

Franconia Minerals Corporation
(a development stage Corporation)
Consolidated Financial Statements
For the years ended December 31, 2003, 2002
and 2001

Contents

Auditors' Report	2
Consolidated Financial Statements	
Consolidated Balance Sheets	3
Consolidated Statements of Operations and Deficit	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6 – 25



Auditors' Report

To the Directors of Franconia Minerals Corporation

We have audited the consolidated balance sheets of Franconia Minerals Corporation (a development stage Corporation) as at December 31, 2003 and 2002 and the consolidated statements of operations and deficit and cash flows for the years ended December 31, 2003, 2002 and 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years ended December 31, 2003, 2002 and 2001, in accordance with Canadian generally accepted accounting principles.

signed "BDO Dunwoody LLP"

Chartered Accountants

Calgary, Alberta
April 12, 2004

Franconia Minerals Corporation
(a development stage Company)
Consolidated Balance Sheets
US Dollars

As at December 31	2003	2002
Assets		
Current		
Cash and equivalents (Note 11)	\$ 372,442	\$ 166,861
Prepaid expenses	3,228	3,228
	<u>375,670</u>	<u>170,089</u>
Investment (Market value \$221,880) (Note 2(d))	55,042	55,042
Deferred acquisition and exploration costs (Note 3)	631,034	344,859
	<u>\$ 1,061,746</u>	<u>\$ 569,990</u>
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	\$ 168,749	\$ 22,326
Note payable (Note 6)	135,000	-
Deferred exploration advances (Note 5 (f))	79,431	229,348
	<u>383,180</u>	<u>251,674</u>
Share capital (Note 4)	2,007,826	1,428,223
Deficit accumulated during development stage	(1,329,260)	(1,109,907)
	<u>678,566</u>	<u>318,316</u>
	<u>\$ 1,061,746</u>	<u>\$ 569,990</u>

Approved on behalf of the Board:

signed "Brian Gavin" Director
 Brian Gavin

signed "Bonnie Kuhn" Director
 Bonnie Kuhn

Franconia Minerals Corporation
(a development stage Company)
Consolidated Statements of Operations and Deficit
US Dollars

For the year ended December 31	2003	2002	2001	Cumulative since inception
Expenses				
General administration	\$ 25,034	\$ 41,527	\$ 44,715	\$ 134,539
General exploration	147,744	511,605	136,834	843,876
Professional fees	34,073	28,311	12,265	78,985
Write off of deferred acquisition and exploration costs	-	-	332,248	332,248
	206,851	581,443	526,062	1,389,648
Loss from operations	(206,851)	(581,443)	(526,062)	(1,389,648)
Other income (expenses)	(12,502)	61,190	10,596	60,388
Net loss for the year	(219,353)	(520,253)	(515,466)	(1,329,260)
Deficit accumulated during development stage, beginning of year	(1,109,907)	(589,654)	(74,188)	-
Deficit accumulated during development stage, end of year	\$ (1,329,260)	\$ (1,109,907)	\$ (589,654)	\$ (1,329,260)
Loss per share – basic ⁽¹⁾ (Note 9)	\$ (0.00)	\$ (0.01)	\$ (0.02)	

⁽¹⁾ Dilutive loss per share has not been disclosed such would be anti-dilutive.

Franconia Minerals Corporation
(a development stage Company)
Consolidated Statements of Cash Flows
US Dollars

For the year ended December 31	2003	2002	2001	Cumulative since inception
Cash flows from operating activities				
Net loss for the year	\$ (219,353)	\$ (520,353)	\$ (515,466)	\$(1,329,260)
Items not involving cash:				
Management fees	(27,537)	(65,410)	-	(92,947)
Foreign exchange	-	-	-	3,445
Write off of deferred costs	-	-	322,248	322,248
Non cash services (Note 4(f))	16,667	376,223	123,000	515,890
	(230,223)	(209,540)	(70,218)	(580,624)
Changes in non-cash working capital balances				
Prepaid expenses	-	(3,228)	-	(3,228)
Accounts payable	146,422	18,109	(19,795)	168,748
	(83,801)	(194,659)	(90,013)	(415,104)
Cash flows from financing activities				
Advances from directors	-	(35,703)	23,180	-
Advances (payments) from joint venture partner, net of expenditures	16,421	(5,242)	300,000	172,378
Issue of share capital, net of share issue costs	562,936	383,592	197,463	2,007,826
	579,357	342,647	520,643	2,180,204
Cash flows from investing activity				
Payments of deferred acquisition and exploration costs	(289,975)	(260,903)	(274,765)	(1,392,658)
	(289,975)	(260,903)	(274,765)	(1,392,658)
Increase (decrease) in cash and equivalents	205,581	(112,915)	155,865	372,442
Cash and equivalents, beginning of year	166,861	279,776	123,911	-
Cash and equivalents, end of year	\$ 372,442	\$ 166,861	\$ 279,776	\$ 372,442

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

Franconia Minerals Corporation
(a development stage Company)
Notes to Consolidated Financial Statements
US Dollars

December 31, 2003, 2002 and 2001

1. Nature of Business

The Company was incorporated on August 7, 1998 under the Alberta Business Corporations Act. The Company is a public company listed on the OFEX Exchange. The Company is in the development stage devoting substantially all of its efforts to establishing a new business and planned principal operations have not commenced. Most of the Company's efforts are related to activities such as raising capital for the purpose of acquiring and exploring mineral properties.

On August 29, 2001, the Company effected a 5:1 stock split. All per share numbers have been reflected on a post split basis.

Although the Company has taken steps to verify the title to resource properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements, transfers or native land claims and title may be affected by unasserted claims.

2. Significant Accounting Policies

These consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada. The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared using careful judgement with reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Franconia Minerals Corporation (US) LLC.

(b) Cash and cash equivalents

Cash and cash equivalents consist of short-term investments which include highly liquid investments with original maturities of three months or less.

