
Inferred Resources	62.0	1.1	2.3	38.1	1.3	1.60
<u>ZONE 4</u>						
Inferred Resources	55.0	1.2	2.1	24.0	1.6	1.25
TOTAL INFERRED RESOURCES	<b>117.0</b>	<b>1.2</b>	<b>4.4</b>	<b>62.1</b>	<b>1.4</b>	<b>2.85</b>

The bulk of the drilling completed to date on Zone 1 has been infill-drilling designed to raise as much as possible of the Inferred Resources to the Indicated Resources category located in the upper 300 metres of the deposit. These Indicated Resources will then form the basis of the pre-feasibility study which is to commence as soon as the grade model for Zone 1 is completed. As the infill-drilling nears completion more and more of the Zone 1 activity turns to "extension" or "step-out" drilling focused on defining the southern limit of the deposit and the connection between Zone 1 and the Southeast Zone. Happily, this extension drilling has continued to encounter mineralization and effectively extends the Zone 1 deposit southwards beyond the limits of the resource envelope.

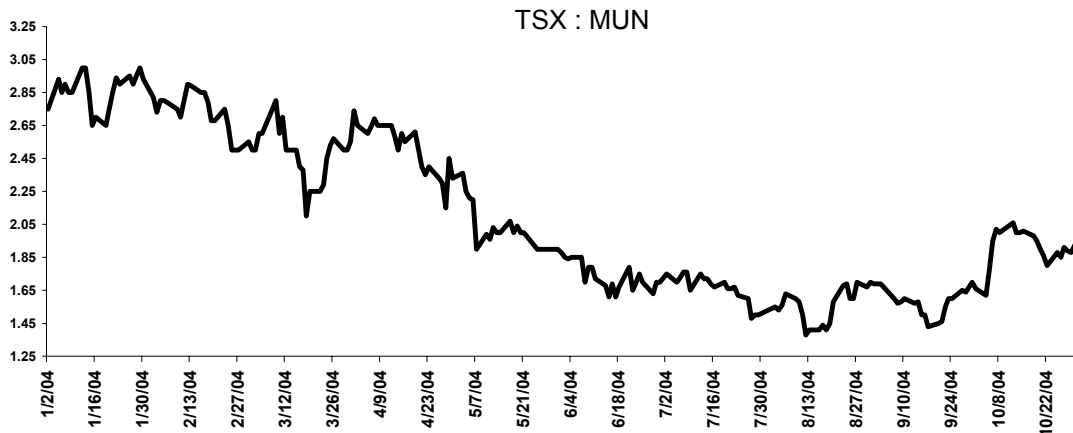
The Southeast Zone appears to be a shallower dipping continuation (up-dip) of the Zone 1 mineralization and appears to have been preserved by the combined effects of faulting and folding. This gives rise to an area where the available "down-dip" extent of the mineralization reaches over 400 metres across the strike in the upper 300 metres of the deposit. The known strike length of Zone 1 (combined with Southeast Zone) mineralization has increased by about 300 metres to approximately 1,000 metres and the deposit remains open to the south. These results are expected to increase contained ounces for Zone 1 in the revised resource estimate.

At the beginning of the year it was anticipated that by this time all drill rigs would be deployed on Zone 4 and that the resource estimate for Zone 1 would be more or less completed. However, due to the discovery of the extension of mineralization to the south of the Zone 1 resource envelope, and the need to define the connection between Zone 1 and the Southeast Zone for the pre-feasibility study, both the Zone 4 drilling and the Zone 1 resource estimate have been delayed by about one month. One drill rig was mobilized to Zone 4 in August and as of the end of the reporting period had completed seven holes in the southern part of the zone. The new resource estimate for Zone 1 is now expected by year end.

## CORPORATE COMMUNICATIONS

The Company issued six news releases during the quarter including three reporting exploration drilling results. As part of ongoing efforts to raise the profile of the Company in the investment community representatives of the Company participated in investment conferences in Las Vegas, San Francisco and Toronto during the quarter. In addition, articles featuring the Company were published in Laurence Roulston's newsletter, Resource World Magazine, the Northern Miner newspaper and the UK-based Mining Journal. Advertisements were placed in the both Resource World and Mining Journal magazines.

