

**INTER-CITIC MINERALS INC.**  
**CONSOLIDATED FINANCIAL STATEMENTS**

**November 30, 2004 and 2003**

## **Management's Responsibility for Financial Statements**

Management is responsible for the preparation of the consolidated financial statements and other financial information relating to the Company included in this report. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada and necessarily include amounts based on estimates and judgments of management.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, an independent firm of Chartered Accountants appointed by the shareholders. Their report outlines the scope of their examination and expresses an opinion on the consolidated financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting. In furtherance of the foregoing, the Board has appointed an Audit Committee composed of three directors, two of whom are not members of management. The Committee meets with the independent auditors to discuss the results of their audit and audit report prior to submitting the consolidated financial statements to the Board of Directors for its consideration and approval for issuance to shareholders. On the recommendation of the Audit Committee, the Board of Directors has approved the Company's consolidated financial statements.

[SIGNED]

**James J. Moore**

*President and Chief Executive Officer*

[SIGNED]

**Lou Pasubio, C.A.**

*Vice-President, Finance and Chief Financial Officer*

March 28, 2005

## **Auditors' Report**

### **To the Directors of Inter-Citic Mineral Technologies Inc.**

We have audited the consolidated balance sheets of **Inter-Citic Mineral Technologies Inc.** as at November 30, 2004 and 2003 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at November 30, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**(Signed) "PricewaterhouseCoopers LLP"**

**Chartered Accountants**

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

	November 30, 2004	November 30, 2003
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 2,174,163	\$ 1,179,270
Amounts receivable	235,094	64,279
Prepaid expenses	279,380	1,789
	<b>2,688,637</b>	<b>1,245,338</b>
Deposits	105,375	60,000
Investments (Note 3)	22,645	35,224
Investment in associated company (Note 4)	1	1
Resource properties (Note 5, 14)	3,044,101	269,068
Property, plant and equipment (Note 6)	1,074,775	15,032
	<b>\$ 6,935,534</b>	<b>\$ 1,624,663</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Bank advances (Note 7)	\$ 430,500	\$ 471,600
Accounts payable and accrued liabilities	1,268,282	666,956
	<b>1,698,782</b>	<b>1,138,556</b>
<b>COMMITMENTS (Note 5, 10)</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 11)	27,874,823	20,991,876
Share-purchase warrants (Note 11)	1,816,646	1,456,836
Contributed surplus (Note 11)	1,786,196	459,822
Deficit	(26,240,913)	(22,422,427)
	<b>5,236,752</b>	<b>486,107</b>
	<b>\$ 6,935,534</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.**  
**(AN EXPLORATION STAGE COMPANY)**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
**(All figures in Canadian dollars)**

	For the year ended November 30, 2004	For the year ended November 30, 2003
Sales	\$ 12,580	\$ 422,191
Operating costs	2,206	635,622
Depreciation and amortization	-	366,997
	<b>10,374</b>	<b>(580,428)</b>
Selling, general and administrative expenses:		
Travel and accommodation	566,498	360,219
Professional fees	506,661	179,188
Management compensation	400,142	299,902
Consulting	368,181	314,988
Office and rent	323,858	248,775
Corporate relations	220,419	85,005
Salaries and benefits	137,561	319,925
Other expenses	7,892	89,973
Depreciation	4,807	4,470
Inventory provision	-	109,105
	2,536,019	2,011,550
<b>Loss before the undernoted</b>	<b>(2,525,645)</b>	<b>(2,591,978)</b>
Interest and other income (expense), net	28,309	(317,143)
Write down of Rare Earth Division assets (Note 12)	-	(3,824,786)
Gain on sale of investments	-	3,435
Unrealized loss on marketable securities (Note 3)	(28,751)	(1,340)
Foreign exchange loss	(32,927)	(29,264)
Stock-based compensation (Note 11)	(1,259,472)	(429,199)
<b>Loss before income taxes and non-controlling interest</b>	<b>(3,818,486)</b>	<b>(7,190,275)</b>
Income taxes (Note 13)	-	-
<b>Loss before non-controlling interest</b>	<b>(3,818,486)</b>	<b>(7,190,275)</b>
Non-controlling interest	-	461,272
<b>Net loss for the year</b>	<b>(3,818,486)</b>	<b>(6,729,003)</b>
Inducement relating to conversion of convertible debenture (Note 9)	-	(1,404,194)
Deficit, beginning of year	(22,422,427)	(14,289,230)
<b>Deficit, end of year</b>	<b>\$ (26,240,913)</b>	<b>\$ (22,422,427)</b>
<b>Net loss per share - basic and diluted</b>	<b>\$ (0.10)</b>	<b>\$ (0.23)</b>
<b>Weighted average common shares outstanding</b>	<b>39,177,781</b>	<b>29,061,787</b>

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

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

	For the year ended November 30, 2004	For the year ended November 30, 2003
<b>CASH PROVIDED BY (USED IN)</b>		
<b>Operating activities</b>		
Net loss for the year	\$ (3,818,486)	\$ (6,729,003)
Items not involving cash		
Depreciation and amortization	4,807	371,467
Accrued interest on convertible debenture <b>(Note 9)</b>	-	168,269
Unrealized loss on marketable securities <b>(Note 3)</b>	28,751	1,340
Write-down of Rare Earth Division assets <b>(Note 12)</b>	-	3,824,786
Foreign exchange loss	32,927	29,264
Stock-based compensation <b>(Note 11)</b>	1,259,472	429,199
Non-controlling interest	-	(461,272)
	<b>(2,492,529)</b>	<b>(2,365,950)</b>
Changes in non-cash working capital balances	33,518	861,479
	<b>(2,459,011)</b>	<b>(1,504,471)</b>
<b>Financing activities</b>		
Issuance of shares and warrants <b>(Note 11)</b>	7,309,659	1,478,000
	<b>7,309,659</b>	<b>1,478,000</b>
<b>Investing activities</b>		
Purchase of marketable securities <b>(Note 3)</b>	(16,172)	12,217
Resource properties <b>(Note 5, 14)</b>	(2,703,137)	(269,068)
Property, plant and equipment <b>(Note 6)</b>	(1,136,446)	(102,266)
	<b>(3,855,755)</b>	<b>(359,117)</b>
<b>Increase/(decrease) in cash for the year</b>	<b>994,893</b>	<b>(385,588)</b>
Cash and cash equivalents, beginning of year	1,179,270	1,564,858
<b>Cash and cash equivalents, end of year</b>	<b>\$ 2,174,163</b>	<b>\$ 1,179,270</b>
<b>Supplemental Information:</b>		
Income taxes paid during the year	\$ -	\$ -
Interest paid during the year	\$ 33,524	\$ 163,088

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

**INTER-CITIC MINERALS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED NOVEMBER 30, 2004**

**1. Going Concern Assumption**

Inter-Citic Minerals Inc. (the "Company"), is an 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 November 30, 2004, the Company has available working capital of approximately \$1,000,000.

As at November 30, 2004, the Company reported a loss of \$3,818,486 and an accumulated deficit of \$26,240,913 (\$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 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 down the assets of the Rare Earth Division to the estimated realizable amounts, resulting in a charge of \$3,824,786 to operations (**Note 12**). As at November 30, 2004, Yangzhong Zhonghai Techmat Co., Ltd. had borrowings of \$430,500 (Renminbi 3,000,000) from the Bank of China (**Note 7**). Subsequent to year end these loans came due for payment. As at the date of this report the Company has not repaid these borrowings, which constitutes a default on the terms of the loan agreement. The loans are secured by land and buildings, which the Company has written down to \$1. The Bank now has the right to this security to satisfy the loans due from the Company. Management is confident that this security will satisfy all obligations to the Bank. The outstanding loans were not guaranteed by the parent company or any other subsidiary or related party.

