

TRIGON EXPLORATION CANADA LTD.
(formerly 4087909 Canada Inc.)

FINANCIAL STATEMENTS
(Unaudited – Prepared by Management)

SEPTEMBER 30, 2004

TRIGON EXPLORATION CANADA LTD.

(formerly 4087909 Canada Inc.)

BALANCE SHEETS

(Unaudited – Prepared by Management)

	September 30, 2004	December 31, 2003
ASSETS		
Current		
Cash and equivalents	\$ 916,665	\$ 664,975
Receivables	106,920	36,418
Prepaid expenses	<u>363,334</u>	<u>-</u>
	1,386,919	701,393
Deferred financing costs (Note 13)	486,606	-
Equipment (Note 3)	49,529	10,895
Long-term investment (Note 4)	120,000	-
Mineral properties (Note 5)	<u>1,892,660</u>	<u>1,244,427</u>
	<u>\$ 3,935,714</u>	<u>\$ 1,956,715</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 456,201	\$ 76,778
Accounts payable - related parties (Note 8)	<u>108,479</u>	<u>30,029</u>
	564,680	106,807
Future income taxes (Note 10)	<u>-</u>	<u>158,125</u>
	<u>564,680</u>	<u>264,932</u>
Shareholders' equity		
Capital stock (Note 6)	3,988,355	2,092,152
Contributed surplus (Note 6)	105,516	21,500
Deficit	<u>(722,837)</u>	<u>(421,869)</u>
	<u>3,371,034</u>	<u>1,691,783</u>
	<u>\$ 3,935,714</u>	<u>\$ 1,956,715</u>

Nature and continuance of operations (Note 1)**Subsequent events** (Note 13)**On behalf of the Board:**

"Sidney Himmel"

Director

"George W. Poling"

Director

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

TRIGON EXPLORATION CANADA LTD.
(formerly 4087909 Canada Inc.)
STATEMENTS OF OPERATIONS AND DEFICIT
(Unaudited – Prepared by Management)

	Three Month Period Ended September 30, 2004	Three Month Period Ended September 30, 2003	Nine Month Period Ended September 30, 2004	Nine Month Period Ended September 30, 2003
EXPENSES				
Amortization	\$ 2,464	\$ -	\$ 6,652	\$ 1,889
Conferences	894	3,557	3,034	3,884
Consulting	9,787	19,119	9,787	19,119
Office and miscellaneous	28,105	6,785	71,018	18,949
Professional fees	9,730	4,036	68,773	74,061
Rent and storage	3,997	1,051	13,890	3,228
Stock-based compensation (Note 7)	-	-	-	21,500
Travel and related costs	12,754	10,007	83,158	20,034
Wages and benefits	40,222	-	122,512	4,708
Loss before other item	(107,953)	(44,555)	(378,824)	(167,372)
OTHER				
Write-off of mineral properties (Note 5)	(80,269)	-	(80,269)	-
Loss before income taxes	(188,222)	(44,555)	(459,093)	(167,372)
Future income tax recovery (Note 10)	-	8,132	158,125	51,143
Loss for the period	(188,222)	(36,423)	(300,968)	(116,229)
Related party transaction adjustment (Note 10)	-	-	-	(247,130)
Deficit, beginning of period	(534,615)	(326,936)	(421,869)	-
Deficit, end of period	\$ (722,837)	\$ (363,359)	\$ (722,837)	\$ (363,359)
Basic and diluted loss per common share	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.03)
Weighted average number of common shares outstanding	16,640,281	5,751,835	14,931,806	3,855,626

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

TRIGON EXPLORATION CANADA LTD.
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STATEMENTS OF CASH FLOWS
(Unaudited – Prepared by Management)

