

**SEDAR FILING COVER PAGE**  
BC Form 51-901F  
**(QUARTERLY AND YEAR END REPORT)**

**ISSUER DETAILS**

NAME OF ISSUER Inter-Citic Minerals Inc.

FOR QUARTER ENDED August 31, 2004

DATE OF REPORT Y M D [ 04 ] [ 10 ] [ 29 ]

ISSUER'S ADDRESS

372 Bay Street Suite 901

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CITY PROVINCE POSTAL CODE ISSUER FAX NO. ISSUER TELEPHONE NO.

James J. Moore President & Chief Executive Officer (416) 363-5055

CONTACT NAME CONTACT'S POSITION CONTACT TELEPHONE NO.

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CONTACT EMAIL ADDRESS WEBSITE ADDRESS

**CERTIFICATE**

The three schedules required to complete this Quarterly Report are attached and the disclosure contained therein has been approved by the Board of Directors. A copy of this Quarterly Report will be provided to any shareholder who requests it.

“Mark R. Frederick” Mark R. Frederick

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DIRECTOR'S SIGNATURE PRINT FULL NAME DATE SIGNED  
Y M D [ 04 ] [ 10 ] [ 29 ]

“James J. Moore” James J. Moore

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DIRECTOR'S SIGNATURE PRINT FULL NAME DATE SIGNED  
Y M D [ 04 ] [ 10 ] [ 29 ]

**INTER-CITIC MINERALS INC.  
(FORMERLY INTER-CITIC MINERAL TECHNOLOGIES INC.)  
CONSOLIDATED THIRD QUARTER  
INTERIM FINANCIAL STATEMENTS  
(UNAUDITED)**

**August 31, 2004**

**INTER-CITIC MINERALS INC.**  
**(FORMERLY INTER-CITIC MINERAL TECHNOLOGIES INC.)**  
**(AN EXPLORATION STAGE COMPANY)**  
**CONSOLIDATED BALANCE SHEETS**  
**(All figures in Canadian dollars)**

As at	August 31, 2004 <small>(Unaudited)</small>	November 30, 2003 <small>(Audited)</small>
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 2,977,953	\$ 1,179,270
Amounts receivable	354,582	64,279
Prepaid expenses	18,971	1,789
	<b>3,351,506</b>	<b>1,245,338</b>
Deposits	60,000	60,000
Investments <b>(Note 3)</b>	30,478	35,224
Investment in associated company <b>(Note 4)</b>	1	1
Resource properties <b>(Note 5, 14)</b>	2,363,720	269,068
Property, plant and equipment, net <b>(Note 6)</b>	855,255	15,032
	<b>\$ 6,660,960</b>	<b>\$ 1,624,663</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Bank advances <b>(Note 7)</b>	\$ 481,800	\$ 471,600
Accounts payable and accrued liabilities	877,086	666,956
	<b>1,358,886</b>	<b>1,138,556</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital <b>(Note 11)</b>	27,260,760	20,991,876
Share purchase warrants <b>(Note 11)</b>	1,975,242	1,456,836
Contributed surplus <b>(Note 11)</b>	721,373	459,822
Deficit	(24,655,301)	(22,422,427)
	<b>5,302,074</b>	<b>486,107</b>
	<b>\$ 6,660,960</b>	<b>\$ 1,624,663</b>

**Note 1 - Going Concern Assumption**

*Approved by the Board of Directors:*

<p>[SIGNED]  <b>Mark R. Frederick</b>  <i>Director</i></p>	<p>[SIGNED]  <b>James J. Moore</b>  <i>Director</i></p>
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The accompanying Notes to Financial Statements are an integral part of these financial statements.

**INTER-CITIC MINERALS INC.**  
**(FORMERLY INTER-CITIC MINERAL TECHNOLOGIES INC.)**  
**(AN EXPLORATION STAGE COMPANY)**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
**(All figures in Canadian dollars)**

	For the three months ended August 31, 2004 (Unaudited)	For the three months ended August 31, 2003 (Unaudited)	For the nine months ended August 31, 2004 (Unaudited)	For the nine months ended August 31, 2003 (Unaudited)
Sales	\$ 6,825	\$ 23,563	\$ 12,580	\$ 422,191
Operating costs	285	9,822	2,206	635,622
	<b>6,540</b>	<b>13,741</b>	<b>10,374</b>	<b>(213,431)</b>
Depreciation and amortization	1,404	96,567	4,563	283,506
Selling, general and administrative expenses:				
Corporate relations	316,602	9,751	398,048	33,630
Travel and accommodation	205,577	54,736	417,434	263,917
Professional fees	119,264	12,621	307,248	56,329
Consulting	118,959	100,050	189,670	171,240
Management fees	118,856	73,637	297,100	226,901
Office and rent	61,780	57,467	195,215	249,939
Salaries and benefits	42,111	35,600	110,494	275,786
Other expenses	7,889	1,724	26,699	21,787
Business development	3,837	-	52,813	-
Inventory provision	-	32,795	-	32,795
Bad debt recovery	(1,114)	-	(22,011)	-
	995,165	474,948	1,977,273	1,615,830
<b>Loss before the undernoted</b>	<b>(988,625)</b>	<b>(461,207)</b>	<b>(1,966,899)</b>	<b>(1,829,261)</b>
Stock-based compensation (Note 11)	(40,624)	(13,339)	(272,789)	(77,475)
Foreign exchange gain (loss)	(14,063)	22,451	2,578	12,553
Unrealized loss in marketable securities (Note 3)	(8,374)	-	(15,281)	-
Write-down of Rare Earth Division assets (Note 12)	-	-	-	(1,551,423)
Interest and other income (expense), net	19,097	(26,321)	19,517	(188,200)
<b>Loss before income taxes and non-controlling interest</b>	<b>(1,032,589)</b>	<b>(478,416)</b>	<b>(2,232,874)</b>	<b>(3,633,806)</b>
Income taxes (Note 13)	-	-	-	-
<b>Loss before non-controlling interest</b>	<b>(1,032,589)</b>	<b>(478,416)</b>	<b>(2,232,874)</b>	<b>(3,633,806)</b>
Non-controlling interest	-	(18,392)	-	119,201
<b>Net loss</b>	<b>(1,032,589)</b>	<b>(496,808)</b>	<b>(2,232,874)</b>	<b>(3,514,605)</b>
Deficit, beginning of period	(23,622,712)	(17,307,027)	(22,422,427)	(14,289,230)
<b>Deficit, end of period</b>	<b>\$ (24,655,301)</b>	<b>\$ (17,803,835)</b>	<b>\$ (24,655,301)</b>	<b>\$ (17,803,835)</b>
<b>Net loss per share - basic and diluted</b>	<b>\$ (0.03)</b>	<b>\$ (0.02)</b>	<b>\$ (0.06)</b>	<b>\$ (0.12)</b>
<b>Weighted average common shares outstanding</b>	<b>39,114,124</b>	<b>28,711,810</b>	<b>38,363,169</b>	<b>28,711,810</b>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

