

*A copy of this preliminary prospectus has been filed with the securities regulatory authorities in British Columbia and Alberta but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for this prospectus is obtained from the securities regulatory authorities.*

THIS PROSPECTUS CONSTITUTES A PUBLIC OFFERING OF THESE SECURITIES ONLY IN THOSE JURISDICTIONS WHERE THEY MAY BE LAWFULLY OFFERED FOR SALE AND THEREIN ONLY BY PERSONS PERMITTED TO SELL SUCH SECURITIES.

NO SECURITIES REGULATORY AUTHORITY HAS EXPRESSED AN OPINION ABOUT THESE SECURITIES AND IT IS AN OFFENCE TO CLAIM OTHERWISE.

**Preliminary Prospectus**  
**INITIAL PUBLIC OFFERING**  
**August 22, 2003**

**CARMAX EXPLORATIONS LTD.**

1180 – 625 Howe Street, Vancouver, British Columbia V6C 2T6  
Telephone: (604) 408-2212  
Facsimile: (604) 689-4143

1,750,000 Regular Units  
and 1,250,000 Flow-Through Units

This prospectus (the “Prospectus”) qualifies an offering (the “Public Offering”) to the public through Haywood Securities Inc. (the “Agent”) of 1,750,000 non flow-through units (the “Regular Units”) in the capital of Carmax Explorations Ltd. (the “Company”) and 1,250,000 flow-through units (the “FT Units”) and together with the Regular Units, the “Offered Units”) in the capital of the Company at a price of \$0.20 per Regular or FT Unit. A Regular Unit consists of one share and 1/2 non-transferable Series “A” warrant. A FT Unit consists of one flow-through share and 1/2 non-transferable Series “A” warrant. Each Series “A” warrant provides a holder with the right to subscribe for one additional non flow-through common share for \$0.25 for a period of 12 months from the date of completion of the offering. The following tables reflect the gross and net proceeds to be raised through the Public Offering of Regular Units and FT Units that may be sold.

<b>Regular Units</b>	<b>Price to the Public<sup>(1)</sup></b>	<b>Agent’s Commission<sup>(2)</sup></b>	<b>Proceeds to the Company<sup>(3)</sup></b>
Per Offered Unit	\$0.20	\$0.02	\$0.18
Public Offering	\$350,000	\$35,000	\$315,000

<b>FT Units</b>	<b>Price to the Public<sup>(1)</sup></b>	<b>Agent’s Commission<sup>(2)</sup></b>	<b>Proceeds to the Company<sup>(3)</sup></b>
Per Offered Unit	\$0.20	\$0.02	\$0.18
Public Offering	\$250,000	\$25,000	\$225,000

<sup>(1)</sup> The offering prices of the Offered Units were determined by negotiation between the Company and the Agent.

<sup>(2)</sup> A commission of 10% of the gross proceeds of the offering will be paid to the Agent. In addition, the Agent will be granted a warrant (the “Agent’s Warrant”) to acquire common shares of the Company in an amount equal to 20% of the Offered Units sold in the Public Offering at an exercise price of \$0.20 per share for a period of one year from the completion of the offering. The Agent’s Warrant is qualified by and will be distributed pursuant to this Prospectus. The Company has also agreed to issue the Agent 150,000 common shares of the Company (the “CF Shares”) as a corporate finance fee. The distribution of the CF Shares will also be qualified under this Prospectus. The Agent’s commission and expenses will be paid out of proceeds from the sale of Regular Units. See “Plan of Distribution”.

<sup>(3)</sup> Before deducting estimated expenses of the Public Offering of \$75,000 which together with commissions and fees, will be paid out of cash on hand or proceeds from the sale of Regular Units.

The Agent, or registered sub-agents who assist the Agent in the distribution of the Offered Units, conditionally offers, on a commercially reasonable efforts basis, the Offered Units in British Columbia and Alberta, subject to prior sale, if, as and when issued and delivered by the Company and accepted by the

Agent in accordance with the conditions contained in the Agency Agreement referred to under "Plan of Distribution". Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice.

The offering is subject to a minimum subscription being received by the Company, being the sale of all of the Offered Units offered hereunder. If the minimum subscription is not achieved, then all subscription proceeds held by the Agent will be returned to subscribers in full without deduction or interest.

Certain legal matters relating to the Public Offering were passed upon on behalf of the Company by Kjeld Werbes Law Corp. and on behalf of the Agent by Getz Prince Wells.

INVESTMENTS IN NATURAL RESOURCE ISSUERS INVOLVE A SIGNIFICANT DEGREE OF RISK. THE DEGREE OF RISK INCREASES SUBSTANTIALLY WHERE THE COMPANY'S PROPERTIES ARE IN THE EXPLORATION AS OPPOSED TO THE DEVELOPMENT STAGE. THE PROPERTY OF THE COMPANY IS IN THE EXPLORATION STAGE AND IS WITHOUT A KNOWN BODY OF COMMERCIAL ORE. THE PROPOSED EXPLORATION PROGRAM IS AN EXPLORATORY SEARCH FOR ORE. INVESTORS SHOULD NOT INVEST ANY FUNDS IN THE PUBLIC OFFERING UNLESS THEY CAN AFFORD TO LOSE THEIR ENTIRE INVESTMENT. FOR FURTHER PARTICULARS, SEE "RISK FACTORS".

**THERE IS NO MARKET THROUGH WHICH THESE SECURITIES MAY BE SOLD AND PURCHASERS MAY NOT BE ABLE TO RESELL SECURITIES PURCHASED UNDER THIS PROSPECTUS. AN APPLICATION HAS BEEN MADE TO THE TSX VENTURE EXCHANGE (THE "EXCHANGE") TO APPROVE THE LISTING OF THE COMMON SHARES OF THE COMPANY. LISTING IS SUBJECT TO THE COMPANY FULFILLING ALL OF THE LISTING REQUIREMENTS OF THE EXCHANGE, INCLUDING PRESCRIBED DISTRIBUTION AND FINANCIAL REQUIREMENTS.**

NO PERSON IS AUTHORIZED BY THE COMPANY TO PROVIDE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS IN CONNECTION WITH THE ISSUE AND SALE OF THE SECURITIES OFFERED PURSUANT TO THIS PROSPECTUS.

**Agent**

**HAYWOOD SECURITIES INC.**

Commerce Place  
400 Burrard Street  
Suite 2000  
Vancouver, BC V6C 3A6

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**DEFINITIONS**

The following are certain defined terms used in this Prospectus. Terms and abbreviations used in the financial statements of the Company included in this Prospectus may be defined separately and the terms and abbreviations defined below may not be used therein. For definitions of technical terms used in this Prospectus, see "Glossary of Technical Terms and Abbreviations".

**"Agent"** means Haywood Securities Inc.;

**"Agent's Warrants"** means a warrant to acquire in the aggregate 600,000 common shares of the Company at an exercise price of \$0.20 per share for a period of one year from the date of closing of the Public Offering.

**"Board"** means the Board of Directors of the Company;

**"business day"** means any day, other than Saturday, Sunday or a statutory holiday;

**"Common Shares"** means the common shares of the Company;

**"Company"** means Carmax Explorations Ltd.;

**"Canada Business Corporations Act"** means an act described as R.S. 1985, c. C-44, and amendments thereto, and the regulations promulgated thereunder;

**"Escrow Agent"** means Pacific Corporate Trust Company in its capacity as escrow agent under the Escrow Agreement;

**"Escrow Agreement"** means an agreement between the Principals, the Company and the Escrow Agent regarding 4,000,000 Common Shares that will be deposited into escrow in connection with the Public Offering;

**"Exchange"** means the TSX Venture Exchange;

**"Executive Officer"** means, depending upon the context, in respect of the Company: (a) the Chairman or any Vice-Chairman of the Board of Directors of the Company, as the case may be, where that person performs the functions of that office on a full-time basis; (b) the President or any Vice-President in charge of a principal business unit division or function such as sales, finance or production; or (c) any officer of the Company or any subsidiary of the Company who performs a policy-making function in respect of the Company, as the case may be, whether or not that individual is also a director of the Company;

**"FT Units"** means 1,250,000 flow-through Units that may be sold under the Public Offering. Each FT Unit consists of one share and ½ warrant exercisable on a whole basis at a price of \$0.25 to purchase one additional common share of the Company for a period of 12 months following the date of closing of the Public Offering;

**"Insider"** means a director or senior officer of the Company; a director or senior officer of a company that is an insider or subsidiary of the Company; a person that beneficially owns or controls, directly or indirectly, voting shares carrying more than 10% of the voting rights attached to all outstanding voting shares of the Company; or the Company itself if it holds any of its own securities;

**"Management"** means management of the Company;

“**Offered Units**” means the FT Units and the Regular Units together;

“**Public Offering**” means the offering under this Prospectus of 1,750,000 Regular Units and 1,250,000 FT Units each at a price of \$0.20 per unit, raising \$350,000 on the Regular Units and \$250,000 on the FT Units;

“**person**” means any individual, partnership, association, body corporate, trustee, executor, administrator, legal representative, government, regulatory authority or other entity;

“**Principals**” means, collectively, Ernest S. Peters, Charles S. Underhill, Harry Bygdnes, and Jeffery Poloni;

“**Prospectus**” means the final prospectus qualifying the distribution of the Offered Units, the Agent’s Warrants and the CF Shares;

“**Regular Units**” means the 1,750,000 non flow-through Units that may be sold as part of the Public Offering. Each unit consists of one common share and 1/2 Series “A” share purchase warrant providing the holder with the right to subscribe for one additional common share for each warrant held at a price of \$0.25. The Series “A” warrants expire 12 months following the closing of the Public Offering;

“**Series “A” Warrant**” means the non transferable share purchase warrant attached to a unit providing the holder with the right to subscribe for one additional non flow-through common share at a price of \$0.25 for a period of 12 months from the date of closing of the Public Offering;

“**Shareholders**” means holders of Common Shares, unless the context indicates otherwise;

“**Technical Report**” means the technical report prepared by John R. Poloni P. Eng. dated February 26, 2003, in respect of the Whiskeyjack Creek Property;

“**Trustee**” means Pacific Corporate Trust Company in its capacity as registrar and transfer agent of the Common Shares;

“**Underlying Shares**” means common shares of the Company that may be acquired on the exercise of the warrants and the Agent’s Warrants.

“**Whiskeyjack Creek Property**” means the principal mineral property of the Company as described under “The Whiskey Jack Creek Property”;

“**\$000s**” means thousands of dollars in Canadian currency. Words importing the singular number only include the plural and vice versa and words importing any gender include both genders. All dollar amounts herein are in Canadian dollars, unless otherwise stated.

### **Metric Equivalents**

For ease of reference, the following conversion factors are provided:

<b>Metric Unit</b>	<b>Imperial Measure</b>	<b>Imperial Measure</b>	<b>Metric Unit</b>
1 hectare	2.47 acres	1 acre	0.4047 hectares
1 metre	3.28 feet	1 foot	0.3048 metres
1 kilometre	0.62 miles	1 mile	1.609 kilometres
1 gram	0.032 troy ounces	1 troy ounce	31.1 grams

1 kilogram	2.205 pounds	1 pound	0.454 kilograms
1 tonne	1.102 short Tons	1 short Ton	0.907 tonnes
1 gram/tonne	0.029 troy ounces/Ton	1 troy ounce/Ton	34.28 grams/tonne

## SUMMARY OF PROSPECTUS

*The following is a summary of the principal features of this distribution and should be read together with more detailed information and financial data and statements contained elsewhere in this Prospectus.*

<b>Company:</b>	Carmax Explorations Ltd.										
<b>Public Offering:</b>	This Prospectus qualifies the distribution of Offered Units raising up to \$600,000.										
<b>Price per Offered Unit:</b>	\$0.20 per Regular Unit and \$0.20 per FT Unit.										
<b>Conditions to Public Offering:</b>	The offering is subject to a minimum subscription being received by the Company, being the sale of all of the Offered Units. If the minimum subscription is not achieved, then all subscription proceeds held by the Agent will be returned to subscribers in full without deduction or interest.										
<b>Listing:</b>	An application has been made to the Exchange to approve the listing of the Common Shares. Listing will be subject to the Company fulfilling all of the requirements of the Exchange, including prescribed distribution and financial requirements.										
<b>The Business:</b>	The Company is a mineral exploration company. The Company's principal property is the Whiskeyjack Creek Property located in the Cairo Township, Matachewan Area, Larder Lake Mining Division, Ontario. The business of the Company consists of the acquisition, exploration and development (if warranted) of the properties in which it holds an interest. See "General Development of the Business" and "The Whiskeyjack Creek Property".										
<b>Use of Proceeds:</b>	<p>After deduction of the Agent's commission, the Company will receive proceeds of \$540,000 in the event that it completes the Public Offering. The working capital of the Company as at July 31, 2003 was approximately \$98,893. The Company intends to use the funds available to it on completion of the Public Offering as follows: (See "Use of Proceeds".)</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">1. To pay the balance of estimated costs of the Public Offering;</td> <td style="text-align: right; vertical-align: bottom;">\$ 60,000</td> </tr> <tr> <td>2. Phase I exploration program on the Whiskeyjack Creek Property;</td> <td style="text-align: right; vertical-align: bottom;">\$246,000</td> </tr> <tr> <td>3. General and administration;</td> <td style="text-align: right; vertical-align: bottom;">\$114,000</td> </tr> <tr> <td>4. Working capital;</td> <td style="text-align: right; vertical-align: bottom;"><u>\$218,893</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><b><u>\$638,893</u></b></td> </tr> </table>	1. To pay the balance of estimated costs of the Public Offering;	\$ 60,000	2. Phase I exploration program on the Whiskeyjack Creek Property;	\$246,000	3. General and administration;	\$114,000	4. Working capital;	<u>\$218,893</u>		<b><u>\$638,893</u></b>
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3. General and administration;	\$114,000										
4. Working capital;	<u>\$218,893</u>										
	<b><u>\$638,893</u></b>										
<b>Risk Factors:</b>	The Company and its business and operations will be subject to various risk factors as set forth under "Risk Factors". There is currently no market for the Common Shares. Investment in the Shares should be regarded as highly speculative due to the nature of the Company's business and its present stage of development. The Company presently has no producing properties and each of the properties in which the										

