

**CROWFLIGHT MINERALS CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
(Prepared by Management)

|   | June 30,<br>2004<br>(Unaudited) | December 31,<br>2003<br>(Audited) |
|---|---------------------------------|-----------------------------------|
| <b>ASSETS</b>                           |                                 |                                   |
| Current                                 |                                 |                                   |
| Cash and short term investments         | \$ 3,359,901                    | \$ 6,924,080                      |
| Accounts receivable                     | 315,889                         | 110,276                           |
| Prepaid expenses                        | <u>10,629</u>                   | <u>32,015</u>                     |
|   | 3,686,419                       | 7,066,371                         |
| Long-term                               |                                 |                                   |
| Property, plant and equipment           | 60,006                          | 27,915                            |
| Interest in mineral properties (Note 5) | <u>7,064,862</u>                | <u>3,663,568</u>                  |
|   | <u>7,124,868</u>                | <u>3,691,483</u>                  |
|   | <u>\$ 10,811,287</u>            | <u>\$ 10,757,854</u>              |

**LIABILITIES**

|  |                      |                      |
|--|----------------------|----------------------|
| Current                                  |                      |                      |
| Accounts payable and accrued liabilities | \$ <u>955,292</u>    | \$ <u>458,604</u>    |
| <b>SHAREHOLDERS' EQUITY</b>              |                      |                      |
| Common Shares (Note 2)                   | 21,218,267           | 21,132,600           |
| Warrants (Note 2)                        | 890,559              | 910,808              |
| Contributed surplus (Note 6)             | 2,021,627            | 1,808,655            |
| Deficit                                  | <u>(14,274,458)</u>  | <u>(13,552,813)</u>  |
|  | <u>9,855,995</u>     | <u>10,299,250</u>    |
|  | <u>\$ 10,811,287</u> | <u>\$ 10,757,854</u> |

**Responsibility for Financial Statements**

The accompanying consolidated financial statements for Crowflight Minerals Inc. have been prepared by management in accordance with Canadian generally accepted accounting principles consistently applied. The most significant of these accounting principles have been set out in the December 31, 2003 audited consolidated financial statements. Only changes in accounting policies have been disclosed in these financial statements. These statements are presented on the accrual basis of accounting. Accordingly, a precise determination of many assets and liabilities is dependent upon future events. Estimates and approximations have been made using careful judgment. Recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been fairly presented.

# CROWFLIGHT MINERALS CORPORATION

## CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

(Prepared by Management - Unaudited)

|                                    | Three months ended<br>June 30, |                        | Six months ended<br>June 30, |                        |
|------------------------------------|--------------------------------|------------------------|------------------------------|------------------------|
|                                    | 2004                           | 2003                   | 2004                         | 2003                   |
| Expenses                           |                                |                        |                              |                        |
| Professional and consulting        | \$ 179,244                     | \$ 90,160              | \$ 276,024                   | \$ 116,001             |
| General and office expenses        | 68,072                         | 33,958                 | 98,543                       | 44,174                 |
| Shareholder communications         | 76,108                         | 48,917                 | 120,890                      | 53,722                 |
| Travel expenses                    | 42,594                         | 2,411                  | 44,527                       | 2,411                  |
| Stock option compensation (Note 6) | (421,888)                      | 4,000                  | 223,112                      | 4,000                  |
| Interest expenses and bank charges | 569                            | 18,420                 | 1,338                        | 36,614                 |
| Amortization                       | 5,358                          | 785                    | 7,348                        | 1,122                  |
|                                    | <u>(49,943)</u>                | <u>198,651</u>         | <u>771,782</u>               | <u>258,044</u>         |
| Loss before the undernoted         | 49,943                         | \$ (198,651)           | (771,782)                    | (258,044)              |
| Interest earned                    | 21,627                         | \$ -                   | 48,766                       | -                      |
| Recovery of expenses               | <u>-</u>                       | <u>42,234</u>          | <u>1,371</u>                 | <u>42,234</u>          |
| Income/(Loss)                      | 71,570                         | (156,417)              | (721,645)                    | (215,810)              |
| DEFICIT, beginning of period       | <u>(14,346,028)</u>            | <u>(12,290,736)</u>    | <u>(13,552,813)</u>          | <u>(12,231,343)</u>    |
| DEFICIT, end of period             | <u>\$ (14,274,458)</u>         | <u>\$ (12,447,153)</u> | <u>\$ (14,274,458)</u>       | <u>\$ (12,447,153)</u> |