	Three Month Period Ended September 30, 2004	Three Month Period Ended September 30, 2003	Nine Month Period Ended September 30, 2004	Nine Month Period Ended September 30, 2003
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss for the period	\$ (188,222)	\$ (36,423)	\$ (300,968)	\$ (116,229)
Items not affecting cash:				
Amortization	2,464	-	6,652	1,889
Stock-based compensation	-	-	-	21,500
Future income tax recovery	-	(8,132)	(158,125)	(51,143)
Write-down of mineral properties	80,269	-	80,269	-
Changes in non-cash working capital items:				
Increase in deferred finance costs	(486,606)	-	(486,606)	-
Increase in receivables	(33,063)	(1,830)	(70,502)	(13,250)
Increase in prepaid expenses	(208,672)	-	(363,334)	-
Increase (decrease) in accounts payable and accrued liabilities	254,953	(72,397)	379,423	139,693
Increase in accounts payable– related parties	81,394	221,640	78,450	292,606
Net cash provided by (used in) operating activities	(497,483)	102,858	(834,741)	275,066
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of equipment	(9,996)	(3,978)	(45,286)	(9,810)
Mineral properties	(908,743)	(86,005)	(2,015,227)	(302,381)
Mineral property option payments received	685,635	-	1,166,725	-
Net cash used in investing activities	(233,104)	(89,983)	(893,788)	(312,191)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of capital stock	-	-	2,289,500	50,000
Share issuance costs	-	(20,000)	(309,281)	(20,000)
Subscription advances	-	-	-	-
Net cash provided by financing activities	-	(20,000)	1,980,219	30,000
Change in cash and equivalents for the period	(730,587)	(7,125)	251,690	(7,125)
Cash and equivalents, beginning of period	1,647,252	1	664,975	1
Cash and equivalents, end of period	\$ 916,665	\$ (7,124)	\$ 916,665	\$ (7,124)
Cash paid for:				
Interest	\$ -	\$ -	\$ -	\$ -
Income taxes	-	-	-	-

Supplemental disclosure with respect to cash flows (Note 9)

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

TRIGON EXPLORATION CANADA LTD.
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1. NATURE AND CONTINUANCE OF OPERATIONS

The Company was incorporated under the Canada Business Corporations Act on November 8, 2002 as 4087909 Canada Inc. and changed its name to Trigon Exploration Canada Ltd. on March 3, 2003. The Company's primary business is the acquisition and exploration of mineral properties and it is considered to be in the exploration stage. On October 29, 2003, the Company consolidated its Class B multiple voting shares on a 2:1 basis. On June 28, 2004, the Company reorganized its capital stock and converted all Class B multiple voting shares into common shares on a 1:1 basis. All references to share and per share amounts have been restated to reflect the consolidation and reorganization.

The Company has not yet determined whether its mineral properties contain economically recoverable ore reserves. The recovery of the amounts comprising mineral properties and deferred exploration costs are dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain necessary financing to successfully complete the exploration and development of those reserves and upon future profitable production.

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future.

	September 30, 2004	December 31, 2003
Deficit	\$ (722,837)	\$ (421,869)
Working capital	822,239	594,586

2. SIGNIFICANT ACCOUNTING POLICIES

Estimates

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

Cash and equivalents

Cash and equivalents include highly liquid investments with original maturities of three months or less.

Deferred financing costs

Costs directly identifiable with the raising of capital will be charged against the related capital stock. Costs related to shares not yet issued are recorded as deferred financing costs. These costs will be deferred until the issuance of the shares to which the costs relate, at which time the costs will be charged against the related capital stock or charged to operations if the shares are not issued. Deferred financing costs consist primarily of corporate finance fees, legal fees and sponsorship fees.

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2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Equipment

Equipment is recorded at cost less accumulated amortization. Amortization is recorded at the following annual rates and methods:

Furniture and equipment	20% declining balance
Computer equipment	30% declining balance

Long-term investment

Long-term investment consists of shares in a publicly traded company and is accounted for on the cost basis. Declines in market value below costs are recognized when such declines are considered to be other than temporary.

Mineral properties

The Company records its interests in mineral properties and areas of geological interest at cost. All direct and indirect costs relating to the acquisition of these interests are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold or management has determined there to be an impairment. These costs will be amortized on the basis of units produced in relation to the proven reserves available on the related property following commencement of production. Mineral properties which are sold before that property reaches the production stage will have all revenues from the sale of the property credited against the cost of the property. Properties which have reached the production stage will have a gain or loss calculated based on the portion of that property sold.

The recorded cost of mineral property interests is based on cash paid, the value of share considerations and exploration costs incurred. The recorded amount may not reflect recoverable value as this will be dependant on the development program, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to bring its projects into production.

