MILLSTREAM MINES LTD.

Financial Statements
(An Exploration Stage Company)

August 31, 2005

Millstream Mines Ltd.
(An Exploration Stage Company)
Financial Statements
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AUDITORS' REPORT

To the Shareholders of
Millstream Mines Ltd.

We have audited the balance sheet of Millstream Mines Ltd. (an exploration stage company) as at August 31, 2005 and the statements of operations, deficit and cash flows for the year 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 audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at August 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at August 31, 2004 and for the year then ended were audited by other Chartered Accountants who expressed an opinion without reservation on these financial statements.

"Signed"

Markham, Ontario
December 21, 2005

Harris & Partners, LLP
Chartered Accountants

Millstream Mines Ltd.
(An Exploration Stage Company)
Balance Sheets
As at August 31, 2005

		2005		2004
ASSETS				
Current				
Cash	$	4,408	$	386,518
Accounts receivable		5,010		2,032
Prepaid expenses and sundry assets		-		1,500
		9,418		390,050
Oil and gas interests (Note 1)		1		1
Mining claims and deferred exploration expenditures (Note 2)		9,154,112		8,707,054
	$	9,163,531	$	9,097,105
LIABILITIES				
Current				
Accounts payable and accrued liabilities	$	64,740	$	20,057
Due to related parties (Note 3)		3,449,161		3,458,138
		3,513,901		3,478,195
SHAREHOLDERS' EQUITY				
Share capital (Note 4)		11,623,736		11,603,736
Share subscription (Note 4)		58,000		-
Contributed surplus (Note 4)		139,153		139,153
Deficit		(6,171,259)		(6,123,979)
		5,649,630		5,618,910
	$	9,163,531	$	9,097,105

Approved by the Board

Director "Ernest Harrison"

Director "E.F. Martinello"

See accompanying notes

Millstream Mines Ltd.
(An Exploration Stage Company)
Statements of Deficit
For the Year Ended August 31, 2005

	2005	2004
Deficit, beginning of year, as previously reported	$ (6,123,979)	$ (6,151,579)
Adjustment of prior years' stock based compensation (Note 5)	-	(15,225)
As restated	(6,123,979)	(6,166,804)
Net income (loss)	(47,280)	42,825
Deficit, end of year	$ (6,171,259)	$ (6,123,979)

See accompanying notes

Millstream Mines Ltd.
(An Exploration Stage Company)
Statement of Operations
For the Year Ended August 31, 2005

	2005	2004
Income	$ -	$ -
Expenses		
Shareholder information	33,485	53,343
Corporate services	7,200	7,200
Transfer agent fees	3,443	5,403
General and administrative	1,883	4,014
Professional fees	1,269	7,224
Sub-contract	-	96,345
Travel	-	1,646
Loss before unusual items	(47,280)	(175,175)
Litigation severance costs (recovered) (Note 2)	-	(218,000)
Net income (loss)	$ (47,280)	$ 42,825
Net earnings (loss) per share (Note 6)	$ (0.01)	$ 0.01
Fully diluted earnings (loss) per share (Note 6)	$ (0.01)	$ 0.01

See accompanying notes

Millstream Mines Ltd.
(An Exploration Stage Company)

Statements of Cash Flows

For the Year Ended August 31, 2005

	2005	2004
Cash provided by (used in):		
Operating activities		
Net income (loss)	$ (47,280)	$ 42,825
Changes in non-cash components of working capital		
Accounts receivable	(2,978)	2,990
Prepaid expenses	1,500	(1,500)
Accounts payable and accrued liabilities	44,683	(294,175)
	(4,075)	(249,860)
Investment activities		
Mining claims - exploration costs	(427,058)	(164,326)
	(427,058)	(164,326)
Financing activities		
Issuance of common shares	-	828,000
Subscription for common shares	58,000	-
Due to related parties	(8,977)	(93,153)
	49,023	734,847
Increase (decrease) in cash	(382,110)	320,661
Cash, beginning of year	386,518	65,857
Cash, end of year	$ 4,408	$ 386,518
Supplementary information:		
Interest paid	$ -	$ -
Income taxes paid	$ -	$ -

See accompanying notes

1. Summary of significant accounting policies

Nature of operations

The accompanying financial statements have been prepared on the basis of accounting principles applicable to a going concern which presumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

The Company is in the process of exploring its resource properties and has not yet determined whether the properties contain economically recoverable reserves. The recovery of the amounts shown for resource properties and the related deferred expenditures is dependent upon the existence of economically recoverable reserves, confirmation of the Company's interest in the underlying mining claims, the ability of the Company to obtain necessary financing to complete the development, future profitable production and the support of the Company's trade creditors.