**INTER-CITIC MINERALS INC.**  
**(FORMERLY INTER-CITIC MINERAL TECHNOLOGIES INC.)**  
**(AN EXPLORATION STAGE COMPANY)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(All figures in Canadian dollars)**

	For the three months ended August 31, 2004 (Unaudited)	For the three months ended August 31, 2003 (Unaudited)	For the nine months ended August 31, 2004 (Unaudited)	For the nine months ended August 31, 2003 (Unaudited)
<b>CASH PROVIDED BY (used in)</b>				
<b>Operating activities</b>				
Loss for the period	\$ (1,032,589)	\$ (496,808)	\$ (2,232,874)	\$ (3,514,605)
Items not involving cash				
Depreciation and amortization	1,404	96,567	4,563	283,506
Stock-based compensation (Note 11)	40,624	13,339	272,789	77,475
Unrealized loss in marketable securities (Note 3)	8,374	-	15,281	-
Write-down of Rare Earth Division assets (Note 12)	-	-	-	1,551,423
Accrued interest on convertible debenture (Note 9)	-	78,012	-	233,061
Foreign exchange	14,063	(22,451)	(2,578)	(12,553)
Non-controlling interest	-	18,392	-	(119,201)
	<b>(968,124)</b>	<b>(312,949)</b>	<b>(1,942,819)</b>	<b>(1,500,894)</b>
Changes in non-cash working capital balances	33,398	88,085	(95,815)	323,756
	<b>(934,726)</b>	<b>(224,864)</b>	<b>(2,038,634)</b>	<b>(1,177,138)</b>
<b>Financing activities</b>				
Issuance of shares and warrants (Note 10(b), Note 11)	2,545,000	-	6,787,290	-
	<b>2,545,000</b>	<b>-</b>	<b>6,787,290</b>	<b>-</b>
<b>Investing activities</b>				
Purchase of marketable securities (Note 3)	-	-	(10,535)	-
Resource properties (Note 5, 14)	(129,295)	-	(2,069,547)	-
Property, plant and equipment (Note 6)	(866,929)	(40,403)	(869,891)	(100,107)
	<b>(996,224)</b>	<b>(40,403)</b>	<b>(2,949,973)</b>	<b>(100,107)</b>
<b>Increase/(decrease) in cash for the period</b>	<b>614,050</b>	<b>(265,267)</b>	<b>1,798,683</b>	<b>(1,277,245)</b>
Cash and cash equivalents, beginning of period	2,363,903	552,880	1,179,270	1,564,858
<b>Cash and cash equivalents, end of period</b>	<b>\$ 2,977,953</b>	<b>\$ 287,613</b>	<b>\$ 2,977,953</b>	<b>\$ 287,613</b>
<b>Supplemental Information:</b>				
Income taxes paid during the period	\$ -	\$ -	\$ -	\$ -
Interest paid during the period	\$ 8,613	\$ 9,307	\$ 25,364	\$ 27,523

The accompanying Notes to Financial Statements are an integral part of these financial statements.

**INTER-CITIC MINERALS INC.**  
**(FORMERLY INTER-CITIC MINERAL TECHNOLOGIES INC.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THIRD QUARTER ENDED AUGUST 31, 2004**

**1. Going Concern Assumption**

Inter-Citic Minerals Inc. (the "Company"), is a development stage mineral exploration company focused exclusively in the People's Republic of China (the "PRC" or "China").

The accompanying financial statements have been prepared using Canadian generally accepted accounting principles assuming a going concern. The ability of the Company to continue as a going concern will be dependent upon the ability of the Company to raise additional financing and carry out its business plan.

As at August 31, 2004, the Company reported a loss of \$2,232,874 and an accumulated deficit of \$24,655,301 (\$6,729,003 and \$22,422,427 as at November 30, 2003, respectively). This condition casts significant doubt as to the ability of the Company to continue in business and meet its obligations as they come due.

During 2003 the Company was successful in completing two joint venture contracts for two gold-hosted exploration stage resource properties in China for further development. Further to these acquisitions, and as a result of continuing unfavourable market conditions, during 2003 management wrote-off the assets of the Rare Earth Division to the estimated net recoverable and realizable amounts, resulting in a charge of \$3,824,786 to property, plant and equipment, of which \$1,551,423 was accrued as at August 31, 2003 (**Note 12**).

Management is considering various alternatives, including a number of initiatives to raise additional capital. It is not possible to determine with certainty the success or adequacy of these initiatives.

The Company's continuance as a going concern is dependent on obtaining adequate resources through external funding or profitable operations. In the event that such resources are not secured, assets may not be realized or liabilities discharged at their carrying amounts, and these differences could be material.