Deferred exploration costs

The Company defers expenditures directly attributable to the exploration of mineral properties, pending a decision as to the commercial viability of a property. If reserves are developed, the deferred costs will be amortized to operations when production is commenced on the property. If a property is subsequently determined as being uneconomic, a provision for impairment is provided in the year in which the determination is made. Amortization will be computed on the basis of units produced in relation to the estimated reserves. Upon abandonment, sale, or if management determined there to be an impairment of a property, all deferred costs relating to the property will be expensed.

The amounts shown for mineral properties and deferred exploration costs represent costs to date and do not intend to reflect present or future values.

The Company does not accrue the estimated future costs of maintaining its mineral properties in good standing.

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2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Environmental protection and rehabilitation costs

Liabilities related to environmental protection and rehabilitation costs are accrued and charged to income when their likelihood of occurrence is established. This includes future removal and site restoration costs as required due to environmental law or contracts.

Stock-based compensation

The Company accounts for the granting of stock options to employees and non-employees using the fair value method whereby all awards to employees and non-employees will be recorded at fair value on the date of grant. The Company estimates the fair value of each stock option at the date of grant using the Black-Scholes option pricing model. Any consideration paid by the option holders to purchase shares is credited to capital stock.

Income taxes

Future income taxes are recorded using the asset and liability method whereby 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. 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. To the extent that the Company does not consider it more likely than not that a future tax asset would be recovered, it provides a valuation allowance against the excess.

Loss per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options and warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. For the periods presented, this calculation proved to be anti-dilutive.

Basic loss per share is calculated using the weighted-average number of common shares outstanding during the period.

3. EQUIPMENT

	September 30, 2004			December 31, 2003		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Furniture and equipment	\$ 3,905	\$ 309	\$ 3,596	\$ 216	\$ 22	\$ 194
Computer equipment	54,187	8,254	45,933	12,590	1,889	10,701
	\$ 58,092	\$ 8,563	\$ 49,529	\$ 12,806	\$ 1,911	\$ 10,895

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4. LONG-TERM INVESTMENT

Long-term investments consist of 75,000 shares of Contact Diamond Corporation (“CDC”), formerly Sudbury Contact Mines Limited, (Note 5) with a market value of \$78,750 (December 31, 2003 - \$Nil).

5. MINERAL PROPERTIES

	September 30, 2004					Total
	Ram	Bam	Zyena	Ganesh	Other	
Acquisition costs						
Balance, beginning of period	\$ 877,650	\$ 40,756	\$ 84,060	\$ 97,496	\$ 14,271	\$ 1,114,233
Additions during the period						
Planning and data	71,158	3,191	6,105	57,474	71,522	209,450
Permitting and recording	20,191	-	1,288	78,486	-	99,965
Staking	100,538	127	8,480	443,353	-	552,498
	191,887	3,318	15,873	579,313	71,522	861,913
Total acquisition costs	1,069,537	44,074	99,933	676,809	85,793	1,976,146
Deferred exploration costs						
Balance, beginning of period	327,197	-	-	-	9,690	336,887
Additions during the period						
Sampling	122,700	24,233	-	227,108	12,351	386,392
Laboratory and mineralogical analysis	227,812	11,962	-	36,303	-	276,077
Geophysics	490,845	-	-	-	-	490,845
	841,357	36,195	-	263,411	12,351	1,153,314
Total deferred exploration costs	1,168,554	36,195	-	263,411	22,041	1,490,201
Recoveries						
Balance, beginning of period	(206,693)	-	-	-	-	(206,693)
Additions during the period						
Option payments received	(890,754)	-	-	(350,000)	-	(1,240,754)
Management fees	(37,675)	-	-	(8,296)	-	(45,971)
	(928,429)	-	-	(358,296)	-	(1,286,725)
Total recoveries	(1,135,122)	-	-	(358,296)	-	(1,493,418)
Write-down of mineral properties	-	(80,269)	-	-	-	(80,269)
Total	\$ 1,102,969	\$ -	\$ 99,933	\$ 581,924	\$ 107,834	\$ 1,892,660

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5. MINERAL PROPERTIES (cont'd...)