The financial statements do not give effect to any adjustments to the amount of assets and liabilities that might be necessary should the Company be unable to continue as a going concern and therefore, be required to realize its assets and discharge its liabilities in other than the ordinary course of business.

Mining claims

Mining claims are carried at cost until they are brought into production at which time they are depleted on a unit-of-production basis.

Exploration expenditures relating to mining claims are deferred until the properties are brought into production at which time they are amortized on a unit-of-production basis.

The cost of claims abandoned or sold and the deferred exploration costs relating to claims abandoned or sold are charged to operations in the current year.

Administrative expenses

Administrative expenses are charged to operations in the year incurred.

Oil and gas interests

The Company follows the successful efforts method of accounting for oil and gas interests whereby all costs relating to the acquisition, exploration and development of petroleum and natural gas reserves are capitalized until their economic status has been evaluated.

All costs of successful wells are amortized over their useful lives.

Use of estimates

The preparation of the corporation's financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates that affect the amounts reported and disclosed in the financial statements. Actual results could differ from those estimates.

Millstream Mines Ltd.
Notes to Financial Statements
For the Year Ended August 31, 2005

1. Summary of significant accounting policies (cont'd)

Income taxes

The company provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between financial statement values and tax values of assets and liabilities using enacted income tax rates expected to be in effect for the year in which the differences are expected to reverse.

Stock based compensation

The Company accounts fro stock-based compensation in accordance with CICA Handbook section 3870 "Stock-Based Compensation and Other Stock-Based Payments". This standard requires that stock-based payments to non-employees and direct awards of stock to employees and non-employees are accounted for using a fair-value method of accounting.

This accounting change has been applied retroactively without restatement for options granted to employees on or after September 1, 2003. An adjustment has been made to the opening balance of retained earnings for the current period to reflect stock based compensation.

Flow-through shares

The Company will from time to time issue flow-through shares to finance a portion of its capital expenditure program. Pursuant to the terms of flow-through share agreements, the tax deductions associated with the expenditures are renounced to the subscribers. Accordingly, share capital will be reduced and a future tax liability will be recorded equal to the estimated amount of future income taxes payable by the Company as a result of the renunciations, when the renunciations are made.

Earnings per share

Basic income per share is computed using the weighted average number of common shares outstanding during the year. Diluted income per share is computed using the weighted average number of common and potential common shares outstanding during the year. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options and warrants using the treasury stock method.

Oil and gas interests

The Company holds a 6.25% interest in a producing well in Canadian County, Oklahoma, U.S.A. with royalty interests not exceeding 25%. The well is recorded on the books of the Company at the nominal value of $1.

Millstream Mines Ltd.
Notes to Financial Statements
For the Year Ended August 31, 2005

2. Mining claims and deferred exploration expenditures

	Opening	Additions	Reductions	Closing
Potter Mine, Ontario				
Acquisition	$ 4,360,000	$ -	$ -	$ 4,360,000
Exploration	3,679,481	15,916	-	3,695,397
Falconbridge, Ontario				
Exploration	73,863	325,949	100,183	299,629
Tamarack, Montana				
Acquisition	231,089	-	-	231,091
Exploration	309,074	15,473	-	324,547
Koval Property, Ontario				
Acquisition	10,000	14,000	-	24,000
Exploration	43,546	60	-	43,606
Falcon Gold, Ontario				
Acquisition	-	26,000	-	26,000
Exploration	-	149,842	-	149,842
	$ 8,707,053	$ 547,240	$ 100,183	$ 9,154,112

Potter Mine, Ontario

The company holds 100% interest in the Potter Mine Property. An officer of the company controlling and directing the control block of shares in the company has divested his declared minority 10% interest in Harrison Mining and Engineering Corporation, the vendor of the property, but remains the sole director and chief executive officer of all of the companies within Harrison Group of Companies. The vendor retains a 2.5% net smelter return royalty on the property, which the company may purchase at any time for $3,000,000. A $1,600,000 promissory note was issued by the company to the vendor as part of the purchase consideration and remains outstanding to date.