# CROWFLIGHT MINERALS CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Prepared by Management - Unaudited)

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|   | Three months ended<br>June 30, |                     | Six Months Ended<br>June 30, |                     |
|---|--------------------------------|---------------------|------------------------------|---------------------|
|   | 2004                           | 2003                | 2004                         | 2003                |
| <b>CASH (USED IN) PROVIDED BY:</b>                      |                                |                     |                              |                     |
| <b>OPERATING ACTIVITIES:</b>                            |                                |                     |                              |                     |
| Net loss for the period                                 | \$ 71,570                      | \$ (156,417)        | \$ (721,645)                 | \$ (215,810)        |
| Charges not affecting cash:                             |                                |                     |                              |                     |
| Depreciation  | 5,358                          | 785                 | 7,348                        | 1,122               |
| Stock option compensation                               | (421,888)                      | 4,000               | 223,112                      | 4,000               |
| Other non cash items                                    | 12,839                         | -                   | 12,839                       | -                   |
| Net change in non-cash working capital:                 |                                |                     |                              |                     |
| Accounts receivable and<br>prepaid expenses             | (135,519)                      | 42,612              | (184,227)                    | 22,164              |
| Accounts payable and accrued<br>liabilities             | <u>527,879</u>                 | <u>(32,650)</u>     | <u>467,846</u>               | <u>(20,856)</u>     |
|   | <u>60,239</u>                  | <u>(141,670)</u>    | <u>(194,727)</u>             | <u>(209,380)</u>    |
| <b>FINANCING ACTIVITIES:</b>                            |                                |                     |                              |                     |
| Loans payable   | -                              | (47,369)            | -                            | (77,540)            |
| Advances from related companies                         | -                              | (3,972)             | -                            | (6,218)             |
| Advances from shareholder                               | -                              | 10,489              | -                            | (5,176)             |
| Common shares issued                                    | -                              | 1,389,022           | 53,750                       | 1,389,022           |
| Financing costs   | <u>(14,466)</u>                | <u>-</u>            | <u>(13,523)</u>              | <u>-</u>            |
|   | <u>(14,466)</u>                | <u>1,348,170</u>    | <u>40,227</u>                | <u>1,300,088</u>    |
| <b>INVESTING ACTIVITIES:</b>                            |                                |                     |                              |                     |
| Mining interest   | (1,805,795)                    | 39,167              | (3,357,401)                  | (265,044)           |
| Property, plant and equipment                           | <u>(7,851)</u>                 | <u>-</u>            | <u>(52,278)</u>              | <u>-</u>            |
|   | <u>(1,813,646)</u>             | <u>39,167</u>       | <u>(3,409,679)</u>           | <u>(265,044)</u>    |
| CHANGE IN CASH AND SHORT-TERM<br>INVESTMENTS            | (1,767,873)                    | 1,245,667           | (3,564,179)                  | 825,664             |
| CASH AND SHORT-TERM<br>INVESTMENTS, beginning of period | <u>5,127,774</u>               | <u>1,833</u>        | <u>6,924,080</u>             | <u>421,836</u>      |
| CASH AND SHORT-TERM<br>INVESTMENTS, end of period       | <u>\$ 3,359,901</u>            | <u>\$ 1,247,500</u> | <u>\$ 3,359,901</u>          | <u>\$ 1,247,500</u> |

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# CROWFLIGHT MINERALS CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six Months Ended June 30, 2004

(Prepared by Management - Unaudited)

### 1. ACCOUNTING POLICIES

These interim consolidated financial statements are unaudited and are not reviewed by the Company's auditors.

The management of Crowflight Minerals Inc. (the "Company") has prepared these unaudited consolidated financial statements for the six months ended June 30, 2004 in accordance with generally accepted accounting principles in Canada. These financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2003.

The disclosures in these interim financial statements do not include the full disclosure required under generally accepted accounting principles in Canada for annual financial reporting.

Operating results for the six months ended June 30, 2004 are not indicative of the results that may be expected for the full year ending December 31, 2004.

The Company uses the same methods and accounting policies described in the December 31, 2003 audited consolidated financial statements.

### 2. CAPITAL STOCK

#### AUTHORIZED

Unlimited common shares without par values

Unlimited class A preference shares with a par value of \$10 each,  
issuable in series, cumulative dividends

Unlimited class B preference shares with a par value of \$50 each,  
issuable in series, cumulative dividends

|  | No of<br>Shares   | Value                |
|--|-------------------|----------------------|
| COMMON SHARES ISSUED                           |                   |                      |
| Balance, beginning of year (December 31, 2003) | 50,462,651        | \$ 21,132,600        |
| Adjustment                                     | (110)             | -                    |
| Shares issued in acquisition of property       | 50,000            | 15,050               |
| Exercise of warrants                           | 225,000           | 45,000               |
| Exercise of warrants - warrant valuation       | -                 | 20,250               |
| Exercise of stock options                      | 25,000            | 8,750                |
| Exercise of options - option valuation         | -                 | 10,140               |
| Recovery of issue costs                        |                   | 20,000               |
| Cost of issue                                  | -                 | (33,523)             |
| Balance, end of period (June 30, 2004)         | <u>50,762,541</u> | <u>\$ 21,218,267</u> |

#### WARRANTS

A summary of the outstanding warrants as of June 30, 2004 are as follows:

| Value (\$) | Number of<br>Warrants | Exercise Price (\$) | Expiry<br>Date    |
|------------|-----------------------|---------------------|-------------------|
| -          | 570,000               | 0.30                | May 22, 2005      |
| 560,622    | 5,940,000             | 0.20                | June 4, 2005      |
| 196,968    | 2,380,950             | 0.60                | August 20, 2005   |
| 21,383     | 1,180,830             | 1.00                | November 28, 2004 |
| 84,796     | 1,486,667             | 1.25                | November 28, 2004 |
| 6,383      | 319,170               | 1.25                | December 10, 2004 |
| 17,114     | 159,051               | 0.49                | August 20, 2005   |
| 3,293      | 30,608                | 0.49                | September 3, 2005 |

**CROWFLIGHT MINERALS CORPORATION**  
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Six Months Ended June 30, 2004  
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2. CAPITAL STOCK (continued)

| <u>Units</u> |            |                    |                     |                             |
|--------------|------------|--------------------|---------------------|-----------------------------|
|              | Value (\$) | Number of<br>Units | Exercise Price (\$) | Expiry<br>Date              |
|              | 43,873     | 506,283 *          | 0.42 - 0.80         | November 2004 - August 2005 |

\* If the units in aggregate are exercised, the unit-holders will be entitled to 506,283 common shares and 253,141 common share purchase warrants with expiry dates ranging from November 2004 to August 2005.

3. BASIC AND DILUTED LOSS PER SHARE

Basic loss per share is computed by dividing the loss for the period by the weighted average number of common shares outstanding during the period. Diluted loss per share is the same as basic loss per share. Stock options and warrants were not included in the fully diluted loss per share calculation since the calculation would have been anti-dilutive.