Franconia Minerals Corporation
(a development stage Company)
Notes to Consolidated Financial Statements
US Dollars

December 31, 2003, 2002 and 2001

2. Significant Accounting Policies – continued

- (c) Deferred acquisition and exploration costs
The Company is engaged in the acquisition, exploration and development of mineral properties. Certain acquisition and exploration expenditures are capitalized and deferred until such time as the property is put into commercial production or disposed of, either through sale or abandonment. All other exploration costs are expensed as incurred. Costs deferred will be depleted over the estimated life of the property. The estimated life of a property depends on whether the property contains economically recoverable reserves that can be brought into production. The costs relating to a property abandoned are written off when the decision to abandon is made. Proceeds from disposition of mineral properties are normally credited to the capitalized costs with no gain or loss being recognized unless the sale is significant to the capitalized property costs. For such significant dispositions, a gain or loss would be recognized. In addition, if there has been a delay in development activity for several successive years, a write-down of those project-capitalized costs will be charged to income. The Company expenses all general exploration costs.
- (d) Investment
The Company accounts for its investments in companies subject to control by consolidation. Investments not subject to control or significant influence are recorded at cost except for adjustment to reflect other than temporary declines in value. The Company currently holds one investment in a non-controlled company. Since there is no significant influence, the investment of 543,694 shares in Minera Andes Inc. is recorded at cost.
- (e) Future income taxes
The Company has adopted the recommendations of the Canadian Institute of Chartered Accountants with respect to accounting for income taxes. Under the recommendations, the liability method of tax allocation is used, based on differences between financial reporting and tax bases of assets and liabilities. No future tax asset has been recorded for the losses incurred to date, as the Company has not established a history of profitability.
- (f) Foreign exchange
Assets and liabilities of integrated foreign subsidiary operations and foreign currency denominated assets and liabilities of Canadian operations are translated into United States dollars at exchange rates prevailing at the balance sheet date for monetary items and at exchange rates prevailing at the transaction date for non-monetary items. The revenues and expenses, except amortization, are converted at the average exchange rates for the year. Amortization is converted at the same rate as the related assets. Gains or losses on translation are expensed in the period.
- (g) Joint venture
The Company's exploration and development activities are conducted jointly with others. These consolidated financial statements reflect only the Company's proportionate interest in such activities
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Franconia Minerals Corporation
(a development stage Company)
Notes to Consolidated Financial Statements
US Dollars

December 31, 2003, 2002 and 2001

2. Significant Accounting Policies – continued

(h) Reporting currency

Most of the Company's operations are conducted by its United States subsidiary in United States Dollars. The Company's operations outside of the United States are primarily in Canada conducted in Canadian Dollars. Because only limited operations are conducted in Canadian Dollars, the Company adopted the United States Dollar as its reporting currency. Accordingly, the financial statements have been prepared on that basis. Comparative figures for the prior periods have been restated to reflect the change in reporting currency. All numbers reported in these financial statements are stated in United States Dollars unless otherwise denoted.

(i) Stock-based compensation plan

Effective January 1, 2002, the Company adopted the recommendations of CICA Handbook Section 3870, Stock based compensation and other stock-based payments. This section requires that direct awards of stock and liabilities based on the price of common stock be measured at fair value at each reporting date, with the change in fair value reported in the statements of operations and encourages, but does not require, the use of the fair value method for all other types of stock-based compensation plans. None of the Company's plans qualify as direct awards of stock or as plans that create liabilities based on the price of the company's stock and, as a result, the implementation of the section has no impact on the financial statements. The Company has chosen not to use the fair value method to account for stock-based employee compensation plans, but to disclose pro-forma information for options granted after January 1, 2002. The Company records no compensation expense when options are issued to employees. Any consideration paid by employees on the exercise of the options is credited to capital stock. Compensation expense is recorded for options issued to consultants and non-employees.

Effective January 1, 2003, the Company adopted the recommendations of the CICA Handbook Section 3870 "Stock Based Compensation and Other Stock-Based Payments". This section was amended to require the expensing of all stock based compensation awards for fiscal years beginning after January 1, 2004. The Company has chosen to adopt the recommendation prospectively thereby recording the fair value of the stock options since January 1, 2003 in the statement of operations using the Black-Scholes option-pricing model.

When the Company issues stock in lieu of services, the shares are valued at the trading price prevailing at the date of making the commitment. If the trading price is not readily available, valuation is based on the most recent financing completed by the Company.

(j) Financial instruments

The Company's financial instruments consist of various assets and liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

Franconia Minerals Corporation
(a development stage Company)
Notes to Consolidated Financial Statements
US Dollars

December 31, 2003, 2002 and 2001

2. Significant Accounting Policies – continued

(k) Per share amounts

Basic earnings (loss) per common share are computed by dividing earnings (loss) from operations by the weighted average number of common shares outstanding for the period. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments.

(l) Revenue recognition

Management fees of 15% of certain joint venture expenditures are recognized once the expenditure is incurred. Fees earned on these expenditures are netted against expenditures and amounted to \$27,537 (2002 - \$65,410) (2001 - \$Nil).

3. Deferred Acquisition and Exploration Costs

2003

2002

Acquisition costs	\$ 270,910	\$ 24,396
Exploration, development and other property costs	360,124	320,463
	\$ 631,034	\$ 344,859

4. Share Capital

(a) Authorized

Unlimited number of common shares

Franconia Minerals Corporation
(a development stage Company)
Notes to Consolidated Financial Statements
US Dollars