The Company has certain commitments with respect to its exploration joint ventures in China. For the Dachang Gold Project (**Note 5**), the joint venture contract requires the Company to fund the project as to the equivalent of approximately \$4,860,100 (Renminbi 32,830,000) over three years, including contributions in 2004 as to the equivalent of approximately \$2,851,100 (Renminbi 18,830,000). As at November 30, 2004, the Company has funded the equivalent of approximately \$1,129,100 (Renminbi 6,830,000) of this amount. Subsequent to year-end the joint venture partner agreed to defer the balance outstanding, or the equivalent of approximately \$1,722,000 (Renminbi 12,000,000) until commencement of exploration work at various stages, the first of which is scheduled for May of 2005, at which point the equivalent of approximately \$861,000 (Renminbi 6,000,000) will come due. The Company expects that the balance, being the equivalent of approximately \$861,000 (Renminbi 6,000,000), will be payable by the end of 2005. Finally, the joint venture contract requires the Company to make additional contributions as to the equivalent of approximately \$2,009,000 (Renminbi 14,000,000) by January of 2006.

Management is considering various alternatives, including a number of initiatives to raise additional capital. However, as at the date of this report the Company has not secured further financing to raise sufficient capital to fund ongoing operations and commitments to projects in 2005. 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, Canada
- (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.

**INTER-CITIC MINERALS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED NOVEMBER 30, 2004**

**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 depreciation and amortization 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.

**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 approximates 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	20%-30%

The Company has a long-term land lease in China, which has been prepaid but was written down to \$1 during 2003 (**Note 12**).

**INTER-CITIC MINERALS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED NOVEMBER 30, 2004**

**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 recognized where their realization 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 stock-based compensation based on the fair value method of accounting. Under this method, the fair value of stock-based compensation is recognized based on vesting of options granted under stock option plans. Fair value of stock-based compensation is determined based on the Black-Scholes valuation model. Amounts recognized are credited to Contributed Surplus. Consideration paid on exercise of stock options is credited to 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.

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

**3. Investments**

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

November 30, 2004	Number	Market Value	Book Value
Pearl River Holdings Ltd.	374,625	\$ 14,985	\$ 14,985
Jaguar Nickel Inc.	10,000	7,500	4,000
Persifal Holdings Inc.	2,000	1,660	1,660
Talware Networx Inc.	100,000	2,000	2,000
		<u>\$ 26,145</u>	<u>\$ 22,645</u>

During the year ended November 30, 2004, the Company recorded an unrealized loss of \$28,751 to reflect a decline in value of marketable securities held.

November 30, 2003	Number	Market Value	Book Value
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.

**INTER-CITIC MINERALS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED NOVEMBER 30, 2004**

**4. Investment in Associated Company**

Investment in associated company is carried on an equity basis.

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

(a) Investment in associated company represents the Company's 50% interest in Ideal e-Commerce Limited, a Hong Kong company formed in a 50/50 joint venture between the Company and Henderson China Holdings Ltd., of Hong Kong, in March, 2000 for the development 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.

**5. Resource Properties**

The Company is involved in exploration in China through earn-in agreements whereby it provides 100% of the funding in order to earn a controlling interest in certain projects. As at November 30, 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 \$4,860,100 (Renminbi 32,830,000) over three years and making a cash payment of the equivalent of approximately \$1,435,000 (Renminbi 10,000,000) upon the issuance of a mining license required to bring the project into production. As at November 30, 2004, the Company has advanced \$1,129,100 (Renminbi 6,830,000) under this agreement. Additional minimum contributions were originally staged as to the equivalent of approximately \$1,722,000 (Renminbi 12,000,000) in 2004 and \$2,009,000 (Renminbi 14,000,000) by 2006, however contributions originally scheduled for 2004 have been deferred to 2005 as a result of administrative delays associated with organization of the joint venture. The Company also has the option 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 \$2,153,000 (Renminbi 15,002,500) over three years. Although minimum contributions were originally staged as to the equivalent of approximately \$574,000 (Renminbi 4,000,000) in 2004, \$1,148,000 (Renminbi 8,000,000) in 2005 and \$431,000 (Renminbi 3,002,500) in 2006, contributions have been deferred subject to resolution of administrative delays in organizing the joint venture, which is expected to occur in 2005. The Company also has the ability to acquire an additional 5% interest in the joint venture for the equivalent of approximately \$253,000 (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.

**INTER-CITIC MINERALS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED NOVEMBER 30, 2004**

**6. Property, plant and equipment**

	November 30, 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	48,233	(30,141)	18,092	40,365	(25,335)	15,030
Exploration equipment	1,128,577	(71,896)	1,056,681	-	-	-
<b>Total</b>	<b>\$ 1,176,812</b>	<b>\$ (102,037)</b>	<b>\$ 1,074,775</b>	<b>\$ 40,367</b>	<b>\$ (25,335)</b>	<b>\$ 15,032</b>

During the year ended November 30, 2003, the Company wrote off property, plant and equipment with a net book value of \$3,824,786 (**Note 12**).

**7. Bank Advances**

As at November 30, 2004, Yangzhong Zhonghai Techmat Co., Ltd. in China has borrowed, in aggregate, \$430,500 (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 land and buildings. The bank advances bear interest at a rate of 6.903%. During the year, the Company paid or accrued interest charges of \$33,524 (2003 - \$35,401) related to these loans.

Subsequent to year end all of these loans came due and as at the date of this report the Company has been unable to extend or renew them. The bank has also increased the interest rates on the loans to 9.6642%. If the Company is unable to extend or repay these loans the bank may exercise its rights under the security agreement against the land and buildings, which have already been written down to \$1 in these financial statements.

**8. Related Party Transactions**

During the year the Company paid or accrued management compensation of \$238,570 to one company controlled by a director and to three directors (2003 - \$174,837 to one company controlled by a director and to one director). This compensation is in the normal course of operations and is measured at the exchange amount, which is the the amount of consideration established and agreed to by the parties.

**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 \$295,956 was accrued for the year ended November 30, 2003.

On October 31, 2003, the holder of the 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 an increase to Deficit 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%.

**INTER-CITIC MINERALS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED NOVEMBER 30, 2004**

**10. Lease Commitment**

During 2004 the Company terminated its lease for office space, resulting in an additional charge to office and rent expense of \$70,152. Subsequent to year-end, the Company entered into a 3-year lease for office space at a new location to the year 2007 with minimum lease payments as follows:

2005	\$	57,570
2006	\$	86,355
2007	\$	86,355

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

**(a) Authorized**

98,500,000 common shares, without par value

**(b) Issued and Outstanding**

	November 30, 2004		November 30, 2003	
	Shares	Amount	Shares	Amount
Balance - beginning of year	34,029,636	\$ 21,124,899	28,711,810	\$ 16,710,360
Issued by private placement	4,211,667	2,091,405	2,383,333	970,870
Exercise of share purchase warrants	3,839,775	4,713,958	-	-
Exercise of options	114,800	77,584	50,000	48,000
Conversion of debenture <b>(Note 9)</b>	-	-	2,884,493	3,395,669
	42,195,878	28,007,846	34,029,636	21,124,899
Investment in own shares	(116,500)	(133,023)	(116,500)	(133,023)
Balance - end of year	<u>42,079,378</u>	<u>\$ 27,874,823</u>	<u>33,913,136</u>	<u>\$ 20,991,876</u>

**(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 finders' fees paid in cash of \$152,700 and the estimated fair value of the share-purchase warrants of \$979,825.