On June 1, 1999 the company entered into an agreement with Hunter Dickinson Group Inc. of Vancouver, B.C. ("farmee"), granting to the farmee an exclusive farmout right to earn interests in the property by incurring approved phased exploration expenditures on the property. Upon completing each phase of expenditure, the company has the right to reacquire the interests so earned. Failing such exercise to reacquire, the parties will form a joint venture to coordinate further exploration and development of the property. The maximum earnable interest must be achieved in each phase to have the right to proceed to the following phase as:

phase 1 - terminating December 31, 1999, maximum 30% earnable interest for $4,000,000 of expenditures;
phase 2 - terminating December 31, 2000, maximum 25% earnable interest for $10,000,000 of expenditure;
and,
phase 3 - terminating December 31, 2001, maximum 5% earnable interest for $5,000,000 of expenditures.

2. Mining claims and deferred exploration expenditures (cont'd)

Potter Mine, Ontario

In September, 1999, the farmee acknowledged insufficient funds had been secured and a deficit existed regarding the approved work program. That further raising of money was being undertaken to fund the existing deficit and the continuation of work on site. As of December 31, 1999, the farmee had not raised nor supplied any additional monies and remained in default within the terms of the agreement. This situation has yet to be resolved and the farmee remains in default with accounts to be paid and other matters within the agreement.

On April 11, 2001, the company sold a 10% net profit interest royalty in and to the Potter Mine Tailings property for $300,000 in cash. Net profits are determined quarterly and the final payment of net profits are due no later than 6 months after the end of the Project Operation's accounting year.

The claims by the company against Hunter Dickenson Group Inc. and related interests were severed from the claims in which the company was a co-defendant as between another company that performed drilling and related services on the Potter property. The company , in an effort to mitigate its damages and quantify some aspects of its claims against Hunter Dickenson Group Inc. and related interests, settled with the drilling company by agreeing to consent, effective June 30, 2003 to Judgement in the amount of $218,000 inclusive of damages, interest and costs which was paid for by the company September 16, 2003. Subsequent to September 2003 and within the current year, The Harrison Group of Companies has assumed financial responsibility for the Judgment and has reduced it's receivable from the company accordingly.

Falconbridge Twp. Airport Property

August 7, 2000 the company, as stated in its August 11, 2000 press release, negotiated to increase its purchase option agreement from a 50% interest to 100% interest in the Falconbridge Township Airport Property located in Ontario. The property consists of 45 mining claims. A payment of $60,000 is to be made on or before the third anniversary date of this new agreement and an advance royalty payment of $60,000 per year commencing November 1, 2000 is due up to the date when commercial production commences in lieu of further work commitments. The property now has a 3% net smelter return (NSR) royalty for which the company has the right to purchase two thirds (2/3 being 2%) for a payment of $2,000,000 up to the date when commercial production commences.

In June 2003, the company entered into a participation and joint venture agreement with Crowflight Minerals Inc. In order for Crowflight Minerals Inc. to earn its 50% interest, it had to have a $60,000 property payment and fund an initial $325,000 exploration program. In 2005 Crowflight Minerals Inc. failed to contribute its share of exploration programs and consequently is subject to having its interest diluted, although this has yet to be finalized.

August 4, 2003, the company entered into purchase agreement with an individual for a 100% undivided interest consisting of 11 mining claims located in Falconbridge Township and 7 mining claims located in Street Township in Ontario. The property is contiguous to the Falconbridge Township Airport Property held by the company as disclosed above. The Company's purchase price is $30,000 in cash and 600,000 common voting shares equally divided over 3 payment due dates of September 4, 2004; September 4, 2005 and July 5, 2006. In 2005, the Company made the second payment of $10,000 in cash and issued 200,000 shares to the individual in accordance with the purchase agreement.

2. Mining claims and deferred exploration expenditures (cont'd)

Falconbridge Twp. Airport Property

The individual retains a 2% net smelter return (NSR) royalty on all production from the property. The Company has the first right of refusal on the sale of the NSR royalty and the right to purchase 50% of the NSR royalty at a fixed price of $1,000,000 at any time prior to the 4th month after commercial production has commenced.