December 31, 2003, 2002 and 2001

4. Share Capital – continued

(b) Issued

Common shares	Number	Amount
Issued for cash	10,000,000	\$ 50,000
Balance, December 31, 1998	10,000,000	50,000
Issued for cash	4,428,000	221,400
Balance, December 31, 1999	14,428,000	271,400
Issued for cash	725,450	36,273
Issued upon exercise of Class A warrants	2,214,000	110,700
Balance, December 31, 2000 ⁽¹⁾	17,367,450	279,130
Issued for cash by a private placement	669,305	44,655
Issued for services (f)	4,600,000	153,450
Issued upon exercise of Class A warrants (g)	362,725	12,100
Issued upon exercise of Class B warrants(g)	5,097,307	147,714
Issued in exchange for investment	1,375,000	55,042
Share issue costs	-	(23,683)
Balance, December 31, 2001	29,471,787	668,408
Issued for cash in initial public offering (e)	14,242,926	473,774
Issued for services (f) ⁽²⁾	11,060,287	376,223
Issued upon exercise of Class A warrants (g)	100,000	3,407
Share issue costs	-	(93,589)
Balance, December 31, 2002	54,875,000	1,428,223
Issued for cash by a private placement (d)	11,083,334	449,892
Issued in exchange for Birch Lake option agreement (h)	2,730,721	109,229
Issued upon exercise of Class A warrants (g)	60,000	2,195
To be issued upon exercise of Class A warrants (g)	350,000	14,924
To be issued for services by a private placement (f)	416,666	16,667
Share issue costs (e)	-	(13,304)
Balance, December 31, 2003	69,515,721	\$ 2,007,826

(1) All numbers have been adjusted to give effect to the 5:1 split effected August 29, 2001.

(2) Of these shares 1,403,635 common shares were issued in 2003 (Note 4(f)).

(c) Stock split

On August 29, 2001, a "split" or subdivision of the common shares was approved by the Board of Directors. The subdivision will be effected by the "push out" method whereby the shareholders keep the share certificates they currently hold, and shareholders as of the record date will receive an additional four common shares for every one share held for a total of five shares.

Franconia Minerals Corporation
(a development stage Company)
Notes to Consolidated Financial Statements
US Dollars

December 31, 2003, 2002 and 2001

4. Share Capital – continued

(d) Private placement

During November 2003, the Company completed a private placement of 9,000,000 units at a price of \$0.04 (\$0.06 Cdn) per unit for \$360,000 (\$540,000 Cdn). To each unit was attached a half warrant that entitles the holder to acquire one common share at \$0.06 (\$0.09 Cdn) per warrant which expires May 12, 2005.

During December 2003, the Company completed a private placement of 2,083,334 units at a price of \$0.04 (\$0.06 Cdn) per unit for \$89,892 (\$125,000 Cdn). To each unit was attached one half warrant that entitles the holder to acquire one common share at \$0.06 (\$0.09 Cdn) per warrant which expires June 11, 2005.

During 2001, the Company completed a private placement of 306,580 units at a price of \$0.067 (\$0.10 Cdn) per unit. To each unit was attached a warrant that entitled the holder to acquire one common share at \$0.10 (\$0.15 Cdn) per warrant which expired May 18, 2002. In 2002, the exercise price was amended to \$0.035 (\$0.05 Cdn) and the expiration date to May 18, 2004.

(e) Public offering

On February 18, 2002, the Company began trading on the OFEX trading facility in London, England following an offer for subscription by prospectus. The subscription raised \$473,774 by the sale of 14,242,926 shares at 2.33p (\$0.04) per share together with 1 warrant for every 2 shares. Each warrant has an exercise price of 2.33p (\$0.04) with an expiry of 4 years. The value of the warrants was not considered material to be recorded separately.

On February 6, 2001, the Company signed an equity financing agreement using an agent in the United Kingdom (Lion Mining Finance) to raise \$1,000,000 via issuing common shares at \$0.10 per share. The agent received 500,000 common shares from the Company's treasury and received 750,000 common shares during 2002 when the Company was listed on the OFEX London.

Under the terms of the financing agreement, the Company was responsible for all expenses relating to the offering including expenses of the subscribers' counsel estimated to be approximately £25,000 (approximately \$39,250). The Company was charged an agency fee of 6% plus 5% in options and/or warrants. In addition, the Company committed to retain the agent's services for a minimum of 2 years at \$5,000 per month. This agreement expired February 2003.

Subsequent to the listing, in conjunction with the listing application and subscription agreement, the agency agreement previously signed with Lion Mining Finance Ltd. was modified such that Lion Capital Corporation will act instead of Lion Mining Finance. The terms of the agreement were also modified so that Lion's commission was limited to 4% on the proceeds realized from uncommitted investors for a maximum fee of £8,388 (approximately \$13,170). Also, costs of OFEX listing including commissions paid to Lion were limited to £40,000 (approximately \$62,800). An additional 1,153,635 and 250,000 shares (post-split) were issued to Lion and Otto Snell for services rendered, respectively, once the Company was accepted on the OFEX. These 1,403,635 shares have been included in the issued and outstanding shares at December 31, 2002, as the Company committed to issue these shares.

Subsequent to year end, the Company amended its agreement with its corporate advisor, Lion Mining Finance Ltd. The Company will pay a fee of \$2,500 per month to its corporate advisor until the Company ceases to trade on OFEX.

Franconia Minerals Corporation
(a development stage Company)
Notes to Consolidated Financial Statements
US Dollars

December 31, 2003, 2002 and 2001

4. Share Capital – continued

(f) Issued for services

During 2003, the Company issued 416,666 shares for services rendered. These shares were issued in lieu of investor relations and financing advisory services at a value of \$16,667 (\$25,000 Cdn).

During 2002, the Company issued 11,060,287 shares for services rendered. These shares were issued in lieu of investor relations and financing advisory services at a value of \$376,223 (\$563,900 Cdn). Of these shares, 9,906,652 were issued to an individual who also subscribed for shares on the public offering (Note 4(e)).

During 2001, the Company issued 4,600,000 shares for services rendered. 4,100,000 of these shares were in lieu of consulting services at a value of \$136,772 (\$205,000 Cdn). The other 500,000 shares were for an initial payment for the equity financing detailed in Note 4(e) and were valued at \$0.033 (\$0.05 Cdn) per share.

(g) Warrants

During 2003, 60,000 (2002 – 100,000) (2001 – 362,725) warrants were exercised for \$2,195 (2002 - \$3,407) (2001 - \$12,100). Subsequent to year end, 350,000 warrants were exercised for \$14,924.