In spite of the above activity the average daily volume of shares traded during the quarter declined to 35,656 from 46,186 in the previous quarter with a concomitant drop in the average closing price to \$1.60 from \$2.08 in the previous quarter. This is attributed to the seasonal slowing in investing activity generally, a decline in investor sentiment towards companies with projects in China and a gold price that spent a significant percentage of the time below US\$400/ounce. However, the fourth quarter is showing signs of a significant improvement in both volume of shares traded and price.



## OTHER

During the quarter we were very pleased to announce the appointment of Mr. Earl G. Drake, a former ambassador of Canada to China, as Special Advisor to the Company. Among his many talents and current responsibilities Mr. Drake's positions of Project Director, China Council for International Cooperation on Environment and Development (CCICED) and Vice President of the Canada China Business Council (CCBC) will prove to be particularly valuable in his new capacity with the Company.

On September 30, 2004 Sprott Asset Management filed a report on SEDAR disclosing that it has accumulated control or direction over 10.3% of the Company's issued and outstanding shares on behalf of its clients. This disclosure follows the May 10, 2004 statement by Goodman & Company Investment Counsel Ltd. that it exercises control or direction over 11.0% of Mundoro's common shares on behalf of its clients.

## OUTLOOK

A new resource estimate and metallurgical studies for Zone 1 will be completed in the fourth quarter and will be fundamental to the pre-feasibility study that is expected to be completed in the first quarter of 2005.

During the next quarter drilling will continue in Zone 4 and in the area connecting the south end of Zone 1 and the Southeast Zone, to test for the southern limits of the Zone 1 deposit.

The Company is a major sponsor of the China Mining 2004 Convention to be held in Beijing in November and we are pleased to be delivering a talk at this convention. We consider this event an important opportunity to communicate the merits of the project to the various government agencies that will be involved in permitting the project in the future.

We will be participating in the Gold and Precious Metals Conference in San Francisco on November 2004, the Vancouver Gold Show in January 2005 and the Orlando World Money Show in February 2005.

Colin H. McAleenan  
President  
November 10, 2004

### **Forward Looking Statements**

*The statements herein, and in the MD&A that follows, that are not historical facts are forward-looking statements. These statements address future events and conditions and so involve inherent risks and uncertainties, as disclosed under the heading "Risk Factors" in the company's periodic filings with Canadian securities regulators. Actual results could differ from those currently projected. The Company does not assume the obligation to update any forward-looking statement.*

# MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

For the Fiscal Quarter Ended September 30, 2004

November 10, 2004

*The following discussion and analysis is to be read in conjunction with the unaudited Consolidated Financial Statements for September 30, 2004 and 2003. Note: all dollar amounts are in Canadian dollars unless otherwise indicated.*

Mundoro Mining Inc. (the "Company") is a Yukon registered company, whose shares trade on the TSX, and is involved in the acquisition, exploration and development of mineral resource properties internationally. The Company's current focus is the advanced exploration stage Maoling Gold Project in Liaoning Province, China in which it first became involved in 1999. The Company is presently conducting a program of diamond drilling, metallurgical testing, geotechnical testing and environmental baseline sampling on the Zone 1 deposit at Maoling with the intention of completing a pre-feasibility study on this deposit in the first quarter of 2005. The Company has also started an infill and extension drilling program on Zone 4 at Maoling with a view to eventually moving the Zone 4 Inferred Resources into the Measured and Indicated categories.

With the exception of interest earned on investments the Company does not have revenue and relies upon equity financings to fund its exploration work. The Company has sufficient funds on hand to complete the pre-feasibility study on Zone 1 and to initiate an extensive drilling program on Zone 4.

## FINANCIAL RESULTS

### Income:

	For 3 Months Ended September 30		
	<u>2004</u>	<u>2003</u>	<u>Change</u>
Interest Income	\$59,621	\$132	\$59,489
Gain (loss) on sale of bonds	(\$8,720)	-	(\$8,720)
<b>Total</b>	<b>\$50,901</b>	<b>\$132</b>	<b>\$50,769</b>

Interest income for the third quarter reflects the cash management of the funds received from the public offering in late November 2003, offset by a small loss on the disposal of the remaining \$2 million government bond.

### Mineral Exploration Costs:

A budget of \$3.2 million was established in November 2003 to carry out the phase II drill program and complete pre-feasibility studies on the Zone 1 deposit at Maoling. Due to the availability of drill rigs and the early encouraging results a decision was made to both extend and accelerate the original 13,000 metre core drilling program. Including 9,537 metres for this quarter, a total of 19,723 metres was drilled in the 9 months ended September 30, 2004. Preparations for the Company's initial public offering and residual effects of the SARS outbreak combined to minimize exploration work on the project in the comparable period in 2003.