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

On February 2, 2004 the Company completed the second tranche of a private placement **(Note 11 (b) (iv))** 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%.

**INTER-CITIC MINERALS INC.**  
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In addition, the Company paid a second tranche of finders' fees associated with this transaction (**Note 11 (b) (iv)**) 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) 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**).

**(iv) 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:

	November 30, 2004			November 30, 2003		
	Number	Value	Weighted-Average Exercise Price	Number	Value	Weighted-Average Exercise Price
Balance - beginning of year	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	(3,839,775)	(874,183)	1.00	-	-	-
Expired	(492,554)	(66,902)	1.00	-	-	-
Balance - end of year	5,741,877	\$ 1,816,646	\$ 0.99	5,274,706	\$ 1,456,836	\$ 0.96

The weighted-average remaining contractual life is 1.12 years for those listed as at November 30, 2004 and 0.93 years for those listed as at November 30, 2003.

**INTER-CITIC MINERALS INC.**  
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**(d) Stock-based Compensation Plan**

The Company has one stock-based compensation plan as at November 30, 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 to reflect the level of responsibility of the particular optionee and his or her contribution to the business and activities of the Company, typically vest immediately and 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:

	November 30, 2004		November 30, 2003	
	Number of Share Options	Weighted- average Exercise Price	Number of Share Options	Weighted- average Exercise Price
Options outstanding - beginning of year	2,199,000	\$ 0.75	1,674,000	\$ 0.83
Options granted	1,785,000	\$ 0.97	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 year	<u>3,794,200</u>	<u>\$ 0.86</u>	<u>2,199,000</u>	<u>\$ 0.75</u>
Exercisable options	<u>3,594,200</u>	<u>\$ 0.85</u>	<u>2,199,000</u>	<u>\$ 0.75</u>

<u>Options Outstanding and Exercisable</u>	<u>November 30, 2004</u>	<u>November 30, 2003</u>
Price range per option	\$0.58 to \$1.15	\$0.58 to \$0.91
Weighted-average remaining contractual life	3.21 Years	2.96 Years
Weighted-average exercise price	\$0.86	\$0.75

During the year, the Company recognized \$1,259,472 (2003 - \$429,199) as stock-based compensation expense and included this amount in Contributed Surplus.

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

	<u>November 30, 2004</u>	<u>November 30, 2003</u>
Expected life:	5.0-years	4.2-years
Expected volatility:	70.91%	72.75%
Risk-free interest rate:	2.25%	4.11%
Dividend rate:	0%	0%

Under these assumptions, the fair value of options issued during these periods was \$0.60 (2003 - \$0.50).

**INTER-CITIC MINERALS INC.**  
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**(e) Capital Surplus**

The following is a summary of transactions in the Contributed Surplus account:

	November 30, 2004	November 30, 2003
Balance - beginning of year	\$ 459,822	30,623
Stock-based compensation	1,259,472	429,199
Share-purchase warrants expired	66,902	-
Balance - end of year	<u>1,786,196</u>	<u>459,822</u>

**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 suspend operations of the division in the face of unfavourable market conditions. Accordingly, the assets were written down to their estimated net recoverable and realizable amounts.

**13. Income Taxes**

The Company has available losses of approximately \$7,107,000 which may be carried-forward to reduce future years' income for tax purposes. A full valuation allowance of \$2,985,000 has been applied against the benefit of these tax losses, as in management's view recognition is not warranted.

2005	\$ 447,000
2006	\$ 658,000
2007	\$ 664,000
2008	\$ 752,000
2009	\$ 1,028,000
2010	\$ 1,304,000
2011	\$ 2,254,000

**14. Segmented Information**

In 2003 the Company's operations included a Head Office in Canada, a Mine Development Division based in Canada and China, and a Rare Earth Division with operations in China. The purpose of the Mine Development Division was to acquire exploration stage resource properties in China and to explore and develop these properties. The Rare Earth Division processed rare earth concentrates in China which were 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 Rare Earth Division ceased operations during 2003 and has since remained idle. During the year, the Company liquidated \$12,580 in inventory that was previously written off and incurred associated expenses of \$2,206. In addition, the Company continues to incur expenses associated with security and maintenance of land, buildings and equipment in China that the Company holds through its 80% interest in Yangzhong Zhonghai Techmat Co., Ltd. During the year, the net amount of these costs totalled \$18,702, including interest charges on outstanding loans from bank advances (**Note 7**), recovery of bad debts, exchange gains and losses for the period and other related expenses.

Since 2003 the Company has committed substantially all of its resources to its exploration activities in China and as a result is committed to one business segment. Accordingly, beginning in 2004, Head Office and Mine Development Division expenses have been combined and segmented information for the Rare Earth Division has been excluded.

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

**INTER-CITIC MINERALS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED NOVEMBER 30, 2004**

**(a) Segmented Net Loss**

For the year ended November 30, 2003

	Head Office	Mine Development Division	Rare Earth Division	Consolidated
Sales	\$ -	\$ -	\$ 422,191	\$ 422,191
Operating costs	-	-	635,622	635,622
Depreciation and amortization	-	-	366,997	366,997
	-	-	<b>(580,428)</b>	<b>(580,428)</b>
Selling, general and administrative expenses:				
Travel and accommodation	8,213	274,257	77,749	360,219
Professional fees	153,544	-	25,644	179,188
Management compensation	294,837	-	5,065	299,902
Consulting	26,141	235,643	53,204	314,988
Office and rent	156,671	-	92,104	248,775
Corporate relations	85,005	-	-	85,005
Salaries and benefits	70,578	-	249,347	319,925
Other expenses	13,926	-	76,047	89,973
Depreciation and amortization	4,470	-	-	4,470
Inventory provision	-	-	109,105	109,105
	813,385	509,900	688,265	2,011,550
<b>Loss before the undernoted</b>	<b>(813,385)</b>	<b>(509,900)</b>	<b>(1,268,693)</b>	<b>(2,591,978)</b>
Interest and other expense, net	(283,215)	-	(33,928)	(317,143)
Write down of Rare Earth Division assets (Note 12)	-	-	(3,824,786)	(3,824,786)
Gain on sale of investments	3,435	-	-	3,435
Unrealized loss on marketable securities (Note 3)	(1,340)	-	-	(1,340)
Foreign exchange loss	(5,467)	-	(23,797)	(29,264)
Stock-based compensation (Note 11)	(429,199)	-	-	(429,199)
<b>Loss before income taxes and non-controlling interest</b>	<b>(1,529,171)</b>	<b>(509,900)</b>	<b>(5,151,204)</b>	<b>(7,190,275)</b>
Income taxes (Note 13)	-	-	-	-
<b>Loss before non-controlling interest</b>	<b>(1,529,171)</b>	<b>(509,900)</b>	<b>(5,151,204)</b>	<b>(7,190,275)</b>
Non-controlling interest	-	-	461,272	461,272
<b>Net loss for the year</b>	<b>\$ (1,529,171)</b>	<b>\$ (509,900)</b>	<b>\$ (4,689,932)</b>	<b>\$ (6,729,003)</b>