The following table sets out the computation for basic and diluted loss per share:

|   | 2004         | 2003         |
|---|--------------|--------------|
| Numerator:                                  |              |              |
| Loss for the period                         | \$ (721,645) | \$ (215,810) |
| Denominator:                                |              |              |
| Average number of common shares outstanding | 50,692,596   | 27,415,783   |
| Basic and diluted loss per share            | \$ (0.01)    | \$ (0.01)    |

4. INCOME TAXES

The estimated taxable income for the period is nil. Based upon the level of historical taxable income, it cannot be reasonably estimated at this time, if it is more likely than not that the Company will realize the benefits from future income tax assets or the amounts owing from future income tax liabilities.

Consequently, the future recovery or loss arising from differences in tax values and accounting values have been reduced by a valuation allowance. The estimated valuation allowance will be adjusted in the period that it is determined that it is more likely than not that some portion of or all of the future tax assets or future tax liabilities will be realized.

For further information on the Company's actual losses for tax purposes, refer to the December 31, 2003 audited consolidated financial statements. The benefit of these losses and the estimated loss for the six months ended June 30, 2004 have not been recognized in these unaudited consolidated financial statements.

**CROWFLIGHT MINERALS CORPORATION**  
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5. INTEREST IN MINERAL PROPERTIES

Acquisition costs and deferred exploration expenditures are as follows:

Acquisition costs:

|  |                  |
|--|------------------|
| Opening balance, December 31, 2003 (audited) | \$ 1,252,600     |
| Staking costs and option payments            | <u>201,867</u>   |
| Ending balance                               | <u>1,454,467</u> |

Deferred exploration expenditures:

|  |                  |
|--|------------------|
| Opening balance, December 31, 2003 (audited) | 2,410,968        |
| Geological and geophysical                   | 813,995          |
| Site activities                              | 2,074,836        |
| Consulting and report writing                | 265,806          |
| Travel and transportation                    | 15,948           |
| Flow through interest penalty accrued        | <u>28,842</u>    |
| Ending balance                               | <u>5,610,395</u> |
|  | <u>7,064,862</u> |

Mining properties acquired during the period were as follows:

**Thompson Nickel Belt Properties:**

On June 16, 2004 the Company entered into a joint venture agreement with Falconbridge Limited to earn a 50% interest in Falconbridge's Bucko Resource Deposit and a 25% interest in the Bucko/Bowden, Halfway Lake and Resting Lake Properties, all of the Thompson Nickel Belt region of Manitoba.

Under the agreement, the Company is required to:

- spend \$18 million over 3 years in an initial earn-in period;
- issue 2 million common shares of the Company and 5 million warrants (all issued July 20, 2004); 2.5 million warrants are exercisable for a 2 year period at \$0.35 and 2.5 million warrants are exercisable for a period of 2 years at a price of \$0.75;
- issue Falconbridge 1 million common shares of the Company in June of 2005, 2006, 2007 and 2008.

Crowflight can elect to increase its interest in the Bucko Resource Deposit to 100% by making a production decision and by arranging for financing for the development of the reserves.

As well, the Company can increase its interest in the Bucko/Bowden and Exploration Claims to 50% by incurring an additional \$7 million in exploration expenditures.

The agreement also provides Falconbridge a back-in right, property buy back right, Joint Venture bump-up option, Net Smelter Returns royalty and an off-take right.

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**Mystery Offset Dyke Property:**

On April 8, 2004 the Company entered into an agreement to acquire 100 % of the "Mystery Offset Dyke Property" (MOD Property), along the Mystery Offset Dyke, located in Lorne Township of the South Range sector of the Sudbury Basin.

Under the agreement the Company could have acquired an initial 51% interest in the property as follows:

- paying a \$50,000 investigation fee on the signing of a letter of intent (completed on April 8, 2004);
- issuing 1,000,000 transferable share purchase warrants on or before May 30, 2004. The 1,000,000 warrants will consist of 500,000 warrants exercisable into common shares of the Company at a price of \$0.75 per warrant, valid for a period of two years from the date of issue and 500,000 warrants exercisable into common shares of the Company at a price of \$1.25 per warrant also valid for a period of 2 years from the date of issue;
- making a payment of \$450,000 on or before May 30, 2004 on completion of due diligence;
- \$250,000 on or before April 5, 2005; or the Company may elect, in its sole discretion, to issue 500,000 Units to the Vendor. Each unit will consist of one common share and one common share purchase warrant of the Company, with each warrant exercisable at a price of \$0.75 for a period of 2 years from the date of issuance. Upon earning a 51% interest in the MOD Property, the Company has the option to acquire the remaining 49% interest by:
  - making payments of \$5,000 per month for a period of 24 months; and
  - incurring exploration expenditures of \$2,000,000 prior to May 30, 2006.

Additionally, at any time, the Company will have the option to acquire the surface rights of the north half of the MOD property for \$250,000. Also, the Company will have a first-right-of refusal (for a period of 10 days) on any ground acquired by the Vendor within a radius of 100 km from the intersections of Highway 17 and 69 in Sudbury. The final agreement is subject to a due diligence review prior to May 30, 2004, and regulatory approvals.

All warrant and share issues are subject to regulatory approval. The Company has not pursued this property and will be required to renegotiate the terms should it intend to do so.

**Copenhagen Property:**

On February 19, 2004 the Company entered into an option agreement to acquire 100% interest in 624 hectares of the Copenhagen Property in the Sudbury Basin.

The total consideration is as follows:

- (i) Cash payments totaling \$230,000; \$9,000 paid on April 6, 2004; \$8,000 paid on April 20, 2004; \$8,000 paid on July 1, 2004; \$25,000 payable on February 19, 2005; \$30,000 payable on February 19, 2006 and \$150,000 payable on February 19, 2007.
- (ii) The issuance of 100,000 Common shares of which, 15,000 common shares were issued on April 6, 2004 with a deemed value of \$4,350; 15,000 common shares were issued on April 21, 2004 with a deemed value of \$5,100; 20,000 common shares were issued on June 30, 2004 with a deemed value of \$5,600; and 50,000 Common shares are to be issued by February 19, 2005.
- (iii) The Company is to maintain the property in good standing

The vendor will retain 2.5% Net Smelter Royalty (NSR) and will be paid semi-annual royalty payments of \$10,000 commencing on August 19, 2007. The Company has the option to repurchase 60% of NSR for \$1,500,000, with all advances and regular royalty payments reducing the \$1,500,000 buyout amount on a dollar-for-dollar basis.