During 2003, the Company issued 5,541,670 Class A warrants at an exercise price of \$0.06 (\$0.09 Cdn). Of these warrants, 4,500,002 expire in May 2005 and 1,041,668 expire in June 2005, respectively. Subsequent to year end, the Company issued 208,332 Class A warrants at an exercise price of \$0.06 (\$0.09 Cdn) and expires in September 2005.

As at December 31, 2003, the Company had a total of 20,980,679 (2002 - 15,192,432) warrants outstanding with exercise prices between 2.33p (\$0.04) and \$0.06 (\$0.09 Cdn) and expiration dates between May 18, 2004 and February 18, 2006.

In 2002, 100,000 Class A warrants were exercised for \$3,407.

In 2001, 362,725 Class A warrants were exercised for \$12,100 and 5,097,307 Class B warrants were exercised for \$147,714.

(h) Birch Lake

During 2003, under the terms of the Birch Lake option agreement (Note 5(i)), the Company issued 2,730,721 shares for \$109,229 (\$163,843 Cdn).

Franconia Minerals Corporation
(a development stage Company)
Notes to Consolidated Financial Statements
US Dollars

December 31, 2003, 2002 and 2001

4. Share Capital – continued

(i) Options

The Company has a stock option plan available to employees and directors with grants under the Plan approved from time to time by the Board of Directors. Under the Plan, the Company is authorized to issue options to purchase in aggregate up to 20% of the Company's issued and outstanding common shares, up to a maximum of 5,000,000 common shares. Each option can be exercised for one common share of the Company. The options vest after one, two or three years and expire not more than five years from the date of grant. Stock options to acquire common shares are granted to employees and directors from time to time at exercise prices equal to the market value of the shares at the date of grant.

During 2003, the Company adopted the fair value method of accounting for stock based employee compensation. The Company records compensations expense when stock options are issued to officers, directors, and employees as disclosed in Note 2(h). The fair value of stock options is determined at the date of the grant and this amount is charged to operations over the vesting period of the options. There was no compensation expense recorded for the year ended December 31, 2003 as no options were issued in the year.

The Company has granted stock options to directors, officers, employees and consultants of the Company as follows:

	Number of Shares	Option Prices per Share	Weighted Average Exercise Price
Options outstanding, Dec. 31, 2001 and 2002	600,000	\$0.03	\$0.03
Options – granted	-	-	-
Options outstanding, Dec. 31, 2003	<u>600,000</u>	\$0.03	\$0.03

The following table summarizes information about stock options outstanding at December 31, 2003:

Options outstanding	Options outstanding			Options exercisable	
	Options price range	Weighted average exercise price	Weighted average contractual life	Options exercisable	Weighted average exercise price
600,000	\$0.03	\$0.03	1.9 years	600,000	\$0.03

The following table summarizes information about stock options outstanding at December 31, 2002:

Options outstanding	Options outstanding			Options exercisable	
	Options price range	Weighted average exercise price	Weighted average contractual life	Options exercisable	Weighted average exercise price
600,000	\$0.03	\$0.03	2.9 years	600,000	\$0.03

Franconia Minerals Corporation
(a development stage Company)
Notes to Consolidated Financial Statements
US Dollars

December 31, 2003, 2002 and 2001

4. Share Capital – continued

The following table summarizes information about stock options outstanding at December 31, 2001:

Options outstanding	Options outstanding			Options exercisable	
	Options price range	Weighted average exercise price	Weighted average contractual life	Options exercisable	Weighted average exercise price
600,000	\$0.03	\$0.03	3.9 years	600,000	\$0.03

5. Property Commitments

(a) San Francisco Project (Utah)

The Company entered into an agreement with Horn Silver Mines, Inc. on September 15, 2000. The agreement has a term of 20 years with an option to renew for 20 years. Included in this agreement is a royalty fee of 3% NSR with a right to buy down the royalty at \$750,000 per 1%.

The rental payments are due as follows:

2004	\$	36,000
2005		36,000
2006		54,000
		<u>\$ 126,000</u>

Franconia Minerals Corporation
(a development stage Company)
Notes to Consolidated Financial Statements
US Dollars

December 31, 2003, 2002 and 2001

5. Property Commitments - continued

(b) Teck Cominco American Incorporated (TCAI)

The Company signed a joint venture agreement with Teck Cominco American Incorporated (TCAI) relative to the San Francisco project effective January 2, 2002. This agreement provides TCAI with a three-year option to form a Joint Venture with the Company, within 60 days of completion by the Company of an exploration program consisting of eight 1200-foot exploration drill holes on the property. At December 31, 2003, the Company had drilled 4 qualifying exploration holes. The subsequent joint venture will allow TCAI to earn a 60% interest in the property by expending \$3,000,000 in exploration on the property over four years. Subsequent expenditures will be on a pro rata basis, however, TCAI will make all contributions on the Company's behalf until a feasibility agreement has been completed and a positive construction decision has been made. These contributions will be repaid from 70% of the Company's share of production revenues. Failure to contribute to a work program will result in dilution of a party's interest. Dilution to 20% will cause a party's interest to be converted to a 10% net proceeds royalty interest.

(c) Cominco America Incorporated

The Company entered into an Exploration and Option Agreement with Cominco America Incorporated ("Cominco"), (subsequently Teck Cominco American Incorporated), effective October 28, 2000. The agreement had a 2-year term with Cominco having the option to acquire or retain a royalty interest or form a joint venture agreement with the Company. The agreement was extended to October 28, 2003 when it expired.