	<p>Company holds an interest is without a known body of ore. There is no assurance that commercial quantities of minerals will be discovered on any property in which the Company holds an interest nor is there any guarantee that the Company's exploration program on the Whiskeyjack Creek Property will yield positive results. The Company has no source of revenue and currently operates at a loss. Exploration, development and mining operations involve a high degree of risk that even a combination of experience, knowledge and careful evaluation may not overcome. It will be necessary for the Company to raise additional monies to carry out exploration or development on its properties and there is no assurance that additional funds can be obtained on terms acceptable to the Company or at all. Failure to obtain additional financing could result in delay or indefinite postponement of further exploration or development of the properties or loss of mineral claims. Metal prices have experienced significant price fluctuations over short periods of time and are affected by numerous factors beyond the control of the Company. Mining operations are subject to risks that may not be insurable or may not be insured against due to the high cost of coverage. The offering prices of the Regular Units and the FT Units exceed the net tangible book value attributable to each Common Share as at July 31, 2003, after accounting for the receipt of the net proceeds from the Public Offering, by \$0.1075, representing dilution factors of 53.73%. The Company has checked government records with respect to the claims comprising its properties, however this should not be construed as a guarantee of title. The Company's operations are subject to regulatory and environmental control by and require licences, permits and approvals from, governmental bodies over which the Company has no control. Directors' and officers' associations with other companies and businesses may give rise to conflicts of interest from time to time. Tax treatment of mining activities and flow through securities has a material effect on the advisability of purchasing FT Units. Following the completion of the Public Offering, excluding Common Shares that may be issued upon the exercise of outstanding warrants and stock options, the directors and officers of the Company will own up to 39.7% of the outstanding Common Shares of the Company. As a result, these shareholders will have the ability to control or influence the outcome of most corporate actions requiring shareholder approval.</p>
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**Summary Financial Information**

	Year Ended July 31, 2003 (audited) (\$)	Period from Incorporation To July 31, 2002 <sup>(1)</sup> (audited) (\$)
Interest income and other income	-	
Increase in mineral claims and deferred exploration costs	121,335	
Net income (loss)	(74,580)	
Current assets	103,064	1.00
Total assets	266,891	1.00
Current liabilities	4,171	-
Long term liabilities	-	-
Shareholders' equity (net deficit)	(262,720)	1.00
Number of Common Shares <sup>(2)</sup>	6,925,000	1

<sup>(1)</sup> During this period, the Company was inactive and issued only one Common Share, that being the share issued on incorporation.

<sup>(2)</sup> The number of Common Shares represents shares issued and outstanding as at the end of the period. See "Consolidated Capitalization" for information on Common Shares reserved for future issuance.

## **CORPORATE STRUCTURE**

### **Name and Incorporation**

The Company was incorporated on June 16, 2000, under the Canada Business Corporations Act as “Auratus Capital Corp.”. On October 3, 2002, the name of the Company was changed to “Carmax Explorations Ltd.”. The Company’s registered office is located at 708 – 1111 West Hastings Street, Vancouver, British Columbia V6E 2J3 and its head office is located at 1180 – 625 Howe Street, Vancouver, British Columbia V6C 2T6. The Company has no subsidiaries.

## **GENERAL DEVELOPMENT OF THE BUSINESS**

### **History**

On October 21, 2002, the Company entered into an option agreement (the “Option Agreement”) with Gino Chitaroni whereby the Company acquired an option to acquire a 100% right, title, and interest in and to 4 unpatented mineral claims located in the Cairo Township, Matachewan, Ontario, Canada (the “Optioned Property”).

### **Acquisitions and Dispositions**

Pursuant to the Option Agreement, the Company was granted an option to acquire a 100% interest in and to the Whiskeyjack Creek Property subject to a 3% net smelter return royalty (which could be reduced to a 1% net smelter return royalty after payment of \$2,000,000 on account of royalty payments). The material terms of the Option Agreement are described under “The Whiskeyjack Creek Property – The Option Agreement”. The Company plans to conduct exploration work on the Whiskeyjack Creek Property with a view to discovering commercial quantities of precious and/or base metals.

### **Description of the Business**

The Company’s business involves the exploration and development of mineral properties in Canada.

### **Stated Business Objectives and Milestones**

The Company’s primary objective following completion of the Public Offering is to carry out the exploration program recommended by John R. Poloni, P. Eng. and described in the section of this Prospectus entitled “The Whiskeyjack Creek Property”. Certain phases of the program will be carried out using the Company’s existing working capital and proceeds of the Public Offering. If the results of the initial phases of exploration prove to be encouraging, the Company may require additional capital prior to embarking on additional exploration work. The additional capital may come from future financings or through option agreements with one or more third parties. There can be no assurance that the Company will be able to raise such additional capital if and when required. See “Use of Proceeds” and “Risk Factors –Requirement for Further Financing”. The Company has no current plans to undertake exploration on its other properties.

## **THE WHISKEYJACK CREEK PROPERTY**

### **The Option Agreement**

Pursuant to the Option Agreement, Gino Chitaroni of Cobalt, Ontario (the “Optionor”), granted the Company an option to acquire a 100% interest in the Optioned Property which encompasses 42 contiguous units in four unpatented claims comprising the Whiskeyjack Creek Property subject to a 3% net smelter return royalty reducible to a 1% net smelter return royalty after

payment of \$2,000,000 on account of royalties. Mr. Chitaroni is not a related party of the Company.

In order for the Company to exercise its option, the Company must pay and satisfy the following obligations:

- a. pay to the Optionor \$10,000 representing staking costs (which amount has been paid) on execution of the Option Agreement;
- b. incur expenditures of \$100,000 on the Claims on or before October 31, 2003, the results of which give rise to recommendations for further exploration and development of the Claims (which amount has been spent);
- c. pay the Optionor the sum of \$10,000 on or before the expiration of 13 months from the date the common shares of the Company commence trading on the Exchange;
- d. incur expenditures of \$200,000 on the Claims on or before December 31, 2004, the results of which give rise to recommendation for further exploration and development of the Claims;
- e. pay to the Optionor the sum of \$10,000 on or before the expiration of 12 months from the date the payment referred to in subparagraph (c) above is due and payable; and
- f. pay to the Optionor the sum of \$15,000 on or before the expiration of 12 months from the date the payment referred to in subparagraph (e) above is due and payable.

#### **Independent Report on the Whiskeyjack Creek Property**

John R. Poloni, P. Eng., was retained by the Company to prepare a report (the "Technical Report") on the Whiskeyjack Creek Property. The Technical Report is dated February 26, 2003. The Technical Report is the source of all of the technical disclosure contained in this Prospectus relating to the Whiskeyjack Creek Property. The full text of the Technical Report is available for review at the Company's office located at #1180 – 625 Howe Street, Vancouver, British Columbia, V6C 2T6. John R. Poloni is the father of Jeffery Poloni a director of the Company. Notwithstanding the family relationship, John R. Poloni is at arm's length to the Company.

For definitions of technical terms used in this Prospectus, see "Glossary of Technical Terms and Abbreviations".

#### **Summary of Technical Report**

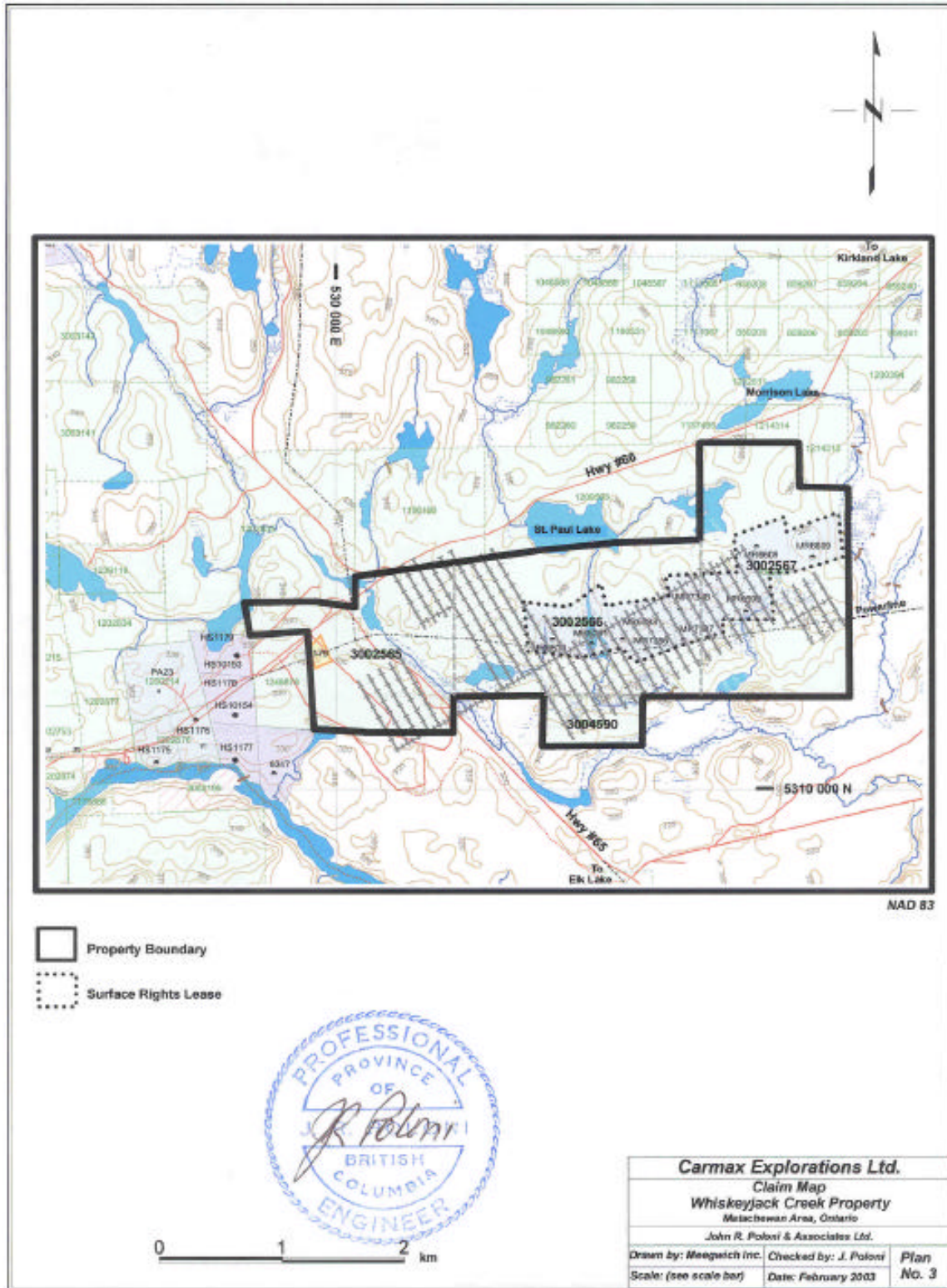
The following summary of the Technical Report is qualified in its entirety by the more detailed technical disclosure provided in the complete Technical Report.

#### **Property Description and Location**

The Whiskeyjack Creek Property consists of forty-two contiguous units of forty acres each for a total of 1680 acres (680 hectares), in four unpatented mining claims situated in the south section of Cairo Township in the Larder Lake Mining Division of Ontario at approximately 47 degrees 57 minutes North Latitude; 80 degrees 35 minutes West Longitude; NTS 41P/15, or NAD83, UTM, 530988mE, 5310366mN.

The property covers nine old claims and fractions to which the mining rights were forfeited to the Crown (MR 6610, MR 6391, MR 6393, MR 7386, MR 7387, MR 7388, MR 6699, MR 6608, MR 6609). Surface rights to these claims were transferred to Irene Cartwright and Robert Dawson on May 16, 1996 at 38T – Court Williamsville, New York, U.S.A. 14221. Mineral exploration is allowed by the Ministry of Northern Development and Mines on such lands but they must be informed of the planned exploratory surveys, with the surface rights holders

receiving copies of applicable permit forms. There have been no previous problems with work programs undertaken by the mining and exploration companies. The claim location status is shown on Claim Map Plan #3, contained in the technical report.



Save and except for the Optionor's Royalty referred to under the heading "The Option

Agreement” there are no other Royalties encumbering the Property.

## **Accessibility, Climate, Local Resources, Infrastructure and Physiography**

### ***Accessibility***

The Whiskeyjack Creek Property centered approximately 5km east of the town of Matachewan is transected by Highway #66 extending east to Kirkland Lake, and Highway #65 leading south to Elk Lake and the historical mining center of Cobalt. Several logging roads branch off from both Highways #66 and #65 giving access to the central portion of the claims. A high voltage power line runs east-west through the length of the property providing additional access.

### ***Climate***

Climatic conditions are typical of the easterly areas of the clay belt of northeastern Ontario with hot humid summers (temperatures 15<sup>o</sup>-30<sup>o</sup>) with ample rainfall and cold winters (temperatures 0<sup>o</sup>-30<sup>o</sup>) with moderate snowfall. Exploration activities can generally be carried out year round.

### ***Local Resources***

The town of Matachewan exists principally as a tourist resort center as mining activities have decreased in recent years except for periods of sporadic exploration. Mining is presently underway at a small barite deposit in the area. Logging activities have added to the local economy and have been undertaken on the easterly half of the Whiskeyjack Creek Property. The labour pool in the immediate area is small.

### ***Infrastructure***

Excellent access is available to the hydro electric power grid of northern Ontario with a main transmission line paralleling Highway #65 and a high voltage line running east-west across the claims. At one time the area was the center of an active mining environment but presently little exists which necessitates that all exploration and mining equipment and supplies must be obtained from Kirkland Lake, Timmins, Cobalt and Sudbury. There are adequate locations on the Whiskeyjack Creek Property for potential tailings storage, waste disposal, heap leach pads and plant sites.