**2. Summary of Significant Accounting Policies**

**Principles of Consolidation**

These consolidated financial statements include the accounts of the Company and its subsidiaries as follows:

- (a) Inter-Citic Holdings Ltd. (100% owned), a company incorporated in the Cayman Islands
- (b) Techmat Inc. (100% owned), a company incorporated in the Republic of Mauritius
- (c) TechMat (USA) Corporation (100% owned), a company incorporated in Nevada, USA
- (d) United Worldwide Ltd. (100% owned), a company incorporated in the British Virgin Islands
- (e) Bay Roberts Resources Ltd. (98% owned), a company incorporated in British Columbia
- (f) Yangzhong Zhonghai Techmat Co., Ltd. (80% owned), a company incorporated in the People's Republic of China
- (g) Honor Link (HK) Ltd. (51% owned), a company incorporated in Hong Kong

All material inter-company transactions and balances have been eliminated.

**Use of Estimates**

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the consolidated financial statements. Actual results could differ from those estimates.

**Foreign Currency Translation**

All of the Company's balances and transactions are translated into the Company's measurement currency, the Canadian dollar, as follows. Monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet dates. Non-monetary assets and liabilities are translated at rates prevailing at the respective transaction dates. Revenues and expenses are translated at average rates prevailing during the year, except for expenses related to assets and liabilities, which are translated at historical exchange rates. Translation gains and losses are reflected in the consolidated statements of operations and deficit.

**Revenue Recognition**

Revenue is recognized when title to shipments passes to third party purchasers.

**Cash and Cash Equivalents**

Cash and cash equivalents comprise cash, term deposits and other interest bearing instruments with original maturity dates of less than 90 days.

**INTER-CITIC MINERALS INC.**  
**(FORMERLY INTER-CITIC MINERAL TECHNOLOGIES INC.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THIRD QUARTER ENDED AUGUST 31, 2004**

**Investments**

Investments are recorded at cost less a write-down for any other than temporary decline in value.

**Financial Instruments**

The Company's financial instruments consist of cash and cash equivalents, amounts receivable, deposits, investments, bank advances and accounts payable and accrued 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 approximate their carrying values, unless otherwise noted.

**Resource Properties**

Costs associated with acquisition, direct exploration and development of resource properties are capitalized pending commencement of production, at which time they will be amortized. If capitalized expenditures on individual resource properties exceed the estimated net realizable value, the properties are written-down to the estimated value. Costs relating to properties abandoned are written-off when the decision to abandon is made.

The Company is in the process of exploring its property interests. Amounts reflected in the financial statements reflect cost to date and may not represent future value to the Company. No mineral reserves have been determined to exist on these properties. Therefore the recoverability of the amounts reflected is dependent on future successful exploration and development of the properties.

**Property, plant and equipment**

Property, plant and equipment are recorded at cost less depreciation and amortization calculated on a straight-line basis at the following rates:

Buildings	5%
Equipment	10%-33%
Exploration equipment	30%

The Company has a long-term land lease in China, which has been prepaid, and the cost has been capitalized. This cost is being amortized on a straight-line basis over the term of the lease.

**Income Taxes**

Future income tax assets and liabilities are established where the accounting net book value of assets and liabilities differs from the corresponding tax basis. The benefit of future income tax assets is only recognised where their realisation is judged to be more likely than not.

**Stock-based Compensation Plan**

The Company has a stock-based compensation plan, which is described in **Note 11**. Effective January 1, 2002 the Company adopted CICA 3870 (Stock-based Compensation and Other Stock-based Payments). As permitted by CICA 3870 the Company has applied this change retroactively. Effective September 1, 2003, the Company has chosen to recognize compensation when stock options are granted under stock option plans with no cash settlement features using the fair value based method of accounting, and the Company has applied this change retroactively to all stock options issued during the years ended November 30, 2003 and 2002. For stock-options issued to employees, compensation is recognized over the term of the option. For stock options issued to non-employees, compensation is recognized as at the date of grant.

Consideration paid on exercise of stock options is credited to common share capital.

**Per Share Amounts**

Net loss per common share has been computed by dividing net loss applicable to common shareholders by the weighted-average number of common shares outstanding during the respective periods. Diluted net loss per common share is computed by dividing net loss applicable to common shares by the sum of the weighted-average number of common shares outstanding and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued.

Fully-diluted net loss per share has not been presented as it is anti-dilutive.

**INTER-CITIC MINERALS INC.**  
**(FORMERLY INTER-CITIC MINERAL TECHNOLOGIES INC.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THIRD QUARTER ENDED AUGUST 31, 2004**

**3. Investments**

The Company held marketable securities in the form of common shares as follows:

<u>August 31, 2004</u>	<u>Number</u>	<u>Market Value</u>	<u>Book Value</u>
Pearl River Holdings Ltd.	374,625	\$ 22,478	\$ 22,478
Jaguar Nickel Inc.	10,000	4,000	4,000
Talware Networx Inc.	100,000	4,000	4,000
		<u>\$ 30,478</u>	<u>\$ 30,478</u>

During the three months ended August 31, 2004 the Company recorded an unrealized loss of \$8,374 (\$15,281 for the nine-month period ended August 31, 2004) to reflect a decline in value of marketable securities held.

<u>November 30, 2003</u>	<u>Number</u>	<u>Market Value</u>	<u>Book Value</u>
Pearl River Holdings Ltd.	374,625	\$ 26,224	\$ 26,224
Talware Networx Inc.	100,000	9,000	9,000
		<u>\$ 35,224</u>	<u>\$ 35,224</u>

During the year ended November 30, 2003 the Company recorded an unrealized loss of \$1,340 to reflect a decline in value of marketable securities held.

It is the Company's intention to hold the marketable securities for greater than one year.

**4. Investment in Associated Company**

Investment in associated company is carried on an equity basis.