	December 31, 2003					
	Ram	Bam	Zyena	Ganesh	Other	Total
Acquisition costs						
Balance, beginning of year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Additions during the year						
Purchase consideration	653,435	40,756	-	-	-	694,191
Planning and data	130,709	-	29,240	97,496	14,271	271,716
Permitting and recording	2,936	-	35,575	-	-	38,511
Staking	90,570	-	19,245	-	-	109,815
	<u>877,650</u>	<u>40,756</u>	<u>84,060</u>	<u>97,496</u>	<u>14,271</u>	<u>1,114,233</u>
Total acquisition costs	<u>877,650</u>	<u>40,756</u>	<u>84,060</u>	<u>97,496</u>	<u>14,271</u>	<u>1,114,233</u>
Deferred exploration costs						
Balance, beginning of year	-	-	-	-	-	-
Additions during the year						
Sampling	220,534	-	-	-	-	220,534
Geology	8,953	-	-	-	-	8,953
Laboratory and mineralogical analysis	97,710	-	-	-	9,690	107,400
	<u>327,197</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,690</u>	<u>336,887</u>
Total deferred exploration costs	<u>327,197</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,690</u>	<u>336,887</u>
Recoveries						
Balance, beginning of year	-	-	-	-	-	-
Additions during the year						
Option payments received	(206,693)	-	-	-	-	(206,693)
	<u>(206,693)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(206,693)</u>
Total recoveries	<u>(206,693)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(206,693)</u>
Total	\$ 998,154	\$ 40,756	\$ 84,060	\$ 97,496	\$ 23,961	\$ 1,244,427

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5. MINERAL PROPERTIES (cont'd...)

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and to the best of its knowledge, title to the properties are in good standing (Note 13).

a) Ram property

During the year ended December 31, 2003, the Company purchased a 100% interest in the Ram property, consisting of the Ram, Hugo and Green claims, in the Southern Slave Lake area in the North West Territories by issuing 4,983,153 common shares valued at \$653,435 to related parties (Note 6). Thereafter, the Company staked additional interests in this area.

During the nine month period ended September 30, 2004 the Company entered into an option agreement with CDC whereby CDC can earn an initial 51% undivided ownership interest in the Ram property by paying \$50,000, issuing 75,000 shares to the Company and funding \$1,450,000 of exploration work on the Ram property by September 30, 2005. As at September 30, 2004, CDC has funded \$927,447 for exploration work, and paid \$50,000 and issued 75,000 shares to the Company with a value of \$120,000 (Note 4) for the grant of the option.

CDC may also earn an additional 14% interest in the Ram property by funding an additional \$3,000,000 of exploration work on the property.

Subsequent to September 30, 2004, the Company allowed several claims to lapse. The Company expects a extension fee of \$12,500 and deposit of approximately \$505,000 will be required January 2005 to keep the Hugo claims in good standing if further exploration expenditures are not incurred.

b) Bam property

During the year ended December 31, 2003, the Company purchased a 100% interest in the Bam property in the Southern Slave Lake area in the North West Territories by issuing 310,809 common shares valued at \$40,756 to related parties (Note 6). Subsequent to September 30, 2004, the Company determined the property was not economically viable and allowed the claims to lapse. Accordingly, during the period ended September 30, 2004, the property was written-off to operations.

c) Zyena property

During the year ended December 31, 2003, the Company staked claims located north of Munn Lake in the Slave Lake Craton of the Northwest Territories and application was made to record these claims with the Mining Recorder of the Northwest Territories.

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5. MINERAL PROPERTIES (cont'd...)

d) Ganesh property

During the year ended December 31, 2003, the Company obtained a 100% interest in the Ganesh property, consisting of the IC and LO claims, in the Committee Bay area of Nunavut.

During the nine month period ended September 30, 2004, the Company entered into a letter agreement with CDC whereby CDC can earn a 49% interest in the Ganesh claims by making an initial payment of \$100,000 (received), a payment of \$380,000 (received through subscription to the Company's IPO) and incur expenditures as follows:

- pay a maximum of \$250,000 (the "Sampling Costs") (received), reflecting the costs of sampling the Ganesh claims incurred by the Company to be paid as billed, the billing having been presented on the signing of the Agreement;
- pay a maximum of \$150,000, the amount being no greater than the costs of the sample processing, picking and probing program to commence following the signing of the Subsequent Agreements.