### ***Physiography***

The Montreal River forms the principal drainage for the area flowing into Lake Temiskaming and the Ottawa – St. Lawrence River system. Elevations on the property approximate 1000 feet (305m) above sea level. The property exhibits gently rolling terrain. Hills and gullies appear to follow the main structural fabric in the area trending east-west; however Whiskeyjack Creek follows the Whiskeyjack fault with a northwest-southeast trend.

### **History**

The greatest period of activity for the Matachewan area in general, was between 1930 and 1960 with the discovery and production of the gold deposits at Matachewan Consolidated Mines Ltd. and the Young-Davidson Mines Ltd. Total production during the period 1934-57 amounted to 956,117 ounces of gold and 165,598 ounces of silver. Little activity occurred until after 1979 when Pamour Porcupine Mines Ltd. (a predecessor company of Royal Oak Mines Inc.) signed an option agreement on the two mines. In 1996 the project received advanced exploration status with reserves estimated as of December 31, 1995, as total mineral inventory at 15,229,000 tons

grading 0.076 oz Au/T (1,158,000 oz Au). Final designs and permitting were underway with a projected start of production to be 5000 tons per day from underground and open pit by late 1998. The project was shelved because of financial problems caused by the BreX scandal. Presently drilling is underway (Dec. 6, 2002) by Young Davidson on the Matachewan holdings with the company raising 2 million dollars for exploration (Northern Daily News, July 4/02).

With respect to the Whiskeyjack Creek property, no production has been achieved. There are presently no known mineral resources or reserves but the potential is excellent for these to be found.

The Dominion Gulf Company undertook a major exploration program in Cairo and Flavelle Townships in the early 1950's. Part of the area includes the present Carmax claims south of St. Paul Lake. H.B.Vos (in 1952), geologist for Dominion Gulf Company stated that a considerable amount of surface work had been completed by previous owners, including stripping and numerous rock trenches, with most of the trenches exploring a shear zone located approximately 250-300m south of St. Paul Lake. Grab samples were taken from quartz veins with widths up to two feet, containing fine disseminated to cubic pyrite showing traces of chalcopyrite. One trench containing chalcopyrite, malachite, hematite and calcite assayed 2.18% copper but nil in gold (assessment file No. 731). The Company also drilled two holes in 1952, of 1054 feet and 1100 feet, collared 50 feet south of Morrison Lake and directed at  $-45^{\circ}$  to the north under the lake with both holes intersecting a strong shear zone which is interpreted as the Larder Lake – Cadillac Break (LLCB). These holes are immediately north of the northeasterly property boundary. Another hole at  $-45^{\circ}$  and drilled north, collared on a silicified outcrop about ½ mile east of the junction of Highways #66 and #65 intersected silicified rock, tuff and mafic syenite dikes. A second hole from this location drilled at  $-45^{\circ}$  south intersected 83.5 feet of silicified breccia, then 80 feet of shear zone and then fragmental rocks. These holes are also located immediately north of the Whiskeyjack Creek Property, and also tested the L.L.C.B.

In 1954 the Asbestos Corporation Limited completed a magnetometer survey over the area south of Highway #66 and west of Highway #65, and drilled two holes totaling 144.2m targeting ultramafic rocks.

Rochester and Pittsburg Coal Company drilled five holes totaling 1626 ft. (496m) in 1957 to test the potential of the asbestos-bearing ultramafic complex along Highway #65. Four holes were drilled along a base line running east-southeast but the fifth could not be located. Fibre samples were not taken but a visual analysis of the serpentinized diorite indicated a fibre content of up to 7% in hole #4. One sample taken from hole #4 at 104-109 feet returned nil Au and Ag. Samples taken in zones of pyrite mineralization from hole #5 returned assays of 0.005 oz/T Au and 0.02 Ag ox/T. (assessment file #2402).

Newmont Exploration of Canada Ltd. undertook an exploration program in 1979 and 1980, consisting of geological mapping, trenching, sampling, a magnetometer survey, and an Induced Polarization survey in Cairo Township, encompassing the present Carmax claims. The work was successful in identifying two gold bearing units, a silicified pyrite rich mafic flow and a chert-graphite-pyrite-magnetite interflow oxide facies iron formation which may correlate regionally with the Boston Creek iron formation.

Falconbridge Ltd. "Goldhunter Option" undertook an exploration program in Cairo Township in 1986 which encompassed much of the present Carmax property. This work included airborne geophysics, 268 line-km of magnetics, electromagnetics and VLF-EM, additional trenching and/or cleaned out trenches in the Newmont work area, and the drilling of twelve BQ, diamond drill holes. There is no evidence that Falconbridge undertook any definitive ground geophysics prior to drill testing and holes were located on known showings, trenching, and geology. The drill

program, holes 611-1-86 to 611-12-86, totaled 1799.91 meters (5797.00feet). The most interesting results were encountered in drill hole 611-2-86 and 611-7-86 as tabulated below:

### **Table 8.1 Drill Hole Data**

Hole 611-2-86

<u>Interval</u>	<u>Width</u>	<u>Description</u>	<u>Assay Au ppb</u>
17.15-18.65	1.5m	Mafic Volc.Silicified	1723
22.44-22.87	0.43m	Silicified Volc. 3-5% py	385
25.80-27.00	1.20m	Felsic fragmental 3% py	640
27.00-27.41	0.41m	Felsic fragmental 8% py	715

Hole 611-7-86

12.72-14.17	1.45m	Silicified Syente	1005
39.97-40.90	0.93m	Qtz.Vein, Breccia	1010
47.07-48.07	1.00m	Iron formation 5-10% py	1510
48.07-49.10	1.03m	Iron formation 5-10% py	1370
76.20-77.65	1.45m	Qtz. Carb. Vein 3% py	1300
77.65-78.00	0.35m	Qtz. Carb. Vein 3% py	1370
78.00-79.00	1.00m	Qtz. Carb. Vein 3% py	1030

Other anomalous results were obtained in 611-9-86 at 67.0-68.0 = 1m of 240 ppb Au; 70.0-70.93 = 0.93m of 190 ppb Au; 72.95-73.95 = 1m of 210 ppb Au; 74.98-75.8 = 0.82m of 130 ppb Au and 88.9-89.9 = 1m of 130 ppb Au. Drill hole 611-12-86 contained two anomalous sections, 22.98-23.98 = 1m of 130ppb Au and 25.98-26.98 = 1m of 220 ppb Au.

### **Geological Setting**

#### ***Regional Geology***

The Matachewan area lies within the southwest portion of the Abitibi Greenstone Belt extending from Chibougamau in Quebec, to Timmins and the Swayze area to the north and west, respectively, in Ontario. This belt is a major Precambrian supracrustal volcanosedimentary sequence which hosts a prolific number of mineral deposits many of which are world class types such as the Horne Mine and Kidd Creek. The deposits encompass a great variety of mineral commodities including gold, copper, lead, zinc, molybdenum, nickel, silver, iron and asbestos. Gold camps of renown are Val D'Or, Cadillac-Malartic, Rouyn-Noranda, Kirkland Lake, Matachewan and the Timmins-Porcupine.

The oldest rocks in the Matachewan area are Archean volcanics which are overlain by tightly folded Temiskaming sediments. Felsic, mafic to ultramafic intrusive units "Algoman-Haileyburian" cut both the Archean and sedimentary rocks and are in turn cut by the north-trending Matachewan diabase dike swarms. Flat lying Proterozoic sedimentary rocks of the Cobalt Group-Gowganda Formation overlie all other units. These in turn are intruded by Nipissing diabase dikes.

#### ***Property Geology***

The property is underlain by a 1 ½ mile wide east-west to east-northeast trending assemblage of mafic to ultramafic metavolcanic rocks with felsic members and interflow-sedimentary units in

the central section intruded by a large conformable mafic to ultramafic body to the west and numerous smaller syenite to quartz diorite bodies to the east. The southern part of the property is underlain by trondjhemitic gneiss of the Round Lake Batholith and to the north, northerly of St. Paul Lake with syenite of the Cairo Stock. Flat lying Huronian sediments overlie the eastern portion of the property. Structurally, a major shear zone interpreted to be the south branch of the Larder Lake-Cadillac break trends on a west-southwesterly direction along Highway #66 parallel to the north property boundary. A major structure, the Montreal River-Whiskeyjack Creek Fault transects the property in a northwesterly direction along Highway #65.

### **Deposit Types**

Gold mineralization is known to occur on the property in a number of lithologic settings. Diamonds are also known to occur within heterolithic breccias and associated lamprophyre dikes such as at Wawa and Cobalt, Ontario (GQ property of Band-Ore Resources, Wawa) and (Cabo Mining Corporation, Lorraine Twp, Cobalt).

### **Mineralization**

Gold, copper, and nickel mineralization has been explored by trenching and drill testing as early as the 1930's. Most of the work is reported to have been undertaken south of St. Paul Lake or along the hydro power line. Assay data is limited for the early period of examination. One sample collected by the Dominion Gulf Company (1950's) contained 2.18% copper. Newmont Exploration Ltd. (1978) collected three samples which retained 0.135, 0.34 and 0.012 Au oz/T from material described as cherty pyritic exhalite and chloritic iron formation. Further sampling by Newmont of "green carbonates" zones extensively veined by white quartz generally less than 5 meters thick assayed 770 ppb for 2 meters and 540 ppb in a grab sample. The most significant exploration target identified at that time was a chert-graphite-pyrite-magnetite interflow sediment in zones generally less than 10 meters, with true dimensions difficult to estimate due to the disrupting influence of syenites nearby. Very high gold assays were obtained where the chert contained abundant fine grained pyrite near porphyritic syenites. Assays obtained were 2500 ppb and 5900 ppb Au over 2 meter intervals and grab samples of 64,800 ppb, 14,400 ppb, 2380 ppb, 940 ppb and 690 ppb from trench 9A. Trench and sample location are shown on Plan No. 6. In 1986 Falconbridge completed twelve diamond drill holes two of which returned interesting results as follows: Drill hole 611-2-86 returned assays of 385, 640, 715, and 1723 ppb gold and drill hole 611-7-86 returned assays of 1005, 1010, 1510, 1370, 1300, 1370, and 1030 ppb gold.

The mineralized zones are poorly described with respect to extent, width, continuity and depth in assessment report submissions. Better definition of mineralization will be a priority in the further evaluation of the property.

### **Survey Grid**

During October and November, 2002 a survey grid was established by a field crew organized by Meegwich Consultants Inc. of Temagami, Ontario. The grid consisted of three base lines, BL#1 for 3.3km, BL #2 for 0.4km and BL #3 for 0.3km for a total of 4.0 lined km. and 28.3 line km of grid line, with the purpose of revitalizing an established grid (1997) undertaken as a requirement for the completion of previous surveys. The present grid consist of five blocks covering (15) high priority targets which had been established by a Quantec IP Incorporated survey of magnetics and Induced Polarization (1997). Line separation was 100m and station interval 25m with line direction N150°E.

## Rock Samples – Method and Approach

Two rock samples were taken by the Company's consulting geologist in 2002 from an outcrop exposure of 12 meters x 4 meters situated south of St. Paul Lake. The samples were of the chip type, each of 3 meters in length E-W, 4 meters apart, representative of a volcanic breccia zone containing 3 to 5% pyrite. It is believed that this zone could be related to the southerly extension of the Browning Lake fault. Assay data is as follows:

**Table #12.1 Rock Samples**

<u>No.</u>	<u>Width</u>	<u>Description</u>	<u>Au ppb Ag ppm</u>		<u>Cu%</u>
Carmax #1	3.0m	Volc. Bx. 3-5% py	1445	<1	0.01
Carmax #2	3.0m	Volc. Bx/ 3-5% py	1090	2	0.01

## Realsection Array Resistivity and Induced Polarization Survey - Overview

During the period November 22<sup>nd</sup> to December 13<sup>th</sup>, 2002 a Time Domain Realsection Induced Polarization survey was undertaken by Quantec Geoscience Inc. on the Whiskeyjack Creek Property for the Company. The completed report is dated February 2003 and was submitted by Jean Legault P.Eng. Senior Geophysicist (Qualified Person), David MacGillivray Q.G.I., and G.R.J. Warne, Senior Geophysicist Q.G.I. Survey coverage consisted of 51.325 km on grid lines 100 meters apart with station intervals of 25 meters. Instrumentation consisted of, a Receiver (Elrec 1P-10), a transmitter (Phoenix IPT-1, 3kw/75-1200v output) and a MG-3 (2.5kva, 60v, 3 phase 400 Hz) motor generator.

Realsection surveys were chosen because of their high resolution and deep penetration capabilities and ability to define disseminated to massive sulphide mineralization to a depth of greater than 350 meters. Generally, the survey area covers the central portion of the property, south of St. Paul Lake which recent geological mapping indicates is underlain by mafic metavolcanic-metasedimentary units and a deformation zone which parallels the Larder Lake-Cadillac/Matachewan Break.

## Drilling

No drilling was undertaken as part of the surveys completed by the Company.

## Interpretation and Conclusions

The Whiskeyjack Creek Property lies within the southwest portion of the Abitibi Greenstone metallogenic belt which hosts a prolific number of mineral occurrences and deposits, many of which are world class types such as the Horne Mine at Noranda, Quebec and Kidd Creek at Timmins, Ontario. The deposits consist of a great variety of mineral assemblages, with gold being of prime significance in the Val D'Or, Cadillac, Rouyn-Noranda, Kirkland Lake, and Matachewan areas. Of importance to the gold camps, is the major structural feature, the Larder Lake-Cadillac Break (LLCB) which hosts or is associated with the gold mineralization.

Historical exploration on the property has covered geological mapping, trenching and sampling, geophysical surveys of VLF-EM, magnetics, Induced Polarization and diamond drilling undertaken by several companies.