**INTER-CITIC MINERALS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED NOVEMBER 30, 2004**

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

	November 30, 2004	November 30, 2003
China	\$ 4,100,785	\$ 269,071
Canada	18,091	15,029
	<u>\$ 4,118,876</u>	<u>\$ 284,100</u>

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

	November 30, 2003	
	Total Assets	Capital Expenditures
Head Office	\$ 1,297,101	\$ 2,795
Mine Development Division	269,068	269,068
Rare Earth Division	58,493	99,471
e-Commerce Division	1	-
	<u>\$ 1,624,663</u>	<u>\$ 371,334</u>

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

	Balance as at November 30, 2003	Additions for the year	Expensed during the year	Balance as at November 30, 2004
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**(i) Dachang Gold Project**

**Acquisition costs:**

Consulting	\$ -	\$ 131,732	\$ -	\$ 131,732
Professional fees	35,196	77,008	-	112,204
Dues and fees	-	17,909	-	17,909
Other	-	15,573	-	15,573
Travel and accommodation	-	36,983	(31,784)	5,199
	<u>35,196</u>	<u>279,205</u>	<u>(31,784)</u>	<u>282,617</u>

**Exploration costs:**

Drilling	-	1,213,034	-	1,213,034
Consulting	131,802	255,801	(67,058)	320,545
Travel and accommodation	48,256	317,890	(90,616)	275,530
Geophysical	-	253,986	-	253,986
Camp	-	225,919	-	225,919
Geochemical	-	212,962	-	212,962
Depreciation	-	71,896	-	71,896
Professional fees	-	46,453	(11,501)	34,952
Mapping	-	25,417	-	25,417
Other	-	55,766	(39,131)	16,635
Trenching	-	14,807	-	14,807
Metallurgical	-	3,976	-	3,976
	<u>180,058</u>	<u>2,697,907</u>	<u>(208,306)</u>	<u>2,669,659</u>
	<u>215,254</u>	<u>2,977,112</u>	<u>(240,090)</u>	<u>2,952,276</u>

**INTER-CITIC MINERALS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED NOVEMBER 30, 2004**

**(ii) Zalantun Gold Project**

**Acquisition costs:**

Professional fees	8,799	5,061	-	13,860
Travel and accommodation	-	10,745	(10,745)	-
	<b>8,799</b>	<b>15,806</b>	<b>(10,745)</b>	<b>13,860</b>

**Exploration costs:**

Consulting	32,951	41,844	(22,995)	51,800
Travel and accommodation	12,064	23,668	(20,729)	15,003
Mapping	-	10,921	-	10,921
Other	-	241	-	241
	<b>45,015</b>	<b>76,674</b>	<b>(43,724)</b>	<b>77,965</b>
	<b>53,814</b>	<b>92,480</b>	<b>(54,469)</b>	<b>91,825</b>

<b>All resource properties</b>	<b>\$ 269,068</b>	<b>\$ 3,069,592</b>	<b>\$ (294,559)</b>	<b>\$ 3,044,101</b>
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**15. Change of Name**

The Company changed its name from Inter-Citic Mineral Technologies Inc. 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 year.

**INTER-CITIC MINERALS INC.**

**BC Form 51-901F - Schedule B**  
*(Supplementary Information)*

**1. ANALYSIS OF EXPENSES AND DEFERRED COSTS**

See Schedule A and Schedule C

**2. RELATED PARTY TRANSACTIONS**

See Schedule A and Schedule C

**3. SUMMARY OF SECURITIES ISSUED AND OPTIONS GRANTED DURING THE PERIOD**

*(a) Summary of Securities Issued*

See Schedule A and Schedule C

*(b) Summary of Options Granted*

Date	Number	Optionee	Exercise Price	Expiry Date
30-Apr-04	575,000	Jim Moore	\$ 1.00	30-Apr-09
04-May-04	300,000	Lou Pasubio	\$ 1.00	04-May-09
04-May-04	250,000	Abe Schwartz	\$ 1.00	04-May-09
11-May-04	75,000	Garth Pierce	\$ 1.15	11-May-09
15-Oct-04	75,000	David Wahl	\$ 0.80	15-Oct-09
15-Oct-04	60,000	Zhang Xiping	\$ 0.80	15-Oct-09
15-Oct-04	150,000	Adrian Ho	\$ 0.80	15-Oct-09
15-Oct-04	150,000	Rick Van Nieuwenhuysse	\$ 1.00	15-Oct-09
15-Oct-04	75,000	Harry Burgess	\$ 1.00	15-Oct-09
15-Oct-04	25,000	Chris Hodgson	\$ 1.00	15-Oct-09
15-Oct-04	50,000	Don McKinnon	\$ 1.00	15-Oct-09
	<u>1,785,000</u>			

**4. SUMMARY OF SECURITIES AS AT THE END OF THE REPORTING PERIOD**

See Schedule A and Schedule C

**5. DIRECTORS AND OFFICERS**

Scott Dorey - Director  
Mark Frederick - Director  
Adrian Ho - Director  
Carlos Ho - Director  
Sherman Hsiao Ming Hong - Director  
James J. Moore - Director, President and Chief Executive Officer  
Lou Pasubio - Vice-President, Finance and Chief Financial Officer  
Abe Schwartz - Director  
Peter Tang - Director and Secretary  
Rick Van Nieuwenhuysse - Director

# Inter-Citic Minerals Inc.

## BC Form 51-901F – Schedule C (Management Discussion and Analysis)

This Management's Discussion and Analysis should be read in conjunction with the consolidated financial statements of November 30, 2004 for Inter-Citic Minerals Inc. ("**Inter-Citic**", or the "**Company**"), and is current as at March 28, 2005. Unless otherwise noted, all financial information is expressed in Canadian dollars and has been prepared in accordance with Canadian generally accepted accounting principles.

### HIGHLIGHTS FOR THE YEAR

- Q1: Organization of joint venture company for Dachang Gold Project (or "**Dachang**") in Qinghai Province, China including issuance of business license; completion of second tranche of private placement from previous year for proceeds of \$1,000,000; exercise of existing share-purchase warrants for proceeds of \$3,164,706.
- Q2: Negotiation and signing of diamond drilling agreement with Cyr Drilling International Ltd. for Dachang.
- Q3: Exploration plan finalised for Dachang; successfully negotiated and closed a private placement financing of \$2,545,000; mobilization begins for Dachang.
- Q4: Mobilization completed and field work begins at Dachang, including:
  - Drilling with two modern and specially customized North American diamond drills rigs by a six-person Canadian drill crew from Cyr Drilling International Ltd.
  - Geochemical sampling, mechanical trenching and ground geophysical surveys with specialized geophysical equipment from Canada
  - Year-round site facility established with satellite telecommunication capability
  - Specific sampling QA protocols established and implemented
- During the year a total of \$2,905,216 was spent on the Dachang joint venture, and the Company acquired \$1,136,446 in exploration equipment, including two diamond drill rigs, for use at Dachang
- Subsequent to year-end, in December, 2004, the joint venture company received final confirmation of approval of exploration licenses for approximately 391 km<sup>2</sup> for Dachang

### OVERVIEW

Inter-Citic is focused on gold exploration and development opportunities in the People's Republic of China ("**China**" or the "**PRC**").