	For 3 Months Ended September 30		
	<u>2004</u>	<u>2003</u>	<u>Change</u>
<b>Mineral exploration costs:</b>			
Drilling and related	\$ 913,456	\$ -	\$ 913,456
Assay costs	97,119	-	97,119
Technical services and project management	215,333	59,315	156,018
Depreciation	6,661	1,317	5,344
Shipping, travel, office and all other costs	155,871	18,218	137,653
<b>Total</b>	<b>\$1,388,440</b>	<b>\$ 78,850</b>	<b>\$1,309,590</b>

Key components of cost include the contracted services of the drillers, core sample assaying and technical supervision of the project. Additional cost centres include environmental baseline surveys, metallurgical testing and geotechnical sampling and testing for the pre-feasibility study that is to be completed in Q1 of 2005.

The Company continues to follow the practice of expensing all exploration costs until a body of commercial ore is defined on the project.

**Administrative Expenses:**

**For 3 Months Ended September 30**

	<u>2004</u>	<u>2003</u>	<u>Change</u>
Amortization	\$ 7,710	\$ 1,664	\$ 6,046
Accounting and audit	13,410	12,884	526
Community support and government relations	-	453	(453)
Corporate communications	61,004	94,705	(33,701)
Corporate governance	27,862	23,666	4,196
Director's fees	19,375	0	19,375
Exchange and regulatory	14,703	353	14,350
Financing	-	135,758	(135,758)
Office support	100,804	78,002	22,802
Stock-based compensation	278,055	2,391	275,664
Exchange loss (gain)	(28,082)	4,642	(32,724)
<b>Total</b>	<b>\$ 494,841</b>	<b>\$ 354,518</b>	<b>\$ 140,323</b>

As mentioned in the second quarter reports, the Company has modified its expenditure reporting for administrative expenses to consolidate line item expenses according to key administrative activities. This approach is consistent with the fiscal budget plan and longer term forecasts of the Company. Individual line item expenditure details and budgets are maintained in support of each activity. Senior management's time is divided among key activities and consequently, for example, management fees of the President appear under more than one activity.

With the planning and preparation of the Company's prospectus for the IPO in November 2003, the expenditure levels increased significantly in certain areas in the quarter ended September 30, 2003. This helps explain the unusual pattern of quarterly expenses in this quarter of 2003 compared with the more normal post-IPO administrative expenses of 2004.

*Amortization* provides for the retirement of capital assets. The increase in amortization costs for 2004 reflects the significant increase in capital assets on hand in 2004 required to support the expansion of the exploration program at Maoling.

*Accounting and Audit* provides for recording, budget development, and timely reporting of the financial affairs of the Company. The increase this period is minimal over 2003 and the professional services of the CFO were not a significant factor in either of these quarters.

*Community Support and Government Relations* activity is centred in China. As well as assisting the local community with basic infrastructure development, that also generates benefits for the Company, this activity can include identifying and negotiating routes through the evolving and overlapping central, provincial and local government bureaucracies that have mining-related responsibilities. Activities in the third quarter were largely of a planning nature as the Company became the sponsor of an international athletic event scheduled for October and the China Mining 2004 Convention scheduled for November in Beijing. Payments required in advance of the event have been recorded as prepaid expenses.

*Corporate Communications* provides for the flow of information about the Company to all stakeholders. This activity was significantly enhanced in late 2003 and throughout 2004 to date. As noted earlier, the expenses in this quarter are reduced significantly from 2003 reflecting some extraordinary IPO-related costs. Expenditures in this quarter include \$46,961 in compensation for services rendered by the Chairman, the President and the full-time corporate communications professional employed by the Company; \$8,940 for industry and investment conferences, media and promotion, printing and couriers. The remaining \$5,103 was incurred for travel and accommodation and key person insurance.

*Corporate Governance* activity includes among others policy development, strategic planning and oversight of the Company's operations. Expenditures in this quarter are higher than in the comparable period in 2003 and include \$2,567 for legal fees (\$22,082 in 2003); \$9,350 for ongoing corporate secretarial services (\$0 in 2003); \$2,683 for services of the President; \$7,481 for directors and officers

liability insurance, and \$930 for office costs. The remaining costs of \$4,851 relate to other travel and accommodation costs (\$1,584 in 2003).