The Company's exploration consists of a Time-Domain Realsection Assay Resistivity and Induced Polarization survey undertaken over five target areas previously defined in 1997 by a TDIP survey. Target models consist primarily of gold mineralization associated with disseminated sulphides in green-quartz-carbonate altered discordant shear zones or fault structures as well as Cu-Ni-PGM mineralization within ultramafic-metasedimentary interflows. In defining targets, geophysical interpretation was concentrated principally on the Realsection IP/Resistivity results and in particular the chargeability association which is a direct indicator for disseminated to massive sulphides as well as graphite and magnetite. In general, resistivity is an indicator of porosity and lithology, which is applicable in defining fault zones and shears, and magnetics is a direct indicator of magnetite, pyrrhotite and nickel-rich sulphides.

The Realsection coverage consisted of a definition of apparent resistivity and chargeability as relating to magnetics and defining of 25 profiles at 100-200 meter spacing, extending from surface to a depth of 250 meters. The coverage provided reliable cross-sectional imaging, at high resolution, for the purpose of drill targeting.

Survey results have defined twenty-four (24) diamond drill holes including eleven (11) priority #1 targets which host significant resistivity and chargeability responses relating to either Ni-Cu-PGM mineralization or gold within shear hosted , quartz carbonate altered zones.

Exploration in 2002 has significantly advanced the priority targets on the Whiskeyjack Creek property to the detailed drill phase. Greater comprehension of the relationship between the Realsection results and target models as compared to the geological and structural environments of the deposit at Matachewan Consolidates/Young Davidson has been achieved.

The work completed by the Company has been successful in meeting the original objectives of the survey.

## **Recommendations**

### ***Program***

A two phase exploration program costing \$632,100 is recommended for the Whiskeyjack Creek property. The first phase will consist of survey control, power stripping and washing, geology, rock sampling and analysis, and diamond drilling. If warranted by the initial results the second phase shall consist of Realsection Resistivity and Induced Polarization fill in, possibly bore hole TEM, and diamond drilling.

## **USE OF PROCEEDS**

After deducting the Agent's commission, the Company will receive proceeds from the Public Offering of \$540,000 if it completes the Public Offering. The working capital of the Company as at July 31, 2003 was approximately \$98,893. The Company intends to use the funds available to it following the Public Offering, namely the proceeds of the Public Offering and its working capital as at July 31, 2003, as follows:

To pay the balance of the estimated costs of the Public Offering	\$ 60,000
Phase 1 exploration program on the Whiskeyjack Creek Property <sup>(1)</sup>	246,000
Estimated general and administrative expenses for 12 months	114,000
General working capital	218,893
<b>TOTAL</b>	<b>\$638,893</b>

<sup>(1)</sup>\*Even if the Public Offering is completed, the Company will require additional funds to

complete Phase II of the exploration program recommended by John R. Poloni, P.Eng. There is no assurance that such financing will be available to the Company on terms acceptable to it, or at all. See “Risk Factors – Requirement for Further Financing”.

The Company intends to spend the funds available to it as stated in this Prospectus. There may be circumstances, however, where, for sound business reasons, a reallocation of funds may be necessary. The Company will only redirect the funds to other mineral properties on the basis of a recommendation from a professional geologist or engineer. If such event occurs during distribution of the securities offered under this Prospectus an amendment to this Prospectus will be filed.

### **ADMINISTRATION COSTS**

Over the 12 months following completion of the Public Offering, the Company expects to incur approximately \$114,000 in administration costs. An estimated breakdown of these costs is as follows:

	<b>Monthly (\$)</b>	<b>Yearly (\$)</b>
Consulting and contract fees	3,000	36,000
Bank charges and interest	40	480
Rent, parking, utilities and office supplies	2,000	24,000
Travel	250	3,000
Shareholders communications	1,000	12,000
Investor relations, including website and promotional materials	1,500	18,000
Transfer agent and regulatory fees	400	4,800
Professional fees	1,310	15,720

1. Of these budgeted monthly fees, \$30,000 is budgeted for management fees payable to Petco Enterprises, a company owned and controlled by Ernest S. Peters, the President of the Company and \$6,000 is budgeted for management fees payable to each of Charles Underhill and Harry Bygdnes. See “Executive Compensation – Proposed Compensation of Executive Officers and Directors”.

### **PLAN OF DISTRIBUTION**

#### **Public Offering**

Pursuant to the Agency Agreement dated August 19, 2003, between the Company and the Agent (the “Agency Agreement”), the Company has appointed the Agent to offer for sale to the public, on a commercially reasonable efforts basis, up to 1,750,000 Regular Units and up to 1,250,000 FT Units at prices of \$0.20 per Regular Share and \$0.20 per FT Share, subject to the terms and conditions of the Agency Agreement. The offering prices of the Offered Units were determined by negotiation between the Company and the Agent. The Agent has agreed to use its commercially reasonable efforts to secure subscriptions for the Offered Units on behalf of the Company and may make selling group arrangements with other investment dealers at no additional cost to the Company. The obligations of the Agent under the Agency Agreement may be terminated at the Agent’s discretion on the basis of its assessment of the state of the financial markets and upon the occurrence of certain stated events. Subscriptions for the Offered Units will be received subject to rejection or allotment in whole or in part and the Company and the Agent reserve the right to close the subscription books at any time without notice.

The offering is subject to a minimum subscription being received by the Company, being the sale of all of the Offered Units offered hereunder. If the minimum subscription is not achieved, then all subscription proceeds held by the Agent will be returned to subscribers in full without deduction or interest. Closing is

expected to occur not later than the Offering Deadline which is the later of 90 days after a final receipt is issued for this Prospectus and the expiration date of any extension thereof granted by the securities commissions with which the Prospectus is filed. Certificates representing the Offered Units will be available for delivery at Closing.

Pursuant to the Agency Agreement, the Agent will receive a commission of 10% of the gross proceeds from the sale of Offered Units sold for a total commission of \$60,000 if the Public Offering is completed. The Company also agreed to pay the Agent a retainer of \$20,000, which has been advanced as at the date of this Prospectus, and issue the Agent 150,000 CF Shares as a corporate finance fee. The distribution of the CF Shares is qualified under this Prospectus. The Company will also grant to the Agent the Agent's Warrant to purchase Common Shares in an amount equal to 20% of the Offered Units sold under the Public Offering at a price of \$0.20 per share for a period of one year. The distribution of the Agent's Warrant is qualified under this Prospectus. In addition, the Agent will be reimbursed for its legal fees and disbursements incurred in connection with the Public Offering. The Agent's commission and expenses will be paid out of proceeds from the sale of Regular Units.

Pursuant to the Agency Agreement, the Agent has also received a right of first refusal to provide any further equity financing for a period of 12 months following the closing of the Public Offering.

Subscriptions for the FT Units will be made pursuant to one or more subscription agreements to be made between the Company and the Purchasers but executed by the Agent or one or more subagents of the Agent, as agent for, on behalf of and in the name of the Purchasers of the Units (the "**Subscription Agreements**"). PURCHASERS WHO PLACE AN ORDER TO PURCHASE UNITS WITH AN AGENT, OR ANY SUBAGENT OF AN AGENT, WILL BE DEEMED TO HAVE AUTHORIZED THE AGENT OR SUCH SUBAGENT TO EXECUTE AND DELIVER, AS AGENT ON THEIR BEHALF, THE SUBSCRIPTION AGREEMENTS. The execution and delivery of the Subscription Agreements by the Agent or the subagent of the Agent on behalf of the Purchaser will bind such Purchaser to the terms thereof as if such Purchaser had executed the Subscription Agreements personally and the Subscription Agreements will be deemed to be made and entered into by the Purchasers with the Company at the time they are accepted by the Company.

### **Listing of Common Shares**

An application has been made to the Exchange to approve the listing of the Common Shares. Listing will be subject to the Company fulfilling all of the requirements of the Exchange, including prescribed distribution and financial requirements.

## **SELECTED CONSOLIDATED FINANCIAL INFORMATION AND MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **Selected Financial Information**

The following table contains selected financial information relating to the Company as at and for the period ended July 31, 2003 and as at and for the year ended July 31, 2003.

	Year Ended July 31, 2003 (audited) (\$)	Period from Incorporation to July 31, 2003 (audited)

		(\$) <sup>(1)</sup>
Interest income and other income	-	-
Increase in mineral claims and deferred exploration costs	-	-
Net income (loss)	(74,580)	-
Current assets	103,064	1.00
Total assets	266,891	1.00
Current liabilities	4,171	-
Long term liabilities	-	-
Shareholders' equity (net of deficit)	262,720	1.00
Number of Common Shares	6,925,000 <sup>(2)</sup>	1

(1) During this period, the Company was inactive and issued only one Common Share, that being the share issued on incorporation.

(2) The number of Common Shares represents shares issued and outstanding as at the end of the period. See "Consolidated Capitalization" for information on Common Shares reserved for future issuance. See "Financial Statements".

## **Management's Discussion and Analysis**

### ***Year ended July 31, 2003***

The Company raised net proceeds of \$337,300 through the issuance of Common Shares. The net loss from operations during this period was \$74,580, which included Management fees of \$30,000 and professional fees totaling \$14,086, rent of \$16,500 and office and supplies of \$13,994. The Company also incurred property acquisition costs of \$10,000 and \$121,335 in deferred exploration expenditures on the Whiskeyjack Creek Property.

### ***Period ended July 31, 2002***

During this period, the Company was inactive and issued only one Common Share, that being the share issued on incorporation.

## **Capital Resources and Liquidity**

Since its inception, the Company's capital resources have been limited to amounts raised from the sale of Common Shares. Up to July 31, 2003, the Company had incurred a total of \$131,335 in expenses related to the acquisition of the Whiskeyjack Creek Property and initial exploration work on the property.

At July 31, 2003, the Company had \$98,893 in working capital and as at July 31, 2002, the Company had no working capital. To date, the Company has relied entirely upon the sale of Common Shares to generate working capital for exploration activities and to fund the administration of the Company. Since the Company does not expect to generate any revenues in the near future, it will continue to rely primarily upon sales of Common Shares to raise capital. There can be no assurance that financing will be available to the Company when required. Mining exploration is a capital-intensive business with periods of many years from initial exploration to any prospect of revenues. See "Risk Factors".

Other than as described under "The Whiskeyjack Creek Property", "Use of Proceeds" and "Administration Costs", the Company does not have any commitments for material expenditures over either the near or long term and none are presently contemplated over and above normal

operating requirements. The estimated costs of the Public Offering of \$60,000 and the estimated general and administrative costs to be incurred by the Company during the 12 months following the Public Offering of \$114,000 will be paid from proceeds from the sale of Regular Units under the Public Offering and from the Company's otherwise available working capital. After giving effect to these expenditures, together with planned expenditures on exploration of the Whiskeyjack Creek Property and other anticipated expenses totaling \$60,000 (in the case of the Public Offering), it is expected that the Company will have unallocated working capital of approximately \$213,234. See "The Whiskeyjack Creek Property", "Use of Proceeds" and "Administration Costs".

## SHARE CAPITAL

### Common Shares

The Company is authorized to issue an unlimited number of Common Shares without par value, of which 6,925,000 Common Shares are issued and outstanding as fully paid and non-assessable and a further 1,000,000 Common Shares are reserved for issue under the Company's Stock Option Plan. A further 750,000 Common Shares are reserved for issue to the Agent, consisting of 150,000 CF Shares and up to 600,000 Common Shares issuable upon the exercise of the Agent's Warrant. See "Capitalization" below. Holders of Common Shares are entitled to dividends, if, as and when declared by the Board of Directors, to one vote per share at meetings of shareholders of the Company and, upon liquidation, to receive such assets of the Company as are available for distribution to the holders of the Common Shares. There are no provisions attached to the Common Shares for redemption, purchase for cancellation, surrender or sinking or purchase funds.

### Capitalization

The capitalization of the Company as at July 31, 2003, as at the date of this Prospectus and after giving effect to the Public Offering is as follows:

<b>Capital</b>	<b>Authorized</b>	<b>As at July 31, 2003 (audited)</b>	<b>As at the date hereof (unaudited)</b>	<b>After giving effect to the Public Offering (unaudited)</b>
Common Shares	Unlimited	6,925,000	6,925,000	10,075,000

(1) Dollar figures represent gross cash proceeds to the Company. Dollar amounts are presented net of commissions, financing fees and expenses.

(2) These figures include the 150,000 CF Shares. These figures do not include 1,000,000 Common Shares reserved for issuance under the Company's Stock Option Plan and up to 600,000 Common Shares reserved for issuance upon exercise of the Agent's Warrant. See "Share Capital - Stock Option Plan" and "Plan of Distribution".

(3) Assuming 1,750,000 Regular Units and 1,250,000 FT Units are sold under the Public Offering.

### Prior Sales

Since the date of incorporation to the date of this Prospectus, the Company has issued the following Common Shares:

<b>Number and Date of Issue</b>	<b>Issue Price</b>	<b>Purpose of Issuance</b>
January 31, 2003	4,000,000 shares	\$0.01
		Principal Shares

April 17, 2003	2,685,000 shares	\$0.10	Seed Capital
April 17, 2003	240,000 flow-through shares <sup>(1)</sup>	\$0.12	Flow-Through Seed Capital

(1) The Company has agreed to incur Canadian Exploration Expenses as defined in paragraph (f) of the Income Tax Act (Canada) (the “Tax Act”), other than expenditures which constitute Canadian Exploration and Development Overhead Expense as prescribed for the purposes of paragraph 66(12.6)(b) of the Tax Act, and to renounce the expenditures associated therewith to the purchasers of the FT Special Warrants. See “Tax Considerations”.

An additional 1,000,000 Common Shares are reserved for issue upon the exercise of incentive stock options. Of the 1,000,000 Common Shares reserved for issue under the Stock Option Plan, 660,000 optioned shares will vest upon approval of the agreement by the Exchange and 340,000 optioned shares will vest upon completion of the Public Offering. The Company has reserved 1,500,000 Common Shares for issuance on the exercise of Series “A” warrants and up to 600,000 Common Shares issuable upon the exercise of the Agent’s Warrant. The Company has also reserved 150,000 Shares issuable to the Agent for the Corporate Finance Fee. See “Plan of Distribution”.