During Q3 of 2003, on July 31, 2003, the Company announced that preliminary agreements were signed with the Qinghai Geological Survey Institute, covering the Dachang Gold Project in the Province of Qinghai, China, and the Beijing Institute of Geology for Mineral Resources, covering the Zalantun Gold Project in the Inner Mongolia Autonomous Region, China. Formal joint venture agreements for these projects were completed and signed during Q4 of 2003, on October 30, 2003 (Zalantun Gold Project) and November 14, 2003 (Dachang Gold Project). As at the date of this report, the joint venture for the Dachang Gold Project has received government approval, has been issued a formal business license, and has completed the process of executing a formal transfer of title of the exploration licenses of the subject lands,

as well as acquiring new exploration licenses for additional lands for a total land area of approximately 391 km<sup>2</sup> for Dachang.

Over the course of the past seven years in China, the Company has engaged in a number of ventures, such as pursuit of a large lead-zinc deposit in Yunnan, establishment and operation of the rare earth division, and development of a business plan for the China Metals Net project. These fully in-country efforts of the past seven years (including, not insignificantly, establishment and management of the rare earth mineral processing business employing in excess of one hundred people) have enabled the Company to develop both valuable management experience and expertise and key relationships with strategic Chinese partners that are critical in the creation of increasingly promising opportunities. Management believes strongly that this wealth of experience and relationships with the right Chinese partners is a key competitive advantage that distinguishes Inter-Citic from other companies that have only recently demonstrated interest in the Chinese mineral industry.

Acquisition of the Dachang and Zalantun Gold Projects highlights management's abilities in China and the range and scope of the Company's presence in the Chinese market. The Company intends to explore and further develop these exploration stage properties, and to add additional properties in the future. By the end of 2003 the Company established a special technical advisory committee comprised of industry leaders in exploration, mining, metallurgy and investment banking fields, adding a significant depth of resources from which to draw upon as it proceeds in developing its exploration opportunities in China.

During Q1, the Company began an initiative to secure and ship to China two North American wire-line diamond drill rigs for use on its Dachang Gold Project, leading to the signing of a formal agreement with Cyr Drilling International Ltd. in Q2. By the end of Q3, the drill rigs had been delivered to the Dachang site and the exploration teams for the project were mobilized, culminating in the commencement of fieldwork in early Q4. Gordon Cyr, of Cyr Drilling International Ltd., has been involved in numerous world-class exploration drilling programs for over thirty years, including surface and underground field operations as well as senior management positions with Canadian-based Midwest Drilling and Major Drilling Group International Inc.

In Q3 and Q4 of 2003 the Company recognized a write-down of the Rare Earth Division in the form of a charge against property, plant and equipment of \$3,824,786 to reflect the Company's decision to suspend operations of the factory in the face of unfavourable market conditions. In light of the Company's success in acquiring exploration properties for further development, the Company does not intend to allocate any further funding of significance to the rare earth facility. In addition, there has been no activity in the e-Commerce Division, nor has there been any further advancement of initiatives with respect to the Yunnan lead-zinc project. As a result, since 2003 the Company has committed substantially all of its resources to its exploration activities in China and as such has integrated its business into one business segment.

In the medium to long term, the Company intends to continue to explore its gold properties with a view to proving gold reserves and to continue to evaluate and ultimately implement strategies for becoming a gold producer in the PRC in conjunction with major international mining operators.

The Company expects that funding for these activities will come in the form of private and public offerings. During Q3 of 2003, the Company announced the successful negotiation of a private placement with proceeds of \$2,430,000, of which the second and final tranche of \$1,000,000 was received during Q1 of 2004. Also during Q1 of this year, the Company received an additional \$3,164,706 as a result of the exercise of existing share-purchase warrants. Finally, during Q3 of this year, the Company successfully negotiated and completed another private placement for proceeds of 2,545,000. Additional financings will be required in the future to fund ongoing operations and meet the Company's commitments as they come due, including its joint venture commitments. As at the date of this report, such additional financing had not yet been secured.

## RESULTS OF OPERATIONS

Selected information:

	2002	2003	2004
<b>Balance Sheet:</b>			
Cash and Cash Equivalents	\$1,564,858	\$1,179,270	\$2,174,163
Total Assets	\$6,817,708	\$1,624,663	\$6,935,534
Total Long-term Financial Liabilities	-	-	-
<b>Sales and Gross Profit (Loss):</b>			
Rare Earth Sales	\$89,436	\$422,191	\$12,580
Operating Costs	\$127,730	\$635,622	\$2,206
Depreciation and amortization	\$293,422	\$366,997	\$ -
Gross Profit (Loss)	\$(331,716)	\$(580,428)	\$10,374
<b>Net Loss:</b>			
Head Office	\$1,192,678 <sup>[1]</sup>	\$1,529,171 <sup>[3]</sup>	\$3,810,158 <sup>[5]</sup>
Mine Development	\$ -	\$509,900	
Rare Earth	\$1,417,631 <sup>[2]</sup>	\$4,689,932 <sup>[4]</sup>	\$8,328
e-Commerce	\$53,279	\$ -	\$ -
<b>Overall loss for the year</b>	<b>\$2,663,588</b>	<b>\$6,729,003</b>	<b>\$3,818,486</b>
Net Loss Per Share (Basic and Diluted)	\$0.09	\$0.23	\$0.10

[1] Includes a prior-period adjustment of \$15,623 to recognize the cost of stock options issued during the period.

[2] Includes provision of \$746,694 for low-grade inventory resulting from implementation and testing of expansion and improvement measures during the latter part of 2001 and throughout 2002. Excluding this provision, the net loss for the Rare Earth Division for 2002 was \$670,937, the overall net loss was \$1,916,894 and the overall net loss per share, basic and diluted, was \$0.07.

[3] Includes stock-based compensation expense of \$429,199.

[4] Includes a write down of Rare Earth Division assets of \$3,824,786 and associated additional write off of non-controlling interest of \$336,797. Excluding this provision, the net loss for the Rare Earth Division for 2003 was \$1,201,943, the overall net loss was \$3,241,014 and the overall net loss per share, basic and diluted, was \$0.11.

[5] Includes stock-based compensation expense of \$1,259,472. Beginning in 2004 the Company's business is that of an integrated exploration company and as such does not have a head office for multiple divisions.

Selected quarterly information:

	2003				2004			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales (Rare Earth) <sup>[1]</sup> :	\$281,301	\$117,327	\$23,563	\$ -	\$5,755	\$ -	6,825	\$ -
<b>Net Loss:</b>								
Head Office	\$220,253	\$235,056	\$231,555	\$842,307 <sup>[2]</sup>	\$432,524	\$722,790 <sup>[4]</sup>	\$1,027,967 <sup>[5]</sup>	\$1,643,533 <sup>[6]</sup>
Mine Development	\$40,888	\$139,808	\$139,399	\$189,805				
Rare Earth	\$267,590	\$2,050,066 <sup>[1]</sup>	\$112,515	\$2,259,761 <sup>[3]</sup>	\$30,426	\$14,545	\$4,622	(\$57,921) <sup>[7]</sup>
<b>Overall</b>	<b>\$528,731</b>	<b>\$2,424,930</b>	<b>\$483,469</b>	<b>\$3,291,873</b>	<b>\$462,950</b>	<b>\$737,335</b>	<b>\$1,032,589</b>	<b>\$1,585,612</b>
Net Loss Per Share (Basic and Diluted)	<b>\$0.02</b>	<b>\$0.08</b>	<b>\$0.02</b>	<b>\$0.11</b>	<b>\$0.01</b>	<b>\$0.02</b>	<b>\$0.03</b>	<b>\$0.02</b>

[1] Includes a write down of the Rare Earth Division of \$1,551,423. Excluding this provision, the net loss for the Rare Earth Division for the second quarter of 2003 was \$498,643, the overall net loss was \$873,507 and the overall net loss per share, basic and diluted, was \$0.03. Sales during 2004 related to remaining inventory previously written off.