If the Subsequent Agreements are not signed by November 30, 2004, CDC will have the right to terminate the Agreement. If CDC elects to terminate the Agreement after November 30, 2004, the Company will repay to CDC:

- 49% of the amounts paid by CDC under the Agreement with respect to the \$380,000 Payment and the Sampling Costs;
- 100% of all the other amounts paid by CDC under the Agreement with respect to the \$380,000 Payment and the Sampling Costs.

Upon CDC earning a 49% interest in the Ganesh property, a joint venture will be established with the Company, at which time CDC can earn up to an additional 11% interest in the Ganesh property, by funding a \$500,000 exploration program to earn the first additional 2% interest and an additional \$3,000,000 exploration program to earn the next additional 9% interest. The Company will be the operator of any exploration program on the Ganesh property up to the time preparation of a prefeasibility study is approved by the management committee appointed in accordance with the Agreement with CDC being the operator afterwards.

e) Other

Other acquisition and deferred exploration costs pertain to future potential mineral properties.

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6. CAPITAL STOCK AND CONTRIBUTED SURPLUS

	Number of Shares	Capital Stock	Contributed Surplus
Authorized			
Unlimited common shares			
Common shares issued			
Balance as at December 31, 2002	1	\$ 1	\$ -
Issued for mineral properties	5,293,962	694,191	-
Private placements for cash	4,937,200	1,184,928	-
Issued for debt settlements	1,134,939	264,556	-
Stock-based compensation (Note 8)	-	-	21,500
Share issue costs	-	(51,524)	-
Balance as at December 31, 2003	11,366,102	2,092,152	21,500
Private placement for cash	5,087,777	2,289,500	-
Share issue costs	-	(309,281)	-
Agent's fee	186,402	(84,016)	84,016
Balance as at September 30, 2004	16,640,281	\$ 3,988,355	\$ 105,516

Share consolidation

On October 29, 2003, the Company consolidated its capital stock on a 2:1 basis. All share and per share amounts have been restated to reflect this consolidation.

Share reorganization

At the Company's Annual and Special Meeting of Shareholders held on June 24, 2004, shareholders approved a reorganization of the Company's share capital, effective June 28, 2004, whereby the Company's Class A subordinate voting shares were cancelled and all outstanding Class B multiple voting shares were converted into an equal number of common shares. All references to previously issued shares have been restated to reflect this reorganization.

Share issuances

On March 31, 2003 the Company issued 5,293,962 common shares at a value of \$694,191 to directors of the Company and to a corporation controlled by directors for the purchase of certain mineral properties valued at \$694,191. The purchase was based on the vendors historical cost of the mineral properties.

On March 31, 2003 the Company issued 249,539 common shares at a value of \$52,060 to directors of the Company and to a corporation controlled by directors for the settlement of debts of \$52,060.

On March 31, 2003 the Company issued 208,333 common shares at a price of \$0.24 per share to a director of the Company, pursuant to a private placement.

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6. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

Share issuances (cont'd...)

On November 20, 2003, the Company issued 1,675,000 units at a price of \$0.24 per unit pursuant to a non-brokered private placement. A total of 552,750 units were sold as “flow-through” securities and 1,122,250 were sold as “non-flow-through” securities. The flow-through units consisted of one flow-through common share and one-half of one share purchase warrant. The non-flow-through units consisted of one non-flow-through common share and one-half of one share purchase warrant. Each full share purchase warrant enables the holder to purchase one non-flow-through common share of the Company for \$0.30 until November 20, 2006. The Company incurred \$18,251 of share issuance costs associated with this private placement.

On November 28, 2003, the Company issued 2,541,700 units at a price of \$0.24 per unit pursuant to a non-brokered private placement. A total of 691,666 units were sold as “flow-through” securities and 1,850,034 were sold as “non-flow-through” securities. The flow-through units consisted of one flow-through common share and one-half of one share purchase warrant. The non-flow-through units consisted of one non-flow-through common share and one-half of one share purchase warrant. Each full share purchase warrant enables the holder to purchase one non-flow-through common share of the Company for \$0.30 until November 28, 2006. The Company incurred \$27,693 of share issuance costs associated with this private placement.

On December 12, 2003, the Company issued 512,167 units at a price of \$0.24 per unit pursuant to a non-brokered private placement. Each unit consisted of one common share and one-half of one share purchase warrant. Each full share purchase warrant enables the holder to purchase one common share of the Company for \$0.30 until December 12, 2006. The Company incurred \$5,580 of share issuance costs associated with this private placement.