### **Stock Option Plan**

The Board of Directors of the Company adopted a stock option plan (the “Plan”) reserving for issuance 1,000,000 Common Shares. Under the Plan, the Board of Directors are authorized to grant incentive stock options to certain directors, senior officers, employees and consultants of the Company entitling them to purchase Common Shares. The purpose of the Plan is to provide the Company with a share related mechanism to enable the Company to attract, retain and motivate qualified directors, senior officers, employees and consultants, to reward directors, employees and consultants for their contribution toward the long term goals of the Company and to enable and encourage such persons to acquire Common Shares as long term investments. Any stock options granted pursuant to the Plan may not be exercised until the Plan receives Exchange approval.

Options granted under the Plan will be exercisable at a price determined by the Board of Directors. So long as the Company is listed on the Exchange, the exercise price of options granted under the Plan may not be less than the closing price of the Common Shares on the trading day immediately preceding the date of grant of the options, less any discount determined by the Board of Directors in accordance with the policies of the Exchange.

Options granted under the Plan will be granted for a term not to exceed five years from the date of their grant, unless approval for a longer term is received from the Exchange. All options will terminate on the earlier of the expiry of their term; the date of termination of an optionee’s employment, engagement or position as director, if terminated for just cause, otherwise 90 days following termination. Options will also be non-assignable and non-transferable, provided that they will be exercisable by an optionee’s legal heirs, personal representative or guardians for up to one year following the death of an optionee.

Options granted under the Plan will be subject to such vesting schedule as the Board of Directors may determine.

The maximum number of Common Shares to be reserved for issuance to insiders upon the exercise of options granted under the Plan may not exceed 10% of the number of issued and outstanding Common Shares at any given time. The number of Common Shares reserved for issuance under options granted to any one person during any 12 month period cannot exceed five percent of the number of issued and outstanding Common Shares, or two percent if the person

receives the options as a consultant.

If a material alteration in the capital structure of the Company occurs as a result of a recapitalization, stock split, reverse stock split, stock dividend, or otherwise, the Board of Directors shall make adjustments to the Plan and to the options then outstanding under it as the Board of Directors determines to be appropriate and equitable under the circumstances.

The Board of Directors may from time to time amend the Plan and the terms and conditions of any option thereafter granted and, without limiting the generality of the foregoing, may make such amendment for the purpose of meeting any changes in any relevant law, rule or regulation applicable to the Plan, any option or the Common Shares, or for any other purpose which may be permitted by all relevant laws, regulations, rules and policies provided always that any such amendment shall not alter the terms or conditions of any option or impair any right of any option holder pursuant to any option awarded prior to such amendment.

### **Directors' and Officers' Stock Options**

The following table sets forth information on stock options that the Company has granted to its directors and officers under the Plan, all of which are exercisable at \$0.20 per Common Share for five years from the date of listing of the Common Shares on the Exchange.

<b>Group</b>	<b>Number of Common Shares under Option</b>
Two Executive Officers	500,000 <sup>(1)</sup>
Two Directors who are not Executive Officers	500,000 <sup>(1)</sup>

<sup>(1)</sup>660,000 shares have vested and the balance of 340,000 shares will vest upon completion of the Public Offering providing the Public Offering is fully subscribed.

### **Market for Securities**

The Common Shares are not listed for trading on any stock exchange. The Company has applied to list the Common Shares on the Exchange. Listing will be subject to the Company fulfilling all of the requirements of the Exchange, including prescribed distribution and financial requirements.

### **Dividend Policy**

No dividends have been paid on any Common Shares since the date the Company was incorporated. The Board of Directors may declare dividends in its discretion using funds or assets properly available for distribution.

## **ESCROWED SECURITIES AND RESALE RESTRICTIONS**

### **Escrowed Securities**

In accordance with the Canadian Securities Administrators National Policy 46-201 entitled "Escrow for Initial Public Offerings" (the "Policy") and pursuant to an agreement dated April 30, 2003, (the "Escrow Agreement") entered into among Ernest S. Peters, Charles S. Underhill, Harry Bygdnes and Jeffery Poloni (collectively, the "Principals"), the Company and Pacific Corporate Trust Company (the "Trustee"), a total of 4,000,000 Common Shares (the "Escrowed Securities"), will be deposited into escrow with the Trustee as escrow agent on Closing of the Public Offering. See "Share Capital - Prior Sales". The Escrowed Securities represent 57.76% of the issued Common Shares as at the date of this Prospectus. The Escrowed Securities will represent approximately 39.7% of the issued Common Shares after giving effect to the completion of the Public Offering, assuming 1,750,000 Regular Units and 1,250,000 FT Units are

issued.

<b>Designation</b>	<b>Number of Securities held in Escrow</b>	<b>Percentage of Class</b>
Common	4,000,000 common shares	39.7%

Under the Policy, the Company is an “emerging issuer”. An emerging issuer is an issuer that does not meet the “established issuer” criteria (including an issuer listed on The Toronto Stock Exchange in its nonexempt category and an issuer that meets Tier 1 listing requirements of the Exchange). Based on the Company being an emerging issuer, the Escrowed Securities will be subject to a three year escrow. Ten percent of each Principal’s Common Shares will be exempt from escrow effective on the date the Company’s Common Shares are listed on the Exchange (the “Listing Date”). The balance of the Escrowed Securities will be released in equal tranches at six month intervals running from the Listing Date, with 15% of each Principal’s Common Shares released in each tranche. If, within 18 months of the Listing Date, the Company meets the established issuer criteria, as set out in the Policy, that number of Escrowed Securities that would to that date have been eligible for release from escrow if the Company had been an established issuer on the Listing Date will be immediately released from escrow. After 18 months of the Listing Date, if the Company meets the established issuer criteria, all the Escrowed Securities will be immediately released from escrow.

The Escrowed Securities can not generally be transferred or otherwise dealt with while in escrow. Permitted transfers or dealings within escrow include: (i) transfers to continuing or, upon their appointment, incoming directors and senior officers of the Company or of a material operating subsidiary, with approval of the Company’s Board of Directors; (ii) transfers to a person or company that, before the transfer, holds more than 20% of the Common Shares; (iii) transfers to a person or company that, after the transfer, holds more than 10% of the Common Shares and has the right to elect or appoint one or more directors or senior officers of the Company or any of its material operating subsidiaries; (iv) transfers to an RRSP or similar trustee plan provided that the only beneficiaries are the transferor or the transferor’s spouse, children or parents; (v) transfers upon bankruptcy to the trustee in bankruptcy; and (iv) pledges to a financial institution as collateral for a *bona fide* loan, provided that upon a realization the securities remain subject to escrow. Tenders of Escrowed Securities to a take-over bid would be permitted provided that, if the holder of the Escrowed Securities is a principal of the successor issuer upon completion of the take-over bid, securities received in exchange for tendered Escrowed Securities are substituted in escrow on the basis of the successor issuer’s escrow classification.

### **Resale Restrictions**

Under the securities laws of British Columbia, all of the Common Shares issued prior to the date of this Prospectus, are subject to resale restrictions and cannot be traded by the holder unless (a) among other things, the Company has been a “reporting issuer” for a period of twelve or, in certain cases, four months, or (b) an exemption from the prospectus requirement is available in respect of the trade, or (c) a discretionary order is obtained from the British Columbia Securities Commission and any other regulatory authority having jurisdiction. These restrictions apply to certain securities issued prior to a company’s initial public offering. The application of the restrictions and the duration of applicable hold period depend on when the securities were issued relative to the date a receipt is issued for the company’s preliminary prospectus and the price at which the securities were issued relative to the initial public offering price.

### **DIRECTORS AND OFFICERS**

The name, age, municipality of residence and present and principal occupations of each of the directors, officers and promoters of the Company are set forth in the following table. All of the

directors have been appointed for terms expiring on the date of the Company's next annual general meeting.

<b>Name and Municipality of Residence and Age</b>	<b>Position within the Company</b>	<b>Date of Initial Appointment to Board</b>	<b>Principal Occupation for the Past Five Years</b>
<b>Ernest S. Peters</b> , Vancouver, BC Age: 64	President and Director	August 12, 2002	President of Petco Enterprises Ltd. since 1970. Petco Enterprises Ltd. is a resource management company actively engaged in the mining sector since January 25, 1977.
<b>Charles S. Underhill</b> Vancouver, BC Age: 66	Secretary and Director	August 12, 2002	Charles S. Underhill is the President of Western Informational Services (1992) Ltd. since 1992.
<b>Harry Bygdnes</b> Vancouver, BC Age: 63	Director	August 12, 2002	Harry Bygdnes was the President and a Director of Cryopak Industries Inc. from 1990 to 2000. Mr. Bygdnes has been self-employed since 2000.
<b>Jeffery Poloni</b> North Vancouver, BC Age: 42	Director	August 12, 2002	Jeffery Poloni is the President of Avant Garde Signs since 1991.

Pursuant to the provisions of the Canada Business Corporations Act, the Company is required to have an audit committee. The general functions of the audit committee are to review the overall audit plan and the Company's system of internal controls, to review the results of the external audit and to resolve any potential dispute with the Company's auditors. The audit committee of the Company currently consists of Ernest S. Peters, Harry Bygdnes, and Jeffery Poloni. The Board of Directors has not appointed a compensation committee. The Board will periodically assess the need for a compensation committee to review and approve the salaries or other forms of compensation payable to executives of the Company.

The Company's directors and officers are not required, and do not currently intend, to devote all of their time to the affairs of the Company. The amount of time devoted to the affairs of the Company will be dependent upon the stage of development and extent of exploration and development activities undertaken by the Company. For the year following completion of the Public Offering, it is anticipated that Ernest S. Peters will devote between 25% and 40% of his working time to the affairs of the Company, that Charles S. Underhill and Harry Bygdnes will devote between 15% to 25% of their working time to the affairs of the Company and that Jeffery Poloni will devote between 5% and 10% of his working time to the affairs of the Company. The Directors of the Company hold 4,000,000 shares as a group constituting 57.76% of the issued and outstanding of the Company prior to the Offering. See "Principal Shareholders".

None of the directors or officers of the Company have entered into a non-competition or non-disclosure agreement with the Company.

### **Management**

**Ernest S. Peters** is the Chief Executive Officer, President and a Director of the Company. His

experience in the resource sector includes exploration, development and production management of projects in Canada, United States, Brazil, Mexico and Australia. Mr. Peters has been the President and a Director of Calypso Acquisition Corp. since 2002, and a Director of Roca Resources Ltd. since 2001.

**Charles S. Underhill** is the Chief Financial Officer, Secretary and a Director of the Company. Mr. Underhill is the President of Western Informational Services (1992) Ltd., a private financial public relations company.

**Harry Bygdnes** is a Director of the Company. Mr. Bygdnes was a founder of Cryopak Industries Inc., a leading developer and manufacturer of quality temperature controlled products which are marketed throughout North America. Mr. Bygdnes resigned as a director of Cryopak in order that he may direct more time towards new endeavors in which he intends to be actively involved. Mr. Bygdnes will be contributing towards the Company in both a managerial and financial capacity.

**Jeffery Poloni** is a Director of the Company. Mr. Poloni has is currently the President of Avant Garde Signs.

### **Corporate Cease Trade Orders and Bankruptcies**

None of the directors or officers of the Company is, or has been within the ten years before the date of this Prospectus, a director or officer of any other company that, while such person was acting in that capacity, was the subject of a cease trade or similar order, or an order that denied the company access to any statutory exemptions under the Canadian securities legislation, for a period of more than 30 consecutive days, or was declared bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangements or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of that company.

### **Penalties or Sanctions**

None of the directors or officers of the Company has been subject to any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or has entered into a settlement agreement with a Canadian securities regulatory authority or been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

### **Personal Bankruptcies**

None of the directors or officers of the Company has, within the ten years before the date of this Prospectus, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangements or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director or officer.

## **PRINCIPAL SHAREHOLDERS**

To the best of the knowledge of the directors and officers of the Company, as at the date hereof the following are the beneficial owners holding, directly or indirectly, Common Shares of the Company which carry more than ten percent (10%) of the voting rights attached to all Common Shares of the Company (on a non-diluted basis).

Name	Number of Common Shares held of Record and Beneficially	Percentage of Currently Outstanding Common Shares	Percentage of Outstanding Common Shares After the Public Offering
Ernest S. Peters	1,000,000	14.4%	9.9%
Charles S. Underhill	1,000,000	14.4%	9.9%
Harry Bygdnes	1,000,000	14.4%	9.9%
Jeffery Poloni	1,000,000	14.4%	9.9%

On a fully diluted basis, each of the above holds 14.4% of the outstanding Common Shares and will hold 7.6% of the outstanding Common Shares if the Public Offering is completed.

## EXECUTIVE COMPENSATION

### Summary of Compensation

The following table sets forth a summary of the annual and long term compensation for services paid during the period from incorporation to July 31, 2002 and the year ended July 31, 2003 to Ernest S. Peters, being the only Executive Officer of the Company during these periods (the "Named Executive Officer").

**Summary Compensation Table**

Name and Principal Position	Period	Annual Compensation			Long Term Compensation						
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Awards	Restricted Shares or Restricted Share Units	Payouts	All other Compensation (\$)			
Ernest S. Peters, President	October 2002	20,000	Nil	Nil	Securities Under Option/SAR's granted (#)	250,000	1,000,000	LTIP Payouts (\$)	Nil	All other Compensation (\$)	Nil

(1) "SARS" or "Stock appreciation right" means a right granted by the Company, as compensation for services rendered, to receive a payment of cash or an issue or transfer of securities based wholly or in part on changes in the trading price of publicly traded securities of the Company.

(2) "LTIP" or "long term incentive plan" means any plan which provides compensation intended to serve as incentive for performance to occur over a period longer than one financial year, but does not include option or stock appreciation right plans or plans for compensation through restricted shares or restricted share units.

(3) During the year ended July 31, 2003, Ernest S. Peters was paid \$20,000 in management fees. See "Employment and Consulting Contracts".