(d) Minnesota State Leases

The lease agreements signed with the State of Minnesota are being held in trust for the Company by Ernest K. Lehmann & Associates Inc. The lease terms include the following:

- (i) Leases MM-9733-P6 through MM-9739-P were effective June 16, 1999 and have a 50-year term. The base royalty is 3.95% NSR with a 0% bonus bid. The rental payments were paid beginning in 2002 of approximately \$16,800 per year but there are no work commitments. These leases were terminated in 2002.
- (ii) Leases MM-9740-P through MM-9745-P were effective March 9, 2000 and have a 50-year term. The base royalty is 3.95% NSR with a 0% bonus bid. The rental payments are prepaid through 2002 and there are no work commitments. Annual rental payments required amount to \$8,888 per year in 2003 and 2004. All of these leases were terminated in 2003.
- (iii) Leases MM-9746-N through MM-9751-N were effective June 8, 2000 and have a 50-year term. The base royalty is 3.95% with a 0% bonus bid. The rental payments are prepaid through 2002 and there are no work commitments. Annual rental payments required amount to \$13,403 per year in 2003 and 2004. All of these leases were terminated in 2003.
- (iv) Leases MM-9777 through MM-9790 were effective December 14, 2000 and have a 50-year term. The base royalty is 3.95% with a bonus bid ranging from 0.11% to 0.26%. The rental payments are prepaid through 2002 and there are no work commitments. Lease MM-9777 to MM-9781, 9788, 9789 and 9790 were terminated in 2003. Annual rental payments required amount to \$10,031 per year from 2003 to 2005 and \$30,092 in 2006.

Franconia Minerals Corporation
(a development stage Company)
Notes to Consolidated Financial Statements
US Dollars

December 31, 2003, 2002 and 2001

5. Property Commitments - continued

- (v) Leases MM-9862 through MM-9894 and MM-9930 were effective September 6, 2001 and have a 50-year term. The base royalty is 3.95% with a bonus ranging from 0.23% to 0.27%. The rental payments were prepaid through 2003 and there are no work commitments. Annual rental payments required amount to \$42,315 per year.
 - (vi) Leases MM-9983 through MM-9987 were effective March 7, 2002 and have a 50-year term. The base royalty is 3.95% plus an additional royalty ranging from 0.23% to 0.27%. The rental payments are prepaid through 2004 and there are no work commitments. Annual rental payments on the remaining active leases required amount to \$8,339 per year beginning in 2005.
 - (vii) Leases MM-9993 through MM-9999 were effective September 5, 2002 and have a 50-year term. The base royalty is 3.95% plus an additional royalty ranging from 0.07% to 0.29%. There are no work commitments. Annual rental payments required amount to \$6,824 beginning in 2005.
 - (ix) The Company entered into a 25-year agreement with an individual on February 15, 2002. The agreement entitles the Company to a 25% interest in 320 surface acres of property in St. Louis County, Minnesota for rental payments of \$2.50 per net acre in 2004, \$5 in 2005 and 2006 and \$10 in 2007 through 2015. There are no work commitments. The production royalty is 4.4% for open pit ore and 3.5% for underground ore.
 - (x) The Company has entered into other agreements with certain individuals on August 26, 2002 pursuant to the terms of which it can earn interests ranging from 33% to 50% in 240 acres of mineral rights in St. Louis County, Minnesota. There are no work commitments. Annual rental payments required amount to \$1,200 per year beginning in 2005. The base royalty is 3.95% plus a bonus royalty of 0.27% of net smelter returns.
 - (xi) In addition to the above, the Company has Federal Prospecting Permits for which it is committed to annual payments of approximately \$2,000 per year. These permits are subject to a 4-year renewal between November 2004 and November 2006.
 - (xii) The Company entered into lease agreements with the state of Minnesota. Leases MM-10000N and MM-10001 covering 920 net mineral acres, were effective March 6, 2003, and have a 50-year term. The base royalty is 3.95% plus an additional royalty of 0.25%. The rental payments are pre-paid through 2005 and there are no work commitments. Annual rental payments required beginning in 2006 are \$4,600.
 - (xiii) In April 2003, the following Federal Prospecting Permits were terminated: MNES 50825, MNES 50939, MNES-51109 and MNES-51107 covering a total of 2228 acres.
 - (xiv) Effective during April and May 2003, the Company terminated mineral leases with the State of Minnesota as follows: MM-9740P to 9745P, MM-9777 to 9781 and MM-9788 to 9790 (5420.64 acres).
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Franconia Minerals Corporation
(a development stage Company)
Notes to Consolidated Financial Statements
US Dollars

December 31, 2003, 2002 and 2001

5. Property Commitments - continued

(e) St. Croix Lumber Company (Minnesota)

The Company entered into a 25-year agreement with the St. Croix Lumber Company on December 1, 2001. The agreement entitles the Company to a 50% interest in 114.74 surface acres of property in Lake County, Minnesota. The base royalty is \$5 per net mineral acre in 2002 and 2003, \$10 in 2004 to 2005, \$20 in 2006 to 2015, \$25 in 2016 to 2025 and \$50 for 2026 and thereafter. The royalty for minerals mined by underground methods is 4% and 5% for minerals mined by open pit methods. In April 2003, the Company terminated a lease with St. Croix Lumber Company covering 57.37 net mineral acres.

(f) Impala Platinum Holdings Ltd.

As part of the Duluth Complex project, on October 22, 2001, the Company entered into an Earn-in and Joint Venture Agreement with Impala Platinum Holdings Ltd. ("Impala"). Impala agreed to pay the Company the initial sum of \$600,000 to explore certain target areas and shall receive a right of first refusal to fund a minimum of \$2,000,000 ("Initial Funding") over three years, if it selects one Initial Target Area, or \$1,000,000 per area over three years if it selects two Initial Target Areas. Impala may also fund \$2,000,000 ("Additional Funding") for each Additional Target Area over a period of no more that 4 years. Upon completion of the Initial and Additional Funding, Impala may, for each Target Area:

- i) decline to do any further work and relinquish its interest in target areas;
- ii) enter into a Joint Venture with the Company for the target area retaining a 51% interest;
- iii) conduct further exploration and complete a bankable feasibility study based on Impala expending no less than \$1,000,000 per year within the selected target area. Within 90 days of the feasibility study, Impala may:
 - a) decline to do any further work and relinquish its interest in target area;
 - b) enter into a Joint Venture with the Company for the target area, retaining a 65% interest.