<u>Ideal e-Commerce Limited</u>	<u>August 31, 2004</u>	<u>November 30, 2003</u>
Equity - 50% ownership (a)	\$ 1	\$ 1
Shareholder loan (b)	250,000	250,000
Accumulated equity in net loss	<u>(250,000)</u>	<u>(250,000)</u>
	<u>\$ 1</u>	<u>\$ 1</u>

(a) Investment in associated company represents the Company's 50% interest in Ideal e-Commerce Limited ("Ideal e-Commerce"), a Hong Kong company formed in a 50/50 joint venture between the Company and Henderson China Holdings Ltd. ("Henderson China"), of Hong Kong, in March, 2000 for the development and launch of a Business-to-Business online metals trading portal through its 48% ownership in China Metals Net Company Ltd. ("China Metals Net"), of Hong Kong.

52% of the shares of China Metals Net are owned by China National Non-Ferrous Industrial Trading Group Company ("CNIT"), formerly Minmetals International Non-Ferrous Metals Trading Company, of Beijing. CNIT has agreed to utilize the services of China Metals Net on an exclusive basis to conduct all of its non-ferrous metals trading business activities through the Business-to Business online metals trading portal.

The Company does not plan to make any further investment in this enterprise for the foreseeable future.

(b) The Hong Kong dollar denominated shareholder loan (HK \$1,224,999; 2003 - HK\$1,224,999) is unsecured, bears no interest and has no terms of repayment.

(c) The Company's share of unrecognized losses in Ideal e-Commerce is nil for the period, and cumulatively are \$3,183.

**INTER-CITIC MINERALS INC.**  
**(FORMERLY INTER-CITIC MINERAL TECHNOLOGIES INC.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THIRD QUARTER ENDED AUGUST 31, 2004**

**5. Joint Ventures**

The Company is involved in exploration in the People's Republic of China through option or earn-in agreements whereby it provides 100% of the funding in order to earn a controlling interest in certain projects. As at August 31, 2004, the Company had entered into two such agreements, as follows.

**(a) The Dachang Gold Project**

On November 14, 2003, the Company entered into an agreement with the Qinghai Geological Survey Institute regarding the "Dachang" gold project in the Province of Qinghai, China. Under the terms of this joint venture agreement, the Company can earn an 83% interest in the joint venture by contributing the equivalent of approximately \$5,170,000 (Renminbi 32,830,000) over three years and making a cash payment of the equivalent of approximately \$1,570,000 (Renminbi 10,000,000) upon the issuance of a mining license required to bring the project into production. Minimum contributions are staged as to the equivalent of approximately \$2,970,000 (Renminbi 18,830,000) in 2004 and \$2,200,000 (Renminbi 14,000,000) in 2006. The Company also has the ability to acquire an additional 7% interest in the joint venture based on the valuation of any potential mining project contained in a pre-feasibility report, for a total interest of 90%. The Qinghai Geological Survey Institute will retain a carried interest in the joint venture. As part of the agreement, the Company also has a right of first refusal on any mineral exploration project for which the Qinghai Geological Survey Institute seeks foreign investment.

**(b) The Zalantun Gold Project**

On October 30, 2003, the Company entered into an agreement with the Beijing Institute of Geology for Mineral Resources regarding the "Zalantun" gold project in the Autonomous Region of Inner Mongolia, China. Under the terms of this joint venture agreement, the Company can earn an 85% interest in the joint venture by contributing the equivalent of approximately \$2,360,000 (Renminbi 15,002,500) over three years. Minimum contributions are staged as to the equivalent of approximately \$630,000 (Renminbi 4,000,000) in 2004, \$1,260,000 (Renminbi 8,000,000) in 2005 and \$470,000 (Renminbi 3,002,500) in 2006. The Company also has the ability to acquire an additional 5% interest in the joint venture for the equivalent of approximately \$278,000 (Renminbi 1,765,000), for a total interest of 90%. The Beijing Institute of Geology for Mineral Resources will retain a carried interest in the joint venture. As part of this agreement, the Company also has a right of first refusal on any mineral exploration project for which Beijing Institute of Geology for Mineral Resources seeks foreign investment.

**6. Property, plant and equipment**

	August 31, 2004			November 30, 2003		
	Cost	Accumulated Depreciation and Amortization	Net Book Value	Cost	Accumulated Depreciation and Amortization	Net Book Value
Prepaid land lease	\$ 1	\$ -	\$ 1	\$ 1	\$ -	\$ 1
Building	1	-	1	1	-	1
Equipment	43,621	(29,898)	13,723	40,365	(25,335)	15,030
Exploration equipment	866,635	(25,105)	841,530	-	-	-
<b>Total</b>	<b>\$ 910,258</b>	<b>\$ (55,003)</b>	<b>\$ 855,255</b>	<b>\$ 40,367</b>	<b>\$ (25,335)</b>	<b>\$ 15,032</b>

During the year ended November 30, 2003 the Company wrote-off capital assets with a net book value of \$3,824,786, of which \$1,551,423 was accrued as at August 31, 2003 (Note 12).

**7. Bank Advances**

As at August 31, 2004, Yangzhong Zhonghai Techmat Co., Ltd. in China has borrowed, in aggregate, \$481,800 (Renminbi 3,000,000; November 30, 2003 - \$471,600, Renminbi 3,000,000) from a domestic bank in the form of three one-year term loans secured by a fixed charge on the land and buildings. The bank advances bear interest at a rate of 5.7525%. The Company paid or accrued interest charges of \$8,613 during the quarter and \$25,364 for the nine-month period ended August 31, 2004 (\$9,307 and \$27,523 for the same periods last year, respectively).

**8. Related Party Transactions**

During the quarter the Company paid or accrued management fees of \$43,000 (2003 - \$43,002) to one company controlled by a director and to one director (\$164,295 for the nine month period ended August 31, 2004 and \$131,834 for the nine-month period ended August 31, 2003). These fees were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

**INTER-CITIC MINERALS INC.**  
**(FORMERLY INTER-CITIC MINERAL TECHNOLOGIES INC.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THIRD QUARTER ENDED AUGUST 31, 2004**

**9. Convertible Debenture**

On July 10, 2002, the Company received the final tranche of a \$2,000,000 two-year, non-redeemable convertible debenture. The debenture carried an 8.9% coupon, non-compounding, and was convertible into common shares of the Company at a price of \$1.00 per share. Proceeds of the debenture were used to expand capacity and to enhance productivity at the Company's 80%-owned rare earths processing facility.