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**Peter's Roost Property:**

The Company has acquired by staking the Peter's Roost Property, a major land package along the North Range of the Sudbury Basin. A total of 927 claim units covering some 14,830 hectares in Hutton, Kitchener, Tyrone, Leinster, Creelman, Roberts and Botha Townships were acquired during the first half of 2004.

The property extends along two predominantly east-west trending concentric corridors extending from the Company's Marble Mountain Option at the Parkins Offset Dyke in the east, to beyond the Foy Offset Dyke in the west, a distance of over 40 kilometres. The property encompasses the Company's recently acquired Copenhagen Property.

**6. STOCK OPTIONS**

The following are the stock option transactions during the period:

|  | Number of<br>Stock Options | Weighted Average<br>Exercise Price |
|--|----------------------------|------------------------------------|
| Outstanding at the beginning of the year | 4,525,000                  | \$ 0.41                            |
| Granted during the period                | 1,787,500                  | 0.55                               |
| Exercised during the period              | (25,000)                   | 0.35                               |
| Cancelled during the period              | (1,325,000)                | 0.56                               |
| Outstanding at the end of the period     | 4,962,500                  | \$ 0.43                            |

As of June 30, 2004, the following stock options were outstanding:

| EXERCISABLE<br>OPTIONS | NUMBER OF<br>OPTIONS | EXERCISE<br>PRICE<br>\$ | EXPIRY<br>DATE     |
|------------------------|----------------------|-------------------------|--------------------|
| 2,512,500              | 2,512,500            | 0.20                    | June 5, 2008       |
| 300,000                | 300,000              | 0.35                    | June 5, 2008       |
| 375,000                | 375,000              | 0.35                    | July 18, 2008      |
| 200,000                | 200,000              | 0.56                    | November 21, 2008  |
| 150,000                | 150,000              | 0.60                    | September 18, 2006 |
| 187,500                | 187,500              | 0.62                    | December 11, 2008  |
| 50,000                 | 50,000               | 0.70                    | November 17, 2008  |
| 900,000                | 900,000              | 0.56                    | January 20, 2009   |
| 187,500                | 187,500              | 0.62                    | June 17, 2009      |
| 100,000                | 100,000              | 0.35                    | June 17, 2009      |
| 4,962,500              | 4,962,500            |                         |                    |

During the six months ended June 30, 2004, 1,787,500 stock options were granted to directors and officers of the Company and 175,000 options vested. The fair value of each option was estimated on the date of grant using the Black Scholes option pricing model with the following assumptions: dividend yield 0%; expected volatility of 100%; risk free interest rate of 4% and an expected average life of five years. This generated an expense to stock option compensation of \$775,172. Also during the six months ended June 30, 2004 1,325,000 options were cancelled generating a credit to stock option compensation of \$552,060. The net amount of \$223,112 has been expensed to the Statement of Operations and Deficit and credited to contributed surplus on the Balance Sheet



**CROWFLIGHT MINERALS CORPORATION**  
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7. RELATED PARTY TRANSACTIONS

The Company was charged \$80,000 by directors or companies controlled by directors for professional and consulting fees for the two quarters ended June 30, 2004.

The Company shares its premises with other companies that have common directors, the Company reimburses the related companies for their proportional share of the expenses.

8. SUBSEQUENT EVENTS

In July 2004, the Company advanced Falconbridge cash of \$1,250,000 for initial exploration on the Thompson properties.

9. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted in the current reporting period.

# **CROWFLIGHT MINERALS INC.**

## **Management Discussion and Analysis of financial condition and results of operations for quarter ended June 30, 2004**

The following Management Discussion and Analysis should be read in conjunction with the Company's Unaudited Consolidated Financial Statements for the six months ended June 30, 2004, the Management Discussion and Analysis for the three months ended March 31, 2004 and the Company's Annual Audited Consolidated Financial Statements for the year ended December 31, 2003 together with the Management Discussion and Analysis filed with the annual report for the year ended December 31, 2003.

The statements for the six months ended June 30, 2004 have not been reviewed by the Company's auditors.

References to the first and second quarters of 2004 and the first and second quarters of 2003 mean the three months ended March 31, and the three months ended June 30 2004 and 2003 respectively.

### **SIGNIFICANT ACCOUNTING POLICIES:**

A detailed summary of the Company's significant accounting policies is included in note 2 of the Company's Annual Audited Consolidated Financial Statements for the year ended December 31, 2003. The Company has used the same accounting policies as outlined in note 2 of the 2003 Annual Audited Financial Statements in the preparation of the financial statements for the two quarters ended June 30, 2004.

### **OVERVIEW**

Crowflight Minerals Inc. is a junior mining company exploring for Copper, Nickel and Platinum Group Metals ("PGM's") on several properties of high potential, in the Sudbury Basin area of Ontario, and in the Thompson Nickel Belt, Manitoba, Canada. Encouraging results have been reported from neighboring properties owned by Inco and Falconbridge.

The Company's mining interests are situated in Sudbury, Ontario, Canada and most recently, Thompson, Manitoba, Canada.

The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. The recoverability of amounts shown for mineral properties and related deferred expenditures is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mining claims, the ability of the Company to obtain necessary financing to complete the development, and upon future profitable production or proceeds from the disposition thereof. The ability of the Company to continue as a going concern is dependent on the Company's ability to

obtain future financing. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

During the last half of 2003, the Company raised \$10 million in private placements of which \$4.5 million related to flow-through shares. Prior to June 2003, exploration progress on the Sudbury Basin properties by the previous management had been slow due to lack of financial capacity. Since June 2003 there has been major activity. The following commentary will include all material events and activities to the date of this report as well as a description of each active property and the cost commitments by the Company related to those properties.