[2] Includes stock-based compensation expense of \$429,199.

[3] Includes a write-down of the Rare Earth Division of \$2,273,363 and associated additional write-off of non-controlling interest of \$336,797. Excluding these provisions, the net loss for the Rare Earth Division for the fourth quarter of 2003 was \$323,195, the overall net loss was \$1,355,307 and the overall net loss per share, basic and diluted, was \$0.05.

[4] Includes stock-based compensation expense of \$218,031.

[5] Includes stock-based compensation expense of \$40,624.

[6] Includes stock-based compensation expense of \$1,000,817.

[7] Includes impact of exchange gains against outstanding debt as a result of strengthening Canadian dollar, as well as recovery of bad debts previously written-off.

During the fiscal year 2003, total assets of the Company decreased dramatically as a result of the suspension of the Rare Earth Division and the subsequent charge to property, plant and equipment of \$3,824,786. The impact of this write down on total assets was partially offset by capitalization of \$269,068 in acquisition and exploration costs associated with these newly acquired mineral properties.

During Q1 of 2004, total assets increased by \$3,488,401 as a result of additional cash following the closing of the second tranche of the private placement announced in Q2 of 2003 (\$1,000,000), as well as proceeds from the exercise of outstanding share-purchase warrants of \$3,164,706. Overall net increase in cash for the quarter was \$3,105,347 and capital expenditures on resource properties were \$314,092.

During Q2 of 2004, proceeds from these financings were used primarily to fund the Company's contractual commitments for its Dachang Gold Project and for mobilization costs relating to the Company's initiative to secure two North American diamond-drill rigs for use on that project (total expenditures of \$1,389,835). In addition, the Company spent an additional \$241,342 on mobilization and preparation for exploration programs for both the Dachang and Zalantun Gold Projects, which were scheduled to begin in the second half of the year. Overall net decrease in cash for the quarter was \$1,920,714 and capital expenditures on resource properties were \$1,626,151.

During Q3 of 2004 the company successfully negotiated and completed another private placement for proceeds of 2,545,000 and field work began at the Dachang site, with camp equipment, geophysical survey

equipment, drill rigs and drilling supplies all being shipped to the site and put in use, resulting in an increase to capitalized amounts for Dachang of \$154,399 and capitalization of equipment of \$866,635. Overall net increase in cash for the quarter was \$614,050 as a result of these expenses as well as significantly increased operating overheads as a result of significantly increased costs related to financing activities.

During Q4 of 2004 exploration continued at Dachang, resulting in an increase to capitalized amounts for Dachang of \$642,374 and capitalization of equipment of \$261,942. In addition, 675,069 in existing share-purchase warrants were exercised for proceeds of \$675,069, resulting in an overall net decrease in cash for the quarter of \$803,790.

In summary, during 2004 the Company was able to complete the organization of its Dachang joint venture, mobilize equipment and personnel to the site, establish a year-round exploration camp, and begin exploration of the property, resulting in an increase to capitalized amounts for Dachang of \$2,737,022 and acquisition of exploration equipment of \$1,128,577. At the same time, the Company continued to work on organization of its Zalantun joint venture, resulting in an increase in capitalized amounts for this project of \$38,011. The Company was able to raise \$3,392,300 from private placements and \$3,917,359 from the exercise of existing share-purchase warrants and stock options to pay for these investments, and after operational disbursements of \$2,449,167 experienced a net increase in cash of \$994,893 for the year.

## **EXPLORATION ACTIVITIES AND COMMITMENTS**

In early 2003 the Company began to aggressively seek opportunities to acquire gold-hosted exploration stage mineral properties in China. Later that year, during the third quarter of 2003, the Company announced that it was successful in completing joint venture contracts with the Qinghai Geological Survey Institute for the acquisition of the Dachang Gold Project in the Province of Qinghai, PRC, and the Beijing Institute of Geology for Mineral Resources for the acquisition of the Zalantun Gold Project in the Autonomous Region of Inner Mongolia, PRC.

Both projects are exploration stage properties, and it is the intention of the Company to explore these properties in the coming years. To date the Company has not found any proven reserves or engaged in any production on any of its properties. The Company intends to continue to source and acquire additional properties in the future, and has a medium to long-term objective of becoming a producer of precious metals in the PRC in conjunction with major international mining operators.

The Dachang gold project consists of four existing exploration licenses covering approximately 218 km<sup>2</sup> and approximately 173 km<sup>2</sup> of additional exploration licenses for a total of 391 km<sup>2</sup>. The joint venture company holds all exploration licenses. Of this area, approximately 106 km<sup>2</sup> has been extensively prospected by the Qinghai Geological Survey Institute, including geochemical sampling, reconnaissance geological mapping, extensive trenching and diamond drilling.

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 \$4,860,100 (Renminbi 32,830,000) over three years and making a cash payment of the equivalent of approximately \$1,435,000 (Renminbi 10,000,000) upon the issuance of a Mining License required to bring the project into production. To date, the Company has advanced \$1,129,100 (Renminbi 6,830,000) under this agreement. Additional minimum contributions were originally staged as to the equivalent of approximately \$1,722,000 (Renminbi 12,000,000) in 2004 and \$2,009,000 (Renminbi 14,000,000) in 2006, however contributions originally scheduled for 2004 have been deferred to 2005 as a result of administrative delays associated with organization of the joint venture. 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.

The Zalantun gold project is an exploration stage project consisting of three blocks covering 125 km<sup>2</sup>. The project area has been explored by the Beijing Institute of Geology for Mineral Resources, with nine individual target areas identified to date.

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 \$2,153,000 (Renminbi 15,002,500) over three years. Although minimum contributions were staged as to the equivalent of approximately \$574,000 (Renminbi 4,000,000) in 2004, \$1,148,000 (Renminbi 8,000,000) in 2005 and \$431,000 (Renminbi 3,002,500) in 2006, contributions have been deferred subject to resolution of administrative delays in organizing the joint venture, which is expected to occur in 2005. The Company also has the ability to acquire an additional 5% interest in the joint venture for the equivalent of approximately \$253,000 (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 the Beijing Institute of Geology for Mineral Resources seeks foreign Investment.

The Company completed and filed technical reports on both properties which are available on its website or at [www.sedar.com](http://www.sedar.com).

Expenditures for the Company's resource properties can be broken down as follows:

	2003	2004					Cumulative
	Overall	Q1	Q2	Q3	Q4	Overall	
<b>Dachang Gold Project:</b>							
Capitalized	\$215,254	\$281,779	\$1,584,927 <sup>[1]</sup>	\$154,399	\$715,917	\$2,737,022	\$2,952,276
Expensed	304,000	31,784	5,016	116,548	86,742	240,090	544,090
<b>Total</b>	<b>\$519,254</b>	<b>\$313,563</b>	<b>\$1,589,943</b>	<b>\$270,947</b>	<b>\$802,659</b>	<b>\$2,977,112</b>	<b>\$3,496,366</b>
<b>Zalantun Gold Project:</b>							
Capitalized	\$53,814	\$32,313	\$41,234	\$ -	\$(35,536) <sup>[2]</sup>	\$38,011	\$91,825
Expensed	76,000	10,745	-	-	43,724	54,469	130,469
<b>Total</b>	<b>\$129,814</b>	<b>\$43,058</b>	<b>\$41,234</b>	<b>\$ -</b>	<b>\$8,188</b>	<b>\$92,480</b>	<b>\$222,294</b>
<b>Overall Total</b>	<b>\$649,068</b>	<b>\$356,621</b>	<b>\$1,631,177</b>	<b>\$270,947</b>	<b>\$810,847</b>	<b>\$3,069,592</b>	<b>\$3,718,660</b>

[1] Includes remittance of \$1,000,000 in accordance with the Company's contractual obligations for this project.