On December 12, 2003, the Company issued 885,400 units at a price of \$0.24 per unit to directors of the Company and a corporation controlled by directors for the settlement of debt amounting to \$212,496. Each unit consisted of one common share and one-half of one share purchase warrant. Each full share purchase warrant enables the holder to purchase one common share of the Company for \$0.30 until December 12, 2006.

On March 26, 2004, the Company issued 4,660,055 units at a price of \$0.45 per unit pursuant to a private placement. Each unit consisted of one common share and one-half of one share purchase warrant. Each full share purchase warrant enables the holder to purchase one common share of the Company for \$0.60 until March 26, 2006. The Company incurred share issuance costs of \$200,895 and issued 186,402 units as agent’s compensation in connection with the private placement. The agent’s units have been recorded at a relative fair value of \$84,016 and applied against the proceeds allocated to capital stock in contributed surplus.

On April 29, 2004, the Company issued 427,722 units at a price of \$0.45 per unit for gross proceeds of \$192,475 pursuant to a private placement. The units consisted of one common share and one-half of one share purchase warrant. Each full share purchase warrant enables the holder to purchase one common share of the Company for \$0.60 until April 29, 2006.

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7. STOCK OPTIONS AND WARRANTS

Stock options

At the Company's Annual and Special Meeting of Shareholders held on June 24, 2004, shareholders approved an incentive stock option plan (the "Plan") whereby the Company may grant stock options to eligible employees, officers, directors and consultants at an exercise price to be determined by the board of directors, provided the exercise price is not lower than the market value at time of issue. The Plan provides for the issuance of up to 10% of the Company's issued common shares as at the date of grant with each stock option having a maximum term of five years. The board of directors has the exclusive power over the granting of options and their vesting provisions.

As at September 30, 2004, director and employee stock options were outstanding enabling the optionee to acquire the following number of common shares:

Number of Shares	Exercise Price	Expiry Date
345,993	\$ 0.20	March 31, 2006

Stock option transactions are summarized as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 2002	-	\$ -
Granted	<u>345,993</u>	0.20
Outstanding at December 31, 2003 and September 30, 2004	<u>345,993</u>	\$ 0.20
Number of options currently exercisable	<u>345,993</u>	\$ 0.20
Weighted average fair value of options granted		<u>\$ 0.06</u>

Stock-based compensation

During the year ended December 31, 2003, the Company granted 345,993 options to a director in lieu of payment for services rendered, each option giving the holder the right to acquire one share for \$0.20, exercisable at any time over a three-year period. The fair value of the options is estimated to be \$21,500 based on the Black-Scholes option pricing model assuming a risk-free interest rate of 3.99%, volatility of 0.01%, expected life of 3 years, and a dividend rate of 0.00%.

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7. STOCK OPTIONS AND WARRANTS (cont'd...)

Warrants

As at September 30, 2004, the Company had outstanding share purchase warrants, enabling the holders to acquire common shares as follows:

Number of Shares	Exercise Price	Expiry Date
2,423,227	\$ 0.60	March 26, 2006
213,860	0.60	April 29, 2006
837,498	0.30	November 20, 2006
1,270,848	0.30	November 28, 2006
698,783	0.30	December 12, 2006

8. RELATED PARTY TRANSACTIONS

The Company entered into the following additional transactions with related parties not disclosed elsewhere in these financial statements.

- a) Paid or accrued laboratory and mineralogical analysis costs, included in deferred exploration costs, of \$157,625 (December 31, 2003 - \$38,750) to a corporation controlled by directors of the Company.
- b) Paid or accrued consulting fees of \$Nil (December 31, 2003 - \$58,358; September 30, 2003 - \$Nil) and share issue costs of \$Nil (December 31, 2003 - \$20,000) to directors of the Company.
- c) Paid or accrued planning and data costs of \$60,488, included in deferred exploration costs, (December 31, 2003 - \$57,500) to a corporation controlled by a director of the Company.
- d) Paid or accrued wages, which are capitalized to mineral property planning and data costs, of \$60,001 (December 31, 2003 - \$60,000; September 30, 2003 - \$Nil) to a director of the Company.

Accounts payable - related parties are due to directors of the Company.