*Director's Fees* are those fees paid to the directors for their services as Company directors and amounted to \$19,375 (\$0 in 2003). Directors were not compensated for their services in 2003 as the Company was a private company for most of that year.

*Exchange and Regulatory* activity covers filing and listing fees, legal costs of compliance and the services of the transfer agent. Expenditures during this quarter include \$2,178 for transfer agent fees, \$875 for filing fees (\$453 in 2003), \$5,300 for legal fees and \$6,350 for services of the President. Activities also include preliminary assessments of the requirements for SEC registration.

*Financing* expenses are associated with the past and the future need to raise working capital for the ongoing development of the Company. No such fees were incurred during the reporting period in 2004 compared with substantial costs associated with a pre-IPO financing in 2003.

*Office Support* activity includes all overhead costs associated with maintaining project and corporate administrative services in both Vancouver and in the joint venture office in Shenyang. Expenditures in this quarter include compensation of \$37,444 (\$46,533 in 2003); office rent \$13,526 (\$7,205 in 2003); liability insurance \$10,556 (\$7,413 in 2003); telecommunications and courier \$3,971 (\$2,102 in 2003); travel \$9,726; office supplies and related other costs \$5,101 (\$14,749 in 2003).

*Stock-based Compensation* of \$ 278,055 represents the fair value of stock options outstanding as at September 30, 2004, including 50,000 stock options granted during the quarter to a Board Adviser engaged by the Company. This value was determined according to the Black-Scholes Option Pricing Model and is an estimate of the potential value of the individual options and does not affect the Company's equity. The Company charged this value to operations and recorded an increase in contributed surplus.

*Exchange Loss (Gain)* arises primarily from the foreign currency translation of US dollar and Chinese RMB currencies in preparing the consolidated financial statements. In this quarter the consistently strengthening Canadian dollar relative to these currencies and the volume of exchange activity with the drilling program produced gains of \$28,082. The Canadian dollar did not have the same performance in the third quarter of 2003 as a loss on exchange was recorded.

Related party transactions this quarter amounted to \$110,625. This includes the directors' fees (\$19,375) noted above, technical project management fees (\$19,834) and management fees to senior management (\$71,416). The management fees for the comparable period in 2003 were \$58,415 and project management fees were \$11,250. The level of activity in 2004 over 2003 accounts for the increase. Payment of directors' fees was implemented on January 1, 2004.

**Loss for the Period: For 3 Months Ended September 30**

	<u>2004</u>	<u>2003</u>
(Loss) for the quarter	\$(1,832,380)	\$(433,236)
(Loss) per share	\$(0.07)	\$(0.04)

The increased loss this quarter relative to the same period in 2003 reflects not only the increased expenditures made on the project and the development of a Chinese joint venture company but also the costs of operating as a publicly listed company. The value generated for the losses incurred should be reflected in the updated resource estimate and pre-feasibility report for Maoling to be conducted later in the year. Management believes that it has sufficient funds (working capital of \$8,158,670 on September 30, 2004) to assess Maoling to at least the preliminary feasibility study level.

## FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

As at September 30

	<u>2004</u>	<u>2003</u>	<u>Change</u>
<b>Working Capital</b>	\$ 8,158,670	\$ (47,459)	\$ 8,206,129
<b>Total Assets</b>	\$ 9,509,786	\$260,058	\$ 9,249,728

The Company's working capital as at September 30, 2004 was \$8,148,670, a reduction of \$1,588,777 in the quarter and \$4,050,345 for the nine months since December 31, 2003. The decrease in working capital is attributable to the financing of the aggressive exploration campaign on the Maoling project and the acquisition of capital assets in support of such campaign.

<b>Cash flows used in investing activities:</b>	<u>2004</u>	<u>2003</u>	<u>Change</u>
Proceeds of sale of marketable securities	\$ 2,142,520	\$ -	\$ 2,142,520
Acquisition of equipment and vehicles	\$ (50,823)	\$ (1,655)	\$ (49,168)

There was no cash flow from financing activities in this quarter. The financing in the third quarter of 2003 was from a pre-IPO convertible note financing.