Impala may terminate this agreement at any time after paying the initial sum of \$600,000.

During 2003, Impala had advanced the Company \$200,000 (2002 - \$600,000). This amount has been reflected as deferred exploration advances and has been offset by the expenditures of \$183,578 (2002 - \$436,062) incurred on the Target areas. Pursuant to the terms of the agreement, a 15% management fee has been charged on expenditures incurred. As a result, the Company received fees of \$27,537 (2002 - \$65,410).

(g) United States Steel LLC (Minnesota)

The Company entered into a 20-year agreement with United States Steel LLC on December 3, 2001. The agreement entitles the Company to 2,390.56 (2001 - 2,190.56) total acres of property in Lake County, Minnesota. In September 2003, the acreage under lease was reduced to 839.35 acres. The Company is obligated to pay a minimum rental fee. The base fee is the greater of \$2,500 or \$2 per acre in 2002, \$5 in 2003 to 2006, \$10 in 2007 to 2011, \$25 in 2012 to 2014 and \$50 for 2015 and thereafter. The agreement also requires a work commitment to be paid of \$25,000 within 24 months and \$25,000 per year thereafter. If by the tenth anniversary, the Company has not incurred total exploration and development costs of a minimum of \$250,000, the rental payments will be increased to the greater of \$50 per acre or \$50,000 per year. The production royalty is 5%.

Franconia Minerals Corporation
(a development stage Company)
Notes to Consolidated Financial Statements
US Dollars

December 31, 2003, 2002 and 2001

5. Property Commitments - continued

(h) Birch Lake Option Agreement (Minnesota)

On November 12, 2002, the Company entered into the Birch Lake Option Agreement (BLOA) to hold the option to enter into an Earn-in and Joint Venture Agreement ("BLJV Agreement") with Beaver Bay Joint Venture (BBJV), a company related by virtue of common shareholders. The Company paid BBJV the initial sum of \$15,000 to explore certain target areas in the Birch Lake and St. Louis Counties in the State of Minnesota commonly referred to as the "Birch Lake Project" over four years (with an additional option to renew for a 5 year option period). The Company is committed to pay \$18,000 over the four-year term to keep the option agreement alive.

If the BLJV Agreement is executed, the Company will commit to a total work commitment of \$10,000,000. Of this amount, \$1,000,000 is to be expended for each of the first three years and \$7,000,000 in the final year of the agreement. If the BLJV Agreement is executed, the Company will pay a consideration of \$5,200,000 to the project. Of this amount, the Company is committed to pay \$3,700,000 in cash and issue common shares totaling \$1,500,000.

(i) BLOA Amendment

In May 2003, the Company amended the BLOA dated November 12, 2002. This amendment extended the option term to September 30, 2003. The consideration for the extension was \$7,500. The Company agreed to pay an additional \$20,000 to the Beaver Bay Joint Venture (BBJV) on termination of the option. The Company also agreed to be responsible for all costs related to maintaining BBJV's land position. Additionally, the first year Allowable Expenditure under the BLJV Agreement attached to the option agreement was reduced to \$500,000. The BLJV Agreement remains unchanged in all other respects.

A second amendment to the BLOA, made effective September 30, 2003, extended the option period to October 31, 2003 and called for the Company to pay the \$20,000 specified in the first amendment at that time.

In November 2003, the Company exercised its option to enter into the BLJV Agreement to acquire up to an 82% interest in BBJV property in the Duluth Complex in the State of Minnesota. Under the terms of the option agreement, the Company made a payment of \$35,000 and issued 2,730,721 common shares at a deemed price of \$0.04 (\$0.06 Cdn) per share. The remaining portion of the commitment for this agreement of \$135,000 has been accrued as a note payable (Note 6).

(j) Duluth Project

In May 2003, the Company amended the Duluth Complex Earn-in Agreement dated June 25, 2002. According to this Amendment, Impala Platinum Holdings agreed to provide an additional \$200,000 for the acquisition and exploration of PGM properties in the Duluth Complex. This additional amount of \$200,000 will be a credit towards expenditures required in any subsequent joint venture agreement.

Franconia Minerals Corporation
(a development stage Company)
Notes to Consolidated Financial Statements
US Dollars

December 31, 2003, 2002 and 2001

5. Property Commitments - continued

(k) American Copper Nickel Company

On December 22, 2003, Lehmann Exploration Management, as operator of the Beaver Bay Joint Venture ("BBJV"), entered into a binding letter of intent to acquire from American Copper Nickel Company (ACNC), a wholly owned subsidiary of INCO, two federal leases covering 4864.78 net mineral acres and ownership of 160 acres in fee, 74.11 acres of surface rights only and 328.88 net mineral acres of mineral rights. The federal leases are subject to a royalty to the US Government on production, and are also subject in part to overriding royalties to certain private parties not to exceed 1%. All the mineral rights acquired from ACNC are subject to payment to ACNC of a royalty of 7.5% of net distributable earnings from the subject rights. The annual holding costs for 2003 through 2013 are approximately \$70,000 per year for lease rentals and real estate taxes. These lands were acquired in the name of Beaver Bay and are subject to the earn-in agreement in favor of the Company. BBJV is managed and operated by Lehmann Exploration Management, a company controlled by a Company director who is also a shareholder.

6. Note Payable

The Company issued a note payable for \$135,000 to Beaver Bay Joint Venture pursuant to the terms of the Birch Lake Option Agreement and subsequent Birch Lake Earn-In and Joint Venture Agreement (see Notes 5(i) and (h)). The note is non-interest bearing, unsecured and is repayable in full on the earlier of May 15, 2004 or the closing of a public offering to be made by the Company on a Canadian stock exchange.