In view of the debenture holder's right to redeem the debenture through the issuance of common shares, the debenture was accounted for as having both a debt and equity component in accordance with accounting standards of the Canadian Institute of Chartered Accountants. Accordingly, interest and accretion of \$78,012 was accrued for the quarter ended August 31, 2003 (\$233,061 for the period ended August 31, 2003).

On October 31, 2003, the Company and the holder of the outstanding convertible debenture, which was otherwise due and payable on November 30, 2003, agreed to convert the debenture into cash, common shares and share-purchase warrants of the Company. Under this arrangement, the debenture holder received \$127,687 in cash, 2,884,493 common shares of the Company at a deemed price of \$0.75, and 500,000 share-purchase warrants entitling the holder to purchase one additional common share at \$1.00 for each share-purchase warrant for a period of twenty-four months. This resulted in a charge to retained earnings of \$1,404,194, representing the fair value of the reduction in conversion price under this agreement, as well as a charge to Share Capital in the amount of \$385,000, representing the fair value of the share-purchase warrants issued.

The Company evaluated the fair market value of share purchase warrants using the Black & Scholes model with the following valuation assumptions: expected life - 2-years, expected volatility - 81.5%, risk-free interest rate - 2.92%, dividend rate - 0%.

**10. Lease Commitment**

The Company has entered into a lease for office space to the year 2010 with minimum lease payments as follows:

2004	\$	11,146
2005	\$	46,593
2006	\$	46,995
2007	\$	46,995
2008	\$	46,995
2009 and thereafter	\$	58,744

**11. Share Capital, Share Purchase Warrants and Stock-based Compensation Plan**

**(a) Authorized**

98,500,000 common shares, without par value

**(b) Issued and Outstanding**

	August 31, 2004		November 30, 2003	
	Shares	Amount	Shares	Amount
Balance - beginning of period	34,029,636	\$ 21,124,899	28,711,810	\$ 16,710,360
Issued by private placement	4,211,667	2,244,105	2,383,333	970,870
Exercise of share purchase warrants	3,164,706	3,947,195	-	-
Exercise of options	114,800	77,584	50,000	48,000
Conversion of debenture ( <b>Note 9</b> )	-	-	2,884,493	3,395,669
	41,520,809	27,393,783	34,029,636	21,124,899
Investment in own shares	(116,500)	(133,023)	(116,500)	(133,023)
Balance - end of period	41,404,309	\$ 27,260,760	33,913,136	\$ 20,991,876

**(i) Private Placement (August, 2004)**

On August 26, 2004 the Company completed a private placement for proceeds of \$2,545,000 representing 2,545,000 units of the Company at a price of \$1.00 per unit. Each unit consisted of one common share and one share-purchase warrant. Each share-purchase warrant entitles the holder to purchase one additional common share at \$1.10 for a period of twenty-four months from the date of issue.

As part of this financing transaction, the Company agreed to pay finders' fees of \$152,700 in cash and 254,500 share-purchase warrants. Each share-purchase warrant entitles the holder to purchase one common share at a price of \$1.10 for period of twenty-four months from the date of issue.

The Company evaluated the fair market value of share-purchase warrants using the Black & Scholes model with the following valuation assumptions: expected life - 2 years, expected volatility - 80.72%, risk-free interest rate - 2.25%, dividend rate - 0%.

Consideration received has been allocated to the common shares after deducting the estimated fair value of the share purchase warrants of \$979,825

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**(ii) Private Placement (February, 2004)**

On February 2, 2004 the Company completed the second tranche of a private placement (Note 11 (b) (v)) for proceeds of \$1,000,000 representing 1,666,667 units of the Company at a price of \$0.60 per unit. Each unit consisted of one common share and one share-purchase warrant. Each share-purchase warrant entitles the holder to purchase one common share at \$1.00 for a period of twelve months from the date of issue. The Company evaluated the fair market value of share-purchase warrants using the Black & Scholes model with the following valuation assumptions: expected life - 1-year, expected volatility - 88.3%, risk-free interest rate - 2.73%, dividend rate - 0%.

In addition, the Company paid a second tranche of finders' fees associated with this transaction (Note 11 (b) (v)) of 333,333 share-purchase warrants. Each share-purchase warrant entitles the holder to purchase one common share at a price of \$0.60 for twenty-four months from the date of issue. The Company evaluated the fair market value of share-purchase warrants using the Black & Scholes model with the following valuation assumptions: expected life - 2-years, expected volatility - 79.7%, risk-free interest rate - 2.85%, dividend rate - 0%.

Consideration received has been allocated to the common shares after deducting the estimated fair value of the share purchase warrants of \$321,070.

**(iii) Exercise of Share Purchase Warrants**

On December 17 and December 22, 2003 the Company announced the exercise of 1,250,000 share purchase-warrants at a price of \$1.00 for proceeds of \$1,250,000 and the exercise of 1,914,706 share-purchase warrants at a price of \$1.00 for proceeds of \$1,914,706, respectively.

Consideration received has been allocated to the common shares after adding the estimated fair value of the share purchase warrants of \$782,489.

**(iv) Conversion of Debenture**

The amount included in Share Capital relating to the conversion of the debenture for the year ended November 30, 2003 includes \$2,163,370 on account of the total debt and unpaid interest converted, \$213,105 on account of the equity portion of the convertible debenture, \$1,404,194 on account of the fair value of a reduced conversion price from \$1.00 to \$0.75, and reduced by \$385,000 on account of the fair value of 500,000 share purchase warrants issued (Note 9).