Tamarack, Montana

Pursuant to a Memorandum of Understanding dated April 19, 1998, the company acquired a 50.5% undivided interest in the Tamarack property for $161,500 US ($231,089 Cdn). The company has agreed to supply further funding for planned exploration and exploitation and shall be entitled to 80% of all revenues until funding provided by the company has been recaptured and 50.5% thereafter. The company continues to collect historical data of the property in addition to the exploration of the surface and the structural control (faults) to best establish drill targets. Management is of the opinion that the property potential is in finding a high-grade gold - low tonnage per day mine since the milling capacity is already on the site. Funding to advance the property towards production remains to be raised at this time.

Koval Property, Ontario

On March 16, 2004, the Company entered in a three year Purchase Option agreement with an individual to purchase a 100% undivided interest in a prospective gold property. The Koval Property, located in the District of Thunder Bay Beckington Lake area in Ontario, consists of 3 contiguous Leased Mining Claim Units. The Company made an initial $10,000 payment. Additionally, to maintain its option, the Company must issue to the individual, its common voting shares and cash payments as follows:

- 25,000 shares and a $5,000 cash payment of September 16, 2004;
- 25,000 shares and a $5,000 cash payment of March 16, 2005;
- 50,000 shares and a $5,000 cash payment of March 16, 2006;
- a $30,000 cash payment on or before March 17, 2007.

The individual retains a 1.5 net smelter return (NSR) royalty on all production from the Koval Property. The Company has a first right of refusal on the sale of the NSR royalty and the right to purchase 50% of the NSR royalty or any part thereof, including the right to purchase 50% of the NSR at a fixed price of $500,000. Additional consideration includes an advance royalty payment of $10,000 per year to maximum of $100,000 commencing one day after the fourth anniversary of the Agreement, March 15, 2004, or until a production decision is taken, whichever comes first. Such advance royalty payments shall be credited towards future royalty calculations and payments.

The Company made the second cash payment of $5,000 and issued 25,000 common shares in 2005 to the individual pursuant to the Purchase Option Agreement.

2. Mining claims and deferred exploration expenditures (cont'd)

Falcon Gold Property, Ontario

On September 10, 2003 the company and Crowfilght Minerals Inc., represented as a joint venture, entered into a Participation and Joint Venture Agreement with Kinross Gold Corporation. Kinross granted the company a sole irrevocable option for 3 years to earn a 60% undivided interest in and to the Kinross's Falcon Gold Property. Upon execution of their agreement an initial cash payment of $45,000 was made to Kinross Gold Corporation. To maintain the option, the company must make the following amount of exploration expenditures on behalf of the property:

a) by the first anniversary date $75,000
b) by the third anniversary date $400,000.

Following the earning by the company of it's 60% interest, each party is obligated to fund further expenditures in accordance with its held interest in the property.

The Company completed the $75,000 in exploration expenditures.

3. Due to related parties

An officer of the company controlling and directing the controlling block of shares in the company is also the sole director and chief executive officer of the entities within The Harrison Group of Companies. In January 2005, the Harrison Group of Companies agreed to defer their then existing debt for a period of 12 months.

	2005	2004
The Harrison Group of Companies (a)	$ 574,398	$ 583,375
Harrison Mining & Engineering Corp.		
b) demand loan	1,274,763	1,274,763
c) promissory note (principal)	1,600,000	1,600,000
	$ 3,449,161	$ 3,458,138

a) An officer of the company controlling and directing the control block of shares in the company has divested his declared minority 10% interest in Harrison Mining and Engineering Corporation but remains the sole director and chief executive office of the Harrison Group of Companies.

b) In July 2003, Harrison Mining & Engineering Corp. agreed to defer its debt from the company for a period up to April 2006.

c) This promissory note bears interest at the rate of the Toronto Dominion Bank prime plus 1% per annum, compounded annually, and due on April 3, 2000, provided that a commercial production decision has been announced on or before that date. In consideration of permitting Ernest Harrison to continue to actively control and be the driving force of the company, Harrison Mining & Engineering Corp. has waived the accumulated interest charges to date, and for a further period extending to April 3, 2006 at which time the repayment terms of this note will be revisited.

Millstream Mines Ltd.
Notes to Financial Statements
For the Year Ended August 31, 2005

3. Due to related parties (cont'd)

Related party transactions

The Company capitalized $59,053 (2004 - $205,562) during the year for site and exploration services in the normal course of business, provided by related parties managed by the president of the company. These expenditures are recorded at the exchange amount agreed upon by the two related parties.