### Option Grants and Options Outstanding

On May 15, 2003, the Board of Directors of the Company adopted a stock option plan. See "Share Capital – Stock Option Plan". Under the Plan, the named executive officer received an option to purchase 250,000 shares at a price of \$0.20 per share. For particulars of stock options granted to the directors and officers of the Company after July 31, 2003, see "Share Capital – Directors' and Officers' Stock Options".

**Long-term Incentive Plans**

The Company has never had any long term incentive plans.

**Stock Appreciation Rights (“SAR”) and Restricted Shares**

No stock appreciation rights or restricted shares were granted by the Company to, or exercised by, the Named Executive Officer during the period from incorporation to July 31, 2003 or subsequent to that date.

**Stock Option and SAR Repricing**

The Company has not repriced any stock options or stock appreciation rights since incorporation.

**Pension and Retirement Plans and Payments made upon Termination of Employment**

The Company does not have in place any pension or retirement plan. The Company has not provided compensation, monetary or otherwise, since incorporation, to any person who now acts or has previously acted as an officer of the Company, in connection with or related to the retirement, termination or resignation of such person and the Company has provided no compensation to such persons as a result of a change of control of the Company, its subsidiaries or affiliates. The Company is not party to any compensation plan or arrangement with the Named Executive Officer resulting from the resignation, retirement or the termination of employment of such persons.

**Employment and Consulting Contracts**

There are no employment contracts between the Company and the Named Executive Officer, nor is there any compensatory plan or arrangement with the Named Executive Officer that would be triggered by the resignation, retirement or any other termination of such officers' employment with the Company, from a change of control of the Company or a change in the Named Executive Officer's responsibilities following a change in control. Each of Ernest S. Peters, Charles S. Underhill and Harry Bygdnes, either directly or through a wholly-owned or family-owned company, provides consulting or contract services to the Company pursuant to a consulting agreement dated October 1, 2002. Petco Enterprises Ltd., a company 100% beneficially owned and controlled by Ernest S. Peters, receives \$2,000 per month for management services provided to the Company. Charles S. Underhill and Harry Bygdnes each receive \$500 per month for services rendered in their capacity as Directors and or Officers of the Company and for time spent on the business and affairs of the Company.

**Proposed Compensation - Executive Officers and Directors**

The Company estimates that no compensation will be paid to executive officers or directors of the Company during the 12 months following the Public Offering, except for fees paid for consulting or contract services provided by Petco Enterprises Ltd., Charles S. Underhill and Harry Bygdnes. See “Employment and Consulting Contracts” above.

**CONFLICTS OF INTEREST**

Certain directors and officers of the Company are directors, officers and/or shareholders of other private and publicly listed companies, including companies engaged in mineral exploration activities. To the extent that such other companies may be interested or participate in or be affected by opportunities or transactions involving the Company, these directors and officers of

the Company may have conflicting interests in negotiating and settling terms of such transactions. Conflicts of interest affecting the directors and officers of the Company will be governed by the Company Act and other applicable laws. In the event that such a conflict of interest arises at a meeting of the Board of Directors of the Company, a director who has such a conflict must disclose the nature and extent of his interest and abstain from voting for or against matters affected by the conflict.

#### **INDEBTEDNESS OF DIRECTORS AND OFFICERS**

No director, officer or any other member of management of the Company, nor any of their respective associates or affiliates, is or has been at any time since incorporation indebted to the Company or the subject of a guarantee, support agreement, letter of credit or other similar arrangement provided by the Company.

#### **INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Other than as disclosed elsewhere in this Prospectus, the Company is not aware of any material transaction involving the Company and any director or officer of the Company or any Shareholder who holds more than 10% of the voting rights attached to the Common Shares, or any associate or affiliate of any of the foregoing, which has been entered into since the Company was incorporated or which is proposed and, in either case, has materially affected or will materially affect the Company.

#### **PROMOTERS**

Ernest S. Peters, the President and a director of the Company, may be considered to be the promoter of the Company as they took the initiative with respect to organizing the Company. See "Principal Shareholders" and "Directors and Officers". Mr. Peters is the registered and beneficial owner of 1,000,000 escrowed shares and holds the right to purchase 500,000 shares at a price of \$0.20 per share under the Company's Stock Option Plan dated May 15, 2003. See "Share Capital – Stock Option Plan".

#### **AUDITORS, TRANSFER AGENT AND REGISTRAR**

The auditor of the Company is Morgan & Company, Chartered Accountants, of Vancouver, British Columbia.

The registrar and transfer agent of the Common Shares is Pacific Corporate Trust Company, 10th Floor, 625 Howe Street, Vancouver, British Columbia V6C 3B8.

#### **LEGAL PROCEEDINGS**

Management of the Company is not aware of any material legal proceeding, actual, contemplated or threatened, to which the Company is party or which may affect The Whiskeyjack Creek Property.

#### **MATERIAL CONTRACTS**

Other than contracts entered into in the ordinary course of business, the following are the only contracts material to the Company that have been entered into within two years prior to the date of this Prospectus:

1. Agency Agreement dated August 19, 2003 between the Agent and the Company. See "Plan of Distribution".
2. Option Agreement dated for reference October 21, 2002, between the Company and Gino Chitaroni, Ontario. See "The Whiskeyjack Creek Property – The Option Agreement".
3. Stock Option Plan dated May 15, 2003. See "Share Capital – Stock Option Plan".
4. Consulting Agreement dated October 1, 2002, between the Company and each of Ernest S. Peter, Charles S. Underhill and Harry Bygdnes. See "Executive Compensation - Employment and Consulting Contracts".
5. Escrow Agreement dated July 31, 2003, among Ernest S. Peters, Charles S. Underhill, Harry Bygdnes and Jeffery Poloni, the Company and Pacific Corporate Trust Company. See "Escrowed Securities and Resale Restrictions".

Copies of these material contracts may be inspected at the registered office of the Company at 708 – 1111 West Hastings Street, Vancouver, British Columbia, V6E 2J3 during normal business hours while the securities offered by this Prospectus are in the course of distribution and for a period of 30 days thereafter.

## **RISK FACTORS**

### **No Active Market or History of Operations**

The Company does not have a history of operations, and there is no assurance that it will produce revenue, operate profitably or provide a return on investment in the future. There is currently no market for the Company's shares and there can be no assurance that an active market will develop or be sustained after the offering. The lack of an active public market could have a material adverse effect on the price of the Company's common shares. The price of these securities to the public and the commission to the Agent was established by negotiation between the Company and the Agent, and may not be indicative of fair market value or future market prices.

### **Competition**

The mineral exploration and mining business is competitive in all of its phases. The Company competes with numerous other companies and individuals, including competitors with greater financial, technical and other resources than the Company, in the search for and the acquisition of attractive mineral properties. The ability of the Company to acquire properties in the future will depend not only on its ability to develop its present properties, but also on its ability to select and acquire suitable properties or prospects for mineral exploration. There is no assurance that the Company will continue to be able to compete successfully with its competition in acquiring such properties or prospects.

### **Nature of Mineral Exploration and Mining**

Resource exploration and development is a speculative business and involves a high degree of risk. Each of the properties in which the Company holds an interest is without a known body of ore. The proposed program of exploration on the Whiskeyjack Creek Property is an exploratory search for ore. Development of the property will proceed only after obtaining satisfactory exploration results. Mineral exploration and development involves a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not overcome. There is no assurance that commercial quantities of ore will be discovered. There is also no assurance that

a mineral property will be brought into commercial production even if commercial quantities of ore are discovered. The discovery of mineral deposits is dependent upon a number of factors not the least of which is the technical skill of the exploration personnel involved. The commercial viability of a mineral deposit once discovered is also dependent upon a number of factors, some of which are the particular attributes of the deposit, such as size, grade and proximity to infrastructure, metal prices and government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals, and environmental protection. Most of the above factors are beyond the control of the Company.

### **Equipment and Development**

Mining operations generally involve a high degree of risk which even a combination of experience, knowledge and careful evaluation may not overcome. The business of mining is subject to a variety of risks such as ground fall, explosions and other accidents, flooding, environmental hazards, the discharge of toxic chemicals and other hazards. Such occurrences, against which the Company cannot, or may elect not to, insure, may result in destruction of mines and other production facilities, personal injury, damage to property, environmental damage, delayed production, increased production costs and possible legal liability for any and all damages. Such liabilities may have a material adverse effect on the Company's financial position and prospects.

### **Requirement for Further Financing**

Even if the Public Offering is completed, the Company will require additional capital to undertake all of its currently proposed exploration programs, including Phase II of the exploration program recommended by John R. Poloni for the Whiskeyjack Creek Property. The further exploration and development of the Whiskeyjack Creek Property or any other property in which the Company presently owns or acquires an interest depends upon the Company's ability to obtain financing through joint ventures of projects, debt financing, equity financing or other means. There can be no assurance that the Company will be able to raise the financing required or that such financing can be obtained without substantial dilution to shareholders. Failure to obtain additional financing on a timely basis could cause the Company to delay, reduce or terminate its operations or lose its mineral claims.

### **Fluctuation in Mineral Prices**

The mining industry in general is intensely competitive and there is no assurance that, even if commercial quantities of mineral resource are discovered, a profitable market will exist for the sale of the metals produced. There can be no assurance that mineral prices will be such that any discovery on the Company's present or future properties can be mined at a profit. Metal prices have experienced volatile and significant price movements over short periods of time, and are affected by numerous factors beyond the control of the Company, including international economic and political trends, expectations of inflation, currency exchange fluctuations (specifically, the U.S. dollar relative to other currencies), interest rates and global or regional consumption patterns, speculative activities and increased production due to improved mining and production methods. The supply of and demand for gold in particular are affected by, among other factors, political events, economic conditions and production costs in major gold producing regions, and governmental or central bank policies with respect to gold holdings.

### **Uninsurable Risks**

In the course of exploration, development, and mining of mineral properties, certain unanticipated conditions may arise and, in particular, unexpected or unusual geological operating conditions

including rock bursts, cave-ins, fires, flooding, and earthquakes, may occur. It is not always possible to fully insure against such risks and the Company may decide not to take out insurance against such risks as a result of high premiums or for other reasons. Should such liabilities arise, they could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the securities of the Company.

### **Dilution**

Purchasers of Offered Units will experience immediate and substantial dilution in net tangible book value per Common Share of \$0.1075 or 53.73%, in the case of Regular and FT Units, in each case based on the Company completing the Public Offering. The Company may in the future grant to some or all of its key employees and consultants options to purchase Common Shares at exercise prices equal to market prices at times when the public market is depressed. To the extent that significant numbers of such options are granted and exercised, the interests of then existing shareholders of the Company will be subject to additional dilution.

### **No Assurance of Titles or Boundaries**

The Company has obtained records from government offices with respect to all of the mineral claims comprising The Whiskeyjack Creek Property and the other properties in which it has interests but this should not be construed as a guarantee of title. Other parties may dispute the title to the property and the property may be subject to prior unregistered agreements or transfers or land claims by aboriginal, native, or indigenous peoples, and title may be affected by undetected encumbrances or defects or governmental actions.

### **Environmental and Other Regulatory Requirements**

All phases of the Company's operations are subject to environmental regulation. Environmental legislation is becoming more strict, with increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There can be no assurance that environmental regulation will not adversely affect the Company's operations. Environmental hazards may exist on a property in which the Company holds an interest which are unknown to the Company at present which have been caused by previous or existing owners or operators of the properties.

Government approvals and permits are currently, and may in the future be, required in connection with the Company's operations. To the extent such approvals are required and not obtained, the Company may be restricted or prohibited from proceeding with planned exploration or development activities. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may be liable for civil or criminal fines or penalties imposed for violations of applicable laws or regulations. Amendments to current laws, regulations and permitting requirements, or more stringent application of existing laws, could have a material adverse impact on the Company and cause increases in capital expenditures or production costs or reductions in levels of production at producing properties or require abandonment or delays in development of properties.

**Conflicts of Interest**

Certain directors and officers of the Company are also directors, officers, or shareholders of other companies that are similarly engaged in the business of acquiring, developing, and exploiting natural resource properties. Such associations may give rise to conflicts of interest from time to time. The directors of the Company are required by law to act honestly and in good faith with a view to the best interests of the Company and to disclose any interest which they may have in any project or opportunity of the Company. If a conflict of interest arises at a meeting of the Board of Directors, any director affected by the conflict must disclose his interest and abstain from voting on related matters. In determining whether or not the Company will participate in any project or opportunity, the directors will primarily consider the degree of risk to which the Company may be exposed and its financial position at the time.

**Tax Issues**

The Canadian federal and provincial tax treatment of mining activities and investments in flow-through securities has a material effect on the advisability of purchasing FT Units offered hereunder. Under a flow-through agreement with purchasers of FT Units, the Company will agree to incur exploration expenditures in an amount equal to the proceeds raised through the sale of FT Units hereunder and to renounce such expenditures to purchasers of FT Units in accordance with the Tax Act. No assurance can be given that the expenditures actually made by the Company will be of the type which the Company intends to incur, that the expenditures will be of the type which entitles the purchasers of FT Units to obtain an investment tax credit or that the Minister of National Revenue will agree with the Company's characterization of the expenditures. A change in the characterization of the expenditures may affect the Company's ability to renounce Canadian Exploration Expense (as defined in the Tax Act) to purchasers of FT Units or such purchasers' ability to claim investment tax credits. See "Tax Considerations".

**Influence of Management and Principal Shareholders**

Following the completion of the Public Offering, excluding Common Shares that may be issued upon the exercise of outstanding stock options, the directors and officers of the Company will own up to 39.7% of the outstanding Common Shares of the Company. As a result, these shareholders will have the ability to control or influence the outcome of most corporate actions requiring shareholder approval, including the election of directors of the Company and the approval of certain corporate transactions. The concentration of ownership of the Company may also have the effect of delaying or preventing a change in control of the Company.

**Dividend Policy**

The Company has paid no dividends on its Common Shares since incorporation. The Board of Directors may declare dividends in its discretion using funds or assets properly available for distribution.