**(v) Private Placement (November, 2003)**

On November 13, 2003 the Company completed the first tranche of a private placement for proceeds of \$1,430,000 out of total proceeds of \$2,430,000, representing 2,383,333 out of a total of 4,050,000 units of the Company at a price of \$0.60 per unit. Each unit consisted of one common share and one share-purchase warrant. Each share-purchase warrant entitles the holder to purchase one additional common share at \$1.00 for a period of twelve months from the date of issue. The Company evaluated the fair market value of share-purchase warrants using the Black & Scholes model with the following valuation assumptions: expected life - 1-year, expected volatility - 88.3%, risk-free interest rate - 2.73%, dividend rate - 0%.

As part of this financing transaction, the Company agreed to pay a finder's fee of 810,000 share-purchase warrants, of which 476,667 of these share-purchase warrants were issued on November 13, 2003, in conjunction with the completion of the first tranche of the transaction. Each share-purchase warrant entitles the holder to purchase one common share at a price of \$0.60 for twenty-four months from the date of issue. The Company evaluated the fair market value of share-purchase warrants using the Black & Scholes model with the following valuation assumptions: expected life - 2-years, expected volatility - 79.7%, risk-free interest rate - 2.85%, dividend rate - 0%.

Consideration received has been allocated to the common shares after deducting the estimated fair value of the share purchase warrants of \$459,130.

**(c) Share-Purchase Warrants**

The following is a summary of the Company's outstanding share-purchase warrants:

	August 31, 2004			November 30, 2003		
	Number	Value	Weighted-Average Exercise Price	Number	Value	Weighted-Average Exercise Price
Balance - beginning of period	5,274,706	\$ 1,456,836	\$ 0.96	1,914,706	\$ 612,706	\$ 1.00
Issued	4,799,500	1,300,895	1.03	3,360,000	844,130	0.94
Exercised	(3,164,706)	(782,489)	1.00	-	-	-
Balance - end of period	6,909,500	\$ 1,975,242	\$ 0.99	5,274,706	\$ 1,456,836	\$ 0.96

The weighted-average remaining contractual life is 1.18 years for those listed as at August 31, 2004 and 0.93 years for those listed as at November 30, 2003.

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**(d) Stock-based Compensation Plan**

The Company had one stock-based compensation plan as at August 31, 2004, a common share-purchase option plan for directors, officers, employees and consultants of the Company (the "Plan"). Options under the Plan are typically granted in such numbers as reflect the level of responsibility of the particular optionee and his or her contribution to the business and activities of the Company, and typically have a five year term. Except in specified circumstances, options are not assignable and terminate upon the optionee ceasing to be employed by or associated with the Company.

The Company's common shares are listed on the TSX Ventures Exchange and are traded in Canadian dollars. The following is a summary of the Company's outstanding stock options:

	August 31, 2004		November 30, 2003	
	Number of Share Options	Weighted- average Exercise Price	Number of Share Options	Weighted- average Exercise Price
Options outstanding - beginning of period	2,199,000	\$ 0.75	1,674,000	\$ 0.83
Options granted	1,200,000	\$ 1.01	1,175,000	\$ 0.69
Options exercised	(114,800)	\$ 0.68	(50,000)	\$ 0.96
Options expired	(75,000)	\$ 0.91	(100,000)	\$ 1.22
Options terminated	-	\$ -	(500,000)	\$ 0.74
Options outstanding - end of period	<u>3,209,200</u>	<u>\$ 0.85</u>	<u>2,199,000</u>	<u>\$ 0.75</u>

<u>Options Outstanding and Exercisable</u>	August 31, 2004	November 30, 2003
Price range per option	\$0.58 to \$1.15	\$0.58 to \$0.91
Weighted-average remaining contractual life	3.16 Years	2.96 Years
Weighted-average exercise price	\$0.85	\$0.75

The Company applies the fair value based method of accounting for stock-based compensation awards granted. Accordingly, for stock options issued to employees, compensation is recognized over the term of the option while for stock options issued to non-employees, compensation is recognized as at the date of grant. During the quarter, the Company recognized \$40,624 (November 30, 2003 - \$13,339) as stock-based compensation expense (\$272,789 and \$77,475 for the nine-month periods ended August 31, 2004 and 2003, respectively) and included this amount in Contributed Surplus.

The fair value of options issued was estimated on the date of grant using the Modified Black Scholes option pricing model based on the following weighted-average valuation assumptions:

	August 31, 2004	August 31, 2003	November 30, 2003
Expected life:	5.0-years	5.0-years	4.2-years
Expected volatility:	70.92%	73.89%	72.75%
Risk-free interest rate:	2.25%	4.52%	4.11%
Dividend rate:	0%	0%	0%

Under these assumptions, the fair value of options issued during these periods was \$0.60 (August 31, 2004), \$0.46 (August 31, 2003) and \$0.50 (November 31, 2003)

**12. Write-down of Rare Earth Division Assets**

During the year ended November 30, 2003 the Company recognized a write-down of \$3,824,786 against the property, plant and equipment of its Rare Earth Division to reflect the Company's decision to indefinitely suspend operations of the division in the face of unfavourable market conditions, of which \$1,551,423 was accrued as at August 31, 2003. Accordingly, the assets were written down to their estimated net recoverable and realizable amounts.

**13. Income Taxes**

**(a) China Subsidiary Tax Status**

According to the "Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises", Yangzhong Zhonghai Techmat Co., Ltd, the Company's China subsidiary, is entitled to an exemption on enterprise income tax for the first two years commencing with the first profitable year after offsetting all losses carried forward, and a 50% reduction for the three years thereafter. Following the expiration of the five-year exemption, the subsidiary will qualify for a 50% reduction in regular tax rates if the value of its exported products amounts to 70% or more of the total production value for the year. Yangzhong Zhonghai Techmat Co., Ltd. has not yet achieved its first full year of profitability.

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**(b) Loss Carry forwards - Canada**

The Company has available losses of approximately \$5,355,000 which may be carried-forward to reduce future years' income for tax purposes. A full valuation allowance of \$2,700,000 has been applied against the benefit of these tax losses, as in management's view recognition is not warranted.