4. Common shares

(a) Authorized

	Number of shares	Amount
Unlimited Common shares		
Balance, August 31, 2003	31,632,043	$ 10,775,736
Common shares issued for cash in 2004	8,300,000	828,000
Balance, August 31, 2004	39,932,043	11,603,736
Common shares issued for mining claims	250,000	20,000
Balance, August 31, 2005	40,182,043	$ 11,623,736

During 2004 the company issued 8,300,000 common shares for cash consideration of $828,000.

In 2005, 250,000 shares, with a value of $20,000 were issued in addition to cash payments for the mining claims relating to the Koval & Airport properties.

(b) Contributed surplus

	2005	2004
Balance, beginning of year	$ 139,153	$ 123,928
Fair value of stock based compensation	-	15,225
Balance, end of year	$ 139,153	$ 139,153

Share subscription

During 2005, $58,000 was received as subscription for shares to be issued after year end.

Millstream Mines Ltd.
Notes to Financial Statements
For the Year Ended August 31, 2005

4. Common shares (cont'd)

Options and warrants

Options outstanding at August 31, 2005 are as follows:
- 1,000,000 @ $0.10 expiring May 25, 2008
- 1,100,000 @ $0.15 expiring February 24, 2009

Warrants outstanding at August 31, 2005 are as follows:
- 4,200,000 @ $0.20 expiring December 31, 2005
- 3,000,000 @ $0.15 expiring September 12, 2005

5. Stock based compensation

In accordance with the Company's stock option plan, options have an exercise price equal to the market price at the date of grant. During 2004, the company granted 1,100,000 stock options with an exercise price of $0.15 and expiring February 24, 2009. The fair value of the 1,100,000 stock options granted during 2004, was $15,225 based on the date of grant using the Black-Scholes option pricing model with the following assumptions: average risk-free rate of 3.5%, average expected life of 5 years, expected volatility of 20% and no expected dividends.

The company has adopted CICA Handbook section 3870 "Stock based-Compensation and other Stock Based Payments" in 2005. The accounting change has been applied retroactively without restatement for options granted on or after September 1, 2003. An adjustment has been made to the opening deficit for the current period to reflect stock based compensation of $15,225 and a corresponding credit to contributed surplus

6. Basic and diluted earnings per share

The weighted-average number of common shares outstanding during the year was 40,152,933 - fully diluted 40,152,933 (2004 - 35,782,043 - fully diluted 36,782,043).

7. Income taxes

A reconciliation comparing income taxes calculated at the statutory rates to the amount provided in the accompanying financial statements is as follows:

	2005	2004
Combined federal and provincial income tax rates	36.1%	36.2%
Net loss before income taxes	$ (47,280)	$ 42,825
Expected income taxes (recovery)	(17,000)	15,400
Application of prior year loss	-	(15,400)
Losses for which tax benefit has not been recorded	17,000	-
Actual income taxes	$ -	$ -

See accompanying notes

7. Income taxes (cont'd)

The significant components of the company's future income taxes at August 31, 2005 are as follows:

	2005	2004
Future income tax assets		
Canadian exploration expense	$ 648,000	$ 648,000
Canadian development expense	1,642,000	1,642,000
Losses carried forward	588,000	570,000
Valuation allowance	(2,878,000)	(2,860,000)
Future income taxes	$ -	$ -

The Company has approximately $1,629,000 of tax loss carryforwards which may be applied to reduce taxable income of future years. These losses expire as follows:

2006	$ 376,000
2007	210,000
2008	323,000
2009	182,000
2010	491,000
2012	47,000
	$ 1,629,000

The potential income tax benefit of these losses has not been recognized in these financial statements.

8. Financial instruments

The Company's financial instruments include cash, GST receivable, accounts payable and amounts due to related parties. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest rate, currency or credit risks arising from these financial instruments. The fair value of the short-term financial instruments approximates their market value.

9. Contingent liability

A claim for general damages has been made by an individual and a related corporation in the amount of $600,000. The plaintiffs allege the Company negligent misrepresentations to the plaintiffs at the time the plaintiffs provided $300,000 to purchase a 10% net profit interest in the tailings from Potter Mine (Note 2a). The Company is defending the claim on the basis that no misrepresentations were made to the plaintiffs and that the individual, a former director, was aware of the Company's situation. The Company believes the plaintiffs have little chance of being successful as they have yet to take any significant action in these proceedings.