<b>Cash flows from financing activities:</b>	<u>2004</u>	<u>2003</u>	<u>Change</u>
Proceeds from issuance of convertible notes	\$ -	\$180,000	\$(180,000)

With the prospect of rising interest rates, a decision was made to sell the remainder of a bond portfolio during the quarter. The proceeds of sale have been re-invested in high-grade shorter term marketable securities.

Capital assets acquired in the quarter are located mainly in China and include two (2) large scale HP graphic printer/plotter, computers (including a portable notebook computer for fieldwork in China), an office air conditioner, and leasehold improvements involving an additional core storage facility.

## RISKS AND UNCERTAINTIES

### *Exploration Risk*

The Company's only current property is the Maoling Property and while this property contains defined mineral resources it is currently without a known body of commercial ore. Furthermore, there are no guarantees that the Company's future exploration and testing activities will result in the definition of a body of commercial ore on this property.

### *Title to Properties*

A legal title opinion has been rendered on the Maoling Property that supports the Company's position. However, there is no guarantee that challenges to title will not be made in the future.

### *Financial Capability and Additional Financing*

The Company has limited financial resources, has no source of operating income and has no assurance that additional funding will be available to it for further exploration and development of its projects. Although the Company has been successful in the past in financing its activities through the sale of equity securities there can be no assurance that it will be able to obtain sufficient financing in the future to execute its business plan with respect to the Maoling Project.



### *Fluctuating Prices*

The Company's revenues, if any, are expected to be in large part derived from the sale of gold and possibly other metals. The price of gold and other commodities has fluctuated widely in recent years and is affected by factors beyond the control of the Company including, but not limited to, international economic and political trends, currency exchange fluctuations, economic inflation and expectations for the level of economic inflation in the consuming economies, interest rates, global and local economic health and trends, speculative activities and changes in the supply of gold due to new mine developments, mine closures as well as advances in various production and use technologies of gold. All of these factors will have impacts on the viability of the Company's exploration projects that are impossible to predict with certainty.

### *Environment*

Both the exploration and production phases of the Company's operations will be subject to environmental protection regulations in the jurisdictions in which it operates. Globally, environmental legislation is evolving towards stricter standards and enforcement, more stringent environmental impact assessments of new mining projects and increasing liability exposure for companies and their directors and officers. China is not immune to environmental risk and consequently during the second quarter the Company initiated discussions with government and community stakeholders. Management will maintain dialogue with all stakeholders as the project is advanced towards development. There is no assurance that future environmental regulations will not adversely affect the Company's operations.

### *Political Conditions*

Regardless of the economic viability of the Company's property interests factors such as political instability, terrorism, expropriation by governments or the imposition of new regulations or tax laws may prevent or restrict mining of some or all of the Corporation's deposits. All of the Company's property interests are located in China and if a dispute arises between the Company and its joint venture partners the Company cannot rely on western legal standards in defending or advancing its interests.

### *Currency Exchange Rates*

The Company maintains its accounts in US dollar, Canadian dollar and Renminbi (RMB) denominations. The government of China has maintained the exchange rate between the RMB and the US dollar as a constant over the past few years and thus exchange rates between the Canadian dollar and the RMB have fluctuated in tandem with the changing exchange rates between the US and Canadian dollars. There is no guarantee that this situation will remain static in the future and possible future uncoupling of the RMB from the US dollar could materially affect the Company's financial position and results.

# **MUNDORO MINING INC.**

Consolidated Financial Statements  
(Expressed in Canadian Dollars)

September 30, 2004 and 2003

**Unaudited**

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# MUNDORO MINING INC.

## Consolidated Balance Sheets (Expressed in Canadian Dollars)

	Unaudited	Audited
	2004	2003
	September 30	December 31
	9 months	Year end
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 8,843,535	\$ 4,078,637
Marketable securities, at cost	-	8,070,550
Receivables	161,303	107,432
Prepaid expenses and deposits	142,220	28,213
	<b>9,147,058</b>	<b>12,284,832</b>
<b>Mineral interests (Note 2)</b>	100	100
<b>Equipment and vehicles (Note 3)</b>	362,628	104,390
	<b>\$ 9,509,786</b>	<b>\$ 12,389,322</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Note 4)	\$ 988,388	\$ 85,817
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share capital (Note 5)</b>	18,636,806	17,977,970
<b>Shares subscribed</b>		375,000
<b>Contributed surplus</b>	1,293,370	427,223
<b>Deficit</b>	(11,418,778)	(6,476,688)
	<b>8,511,398</b>	<b>12,303,505</b>
	<b>\$ 9,509,786</b>	<b>\$ 12,389,322</b>
<b>Contingent liability (Note 9)</b>		
<b>Approved by the Directors:</b>	<u>"Robert van Doorn"</u> Robert van Doorn	<u>"Colin H. McAleenan"</u> Colin H. McAleenan