2004	\$ 653,000
2005	\$ 447,000
2006	\$ 658,000
2007	\$ 664,000
2008	\$ 752,000
2009	\$ 1,028,000
2010	\$ 1,153,000

**14. Segmented Information**

The Company's operations include a Head Office in Canada, a Mine Development Division based in Canada and Beijing, China, a Rare Earth Division with operations in China, and an e-Commerce division based in Canada and Hong Kong. The purpose of the Mine Development Division is to acquire exploration stage resource properties in China and to explore and develop these properties. The Rare Earth Division processes rare earth concentrates in China which are primarily used in the optical and automotive catalytic converter industries as well as the manufacture of mini and micro magnets for the computer and telecommunication industries.

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

**(a) Segmented Net Loss**

For the three months ended August 31, 2004

	Head Office	Mine Development Division	Rare Earth Division	Consolidated
Sales	\$ -	\$ -	\$ 6,825	\$ 6,825
Operating costs	-	-	285	285
		-	<b>6,540</b>	<b>6,540</b>
Depreciation and amortization	1,404	-	-	1,404
Selling, general and administrative expenses:				
Corporate relations	316,602	-	-	316,602
Travel and accommodation	170,614	33,466	1,497	205,577
Professional fees	105,823	11,501	1,940	119,264
Consulting	51,901	67,058	-	118,959
Management fees	118,856	-	-	118,856
Office and rent	54,363	4,523	2,894	61,780
Salaries and benefits	36,961	-	5,150	42,111
Other expenses	10,380	-	(2,491)	7,889
Business development	-	3,837	-	3,837
Bad debt recovery	-	-	(1,114)	(1,114)
	866,904	120,385	7,876	995,165
<b>Loss before the undernoted</b>	<b>(866,904)</b>	<b>(120,385)</b>	<b>(1,336)</b>	<b>(988,625)</b>
Stock-based compensation (Note 11)	(40,624)	-	-	(40,624)
Foreign exchange loss	(3,792)	-	(10,271)	(14,063)
Unrealized loss in marketable securities (Note 3)	(8,374)	-	-	(8,374)
Interest and other income, net	12,112	-	6,985	19,097
<b>Loss before income taxes and non-controlling interest</b>	<b>(907,582)</b>	<b>(120,385)</b>	<b>(4,622)</b>	<b>(1,032,589)</b>
Income taxes (Note 13)	-	-	-	-
<b>Net loss</b>	<b>\$ (907,582)</b>	<b>\$ (120,385)</b>	<b>\$ (4,622)</b>	<b>\$ (1,032,589)</b>

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**(a) Segmented Net Loss, continued**

For the three months ended August 31, 2003

	Head Office	Mine Development Division	Rare Earth Division	Consolidated
Sales	\$ -	\$ -	\$ 23,563	\$ 23,563
Operating costs	-	-	9,822	9,822
	-	-	<b>13,741</b>	<b>13,741</b>
Depreciation and amortization	1,230	-	95,337	96,567
Selling, general and administrative expenses:				
Consulting	-	89,395	10,655	100,050
Management fees	73,001	-	636	73,637
Office and rent	38,657	-	18,810	57,467
Travel and accommodation	1,235	50,004	3,497	54,736
Salaries and benefits	18,117	-	17,483	35,600
Inventory provision	-	-	32,795	32,795
Professional fees	12,452	-	169	12,621
Corporate relations	9,751	-	-	9,751
Other expenses	-	-	1,724	1,724
	154,443	139,399	181,106	474,948
<b>Loss before the undernoted</b>	<b>(154,443)</b>	<b>(139,399)</b>	<b>(167,365)</b>	<b>(461,207)</b>
Interest and other income (expense), net	(76,480)	-	50,159	(26,321)
Stock-based compensation (Note 11)	(13,339)	-	-	(13,339)
Foreign exchange gain (loss)	(632)	-	23,083	22,451
<b>Loss before income taxes and non-controlling interest</b>	<b>(244,894)</b>	<b>(139,399)</b>	<b>(94,123)</b>	<b>(478,416)</b>
Income taxes (Note 13)	-	-	-	-
<b>Loss before non-controlling interest</b>	<b>(244,894)</b>	<b>(139,399)</b>	<b>(94,123)</b>	<b>(478,416)</b>
Non-controlling interest	-	-	(18,392)	(18,392)
<b>Net loss</b>	<b>\$ (244,894)</b>	<b>\$ (139,399)</b>	<b>\$ (112,515)</b>	<b>\$ (496,808)</b>

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**(a) Segmented Net Loss, continued**

For the nine months ended August 31, 2004

	Head Office	Mine Development Division	Rare Earth Division	Consolidated
Sales	-	\$ -	\$ 12,580	\$ 12,580
Operating costs	-	-	2,206	2,206
	-	-	<b>10,374</b>	<b>10,374</b>
Depreciation and amortization	4,563	-	-	4,563
Selling, general and administrative expenses:				
Travel and accommodation	279,552	134,419	3,463	417,434
Corporate relations	398,048	-	-	398,048
Professional fees	263,325	40,600	3,323	307,248
Management fees	297,100	-	-	297,100
Office and rent	145,753	27,182	22,280	195,215
Consulting	51,901	127,023	10,746	189,670
Salaries and benefits	91,773	-	18,721	110,494
Business development	-	52,813	-	52,813
Other expenses	26,699	-	-	26,699
Bad debt recovery	-	-	(22,011)	(22,011)
	1,558,714	382,037	36,522	1,977,273
<b>Loss before the undernoted</b>	<b>(1,558,714)</b>	<b>(382,037)</b>	<b>(26,148)</b>	<b>(1,966,899)</b>
Stock-based compensation (Note 11)	(272,789)	-	-	(272,789)
Unrealized loss in marketable securities (Note 3)	(15,281)	-	-	(15,281)
Foreign exchange gain (loss)	16,864	-	(14,286)	2,578
Interest and other income (expense), net	28,676	-	(9,159)	19,517
<b>Loss before income taxes and non-controlling interest</b>	<b>(1,801,244)</b>	<b>(382,037)</b>	<b>(49,593)</b>	<b>(2,232,874)</b>
Income taxes (Note 13)	-	-	-	-
<b>Loss before non-controlling interest</b>	<b>(1,801,244)</b>	<b>(382,037)</b>	<b>(49,593)</b>	<b>(2,232,874)</b>
Non-controlling interest	-	-	-	-
<b>Net loss</b>	<b>\$ (1,801,244)</b>	<b>\$ (382,037)</b>	<b>\$ (49,593)</b>	<b>\$ (2,232,874)</b>