[2] Includes a reduction of \$54,469 in previously capitalized expenses as a result of ongoing delays in organizing the joint venture.

During 2004 the Company was in the final stages of establishing its Dachang and Zalantun joint ventures in China. Accordingly, the Company continued to experience limited acquisition costs related to these activities, as it did in 2003.

Concurrent with the above, the Company continued to evaluate targets within each project area, and completed mobilization for exploration, including drilling at Dachang by the end of Q3 (which began in Q2), resulting in commencement of field work in Q4. Accordingly, expenditures for the Dachang Gold Project increased significantly in Q2 compared to Q1, and again in Q3 and Q4. Compared to Q1 and all of last year, the expenditures on the projects in Q2 to Q4 have generally shifted from acquisition and start-up in nature to operational.

## OTHER ITEMS

### a. Selling, general and administrative and other expenses

Selling, general and administrative expenses in 2004 related to the Company's exploration activities in China. In previous years, however, including for 2003, the Company maintained a head office in Canada that managed multiple initiatives across several defined business segments. As a result, the comparative basis for such expenses from year to year can only be reasonably considered in the context of this transition, as follows:

	<b>2003 Overall</b>	<b>Less: Techmat</b>	<b>2003 Adjusted</b>	<b>2004 Overall</b>	<b>Change</b>	<b>%</b>
Travel and accommodation	\$360,219	\$77,749	\$282,470	\$566,498	\$284,028	101%
Professional fees	\$179,188	\$25,644	\$153,544	\$506,661	\$353,117	230%
Management compensation	\$299,902	\$5,065	\$294,837	\$400,142	\$105,305	36%
Consulting	\$314,988	\$53,204	\$261,784	\$368,181	\$106,397	41%
Office and rent	\$248,775	\$92,104	\$156,671	\$323,858	\$167,187	107%
Corporate relations	\$85,005	\$ -	\$85,005	\$220,419	\$135,414	159%
Salaries and benefits	\$319,925	\$249,347	\$70,578	\$137,561	\$66,983	95%
Other expenses	\$89,973	\$76,047	\$13,926	\$7,892	(\$6,034)	(43%)
Depreciation and amortization	\$4,470	\$ -	\$4,470	\$4,807	\$337	7%
Inventory provision	\$109,105	\$109,105	\$ -	\$ -	\$ -	-
<b>Overall</b>	<b>\$2,011,550</b>	<b>\$688,265</b>	<b>\$1,323,285</b>	<b>\$2,536,019</b>	<b>\$1,212,734</b>	<b>92%</b>

Based on the above, overall general and administrative expenses approximately doubled since last year, reflecting generally the Company's increased operational costs associated with its exploration activities in China and associated financings. During 2004 the Company mobilized and began exploration of its Dachang Gold Project, a major initiative requiring substantially increased management and corporate infrastructure compared to prior years. As noted previously, approximately \$3.1 million was spent on resource properties and an additional \$1.1 million was spent on procurement and shipping of exploration equipment to China. To fund these initiatives, the Company raised approximately \$7.3 million by way of private placements and exercise of existing share-purchase warrants and stock options.

In addition to generally increased costs associated with the above, the Company, in response to these needs, relocated its office to a larger location late in the year, incurring significant lease termination fees and moving expenses that resulted in an increase in office and rent expense. Salaries and wages increased

generally for the same reason as the Company expanded its office staff capabilities. Similarly, management compensation increased significantly primarily as a result of the Company taking steps to secure the services of two key employees.

Significantly increased travel and accommodation, professional fees, consulting and corporate relations are directly related to the Company's increased financing and promotional activities as well as expanded operations in China. Where 2003 could be considered a transition year as the Company secured its exploration projects and suspended its rare earth operations, 2004 can be described as a year of organization, mobilization and commencement of exploration in China. As a result, it is expected that as long as the Company continues to finance ongoing activities in the same manner as it did last year (i.e. multiple small financings) and continues to expand its exploration activities in China, that expenses in 2005 will generally be consistent with those of 2004.

In addition to the above, stock-based compensation increased from \$429,199 in 2003 to \$1,259,472 in 2004, or \$8302,273 (193%) as a result of stock options issued to key management, advisors and new Directors of the Company.

Finally, decrease in interest and other income/expense of \$345,452 in 2004 compared to 2003 resulted from increased interest income in 2004 on cash balances compared to 2003 as well as \$295,956 in interest and accretion charges relating to the convertible debenture in 2003 that did not repeat in 2004 following the conversion of the debenture into common shares of the Company on October 31, 2003. Expenses are net of interest earned on cash balances.

#### **b. Techmat**

The Company holds an 80% interest in a joint venture in China that processes rare earth concentrates for use in the automotive, catalyst, electronics and glass industries ("Techmat"). However, in the face of unfavourable market conditions and in light of the Company's Dachang and Zalantun gold project joint ventures, in 2003 the Company suspended operations of the Techmat facility and has since remained idle. The Company does not plan to allocate any further funding of significance in the foreseeable future. As a result, the Company recognized a write-down of \$3,824,786 against property, plant and equipment during 2003, of which \$1,551,423 was accrued as at May 31.

Sales and overall expense trends since 2002 is consistent with this activity. In 2002, Techmat had limited sales during a period of upgrade and expansion, during which time there was no production at the facility. Sales in 2003 reflect the Company's decision to suspend operations in approximately the middle of the year, and gross loss from year to year is a reflection of the severity of the persistently unfavourable market conditions of the rare earth industry and the Company's inability to sell its products at a profit. The minor sales that occurred in Q1 and Q3 of 2004 were on account of liquidation of certain inventory that was previously written-off, offset by related selling and operational expenses. The Company continues to incur minor expenses to maintain security of land, buildings and equipment at the facility as well as ongoing interest charges relating to outstanding bank loans and offset by exchange gains related to outstanding debt and recovery of bad debts previously written off.

Non-controlling interest represents minority shareholder's interest in the earnings of the subsidiary company Yangzhong Zhonghai Techmat Co., Ltd. The remaining balance of this non-controlling interest was written-down further to the write-down of \$3,824,786 against property, plant and equipment resulting in a net liability in this company at the end of 2003. This subsidiary company has a series of loans outstanding with the Bank of China totalling Renminbi 3,000,000 (approximately \$430,500), which is the same amount outstanding as at the end of 2003, and is secured by the assets of Yangzhong Zhonghai Techmat Co., Ltd. Although underlying assets including land, building and equipment in China have been written down to \$1 the loans continue to be recorded in the consolidated financial statements. The parent company has not guaranteed this debt and is confident that the underlying security is sufficient to satisfy all obligations to the Bank.