## **EXPLORATION PROPERTIES:**

### **THOMPSON NICKEL BELT PROPERTIES - MANITOBA**

On June 16, 2004 The Company entered into a joint venture agreement with Falconbridge Limited to explore and develop certain properties in the Thompson Nickel Belt.

The properties cover more than 190 square kilometres of Mining Leases and claims located in the Wabowden segment of the TNB, located 100 kilometres south of Inco's producing mines (Thompson and Birchtree) which yielded more than 100 million pounds of nickel in 2003 along the same mineralized belt. The TNB hosts nickel mineralization along a well established geological trend, extending for over 250 kilometres. The belt has yielded an estimated 4.5 billion pounds of Nickel in past production. Inco operates the Thompson and Birchtree Mines, which host reserves of 34 million tonnes 2.19% Nickel and 0.15% Copper. Falconbridge has been an active participant in the TNB since the early 1960's and has produced an extensive technical database for the Wabowden segment of the Belt.

Crowflight is required to spend \$18 million over 3 years in an initial earn-in period to acquire a 50% interest in the Bucko Resource Deposit and a 25% interest in the Bucko/Bowden, Halfway Lake and Resting Lake claims. Crowflight will be the operator with respect to the Bucko Resource Deposit and Falconbridge will be the operator with respect to the Bucko/Bowden, Halfway Lake and Resting Lake claims.

Crowflight may elect to increase its interest to 100% in the Bucko Resource Deposit by making a production decision and by arranging for financing for the development of the reserves. As well, Crowflight can increase its interest to 50% in the Bucko/Bowden and Exploration Claims by incurring an additional \$7 million in exploration expenditures.

In addition to the expenditures, on July 21, 2004, Crowflight issued Falconbridge 2 million common shares of the Company and 5 million warrants. The 5 million warrants consist of 2.5 million warrants exercisable at \$0.35 valid for a period of 2 years and 2.5 million warrants exercisable at \$0.75 valid for a period of 2 years. Crowflight will also issue Falconbridge an additional one million common shares of the Company in June of 2005, 2006, 2007 and 2008.

The agreement also provides Falconbridge a back-in right, property buy back right, Joint Venture bump-up option, Net Smelter Returns royalty and an off-take right.

Falconbridge retains a one-time back-in right to 50% on the Bucko Resource Deposit, assuming:

- Crowflight earns its 100% interest in Bucko,
- a deposit is discovered within the Bucko Resource Deposit that exceeds 10 million tonnes with metal grades that indicate potential economic viability
- Falconbridge incurs 2x Crowflight's expenditures on Bucko to that point in time.

If Crowflight does not put the Bucko Resource Deposit in commercial production by year end 2010, and metal prices are at acceptable levels as defined in a bankable feasibility, Falconbridge may, at its sole option, purchase, for cash all interest in the Bucko Resource Deposit for fair market value.

If Crowflight earns either a 25% or 50% interest in the Bucko/Bowden or the Halfway Lake and Resting Lake properties, and an Inferred Resource is delineated and a scoping study completed, a new resource block will be created. Falconbridge will have the first right to bump-up its interest in each new resource block by an additional 20%, as long as it holds a 30% interest in the Bucko/Bowden property, by funding a bankable feasibility to a maximum of \$20 million within 3 years of the formation of the new resource block. Falconbridge will have 90 days to elect to bump-up; otherwise, Crowflight will have 90 days to make its election if the former does not elect to bump-up.

If Crowflight earns a 100% interest in the Bucko Resource Deposit, Falconbridge will retain a 2.5% NSR royalty or if a 50/50 joint venture is formed, should either party dilute to less than 10% they will be entitled to a 1% NSR subject to full buy-out by the other party for \$1 million. At Bucko Bowden, Halfway Lake and Resting Lake, should either party dilute to less than 10% they will be entitled to a 1% NSR royalty subject to the same buy-out clause as above.

Falconbridge will have the right to designate the facilities at which all concentrates will be smelted and refined, at market rates, or to purchase all of the concentrates produced from the properties.

On July 21, 2004 the Company also advanced Falconbridge for the first installment of \$1,250,000 for the third and fourth quarter 2004 exploration programs on the Bucko/Bowden Property and other Exploration Claims.

## **AER-KIDD PROPERTY- SUDBURY ONTARIO**

The property has been mined several times since its discovery in the 1880's. The last mining endeavor occurred in the mid 1960's when an estimated 250,000 tonnes of ore was mined, processed and shipped to local smelters for further treatment. The AER-Kidd property is a 1.8 km strike length located between Inco's Totten and McIntyre projects on the Worthington Offset Dyke, a radial fracture at the southwestern margin of the Sudbury Igneous Complex (SIC) in Ontario.

Inco's Totten property, adjacent to the west of the AER-Kidd project along the Worthington Offset Dyke, was mined from the 1880's until the mid 1970's. No production figures are available. During the mid 1990's, Inco commenced an exploration program on the property and has reported an estimated resource of 10.1 million tonnes grading 2.0% copper, 1.5% nickel and 4.8 g/t PGM's.

The FNX Victoria Project is located 1.5 km northeast of the AER-kidd property along the Worthington Offset at the contact with the Sudbury Igneous Complex (SIC). Inco operated the Victoria project from 1900 to 1978, where a reported 1.5 million tonnes grading 2.26% copper and 1.57% nickel were reportedly processed. FNX Mining acquired the Victoria Project in the late 1990's.

FNX recently discovered the Powerline Zone, which is immediately adjacent to the Victoria property but hosted by the radial Worthington Quartz Diorite Offset Dyke. This discovery was made following a geophysical survey in 2002. It has been reported from exploration core drilling, that intersections grading 7.7% copper, 1.5% nickel and 15.5 g/t PGM's have been encountered. FNX continues its exploration on the Powerline Zone.