**MUNDORO MINING INC.**  
**Consolidated Statements of Operations**  
**and Deficit**

**For the three-month periods and nine-month periods ended September 30, 2004 and 2003**

<b>Unaudited</b> (Expressed in Canadian Dollars)	3 months Ended September 30		9months Ended September 30	
	2004	2003	2004	2003
<b>Income</b>				
Interest income	\$ 59,621	\$ 132	\$ 273,183	\$ 832
Gain (loss) on sale of bonds	(8,720)	-	149,980	-
Write down bond premium to market (loss)	-	-	(49,480)	-
	50,901	132	373,683	832
<b>Mineral exploration costs</b> (note 8)	1,388,440	78,850	3,367,676	295,254
<b>Administrative expenses</b>				
Amortization	7,710	1,664	18,400	4,473
Accounting and audit	13,410	12,884	64,634	23,125
Community support and government relations	-	453	65,882	453
Corporate communications	61,004	94,705	316,789	134,418
Corporate governance	27,862	23,666	126,168	63,992
Directors fees	19,375	-	66,625	-
Exchange and regulation	14,703	353	164,416	508
Financing	-	135,758	-	180,108
Office support including China	100,804	78,002	327,966	246,940
Stock based compensation	278,055	2,391	866,147	2,391
Exchange (gain) loss	(28,082)	4,642	(68,930)	(4,223)
	494,841	354,518	1,948,097	654,186
<b>Loss for the period</b>	<b>1,832,380</b>	<b>433,236</b>	<b>4,942,090</b>	<b>948,608</b>
Deficit, beginning of period	9,586,398	4,962,266	6,476,688	4,446,894
<b>Deficit, end of period</b>	<b>11,418,778</b>	<b>5,395,502</b>	<b>11,418,778</b>	<b>5,395,502</b>
<b>Loss per share – basic and diluted</b>	<b>\$(0.07)</b>	<b>\$(0.04)</b>	<b>\$(0.19)</b>	<b>\$(0.08)</b>
Weighted average number of common shares Outstanding – basic and diluted	25,740,143	12,148,914	25,652,466	12,049,025

# MUNDORO MINING INC.

## Consolidated Statements of Cash Flows For the three-month periods and nine-month periods ended September 30, 2004 and 2003

Unaudited (Expressed in Canadian Dollars)	3 Months Ended September 30		9 Months Ended September 30	
	2004	2003	2004	2003
<b>Cash flows from (used in) operating activities</b>				
Loss for the period	\$(1,832,380)	\$(433,236)	\$(4,942,090)	\$(948,608)
Adjustments for items not involving cash:				
- amortization	14,371	2,981	33,309	6,904
- stock-based compensation	278,055	2,391	866,147	2,391
- shares issued for services		14,391		38,731
- write down of bond premium to market	-	-	49,480	-
	(1,539,954)	(413,473)	(3,993,154)	(900,582)
Change in non-cash working capital:				
- receivables	(74,381)	(9,145)	(53,871)	(15,014)
- prepaid expenses and deposits	(69,647)	2,214	(114,007)	6,672
- accounts payable and accrued liabilities	452,191	199,634	912,571	101,669
	(1,231,791)	(220,770)	(3,248,461)	(807,255)
<b>Cash flows from financing activities</b>				
Proceeds from issuance and subscription of shares	-	-	283,836	164,871
Proceeds from issuance of convertible notes	-	180,000	-	500,000
	-	180,000	283,836	664,871
<b>Cash flows used in investing activities</b>				
Proceeds on sale of marketable securities	2,142,520	-	8,021,070	-
Acquisition of equipment and vehicles	(50,823)	(1,655)	(291,547)	(4,539)
	2,091,697	(1,655)	7,729,523	(4,539)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>859,906</b>	<b>(42,425)</b>	<b>4,764,898</b>	<b>(146,923)</b>
<b>Cash and cash equivalents, beginning of period</b>	7,983,629	172,473	4,078,637	276,971
<b>Cash and cash equivalents, end of period</b>	<b>\$8,843,535</b>	<b>\$130,048</b>	<b>\$8,843,535</b>	<b>\$130,048</b>