**EXPERTS**

No person who is a professional referred to in Section 106(2) of the Securities Rules (British Columbia), a responsible solicitor for the Company, or any partner of a responsible solicitor's firm has any beneficial interest, direct or indirect, in any securities or property of the Company or of an associate or affiliate of the Company.

No such professional person, responsible solicitor, or partner of the responsible solicitor's firm is, or is expected to be elected, appointed, or employed as, a director, senior officer, or employee of

the Company or of an associate or affiliate of the Company.

## TAX CONSIDERATIONS

### Canadian Federal Income Tax Considerations

The following is, as of the date hereof, a summary of the principal Canadian federal income tax considerations generally applicable to an investment in the securities to be issued under the Public Offering. This summary is based upon the current provisions of the Income Tax Act (Canada) (the "Tax Act"), the regulations thereunder (the "Regulations"), counsel's understanding of the prevailing administrative views of the Canada Customs and Revenue Agency ("CCRA") and all specific proposals to amend the Tax Act and the Regulations publicly announced by the Minister of Finance (Canada) prior to the date hereof (the "Proposals"). This summary does not otherwise take into account any changes in law, whether by legislative, governmental or judicial action, nor does it take into account or consider any provincial, territorial or foreign income tax considerations. It is assumed that the Proposals will be enacted as currently proposed and that there will be no relevant amendments of any governing law. However, no assurances can be given that the Proposals will be enacted in the form proposed, if at all, or that legislative, judicial or administrative changes will not modify or change the statements expressed herein. Accordingly, there can be no assurance that the tax consequences of acquiring, holding or disposing of the securities distributed hereunder will be identical to those described herein.

This summary is applicable to holders who, for the purposes of the Tax Act and at all relevant times, are residents of Canada, will hold their Regular Units and FT Units as capital property, deal at arm's length with the Company and do not use or hold, and are not deemed to use or hold, their Regular Units and FT Units in, or in the course of, carrying on a business in Canada ("holders").

This summary does not apply to holders: (i) who are "principal -business corporations" within the meaning of the Tax Act; (ii) whose business includes trading or dealing in rights, licenses or privileges to explore for, drill for or take minerals, oil, natural gas or other related hydrocarbons; (iii) who are "financial institutions" within the meaning of the "mark-to-market" rules contained in the Tax Act; or (iv) who, at any time, have an "at-risk adjustment" as defined in the Tax Act.

This summary assumes that the Company will make all tax filings in respect of the FT Units for the renunciation of Canadian Exploration Expenses ("CEE") in the manner and within the time required by the Tax Act and the Regulations and that all renunciations will be validly made. In addition, while the Company will furnish each holder of FT Units with information relevant to the holder's Canadian federal and provincial income tax returns, the preparation and filing of those returns will remain the responsibility of each holder. This summary further assumes that the Company will incur sufficient CEE to enable it to renounce to holders of FT Units all of the expenses covenanted to be renounced by the Company effective on the renunciation date. This summary is based on the Company being, and maintaining its status as, a "principal-business corporation", for purposes of the Tax Act, at all material times, and assumes that any FT Units are not "prescribed Units" within the meaning of the Regulations to the Tax Act.

Counsel has made no independent verification of any matter referred to above and no opinion is expressed regarding any of the assumptions made in this summary of income tax considerations.

The Canadian federal income tax consequences to a particular holder will vary depending upon a number of factors including the province in which the holder resides, carries on business or has a permanent establishment, the legal characterization of the holder as an individual, corporation, trust or partnership, the amount that would be the holder's taxable income but for the acquisition

of securities offered hereunder and the manner in which the funds subscribed for securities offered hereunder are expended.

**This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular holder. Accordingly, prospective holders are urged to consult their own tax advisors with respect to their own particular circumstances.**

### **Exercise of Warrants**

Upon the actual or deemed exercise of a warrant, no gain or loss will be realized by the investor. In general, when a warrant is exercised, the holder's cost of shares acquired thereby is the aggregate of the holder's adjusted cost base of the warrant and the exercise price paid for the shares.

### **Paid-Up Capital Adjustment**

The paid-up capital of the Common Shares of the Company will be increased upon the issuance of Offered Units hereunder.

For purposes of the Tax Act, the Company must reduce the paid-up capital of all its issued Common Shares by an amount equal to 50% of the CEE renounced in respect of the FT Units. As paid-up capital represents an amount that the Company may potentially return to its shareholders without being characterized as a dividend, the reduction in paid-up capital could result in increased tax payable if there were ever to be a return of capital to shareholders.

### **Canadian Exploration Expenses and Flow-Through Securities**

Subject to certain limitations and restrictions, a principal-business corporation (as defined in the Tax Act) that incurs CEE (other than certain "off the shelf" seismic data or expenses related thereto) pursuant to an agreement for the issuance of shares of the corporation (other than prescribed shares) will be entitled to renounce the CEE to the holder of such shares and the CEE so renounced will be deemed to have been CEE incurred by such holder on the effective date of the renunciation. The Company represents that it is, and at all material times will continue to be, a principal-business corporation and that the FT Units will not be prescribed Units when they are issued. Generally speaking, the Company will be entitled to renounce CEE incurred by it from the closing of the Public Offering of FT Units until 24 months after the end of the month during which the closing occurred less: (i) any previous renunciations with respect to such CEE; (ii) any portion of such CEE which is prescribed under the Regulations as relating to Canadian exploration and development overhead expenses; and (iii) any assistance that the Company has received, is entitled to receive, or may reasonably be expected to receive at any time which is reasonably related to such CEE. CEE incurred within a particular calendar year and renounced to holders effective on or before December 31 of that particular calendar year will be deemed to have been CEE incurred by such holders on the date of such renunciation. CEE which a principal-business corporation has incurred or plans to incur in the year following a particular calendar year may, subject to certain restrictions contained in the Tax Act, be renounced effective December 31 of the particular calendar year (the "12 month carry-back rule"). The 12 month carry-back rule applies provided that: (i) the subscription agreement is entered into in the particular calendar year; (ii) the proceeds from the subscription are received in cash by the Company before the end of the particular calendar year; (iii) such expenses are renounced in January, February or March of the following calendar year; and (iv) the holders to which such CEE is renounced deal at arm's length with the Company at all material times.

If CEE renounced pursuant to the 12-month carry-back rule is not actually incurred by the Company by the end of the year following the particular calendar year, the amount of the CEE renounced to holders must be reduced by the amount not actually incurred by the Company. A holder will not be liable for any penalty and will not be required to pay interest on any resulting increase in income tax payable in the particular calendar year as a result of such a reduction in CEE until after the month of April two years following the particular calendar year. Where the Company renounces CEE pursuant to the 12 month carry-back rule, the Company will be liable to pay a deductible charge each month (other than January) in the year during which the CEE must be incurred equal to the amount of renounced expenses which have not been incurred by the end of the particular month multiplied by 1/12 of the prescribed interest rate at that time for refunds under the Tax Act. In addition, the Company must pay a charge under the Tax Act of 10 % of the balance of any renounced but unexpended CEE not incurred by the end of the year following the particular year.

The CEE renounced to a holder will be added to such holder's cumulative CEE. A holder may deduct in computing income from all sources for a taxation year 100% of the cumulative CEE at the end of the taxation year. To the extent that a holder does not deduct the balance of the holder's cumulative CEE account at the end of a taxation year, the balance will be carried forward and the holder will be entitled to claim deductions in respect thereof in subsequent taxation years, subject to the rules regarding an acquisition of control of a corporate holder. If at the end of a taxation year, the reductions in calculating a holder's cumulative CEE account exceed the additions thereto, the negative balance must be included in computing the holder's income for the year and the account will thereupon have a nil balance. A holder who disposes of FT Units will retain the entitlement to receive renunciations of CEE from the Company as described above as well as the ability to deduct any CEE previously deemed to have been incurred by the holder, and a subsequent purchaser of such FT Units, as the case may be, will not be entitled to any renunciation of any CEE.

### **Filing Requirements**

In order to effectively renounce CEE to holders, the Company must undertake certain required filings in respect to the issue of the FT Units and the renunciation of the CEE including the timely filing of the prescribed forms with CCRA. The Company has advised that it will complete such filings and provide each holder with the necessary information with respect to the CEE renounced to such holder for purposes of filing income tax returns.

### **Investment Tax Credit**

The Tax Act provides for a non-refundable investment tax credit ("ITC") equal to 15% of an individual (other than a trust) holder's aggregate "flow-through mining expenditures" ("FTME") for the year as described in the Tax Act. The Tax Act defines a FTME as an expenditure renounced to a holder by a principal -business corporation that is:

- CEE incurred after October 17, 2000 by a corporation in respect of mining exploration from or above the surface of the earth for determining the existence, location, extent or quality of: (i) a base or precious metal deposit; (ii) a coal deposit; (iii) a bituminous sands deposit or oil shale deposit; (iv) a certified industrial mineral deposit; (v) a mineral deposit where the principal mineral extracted is ammonite gemstone, calcium chloride, diamond, gypsum, halite, kaolin or sylvite; or (vi) a mineral deposit where the principal mineral extracted is silica that is extracted from sandstone or quartzite;
- an expense described in paragraph (f) of the definition of CEE in subsection 66.1(6) of the Tax Act excluding: (i) trenching, if one of the purposes of the trenching is to carry out preliminary

sampling (other than specified sampling, as defined in the Tax Act); (ii) digging test pits (other than digging test pits for the purpose of carrying out specified sampling); and (iii) preliminary sampling (other than specified sampling);

- renounced under a flow-through share agreement made after October 17, 2000; and
- an expense that would be incurred by the corporation before 2004 if the Tax Act were read without reference to the 12 month carry-back rule.

The ITC claimed by a holder will reduce such holder's cumulative CEE account in the following taxation year. As a result, if a holder claims 100% of his or her cumulative CEE account in the year that the 15% ITC is claimed, such holder may have an income inclusion in the following taxation year.

An additional 20% non-refundable tax credit is available to reduce an individual investor's British Columbia income tax. The credit applies to flow-through mining expenditures incurred after July 30, 2001 and before 2004 in conducting mining exploration activity in British Columbia that are renounced to investors under flow-through share agreements made after July 30, 2001. The provincial tax credit will reduce the investor's CEE (and the amount that is eligible for the federal tax credit) and any unused credit at the end of a taxation year may be carried back three years (including taxation years prior to 2001) or carried forward ten years.

Application for the provincial tax credit must be made in prescribed form and manner. An individual investor will not be entitled to the tax credit if the application is not filed within one year of the investor's filing due date for the taxation year in which the related expenditures are renounced.

**Holders are urged to consult their own tax advisors in regard to claiming any ITCs or provincial tax credits.**

#### **Disposition of Common Shares (including FT Units)**

In general, a disposition, or a deemed disposition, of a Common Share (including a FT Share), other than to the Company, will result in a holder realizing a capital gain (or a capital loss) in the taxation year of the disposition equal to the amount by which the proceeds of disposition of the Common Share, net of reasonable disposition costs, exceed (are exceeded by) the holder's adjusted cost base of the Common Share. The cost of FT Units issued hereunder is deemed to be nil and must be averaged with the cost of all Common Shares held by the investor for the purpose of calculating capital gains or capital losses on subsequent dispositions of Common Shares including FT Units.

#### **Taxation of Capital Gains or Capital Losses**

Generally, one-half of a capital gain will be included in a holder's income as a taxable capital gain, and one-half of a capital loss may be deducted from the holder's taxable capital gains for the year of the disposition, the three preceding taxation years or any future taxation year, subject to the detailed provisions contained in the Tax Act in that regard.

A holder that is a Canadian-controlled private corporation (as defined in the Tax Act) will be liable to pay a refundable tax of 6-2/3% determined by reference to its aggregate investment income which is defined in the Tax Act to include an amount in respect of taxable capital gains.

**Alternative Minimum Tax**

Under the Tax Act, taxes payable by an individual and by most trusts will be the greater of the taxes otherwise determined and an alternative minimum tax computed by reference to such individual's adjusted taxable income for the taxation year in excess of a \$40,000 exemption and reduced by certain tax credits.

In calculating adjusted taxable income for the purpose of computing the minimum tax, certain deductions and credits otherwise available are disallowed and certain amounts not otherwise included in income are included. The disallowed items include deductions claimed by the individual in respect of CEE in a particular taxation year to the extent such deductions exceed the individual's resource income (including income attributable to a disposition of Canadian resource properties) in that year. Eighty percent (80%) of any capital gain realized by the individual is included in calculating the individual's adjusted taxable income.

Whether and to what extent the tax liability of a particular holder will be increased by the alternative minimum tax will depend on the amount of such holder's income, the sources from which it is derived, and the nature and amounts of any deductions such holder claims. Any additional tax payable by an individual for the taxation year resulting from the application of the alternative minimum tax will be deductible in any of the seven immediately following taxation years in computing the amount that would, but for the alternative minimum tax, be such individual's tax otherwise payable for any such year to the extent that such tax payable exceeds the individual's minimum tax calculation for that particular year.

**Subscribers should consult their own tax advisors with respect to the potential alternative minimum tax consequences to them having regard to their own particular tax circumstances.**

**Cumulative Net Investment Loss**

One-half of the amount of the CEE renounced to a holder will be added to the holder's cumulative net investment loss ("CNIL") account within the meaning of the Tax Act. A holder's CNIL account may impact a holder's ability to access the \$500,000 lifetime capital gains exemption available on the disposition of certain qualifying business corporation shares and farm property.

**THIS SUMMARY SHALL IN NO MANNER BE CONSTRUED BY ANY INVESTOR AS AN ASSURANCE THAT THE EXPENSES INCURRED BY THE COMPANY WILL BE OF THE TYPE WHICH WILL ENSURE THE TAX TREATMENT DESCRIBED.**

**OTHER MATERIAL FACTS**

There are no other material facts relating to the securities being qualified for distribution hereunder which have not been disclosed elsewhere in this Prospectus.

**PURCHASERS' STATUTORY RIGHTS**

Securities legislation in the Provinces of Alberta and British Columbia provides purchasers with the right to withdraw from an agreement to purchase securities.