A technical report on the AER-Kidd property was prepared by John Buckle P.Geol., and is filed on SEDAR to which the reader is directed. In general, potential polymetallic Nickel bearing sulphide ore deposits are found in two prominent settings. The embayment situated deposits, essentially mined and controlled by Inco and Falconbridge, are located along the footwall contact of the Sudbury Igneous Complex.

The second setting, situated in the country rocks, occurs in association with radial offset dykes of quartz diorite composition (example, Inco's Copper Cliff offset which has yielded approximately 60 billion (US) in 2001 dollars) and concentric Sudbury Breccias/Quartz Diorite (example, Inco's Frood Stobie which has yielded approximately 160 billion (US) in 2001 dollars). Both these Inco operations were discovered prior to 1900 and are still large contributors to Inco's financial success.

Crowflight's program of data compilation on the AER-Kidd project began anew on June 5, 2003. Drill core data from previous mining operations, past exploration programs, and geophysics data from previous Crowflight exploration programs were assembled and reviewed. A new Sudbury office was established where all previous drill core was re-logged and re-sampled where deemed necessary

A number of continuous channel sample traverses were initiated following detail geological mapping and verification of relevant geological structures along the Worthington Quartz Diorite Offset Dyke.

A major drill program (Phase 1) commenced in December 2003 and, as of the reporting period, was still in progress with 13,000 metres of drilling completed in 22 diamond drill holes. Twelve targets were identified from the geophysical evidence located at vertical depths ranging from -300 to -1,500 metres. Eight drill holes have intersected sulphide bearing Quartz Diorite (QD) of Worthington Offset in DDH-WO-01, 03AW1, 03AW4, 04, 04W1, 05, 06 and 07. Another ten core drill holes did not intersect the QD (DDH-WO-02A, 02AW1, 02AW2, 03A, 03AW2, 03AW3, 04W2, 07A, 08 and 09) due to the QD being cut-off by gabbro dykes, displaced by faults or oriented differently than predicted; and another four core drill holes had to be abandoned (DDH-WO-02, 03, 07W1 and 07AW1) due to excessive deviation prior to reaching the intended sulphide target.

Phoenix Geophysics Limited of Toronto, Ontario completed a Magnetotelluric (MT) geophysical survey (1) over an unsurveyed segment of the property, at Perch Lake, covering 800 metres of prime Worthington Offset Dyke. Compiling all of the drill hole and geophysical data has produced a more precise 3-D interpretation of the MT geophysical anomalies. The MT geophysical anomalies generally depict conductive sulphides, such as stringer, semi-massive and massive sulphides, as well as clouds of disseminated sulphides. The 3-D modeling is indicating that the previously identified MT geophysical anomalies "A" (sector of DDH-WO-03 and 04, east of the Robinson workings), "C" (sector of DDH-WO-05, 07 and 09, below the Rosen workings), and "D" (sector of DDH-WO3-01, 02, 06, and 08, east of the Howland Pit) along the Worthington Offset Dyke are re-confirmed as conductive targets centered at 800 metres vertical depth.

The drilling to date has already indicated conductive disseminated and stringer sulphides in anomaly "A" and "C", whereas "D" has yet to be intersected. The new data shows a strong MT anomaly from a depth of 600 meters to greater than 1000 meters (anomaly "H"). A second, very large MT geophysical anomaly ("I") was also detected under Perch Lake at an indicated depth of 1,500 meters.

Crowflight has initiated a series of diamond drill holes (DDH-WO-10, 11 and 12) to test the Perch Lake deep MT geophysical anomalies.

#### **AIRPORT PROPERTY - SUDBURY ONTARIO**

Crowflight has a 50% interest in the Airport project with Millstream Mines on this eight-claim property located east of the southeast rim of the Sudbury Basin, in Falconbridge Township. The property contains several anomalous nickel-copper-PGM showings

within unusually wide thicknesses of Sudbury Breccia. In order to maintain its 50% interest in the Airport J.V. Property, Crowflight has to fund a total of \$1,000,000 of exploration expenditures over a two-phase exploration program. Phase I has been completed and phase II is required to be completed within 24 months of the completion of Phase I. Millstream was the operator for Phase I. For Phase II Crowflight is the operator.

Significantly, the Crowflight-Millstream Sudbury Breccias appear to be inadequately studied and evaluated despite representing the east to north extension of the Kirkwood-Frood Stobie Sudbury Breccias – Quartz Diorite bearing ores. The Phase II program included an airborne MegaTEM geophysical survey which was completed during the reporting period. Conductors outlined by the survey would potentially be indicative of massive sulphide targets. A follow up drill program is planned to test the conductive anomalies.

### **MARBLE MOUNTAIN – SUDBURY ONTARIO**

In December 2003, the Company acquired 100% of the Marble Mountain Prospect located 10 km northeast of the Sudbury Igneous Complex (SIC) in Parkin Township. The property covers a 6.5 km strike length of an apparently previously unrecognized concentric offset dyke which appears to be the western extension of the Parkin offset immediately to the west of property. The Milnet Mine, a former Ni-Cu-PGM producer, is located on the Parkin offset. The 2,000 hectare land package consists of 60 mining claims (comprising 73 claim units).

Under the agreement the Company can acquire a 100% interest in the property by providing the Vendors with:

- (1) \$20,000 and 50,000 common shares on or before January 4, 2004 (paid and issued);
- (2) \$25,000 and 50,000 common shares on or before December 1, 2004;
- (3) \$30,000 on or before December 1, 2005; and
- (4) \$150,000 on or before December 1, 2006.

The Vendors will retain a 2.5% net smelter royalty (the “NSR”) and will be paid a semi-annual royalty payment of \$10,000 commencing on June 1, 2007. The Company has the option to purchase 1.5% of this NSR for \$1,500,000, with all advance and regular royalty payments reducing the \$1,500,000 buyout amount on a dollar for dollar basis. In addition, the Company is required to carry out a minimum work commitment of \$600 per unit each year (\$43,800 annually) to maintain the property in good standing.