# MUNDORO MINING INC.

## Notes to Consolidated Financial Statements

September 30, 2004 and 2003  
Unaudited  
(Expressed in Canadian Dollars)

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### **1. Basis of Presentation**

These interim consolidated financial statements have been prepared using the same accounting policies and methods of their application as the most recent annual consolidated financial statements of the Company. These interim consolidated financial statements do not include all disclosures normally provided in the annual consolidated financial statements and should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2003. In management's opinion, all adjustments necessary for fair presentation have been included in these interim consolidated financial statements. Interim results are not necessarily indicative of the results expected for the fiscal year. Certain comparative figures have been reclassified to conform with the current period's presentation.

### **2. Mineral Interests**

The Company follows the practice of expensing all exploration costs until mineral reserves have been established.

On June 10, 2001, the Company entered into a Cooperative Joint Venture Agreement with Liaoning Aidi Resources Company Ltd. ("Aidi"), a company incorporated under the Business Law of Liaoning Province, China. Pursuant to the Cooperative Joint Venture Agreement, the Company is required to fund all work on a mining project ("Maoling Project") while Aidi's contribution consists of all the work completed to date on the project as well as the exploration license for the Maoling area.

The Company has made registered capital contributions of US\$2.78 million to September 30, 2004 including US\$1.84 million (\$2,572,487 in Canadian dollars) to satisfy a funding obligation as at December 31, 2003.

The initial three-year term of the Exploration License for the Maoling Property has been extended for an additional two (2) years, expiring on November 5, 2005.

# MUNDORO MINING INC.

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### 3. Equipment and Vehicles

	2004	2003
	September 30	December 31
Cost:		
Computers	\$ 61,040	\$ 31,629
Furniture and fixtures	25,379	15,892
Office and technical equipment	111,486	20,990
Vehicles	176,407	52,703
Leasehold improvements	44,981	2,822
	419,293	124,036
Less: Accumulated amortization	(56,665)	(19,646)
Net book value	\$ 362,628	\$ 104,390

### 4. Accounts payable and accrued liabilities

The liabilities at September 30, 2004 include \$664,200 for unpaid drilling costs, and \$97,800 for unpaid farmers' compensation related to the completed road access to Zone 4. Other liabilities include unpaid directors' retainer and meeting fees of \$19,000 and sundry payables of \$236,388.

### 5. Share Capital

(a) Authorized: Unlimited number of common shares without par value.

(b) Issued:

	Shares	Amount
Balance, December 31, 2003	25,131,873	\$17,977,970
Issued pursuant to Over-Allotment Option	300,000	375,000
Issued pursuant to exercise of warrants	116,250	145,312
Issued pursuant to exercise of warrants	192,020	138,524
Balance, September 30, 2004	25,740,143	\$18,636,806

(c) 93,750 of the shares issued are held in court. The release of these shares is subject to the outcome of legal proceedings.

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### (d) Stock Options

During the period, the Company granted 942,500 stock options to directors, employees and advisors. A total of 892,500 options have a vesting period of one year, in which 33% is vested immediately, 33% in six (6) months and the remaining 33% in twelve (12) months and expire over five (5) years from the date of grant. The remaining 50,000 have a vesting period of eighteen (18) months, in which 33% is vested in six (6) months, 33% in twelve (12) months and the remaining 33% in eighteen (18) months and expire five (5) years from the date of grant.

A summary of the status of options granted under the Company's stock option plans is presented below. No options have been exercised during the period.