This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In the Provinces of Alberta and British Columbia, the securities legislation further provides a purchaser with remedies for rescission or damages if the prospectus

and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province of residence. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult a legal adviser.

**CARMAX EXPLORATIONS LTD.**

**FINANCIAL STATEMENTS**

**JULY 31, 2003 AND 2002**

**AUDITORS' REPORT**

To the Shareholders of  
Carmax Explorations Ltd.

We have audited the balance sheets of Carmax Explorations Ltd. as at July 31, 2003 and 2002, and the statement of operations and deficit, and cash flows for each of the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2003 and 2002, and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, B.C.

August 7, 2003, except for Note 8  
which the date is August \_\_\_\_\_, 2003

Chartered Accountants

## CARMAX EXPLORATIONS LTD.

## BALANCE SHEETS

	JULY 31	
	2003	2002
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 87,651	\$ 1
Goods and Services Tax recoverable	9,754	-
Prepaid expenses	5,659	-
	<u>103,064</u>	1
<b>Deferred Share Issue Costs</b>	<b>32,492</b>	<b>-</b>
<b>Mineral Property</b> (Note 3)	<b>10,000</b>	<b>-</b>
<b>Deferred Exploration Expenditures</b> (Note 4)	<b>121,335</b>	<b>-</b>
	<u>\$ 266,891</u>	<u>\$ 1</u>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 4,171	\$ -
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share Capital</b> (Note 5)	<b>337,300</b>	<b>1</b>
<b>Deficit</b>	<b>(74,580)</b>	<b>-</b>
	<u>262,720</u>	<u>1</u>
	<u>\$ 266,891</u>	<u>\$ 1</u>

Approved on Behalf of the Board:

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 "Ernest Peters"

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 "Charles Underhill"

## CARMAX EXPLORATIONS LTD.

## STATEMENTS OF OPERATIONS AND DEFICIT

	YEARS ENDED JULY 31	
	2003	2002
<b>Expenses</b>		
Management fees	\$ 30,000	\$ -
Office and sundry	13,994	-
Professional fees	14,086	-
Rent	16,500	-
<b>Loss For The Year</b>	<b>74,580</b>	<b>-</b>
<b>Deficit, Beginning Of Year</b>	<b>-</b>	<b>-</b>
<b>Deficit, End Of Year</b>	<b>\$ 74,580</b>	<b>\$ -</b>
<b>Basic And Diluted Loss Per Share</b>	<b>\$ (0.03)</b>	<b>\$ -</b>
<b>Weighted Average Number Of Shares Outstanding</b>	<b>2,825,000</b>	<b>1</b>

CARMAX EXPLORATIONS LTD.

## STATEMENTS OF CASH FLOWS

	YEARS ENDED	
	JULY 31	
	2003	2002
<b>Cash Flows From Operating Activities</b>		
Loss for the year	\$ (74,580)	\$ -
Changes in non-cash working capital items:		
Prepaid expenses	(5,659)	-
Goods and Services Tax recoverable	(9,754)	-
Accounts payable	4,171	-
	<u>(85,822)</u>	<u>-</u>
<b>Cash Flows From Investing Activities</b>		
Deferred exploration expenditures	(121,335)	-
Mineral property	(10,000)	-
	<u>(131,335)</u>	<u>-</u>
<b>Cash Flows From Financing Activities</b>		
Deferred share issue costs	(32,492)	-
Issue of share capital	337,300	-
	<u>304,808</u>	<u>-</u>
<b>Increase In Cash</b>	<b>87,651</b>	<b>-</b>
<b>Cash, Beginning Of Year</b>	<u>-</u>	<u>-</u>
<b>Cash, End Of Year</b>	<b>\$ 87,651</b>	<b>\$ -</b>

**CARMAX EXPLORATIONS LTD.****NOTES TO FINANCIAL STATEMENTS****JULY 31, 2003 AND 2002****1. NATURE OF OPERATIONS**

The Company was incorporated under the Canada Business Corporations Act on June 16, 2000. The Company's principal business activity is the acquisition and exploration of mineral properties, however, during the period from the date of incorporation to September 30, 2002, the Company was inactive. The financial statements for the year ended July 31, 2003 reflect the transactions of the Company, all of which took place during the year ended July 31, 2003.

The Company is in the process of exploring its mineral property and has not yet determined whether the property contains ore reserves that are economically recoverable.

The recoverability of amount shown as mineral property and related deferred exploration expenditures is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral 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.

**2. SIGNIFICANT ACCOUNTING POLICIES****a) Use of Estimates**

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

**b) Financial Instruments**

The Company's financial instruments consist of cash, Goods and Services Tax recoverable, prepaid expenses and accounts payable.

Unless otherwise noted, it is management's opinion that this Company is not exposed to significant interest or credit risks arising from these financial instruments. The fair value of these financial instruments approximate their carrying values, unless otherwise noted.

**c) Mineral Property and Related Deferred Exploration Expenditures**

The Company defers all direct exploration expenditures on mineral properties in which it has a continuing interest to be amortized over the productive period when a property reaches commercial production. On abandonment of any property, applicable accumulated deferred exploration expenditures will be written off.



**CARMAX EXPLORATIONS LTD.****NOTES TO FINANCIAL STATEMENTS****JULY 31, 2003 AND 2002****2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

## d) Deferred Share Issue Costs

The Company defers all costs incurred in connection with the issue of share capital to be offset against the consideration received as a result of the issue of shares from the treasury.

## e) Future Income Taxes

The Company has adopted the new requirements of the CICA Handbook, Section 3465, whereby unused tax losses, income tax reductions and deductible temporary differences are only recognized as a future income tax benefit to the extent that these amounts will be more than likely realized.

## f) Stock Based Compensation

The Company follows CICA Handbook Section 3870 – “Stock Based Compensation and Other Stock Based Payments”, which recommends a fair value based method of accounting for compensation costs. The section also permits the use of the intrinsic value based method, which recognizes compensation cost for awards to employees only when the market price exceeds the exercise price at date of grant, but requires pro-forma disclosure of earnings and earnings per share as if the fair value method had been adopted. The Company has elected to adopt the intrinsic value based method for employees awards. Any consideration paid by the option holders to purchase shares is credited to share capital.

## g) Loss Per Share

Basic and diluted loss per share amounts are computed using the weighted average number of common shares outstanding during the year.

The Company uses the treasury stock method to determine the dilutive effect of stock options and other dilutive instruments. Under the treasury stock method, only instruments with exercise amounts less than market prices impact the diluted calculations. In computing diluted loss per share, no shares were added to the weighted average number of common shares outstanding during the year ended July 31, 2003 for the dilutive effect of employee stock options and warrants as they were all anti-dilutive. No adjustments were required to reported loss from operations in computing diluted per share amounts.

**CARMAX EXPLORATIONS LTD.****NOTES TO FINANCIAL STATEMENTS****JULY 31, 2003 AND 2002****2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

## h) Flow-Through Shares

Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Share capital is reduced and the future income tax liability is increased by the estimated cost of the renounced tax deductions.

Drawdowns of future income tax liabilities resulting from the timing differences on exploration expenditures renounced to investors have been credited to share capital.

**3. MINERAL PROPERTY**

The Company has entered into an agreement to acquire a 100% interest, subject to a 3% net smelter return royalty, in three mineral claims located in Cairo Townships, Ontario. Consideration for the acquisition is cash payments totalling \$45,000, and the Company must incur minimum exploration expenditures of \$100,000 by October 31, 2003 and an additional \$100,000 by December 31, 2004.

The cash is payable as follows:

- a) \$10,000 initial cash payment (paid);
- b) \$10,000 cash payment payable 13 months after the date the issuer's common shares commence trading on the TSX Venture Exchange;
- c) \$10,000 cash payment payable 12 months after the payment date set out in Item (b) above; and
- d) \$15,000 cash payment payable 12 months after the payment date set out in Item (c) above;

Consideration paid to date

\$ 10,000

Upon commencement of commercial production on the property, the Company shall pay the optionor a 3% net smelter return royalty to be reduced to 1% after the payment of \$2,000,000 in royalty payments.

**CARMAX EXPLORATIONS LTD.****NOTES TO FINANCIAL STATEMENTS****JULY 31, 2003 AND 2002****4. DEFERRED EXPLORATION EXPENDITURES**

Deferred exploration expenditures are comprised of the following amounts:

	<u>2003</u>	<u>2002</u>
Current year's expenditures		
Survey and geophysical	\$ 40,200	\$ -
Line cutting and permitting	15,806	-
Engineering and consulting	49,500	-
Supplies	3,439	-
Travel	12,390	-
	<u>121,335</u>	-
Balance, beginning of year	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 121,335</u>	<u>\$ -</u>

**5. SHARE CAPITAL**

## a) Authorized

An unlimited number of common shares without par value

## b) Issued and Outstanding

	<u>NUMBER OF SHARES</u>	<u>CONSIDERATIO N</u>
Balance, July 31, 2002 and 2001	1	\$ 1
Cancelled and returned to treasury	(1)	(1)
Shares issued for cash - non-flow-through	6,685,000	308,500
Shares issued for cash - flow-through	240,000	28,800
Income tax benefits renounced with respect to flow-through shares issued	-	(11,405)
Draw down of future income tax liabilities resulting from exploration expenditures renounced to investors	-	11,405
Balance, July 31, 2003	<u>6,925,000</u>	<u>\$ 337,300</u>



**CARMAX EXPLORATIONS LTD.****NOTES TO FINANCIAL STATEMENTS****JULY 31, 2003 AND 2002****5. SHARE CAPITAL (Continued)**

## c) Stock Options

On May 15, 2003 the Company approved a stock option plan under which directors are authorized to grant incentive stock options to directors, employees and consultants of the Company entitling them to purchase common shares. At July 31, 2003 the Company has granted stock options to directors for the purchase of 1,000,000 common shares at \$0.20 per share exercisable for five years from the date of listing the shares on the TSX Venture Exchange. (Note 8)

## d) Escrowed Shares

By an escrow agreement dated April 30, 2003; 4,000,000 shares will be deposited into escrow on the closing of the offering referred to in Note 8. Release of the shares from escrow will be subject to the provisions of regulatory authorities.

**6. RELATED PARTY TRANSACTIONS**

The Company incurred the following expenses charged by directors or companies controlled by the directors:

	<u>2003</u>	<u>2002</u>
Management fees	\$ 30,000	\$ -
Office administration	23,500	-
	<u>\$ 53,500</u>	<u>\$ -</u>

**7. INCOME TAXES**

	<u>2003</u>	<u>2002</u>
Loss for the year	\$ 71,268	\$ -
Statutory income tax rate	39.6%	44.6%
Expected income taxes	\$ 28,200	\$ -
Increase in valuation allowance	\$ (28,200)	\$ -
	<u>\$ -</u>	<u>\$ -</u>

**CARMAX EXPLORATIONS LTD.****NOTES TO FINANCIAL STATEMENTS****JULY 31, 2003 AND 2002****7. INCOME TAXES (Continued)**

The significant components of the Company's future tax liability are as follows:

Operating losses	\$ 28,200
Accounting value of mineral property interest in excess of tax values	<u>11,405</u>
	39,605
Valuation allowance	<u>(28,200)</u>
Future income liability	11,405
Drawdown of future income tax liability	<u>(11,405)</u>
	<u><u>\$ -</u></u>

The Company has non-capital losses for income tax purposes of \$71,000 which may be available to reduce taxable income in future years. The potential benefit of these losses has not been recognized as a future income tax benefit, as currently these amounts are less than likely to be realized. These losses expire in 2010.

The Company also has Canadian resource deductions of approximately \$92,535 with no specified expiry date. The related tax benefit of these deductions has also not been recorded in the accounts.

In connection with the issuance of flow-through shares, the Company has renounced, to the shareholders, the tax benefits associated with \$28,800 in Canadian Exploration Expenditures incurred.

**8. SUBSEQUENT EVENTS**

On August \_\_\_\_, 2003, the Company filed a prospectus with the British Columbia Securities Commission for the issue of 1,750,000 non-flow-through units ("Regular Units") and 1,250,000 flow-through units ("FT Units") at a price of \$0.20 per Regular or FT Units for gross proceeds of \$600,000. Each Regular Unit consists of one share and ½ Series "A" non-transferable warrant. Each FT Unit consists of one flow-through share and ½ Series "A" non-transferable warrant. Each Series "A" warrant provides a holder with the right to subscribe for one additional non-flow-through common shares for \$0.25 for a period of 12 months from the date of completion of the offering.

Expenses of the issue will consist of agent's commission of 10% of the proceeds of the offering (\$60,000). In addition, the Agent will be granted a warrant ("Agent's Warrant") to acquire common shares of the Company in an amount equal to 20% of the offered units sold in the public offering at an exercise price of \$0.20 per share for a period of one year. The Company has also agreed to issue the Agent 150,000 common shares of the Company as a corporate finance fee, and has paid the Agent a retainer of \$20,000 of its legal fees and other expenses incurred pursuant to the offering.

**CERTIFICATE OF THE ISSUER**

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this Prospectus as required by Part 9 of the *Securities Act* (Alberta) and the *Securities Act* (British Columbia) and the respective regulations thereunder.

*“Ernest S. Peters”*

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**ERNEST S. PETERS**  
Chief Executive Officer

*“Charles S. Underhill”*

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**CHARLES S. UNDERHILL**  
Chief Financial Officer

**ON BEHALF OF THE BOARD OF DIRECTORS OF THE ISSUER**

*“Harry Bygdnes”*

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**HARRY BYGDNES**  
Director

*“Jeffery Poloni”*

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**JEFFERY POLONI**  
Director

**PROMOTER**

*“Ernest S. Peters”*

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**ERNEST S. PETERS**

DATED at Vancouver, British Columbia, this 22<sup>nd</sup> day of August, 2003.

**CERTIFICATE OF THE AGENT**

**DATED: August 22, 2003**

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this Prospectus as required by Part 9 of the *Securities Act* (Alberta), *Securities Act* (British Columbia), and the respective regulations thereunder.

**HAYWOOD SECURITIES INC.**

“Cliff Rich”