### **COPENHAGEN PROPERTY - SUDBURY ONTARIO**

On February 19, 2004, the Company entered into an option agreement to acquire 100 % of the Copenhagen Property located in the Kitchener and Hutton Townships of the North Range sector of the Sudbury Basin. The property consists of 39 claim units totaling 624 hectares. The property hosts similar type mineralization to the Marble Mountain Project.

Exploration activities on the property commenced in the early 1900's with the development of the Copenhagen shaft. Limited production of Copper and Nickel was reported from the shaft area and surface trenches as reported in an Ontario Department of Mines report, 1932.

Under the agreement the Company can acquire a 100% interest in the property by providing the vendors with:

- (1) \$9,000 and 15,000 common shares on the completion of due diligence (paid and issued on April 6, 2004);
- (2) \$8,000 and 15,000 common shares on or before May 1, 2004 (paid and issued on April 20 and April 21, 2004 respectively);
- (3) \$8,000 and 20,000 common shares on or before July 1, 2004;(paid and issued on July 1 and June 30, 2004 respectively)
- (4) \$25,000 and 50,000 common shares on or before February 19, 2005;
- (5) \$30,000 on or before February 19, 2006; and
- (6) \$150,000 on or before February 19, 2007.

The vendor will retain a 2.5% net smelter royalty (the "NSR") and will be paid a semi-annual royalty payment of \$10,000 commencing on August 19, 2007. The Company has the option to re-purchase 60% of this NSR (or the equivalent of a 1.5% NSR) for \$1,500,000, with all advance and regular royalty payments reducing the \$1,500,000 buyout amount on a dollar for dollar basis. In addition, the Company is required to carry out a minimum work commitment of \$600 per unit each year (approximately \$33,000 annually) to maintain the property in good standing.

### **PETER'S ROOST - SUDBURY ONTARIO**

The Company has acquired by staking the Peter's Roost Property, a major land package along the North Range of the Sudbury Basin, a total of 927 claim units covering 14,830 hectares in Hutton, Kitchener, Tyrone, Leinster, Creelman, Roberts and Botha Townships were acquired during the first quarter of 2004.

The property extends along two predominantly east-west trending concentric corridors extending from the Company's Marble Mountain Option at the Parkins Offset Dyke in the east, to beyond the Foy Offset Dyke in the west, a distance of over 40 kilometres. The property encompasses the Company's recently acquired Copenhagen Property.

Fugro Airborne Surveys of Ottawa, Ontario, completed an airborne MegaTEM II geophysical survey. The survey was performed under the supervision of Stephen Reford, P.Eng. and Karl Kwan, M.Sc., Consulting Geophysicists, from Paterson, Grant & Watson Limited. The MegaTEM survey could potentially identify conductive targets to greater depths than historic airborne surveys, with the likely targets being conductive stringer, semi-massive and/or massive sulphides in association with the Sudbury Offset Dykes. The MegaTEM system is ideal as a first pass survey over large prospective areas in order to identify sulphide bearing conductive targets. The MegaTEM II survey is being complemented by a lineament and alteration study undertaken by Terrageos Remote



Sensing of Montreal, Quebec, using the latest in remote sensing technology and processing techniques. Combining the results from these two well known exploration tools will assist Crowflight in the identification of massive sulphide targets for the current 2004 exploration program.

Follow up detailed ground geophysical surveys, such as Transient EM (TEM) and Magneto-tellurics (MT), will identify more precisely to a 1,000+ metre vertical depth the most promising targets from the airborne survey and remote sensing study. Additional prospecting, geological mapping and sampling of the identified targets, followed by core diamond drilling, is also planned.

### **MYSTERY OFFSET DYKE PROPERTY - SUDBURY ONTARIO**

On April 8, 2004 the Company entered into an agreement to acquire 100% of the "Mystery Offset Dyke Property" (MOD Property), along the Mystery Offset Dyke, located in Lorne Township of the South Range sector of the Sudbury Basin. On April 8, 2004 the Company paid an investigation fee on the signing letter of intent. The Company has not pursued this property and will be required to renegotiate the terms should it intend to do so.

## **LIQUIDITY AND CAPITAL RESOURCES**

As at June 30, 2004, the Company had working capital of \$2,731,127 compared to working capital of \$6,607,767 as at December 31, 2003. The Company has completed 13,000 meters of its planned 17,500 meter drill program on the AER Kidd Property, and has used working capital to complete its staking of the Peter's Roost Property, to make the initial property payments on the Marble Mountain property and the Copenhagen Property, most recently to complete an airborne MegaTEM geophysical survey over the Sudbury Basin properties and to support corporate overheads.

In July 2004, the Company advanced Falconbridge \$1,250,000 for initial exploration on the Thompson properties.

## **RESULTS OF OPERATIONS**

The income for the quarter ended June 30, 2004 was \$71,570 compared to a loss of \$156,417 for the same period in 2003. Included in the income for the second quarter of 2004 is a non cash recovery of \$421,888 relating to the application of the fair value based method of accounting for stock based compensation, the Company cancelled options resulting in this recovery.

Upon removing the large non-cash recovery, the other expenses were \$350,318 for the quarter ended June 30, 2004 compared to \$152,417 for the quarter ended June 30, 2003.

Crowflight repositioned itself during the last half of 2003 which is reflected in the increased spending levels during the first and second quarters of 2004 as compared to the first and second quarters of 2003. A professional management and consulting team was put in place and the Company has increased spending in most areas to enhance shareholder communication, streamline administration and position itself for exploration growth.