	Shares	Weighted Average Exercise Price
Options outstanding at December 31, 2003	2,422,500	\$ 0.83
Granted	942,500	\$ 1.74
Options outstanding at September 30, 2004	3,365,000	\$1.08

<u>Options Outstanding</u>				<u>Options Exercisable</u>	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (yr)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$0.21 - \$0.31	1,062,500	2.63	\$0.22	1,062,500	\$0.22
\$1.25 - \$1.92	2,252,500	4.36	\$1.45	1,187,500	\$1.39
\$2.73	50,000	4.35	\$2.73	33,333	\$2.73
	3,365,000	3.87	\$1.08	2,283,333	\$0.85

In 2003, the Company adopted the fair value method of accounting for all stock-based payments to employees and directors. For all options issued to employees and directors in fiscal 2004, the Company recognized compensation cost and a related credit to contributed surplus over the vesting period of the options. Under this method, the Company charged \$866,147 stock based compensation to operations for the period ended September 30, 2004. The fair value of all options granted during the period has been estimated at \$1.09 per share using the Black-Scholes Option Pricing Model with the following weighted-average assumptions:



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	<u>2004</u>
Risk- free interest rate	3.25%
Dividend yield	0%
Volatility	83%
Average expected lives	4 years

Option pricing models require the use of highly subjective estimates and assumptions including the expected stock price volatility. Changes in the underlying assumptions can materially affect the fair value estimates and therefore, in management's opinion, existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

(e) Warrants outstanding as at September 30, 2004:

<u>Number Of Warrants</u>	<u>Exercise Price Per Warrant</u>	<u>Expiry Date</u>
1,598,353	\$1.25 (year 1&2)	June 15, 2005
	\$1.87 (year 3)	June 15, 2006
159,835	\$0.31	June 16, 2005
50,000	\$1.25	November 12, 2005
1,050,000	\$1.25	November 24, 2005
30,000	\$1.25	November 24, 2005
(116,250)	\$1.25	Exercised – Jan to March 2004
(192,020)	\$0.31 - \$1.25	Exercised – April to June 2004
<u>-Nil</u>		Exercised – July to September 2004
<u>2,579,918</u>		Balance outstanding

Each warrant entitles the holder to acquire one common share of the Company.

## 6. Related Party Transactions

The Company incurred the following expenses to certain directors or companies controlled by certain directors of the Company. Project management fees relate to the geological and administrative professional services rendered by the President on the Maoling project in the normal course of his duties. The management fees, all incurred in the normal course of business operations, include the investment finance services of the Chairman, the executive management services of the President and the administrative services of the Company's Chief China Representative.

	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
	Sept 30	Sept 30	Sept 30	Sept 30
	3 months	3 months	9 months	9 months
Project management	\$ 19,834	\$ 11,250	\$ 58,633	\$ 31,241
Management fees	71,416	58,415	191,039	139,971
	<u>\$91,250</u>	<u>\$69,665</u>	<u>\$249,672</u>	<u>\$171,212</u>

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### 7. Non-cash Financing Activities

The Company issued the following shares and warrants for services:

The Company had no non-cash financing activities in the third quarter of 2004 or in the nine (9) months ended September 30, 2004.

In 2003, a total of 28,364 shares were issued in the third quarter as compensation for services amounting in value to \$14,391 and a total of 76,338 shares were issued to satisfy an amount of \$38,731 in the nine (9) month period ended September 30, 2003.

### 8. Mineral Exploration costs

The Company follows the practice of expensing all exploration costs until a body of commercial ore is defined on the project.

A breakdown of costs for the third quarter of 2004 and 2003 is summarized below along with the year to date totals. The technical services and project management staff include the Company's professional geological staff and others retained for services of a geological, metallurgical, environmental, and geotechnical nature. There was no drilling activity on site in the third quarter of 2003.

	3 Months Ended September 30		9 Months Ended September 30	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
<b>Mineral exploration costs:</b>				
Core drilling and related costs	\$ 913,456	\$ -	\$2,241,700	\$ 63,925
Assaying	97,119	-	196,587	42,831
Technical services and project management	215,333	59,315	437,869	115,916
Amortization	6,661	1,317	14,909	2,431
Shipping, travel, office and all other costs	<u>155,871</u>	<u>18,218</u>	<u>476,611</u>	<u>70,151</u>
Total	<u>\$ 1,388,440</u>	<u>\$ 78,850</u>	<u>\$3,367,676</u>	<u>\$295,254</u>

### 9. Contingent Liability

The Company is liable for the costs of land remediation in the event that a mine does not go into production. To date, the land involved is associated with access to the Zone 4 drill site area and the various drill pads.

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### 10. Geographical Information

The Company's business is considered as operating in one segment and the geographical division of the total assets of the Company is as follows:

	2004	2003
	September 30	December 31
Canada	\$8,915,983	\$11,270,800
China	593,803	1,118,523
	<u>\$9,509,786</u>	<u>\$12,389,323</u>