### **c. Ideal e-Commerce**

The Company's e-Commerce initiative held through its 50% interest in Ideal e-Commerce Ltd. has not incurred any expenses since 2002. To date, a total of \$500,000 in start-up costs (net of interest earned) has been incurred and fully expensed by Ideal e-Commerce Ltd., and the Company has recognized equity in net loss of associated company sufficient to reduce the carrying value of its investment to \$1. It is anticipated that no further expenditure will occur on this project for the foreseeable future.

## **CASH RESOURCES AND LIQUIDITY**

### **Operating Activities**

The Company continued to generate negative cash flow from operations through 2004 compared to 2003 (\$2,492,529 compared to \$2,365,950, respectively). During 2004, these losses were primarily as a result of financing, promotional and exploration activities related to the Company's resource properties in China while last year they were primarily as a result of the Techmat rare earth operation.

It is anticipated that the Company will finance ongoing operations through continuing equity offerings to take place in 2005.

### **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 a price of \$1.10 per share for a period of twenty four months from the date of issue. In addition, the Company paid finders' fees associated with the transaction of \$152,700 in cash and 254,500 share-purchase warrants. Each warrant so issued has the same expiry and exercise price as the warrants comprising the units.

### **Private Placement – November, 2003**

On November 13, 2003 the Company closed the first tranche of an earlier private placement consisting of 2,383,333 Units at \$0.60 per Unit for proceeds of \$1,430,000. Each Unit consisted of one common share and one non-transferable share purchase warrant. One warrant and \$1.00 entitles the holder to acquire one additional common share of the Company until November 13, 2004. The second and final tranche closed subsequent to year-end, on February 2, 2004, consisting of 1,666,667 Units at \$0.60 per Unit. Each Unit consists of one common share and one non-transferable share purchase warrant. One warrant and \$1.00 entitles the holder to acquire one additional common share of the Company until February 2, 2005. As part of this financing transaction, the Company also issued Finder's Fees consisting of 810,000 share-purchase warrants. One warrant and \$0.60 entitles the holder to acquire one common share of the Company for a period of two years from the date of issue, which was determined on a pro-rata basis in accordance with the tranches of the private placement.

### **Convertible Debenture**

During Q4 of 2003 the Company's outstanding 8.9%, 2-year convertible debenture of \$2,000,000 was converted into common shares of the Company, the details of which are contained in the Notes to Financial Statements.

## **Share-Purchase Warrants**

The Company's cash position improved significantly during the year as a result of the exercise in Q1 of 3,164,706 previously issued share-purchase warrants for proceeds of \$3,164,706 and the exercise in Q4 of 675,069 previously issued share-purchase warrants for proceeds of \$675,069. As at the date of this report the Company had, on a weighted average basis, 4,109,500 outstanding share-purchase warrants expiring in approximately 1 year at a weighted average exercise price of \$0.99, representing additional potential financing of approximately \$4 million.

## **RISKS AND UNCERTAINTIES**

The following describes certain principal risks not previously described in the management's discussion and analysis, but is not, by its very nature, all-inclusive.

### **Political Risk**

The Company's strategic advantage is its ability to accomplish business objectives in China efficiently and effectively. Accordingly, the Company anticipates that a majority of its future revenue producing activities will be in that jurisdiction. As a result, the Company is subject to social, political and economic developments and trends that are beyond its control. This risk is mitigated by the Company's strong ties to China through its shareholder base and members of its Board of Directors, as well as its expertise in understanding the realities of the Chinese government's decision-making process. Much time and effort has been invested in identifying key senior contacts and understanding their deeper concerns when dealing with foreign investment. In fact, a cornerstone to Inter-Citic's ability to access the highest levels of the Chinese decision and policy-making structure is in leveraging the relationships and extensive connections available within its own shareholder base, and it is this ability that sets the Company apart from other western companies attempting to do business in China.

### **Environmental Risk**

The Company believes that the environmental protection measures taken at its rare earth processing facility are adequate for the purposes of compliance with Chinese environmental protection regulations. However, future legislation and regulations could cause additional expenses, capital expenditures, restrictions or delays in production, the extent of which cannot be predicted.

### **Foreign Exchange Risk**

Interest on Chinese debt as well as operating expenses within China are paid in Chinese currency. As a result, the company feels that it does not have a significant exposure to devaluation of the Chinese currency.

### **Interest Rate Risk**

The Company currently has debt outstanding in China that is subject to fluctuating Chinese interest rates. Since the Company cannot control or predict fluctuations in these rates, the impact of such fluctuations on the interest expense incurred by the Company could be significant.

### **Exploration Activities**

The Company has negotiated formal joint venture contracts relating to the Dachang and Zalantun Gold Projects in China. Although approval from regulatory authorities was received for the Dachang Project during the year and formal title to exploration licenses was granted to the subject joint venture company for the Dachang Project subsequent to year-end, approval of the Zalantun joint venture is expected to occur during 2005, however there is no guarantee that these activities will be without delay or will be successful. Exploration and development of mineral properties and as a result investing in the shares of the Company

both involve a high degree of risk. Even if the Company is successful in acquiring an interest in these and/or other exploration properties, the marketability of the natural resources that may be discovered will be affected by numerous factors beyond the control of the Company. The return, if any on the investment in shares of a resource company is subject to market conditions that are beyond the control of the Company. Some of the factors affecting resource exploration and development include the proximity and capacity of resource markets and processing equipment, government regulations, including regulations relating to prices, taxes, royalties, land tenure and land use, importing and exporting minerals and environmental protection. The Dachang Gold Project is situated in an environmentally sensitive area and will require approval from regulatory authorities prior to mining in the future. The effect of these and other factors cannot be predicted.

### **Going Concern Risk**

In light of ongoing and significant losses, the ability of the Company to continue to meet its obligations as they come due and therefore to implement its initiatives depends on its ability to obtain adequate financing and commence profitable business operations. Please refer to Note 1 of the Company's Consolidated Financial Statements for additional information regarding assumptions relating to the ability of the Company to continue as a going concern.

Management is considering various alternatives to raise capital however it is not possible to determine with certainty the success or adequacy of these initiatives. Although recent financing initiatives have been successful as discussed, the Company may experience delays in meeting its implementation timetable for its projects should there be problems securing adequate financing in the future. The Company has mitigated this risk by entering into strategic partnerships with Companies and individuals that are experienced and capable of sourcing funds as and when required.

### **OUTLOOK**

Over the next year the Company will focus all of its available resources and relationships in China to carry out an exploration and development program for its Dachang and Zalantun Gold Projects, as well as to secure additional mineral projects for further development. The Company believes that it will be successful in securing such projects, and that these projects will result in a significant enhancement of enterprise value in the coming twelve months. The Company will continue to secure sources of additional financing to meet its operational objectives and commitments as they come due, and although as at the date of this report such financing has not been secured, the Company is confident that additional financing will be available in time to meet these commitments.

The Company does not expect any further activity on the rare earth, e-Commerce or Yunnan lead-zinc projects for the foreseeable future.

### **CAUTION REGARDING FORWARD LOOKING INFORMATION**

Certain of the statements that are not historical facts contained in this Annual Report and other disclosure documentation are forward-looking statements that involve risks and uncertainties that could cause actual events or results to differ materially from estimated or anticipated events or results reflected in the forward-looking statements. These statements involve risk and uncertainties, including but not limited to the risk factors previously described. Actual results could differ materially from those projected as a result of these risks and should not be relied upon as a prediction of future events. Readers are cautioned not to put undue reliance on forward-looking statements due to the inherent uncertainty therein. Inter-Citic Minerals Inc. undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events, whether as a result of new information, future events or results otherwise.