### Quarterly information

The quarterly results have been as follows:

Tabular amounts in \$000 except for per share amounts

|   | Q1      | Q2     | Q3     | Q4     |
|---|---------|--------|--------|--------|
| <b>2004</b>                                     |         |        |        |        |
| Net Income (loss)                               | (793)   | 71     |        |        |
| Income (loss) per share basic and fully diluted | (0.016) | 0.002  |        |        |
| Total assets                                    | 10,604  | 10,811 |        |        |
| Total Long term liabilities                     | 0       | 0      |        |        |
| <b>2003</b>                                     |         |        |        |        |
| Net Income (loss)                               | (59)    | (157)  | (224)  | (881)  |
| Income (loss) per share basic and fully diluted | 0       | (0.01) | (0.01) | (0.02) |
| Total assets                                    | 2,569   | 3,732  | 6,946  | 10,758 |
| Total Long term liabilities                     | 0       | 0      | 0      | 0      |
| <b>2002</b>                                     |         |        |        |        |
| Net Income (loss)                               | (30)    | (35)   | (18)   | (302)  |
| Income (loss) per share basic and fully diluted | 0       | 0      | 0      | (0.01) |
| Total assets                                    | 2,373   | 2,391  | 2,393  | 2,664  |
| Total Long term liabilities                     | 0       | 0      | 0      | 0      |

### Annual information

The annual results have been as follows:

Tabular amounts in \$000 except for per share amounts

|   | 2003    | 2002   | 2001   |
|---|---------|--------|--------|
| Net Income (loss)                               | (1,321) | (385)  | (422)  |
| Income (loss) per share basic and fully diluted | (0.04)  | (0.02) | (0.02) |
| Total assets                                    | 10,758  | 2,664  | 2,356  |
| Total Long term liabilities                     | 0       | 0      | 0      |

## **CASH FLOWS**

Cash Flows to Operating Activities before net change in non-cash working capital for the second quarter 2004 was (\$332,121) compared to (\$151,632) to operating activities for the same period last year.

The increased Cash Flow to operating activities is a result of the repositioning of the Company as mentioned under the results of operations section.

Cash Flows (to) Financing Activities were (\$14,466) for the second quarter 2004 compared to \$1,348,170 from Financing Activities during the same period for 2003. The Company completed a financing in the second quarter of 2003 which allowed it to start its repositioning.

Cash Flows (to) Investing Activities for the second quarter 2004 were (\$1,813,646) compared to \$39,167 from operating activities for the same period last year. During the second quarter 2004, the Company spent \$1,114,160 on the AER KIDD property, (\$7,132) on the Airport Property, \$150,668 in the Sudbury Basin in general related to all projects, \$341,677 on Peter's Roost, \$49,918 on the Marble Mountain Property, \$49,109 on the Copenhagen, \$100,295 on the Mystery Offset Dyke, \$7,100 on the Thompson Manitoba Properties and \$7,851 on fixed assets. The Company has completed its 13,000 meters of its planned 17,500 meter drill program on the AER Kidd Property and the current cash will be utilized to evaluate the data and support the commitments as outlined under the Exploration Properties section and support the corporate burn rate.

## **TRANSACTIONS WITH RELATED PARTIES**

Amounts paid to related parties for fees and consulting services provided in the normal course of business totaled \$ 80,000 for the six months ended June 30, 2004

The Company shares its premises with other companies that have common directors, the Company reimburses the related companies for their proportional share of the expenses.

## **OUTSTANDING SHARE DATA**

As at June 30, 2004, 50,762,541 common shares of the Company were outstanding. Of the options to purchase common shares issued to service providers under the share option plan of the Company, 4,962,500 remain outstanding with exercise prices ranging from \$0.20 to \$0.70, with expiry dates ranging between September 18, 2006 and June 18, 2008. If exercised, 4,962,500 common shares would be issued for proceeds of \$1,747,250.

As at June 30, 2004 12,067,276 share purchase warrants and 506,283 warrant units were outstanding with exercise prices ranging from \$0.20 to \$1.25, expiring between

November 28, 2004 and September 3, 2005. If all warrants and units were exercised 12,826,700 common shares would be issued for proceeds of \$6,881,216.

## **RISKS AND UNCERTAINTIES**

Mining exploration inherently contains a high degree of risk and uncertainty. Solid professional management and experienced personnel with high standards of care can mitigate some of these risks. Risks would include but not be limited to unfavourable drill results including uneconomic grades or costs of recovery, falling copper, nickel or PGM commodity prices, a strengthening Canadian dollar versus the US dollar, unfavourable costs, falling capital markets and key personnel changes.

## **OUTLOOK**

Crowflight's exploration strategy developed in the early part of 2004 was three-fold and focussed on adding shareholder value in the near term by:

- Finding a significant Nickel-Copper-Platinum Group Elements (PGE's) orebody at economic grades based on today's metal prices within Crowflight's current and acquired portfolio of 100% owned and joint venture properties,
- Using the most advanced exploration tools in geophysics and geology to define the orebody within a 2 to 3 year window, and drive the work programs efficiently towards feasibility and reserves,
- Establishing partnerships with Major Producers that would insure quality projects in established base and precious metal Camps, where the best place to find deposits is adjacent other deposits.

Crowflight is on track with its plan. The Company looks forward to the next year as it endeavors to discover a significant Nickel, Copper, Platinum Group Minerals (PGM's) from its pipeline of high quality projects in the World Class mining centres of Sudbury, Ontario and Thompson, Manitoba.

## **FORWARD-LOOKING STATEMENTS**

The quarterly report, including this MD&A, contains certain forward-looking statements related to, among other things, expected future events, future spending levels and the future financial and operating results of the Company. Forward-looking statements are encouraged to enhance communication but are subject to inherent risks and uncertainties including but not limited to, market and general economic conditions, changes arising as drilling results unfold, changes in regulatory environments affecting the Company and the availability and terms of subsequent financings. Other risks and

uncertainties are detailed above. Consequently, actual results and events may differ materially from those included in, contemplated or implied by such forward-looking statements for a wide variety of reasons. Readers are therefore cautioned not to place undue reliance on any forward looking statement.

August 27, 2004