7. Related Party Transactions

Except as disclosed elsewhere in these financial statements, the Company had the following related party transactions:

- (a) Included in general administration are consulting fees of \$15,568 (2002 - \$Nil) (2001 - \$Nil) and administrative fees of \$2,027 (2002 - \$Nil) (2001 - \$Nil) paid to companies who are jointly owned by a shareholder and director of the Company, for services rendered.
 - (b) Included in general administration are consulting fees paid to a director of \$6,750 (2002 - \$Nil) (2001 - \$Nil) for services rendered.
 - (c) The Company reimbursed Ernest K. Lehmann & Associates, a company owned by a shareholder and director of the Company, an estimated \$73,161 (2002 - \$Nil) (2001 - \$30,787), which represents application fees of \$46,236 (2002 - \$Nil) (2001 - \$3,800), drilling costs of \$26,925 (2002 - \$Nil) (2001 - \$Nil), and lease rentals of \$Nil (2002 - \$Nil) (2001 - \$26,987) for prospecting permits bid on in Minnesota.
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Franconia Minerals Corporation
(a development stage Company)
Notes to Consolidated Financial Statements
US Dollars

December 31, 2003, 2002 and 2001

7. Related Party Transactions - continued

- (d) During 2003, the Company issued a note payable to Beaver Bay Joint Venture, a related party managed and owned by North Central Mineral Ventures Inc., a company controlled by a director who is also a shareholder of the Company (Note 6).
- (e) During 2003, the Company issued 2,015,195 units at \$0.04 (\$0.06 Cdn) per unit in a private placement (Note 4(d)) to Beaver Bay Joint Venture, a related party managed and owned by North Central Mineral Ventures Inc., a company controlled by a director who is also a shareholder of the Company.
- (f) During 2001, the Company issued 1,375,000 shares to Cominco America Incorporated. The consideration was settled via a transfer of Cominco's investment in Minera Andes Inc. Certain shareholders and directors of the Company also act as directors and officers for Minera Andes Inc. The Company holds 543,694 shares in Minera Andes Inc. (1.5% interest).
- (g) During 2001, the Company issued 4,100,000 shares to various directors and shareholders of the Company for services rendered (Note 4 (f)).

These transactions are in the normal course of operations and have been recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties and approximates the fair market value.

8. Income Taxes

The income tax provision on the statement of operations differs from the expected income tax provision as follows:

	2003	2002	2001
Combined tax rate	36.7%	41.2%	41.2%
Expected income tax provision at statutory rate	\$ (80,503)	\$ (214,344)	\$ (212,372)
Write off of deferred acquisition costs	-	-	136,222
Share issue costs	(14,747)	(9,575)	(1,856)
Change in rate	(4,563)	-	-
Change in valuation allowance	93,014	194,839	96,478
Other differences	6,799	29,080	(18,472)
Actual income tax provision	\$ -	\$ -	\$ -

At December 31, 2003, the Company has estimated loss carryforward balances in Canada and the US of approximately \$433,200 (2002 - \$325,000) (2001 - \$171,000) and foreign exploration and development expenses of \$1,246,000 (2002 - \$1,171,000) (2001 - \$533,000) that may be available to the Company with regard to the US cost centers. The amounts are subject to approval by tax authorities.

Franconia Minerals Corporation
(a development stage Company)
Notes to Consolidated Financial Statements
US Dollars

December 31, 2003, 2002 and 2001

8. Income Taxes - continued

The components of the Company's future income tax liability are a result of the origination and reversal of temporary differences and are comprised of the following:

Nature of temporary differences	2003	2002	2001
Share issue costs	\$ 33,103	\$ 36,261	\$ 2,333
Deferred acquisition and exploration costs	225,713	340,321	181,809
Unused loss carryforwards	158,991	134,239	131,840
Future tax asset valuation allowance	(417,807)	(510,821)	(315,982)
Future income tax liability (asset)	\$ -	\$ -	\$ -

No future tax asset has been set up for the unutilized tax balances as ultimate utilization of this asset is currently uncertain.

9. Loss Per Share

The loss per share figures have been calculated using the weighted average number of common shares outstanding during the respective years, which amounted to 57,116,264 (2002 - 51,679,871) (2001 - 21,636,175). Basic loss per share is computed by dividing earnings by the weighted average number of common shares outstanding for the period. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments.

10. Cash and Equivalents

Cash and cash equivalents included in the statement of cash flows comprise the following balance sheet amounts:

	2003	2002
Cash	\$ 372,442	\$ 76,219
Short-term investments	-	90,642
	\$ 372,442	\$ 166,861

Franconia Minerals Corporation
(a development stage Company)
Notes to Consolidated Financial Statements
US Dollars

December 31, 2003, 2002 and 2001

11. Segmented Information

The Company's activities include the acquisition and exploration of mineral properties.

Geographic Segments

The Company had two reportable segments: the United States of America ("US") and Portugal.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

December 31, 2003	Corporate and US	Portugal	Total
Segment loss	\$ 219,353	\$ -	\$ 219,353
Segment deferred exploration costs	\$ 631,034	\$ -	\$ 631,034
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December 31, 2002	Corporate and US	Portugal	Total
Segment loss	\$ 520,253	\$ -	\$ 520,253
Segment deferred exploration costs	\$ 344,859	\$ -	\$ 344,859
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December 31, 2001	Corporate and US	Portugal	Total
Segment loss	\$ 338,779	\$ 176,687	\$ 515,466
Segment deferred exploration costs	\$ 91,716	\$ -	\$ 91,716

12. Non-Cash Transactions

- (a) In 2003, the Company issued 416,666 shares valued at \$16,667 in lieu of services (Note 4 (f)).
- (b) The Company issued a note payable for \$135,000 to Beaver Bay joint venture (Note 6).
- (c) The Company charged a 15% management fee on expenditures incurred with a joint venture of \$27,537 (2002 - \$65,410) (Note 5 (f)).
- (d) The Company issued 2,730,721 shares to acquire its interest in certain properties through the BBJV (Notes 5 (h) and (i)). These shares were valued at \$109,229. BBJV is a related party as it is managed and owned by North Central Mineral Ventures Inc., a company controlled by a director who is also a shareholder of the Company.
- (e) During 2002, the Company issued 11,060,287 shares for services in the amount of \$376,223 (Note 4(f)).
- (f) During 2001, the Company issued 4,600,000 shares for services and financing fees in the amount of \$153,450.
- (g) In 2001, the Company issued 1,375,000 shares in exchange for an investment in a company.