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**(a) Segmented Net Loss, continued**

For the nine months ended August 31, 2003

	Head Office	Mine Development Division	Rare Earth Division	Consolidated
Sales	\$ -	\$ -	\$ 422,191	\$ 422,191
Operating costs	-	-	635,622	635,622
	-	-	<b>(213,431)</b>	<b>(213,431)</b>
Depreciation and amortization	3,330	-	280,176	283,506
Selling, general and administrative expenses:				
Salaries and benefits	51,810	-	223,976	275,786
Travel and accommodation	1,235	187,352	75,330	263,917
Office and rent	112,005	-	137,934	249,939
Management fees	221,836	-	5,065	226,901
Consulting	-	133,103	38,137	171,240
Professional fees	30,921	-	25,408	56,329
Corporate relations	33,630	-	-	33,630
Inventory provision	-	-	32,795	32,795
Other expenses	6,466	-	15,321	21,787
	461,233	320,455	834,142	1,615,830
<b>Loss before the undernoted</b>	<b>(461,233)</b>	<b>(320,455)</b>	<b>(1,047,573)</b>	<b>(1,829,261)</b>
Write down of Rare Earth Division(Notes 12 )	-	-	(1,551,423)	(1,551,423)
Interest and other income (expense), net	(220,047)	-	31,847	(188,200)
Stock-based compensation(Notes 11)	(77,475)	-	-	(77,475)
Foreign exchange gain (loss)	(5,224)	-	17,777	12,553
<b>Loss before income taxes and non-controlling interest</b>	<b>(763,979)</b>	<b>(320,455)</b>	<b>(2,549,372)</b>	<b>(3,633,806)</b>
Income taxes(Notes 13)	-	-	-	-
<b>Loss before non-controlling interest</b>	<b>(763,979)</b>	<b>(320,455)</b>	<b>(2,549,372)</b>	<b>(3,633,806)</b>
Non-controlling interest	-	-	119,201	119,201
<b>Net loss</b>	<b>\$ (763,979)</b>	<b>\$ (320,455)</b>	<b>\$ (2,430,171)</b>	<b>\$ (3,514,605)</b>

**(b) Resource Properties and Property, Plant and Equipment by Geographic Region**

	August 31, 2004	November 30, 2003
China	\$ 3,205,250	\$ 269,071
Canada	13,725	15,029
	<u>\$ 3,218,975</u>	<u>\$ 284,100</u>

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**(c) Total Assets and Capital Expenditures by Segment**

	August 31, 2004		November 30, 2003	
	Total Assets	Capital Expenditures	Total Assets	Capital Expenditures
Head Office	\$ 3,417,907	\$ 2,962	\$ 1,298,441	\$ 2,795
Mine Development Division	3,205,250	3,205,250	269,068	269,068
Rare Earth Division	37,802	-	58,493	99,471
e-Commerce Division	1	-	1	-
	<u>\$ 6,660,960</u>	<u>\$ 3,208,212</u>	<u>\$ 1,626,003</u>	<u>\$ 371,334</u>

**(d) Acquisition and Exploration Costs by Resource Property**

	Balance as at November 30, 2003	Additions for the period	Expensed during period	Balance as at August 31, 2004
<b>(i) Dachang Gold Project</b>				
<b>Acquisition costs:</b>				
Option payments	\$ -	\$ 1,000,000	\$ -	\$ 1,000,000
Travel and accommodation	35,196	319,783	(31,784)	323,195
	<u>35,196</u>	<u>1,319,783</u>	<u>(31,784)</u>	<u>1,323,195</u>
<b>Exploration costs:</b>				
Drilling	-	455,337	-	455,337
Consulting	131,802	207,816	(67,058)	272,560
Travel and accommodation	48,256	110,932	(33,466)	125,722
Depreciation	-	25,105	-	25,105
Professional fees	-	35,980	(11,501)	24,479
Engineering	-	8,635	-	8,635
Other	-	1,326	-	1,326
Office and rent	-	9,539	(9,539)	-
	<u>180,058</u>	<u>854,670</u>	<u>(121,564)</u>	<u>913,164</u>
	<u>215,254</u>	<u>2,174,453</u>	<u>(153,348)</u>	<u>2,236,359</u>
<b>(ii) Zalantun Gold Project</b>				
<b>Acquisition costs:</b>				
Option payments	-	-	-	-
Travel and accommodation	8,799	10,745	(10,745)	8,799
	<u>8,799</u>	<u>10,745</u>	<u>(10,745)</u>	<u>8,799</u>
<b>Exploration costs:</b>				
Consulting	32,951	41,844	-	74,795
Travel and accommodation	12,064	28,124	-	40,188
Engineering	-	3,338	-	3,338
Other	-	241	-	241
	<u>45,015</u>	<u>73,547</u>	<u>-</u>	<u>118,562</u>
	<u>53,814</u>	<u>84,292</u>	<u>(10,745)</u>	<u>127,361</u>
<b>All resource properties</b>	<u>\$ 269,068</u>	<u>\$ 2,258,745</u>	<u>\$ (164,093)</u>	<u>\$ 2,363,720</u>

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**15. Change of Name**

The Company changed its name to Inter-Citic Minerals Inc. effective December 18, 2003.

**16. Comparative Figures**

Certain comparative figures have been reclassified to conform with the presentation of the current period.