These transactions were in the normal course of operations and were measured at the exchange value which represented the amount of consideration established and agreed to by the related parties.

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9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The significant non-cash transactions for the period ended September 30, 2004 were the receipt of 75,000 CDC shares with a value of \$120,000 (Note 4), which is included in mineral property recoveries, the issuance of 186,402 units as agent's compensation with a fair value of \$84,016 (Note 6), which is included in contributed surplus, and a future income tax recovery of \$158,125 charged to operations for the period.

The significant non-cash transactions for the year ended December 31, 2003 were the issuance of 5,293,962 common shares of the Company to related parties for the acquisition of certain mineral properties at a value of \$694,191 and the issuance of 1,134,939 common shares for the settlement of related party debts incurred for mineral property expenditures amounting to \$264,556 (Note 6). A future income tax liability of \$247,130 resulting from the acquisition of the mineral properties was charged to deficit.

There were no significant non-cash transactions for the period ended September 30, 2003.

10. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	September 30, 2004	September 30, 2003
Loss before income taxes	\$ (459,093)	\$ (167,372)
Expected income tax (recovery)	\$ (163,437)	(59,584)
Items not deductible for income tax purposes	32,417	-
Items deducted for income tax purposes	(31,671)	-
Deductible temporary differences	(112,628)	-
Other items	45,498	7,420
Recapture of CDE	261,385	-
Recognized benefit of non-capital losses	(49,025)	-
Recognized CEE	(49,668)	-
Future income tax (recovery)	\$ (158,125)	\$ (51,143)

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10. INCOME TAXES (cont'd...)

The significant components of the Company's future income tax assets (liabilities) are as follows:

	September 30, 2004	December 31, 2003
Future income tax assets (liabilities):		
Non-capital loss carryforwards	\$ -	\$ 89,005
Equipment	3,048	-
Share issue costs	123,017	-
Mineral properties	13,939	(247,130)
Valuation allowance	<u>(140,004)</u>	<u>-</u>
Net future income tax liability	<u>\$ -</u>	<u>\$ (158,125)</u>

During the year ended December 31, 2003, the Company and vendors jointly elected to transfer certain mineral properties acquired for shares at a nominal amount for tax purposes, creating a future income tax liability of \$247,130 which has been charged to deficit as a related party transaction adjustment.

Subject to certain restrictions, the Company has resource expenditures of approximately \$1,900,000 available to reduce taxable income in future years.

During the year ended December 31, 2003, the Company issued 1,244,416 common shares on a flow-through basis for gross proceeds of \$298,660. The flow-through agreements require the Company to renounce certain tax deductions for Canadian exploration expenditures incurred on the Company's mineral properties to the flow-through participants. The Company has not renounced any exploration expenditures relating to these flow-through shares at September 30, 2004.

11. SEGMENTED INFORMATION

The Company conducts substantially all of its operations in Canada in one business segment, being the acquisition and exploration of mineral properties.

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12. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and equivalents, receivables, long-term investment, accounts payable and accrued liabilities and accounts payable-related parties. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

Credit risk

The financial instruments that potentially expose the Company to a concentration of credit risk are cash and equivalents. The Company limits its exposure to credit loss by placing its cash with high quality financial institutions.

13. SUBSEQUENT EVENT

The Company has completed an initial public offering to raise \$4,500,100, by way of issuing 3,091,000 flow-through common shares at a price of \$0.55 per flow-through common share and issuing 5,091,000 units of the Company at a price of \$0.55 per unit. The units consist of one non-flow through common share and one half of one warrant, with each whole warrant entitling the holder to purchase one common share of the Company for \$0.75 for a period of 18 months following the closing of the initial public offering.

Pursuant to an agency agreement, the agents received a commission equal to 8% of the gross proceeds of the offering in cash and non-transferable agents' warrants equal to 10% of the aggregate number of units and flow-through shares issued in connection with the offering, with agents' warrant entitling the holder to acquire one common share at the offering price, of the units for a period of 12 months from closing of the offering. In addition, the lead agent received a \$25,000 work fee and 100,000 common shares as a corporate finance fee. In addition, an agent was granted 90,000 non-transferable agents' warrants and recovered all agent's expenses. To date, the Company has paid or accrued \$486,606 as deferred financing costs related to the IPO.