Franconia Minerals Corporation
(a development stage Company)
Notes to Consolidated Financial Statements
US Dollars

December 31, 2003, 2002 and 2001

13. Financial Instruments

As disclosed in Note 2 (j), the Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to fair value risk, currency risk, and credit risk. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

Fair value risk

The fair value of the Company's current financial assets and liabilities is approximated by their carrying values due to the short-term nature of the items. The fair value of the Company's note payable has not been disclosed as the amount is due to a related party and reliable market information is not readily available.

Currency risk

Currency risk is the risk to the Company's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

Concentration risk

A majority of the Company's cash and cash equivalents are with one major banking institution. Deposits held with this bank may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and, therefore, bear minimum risk.

14. Consultant Contracts

Effective January 1, 2001, the Company entered into one year consulting contracts, automatically renewable annually, with several consultants who are also shareholders and directors of the Company. These agreements provide for a consulting fee of US\$450 per day and reimbursement of expenses. If these Agreements are terminated by the Company, without cause, the consultants will receive severance pay from the Company in amounts ranging from \$50,000 to \$100,000 if the termination date is after December 31, 2002. In addition, the Company will cancel any previously issued share options held by the consultants which are not exercised within the 30 days of the termination by payment to the consultants of the amount equal to the difference between the exercise price of the options and the average closing price of the common shares on the relevant stock exchange or trading platform during the previous 30 days.

Franconia Minerals Corporation
(a development stage Company)
Notes to Consolidated Financial Statements
US Dollars

December 31, 2003, 2002 and 2001

15. Proposed Financing

On June 10, 2003, the Corporation entered into an agreement with Birkenshaw & Company Ltd. ("Birkenshaw") for assistance with a possible Canadian exchange listing and public offering for the Corporation. Under the agreement, Birkenshaw is to provide financial advisory services to the Corporation and assist in the selection of a lead investment dealer and sponsor. At the time of appointment of an investment house, Birkenshaw will be paid a fee of \$3,500. On the closing of a share issue of approximately US\$2,000,000 and an exchange listing, Birkenshaw is to be paid a success fee of 2% of the gross amount raised payable in cash .

On October 10, 2003, the Company entered into an agreement with Birkenshaw for assistance with a pre-listing financing by way of a private placement. Under the agreement, Birkenshaw will provide financial advisory services to Franconia for an approximate \$415,000 (\$540,000 Cdn) private placement. On closing, Birkenshaw was paid a fee of \$16,667 (\$25,000 Cdn) via the issue of 416,666 units at \$0.04 (\$0.06 Cdn) (Note 4 (f)). Each unit consists of one common share and one half warrant that entitles the holder to acquire one common share at \$0.06 (\$0.09 Cdn) per warrant which expires on or before September 4, 2005.

16. Subsequent Events

- (a) On February 5, 2004, the Corporation entered into a consulting agreement with the Underwriter ("Consulting Agreement") to provide certain business and financial consulting services covering an initial period commencing on February 5, 2004 and ending on the earlier of a completion of an initial public offering of units and the TSX Venture Exchange listing and June 30, 2004, subject to extension of such engagement thereafter by mutual agreement. Pursuant to the Consulting Agreement, the Underwriter will advise and consult with the Corporation's board of directors and executive officers regarding corporate financing activities including working with the Corporation to prepare for a possible initial public offering to be lead-managed by the Underwriter. As compensation, the Corporation shall, subject to regulatory approval, have issued to the Underwriter warrants ("Compensation Warrants") exercisable to acquire 500,000 Common Shares of the Corporation at the time of signing of such agreement and is to issue Compensation Warrants to acquire up to an additional 1,000,000 Common Shares upon completion of the initial public offering of Units. The Compensation Warrants will be exercisable on or before the second anniversary date of the earlier of (i) the date of the closing of the Corporation's initial public offering and listing on the TSX Venture Exchange, and (ii) the date the Consulting Agreement is terminated at an exercise price of \$0.06 per Common Share.
- (b) On February 5, 2004, the Company signed an Engagement Agreement appointing Clarus as Lead Manager in an initial public offering of units, whereby a unit consists of one common share and one half warrant, for approximately \$3,600,000 (\$5,000,000 Cdn) in conjunction with a TSX-V listing. The Company will pay Clarus a commission of 7% of gross proceeds and the right to acquire options equal to 10% of the offering upon completion of the offering and listing.
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Franconia Minerals Corporation
(a development stage Company)
Notes to Consolidated Financial Statements
US Dollars

December 31, 2003, 2002 and 2001

16. Subsequent Events - continued

- (c) In March 2004, Ernest K. Lehmann & Associates Inc. gave notice of termination effective June 17, 2004 for the following state mineral leases held by it on behalf of the Duluth Project of the Company and Platco: MM-9784, MM-9786, MM-9866, MM-9867, MM-9868, MM-9873, MM-9874, MM-9876, MM-9877, MM-9889, MM-9891, MM-9993, and MM-9999. Also in March 2004, Lehmann Exploration Management Inc. gave notice of termination, effective June 17, 2004, for termination of state mineral lease MM-9930 held by it and subleased to the Duluth Project of the Company and Platco.
- (d) In January 2004, the Company staked 54 unpatented lode claims (covering approximately 1,080 acres) in Luna County, New Mexico as part of the Mahoney Project at a cost of \$7,290. These claims were recorded with the Luna County and filed with the US Bureau of Land Management in March 2004.
- (e) In March 2004, the Company sold 100,000 common shares of Minera Andes Inc., a company in which a current officer and director of the Company is an officer of Minera Andes Inc., at a price of \$0.30 (\$0.455 Cdn) per share for total proceeds of \$30,333 (\$45,500 Cdn). The Company currently holds a remaining investment of 443,694 shares of Minera Andes Inc.
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