



*Windarra  
Resource  
Group*

# **WINDARRA MINERALS LTD.**

**Report to Shareholders**

**December 31, 2004**

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## **WINDARRA MINERALS LTD.**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATION AT DECEMBER 31, 2004**

**February 25, 2005**

*This Management Discussion and Analysis is provided for the purpose of reviewing the first quarter of 2005 and comparing results to the previous period. The MD & A should be read in conjunction with the Company's unaudited consolidated financial statements and corresponding notes for the period ending December 31, 2004 and 2003, as well as the audited consolidated financial statements for the year ended September 30, 2004. The financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and all monetary amounts are expressed in Canadian dollars.*

#### **COMPANY OVERVIEW AND OVERALL PERFORMANCE**

Windarra Minerals Ltd. ("the Company", "Windarra") has been in the business of exploring minerals, primarily gold properties both directly and indirectly through its subsidiary, Westward Explorations Ltd. ("Westward") and up until 2002, Messina Minerals Inc. (formerly Mishibishu Gold Corporation).

While in the last two years the Company's focus was maintaining its interest in the Magnacon Joint Venture where development, drilling and test mining is underway with the object of establishing new reserves, during the current quarter a newly acquired acquisition has become the focal point.

#### ***Pukaskwa Claims, Ontario***

The Company entered into an option agreement with Messina Minerals Inc. ("Messina"), a company related by way of common directors, regarding certain mineral claims in Sault Ste. Marie Mining Division, Ontario. Under the terms of the agreement, the Company has the right to earn a 100% interest in the claims by issuing 50,000 shares (issued) upon TSX Venture acceptance and a further 300,000 common shares over a period of 30 months from the date of acceptance. The Company must maintain the claims in good standing during the option period, and, if applicable for a period of 12 months from the date the Company elects to terminate its option under the agreement.

The Pukaskwa Property is located in the Mishibishu Greenstone belt approximately 60 km west of Wawa, Ontario. 55 claim units are located on a north-northeasterly trending deformation zone known to be associated with gold mineralization.

A prospecting program was carried out during the period. The program was comprised of 40 man days of prospecting with 69 samples being assayed for gold. The program focused on evaluating the 8 kilometre strike length of the previously defined gold-bearing deformation zone. Previous exploration in the late 1980's had identified the gold-bearing Champagne Vein and West Aardvark occurrence.

The prospectors discovered a new gold occurrence 5 kilometres from the Champagne vein and 0.5 kilometres southwest of the West Aardvark occurrence. The new occurrence is hosted within angular quartz vein blocks from 0.5-0.7 metres square. The showing sits on the north flank of a large soil anomaly outlined by previous work programs. The four samples of the visible gold bearing quartz blocks assayed between 12.2 and 62.0 ounces gold per ton. Another assay of the four samples using the reject portion of the samples returned grades between 14.54 and 39.20 ounces gold per ton. The angular nature of the quartz boulders and shallow overburden indicate the boulders have not traveled far from source.

The Company plans an exploration program in the spring or summer of 2005 to assess the economic potential of this new gold showing and the rest of the property.

#### ***Magnacon Joint Venture Properties***

The Magnacon Joint Venture Properties consist of 19 freehold patented claims and 7 leasehold patented claims at the Magnacon Property plus one leasehold claim (replacing 40 former mining claims) at the contiguous Magnacon

East Property. In 2003, the claims were converted to 20-year leases. Windarra owns a 25% joint venture interest and River Gold Mines Ltd. (“River Gold”) owns a 75% interest and is the operator of the Joint Venture.

The Magnacon Property is the site of the former producing Magnacon Mine, which produced 34,000 ounces of gold between early 1989 and July 1990. Windarra has expended approximately \$17 million dollars since 1985 on the Properties. A total in excess of an estimated \$70 million dollars has been spent by all parties between 1985 to 2000 on the exploration and development of the Properties.

In June of 2003, the Company engaged the services of Peter Tallman, P.Geol, to conduct a comprehensive review of the Magnacon Project and commissioned a technical report. P. Tallman reported as follows:

“At mine closure in 1990, an inferred mineral resource (conforms to NI43-101) totaling 1,270,000 tons grading 0.18 oz/ton gold containing 223,000 ounces gold remained in blocks adjacent the Magnacon Mine workings which required further development to access and extract (Muscocho Explorations, 1990).

Table 1: 1990 Muscocho Explorations Ltd Estimate of Resources at Closure

	<u>Proven</u>	<u>Probable</u>	<u>Possible</u>	<u>Inferred</u>
Tons	92,000	39,000	119,000	1,115,000
oz Au/ton	0.23	0.22	0.21	0.17

In February 2004, River Gold proposed a \$6.8 million underground exploration and development program of which Windarra’s share of costs would approximate \$1.7 million. This involved 1,825 metres of development, 15,000 metres of drilling, and approximately 30,000 tonnes of test mining. During the year, Windarra engaged the services of Peter Tallman, P. Geol, an independent geological consultant, to visit the property and review the budget and program, and to prepare a report to the Board. After a review of the proposed program and budget, Windarra notified the operator of its objection to the scope of the exploration program and, accordingly, has not made any further payments to River Gold.

The Company has now received notice from River Gold that the Company’s interest in these claims will be diluted to 22.72% at September 30, 2004 as a result of non-payment of the Company’s share of exploration expenditures on the claims since January 1, 2004 in an amount of approximately \$960,000. Management is of the opinion that the work program undertaken by River Gold was not approved by the Company and, accordingly, it is management’s opinion that dilution, if any, of the Company’s interest in the claims will be less than that claimed by River Gold. It is also management’s opinion that ultimate resolution of this matter cannot be determined at this time, therefore no dilution of the Company’s interest has been reflected in the Company’s financial statements and no provision has been made in the accounts of the Company for any liability associated with unpaid exploration expenditures. The Company and River Gold are continuing to discuss options to resolve the dispute.

### ***CCRA Tax Case***

In 1995, Westward purchased an 11.12% interest in the Magnacon Mine property from its parent, Windarra Minerals Ltd. CCRA has questioned the valuation of the property as reported by Windarra consultants, Watts Griffis and McQuat in 1995. Partial hearings in Tax Court were held in October, 2004 and in late January of 2005, with a continuation scheduled to begin in early May 2005.

### **SUMMARY OF QUARTERLY RESULTS**

<b>QUARTER ENDING</b>	<b>Dec.31 2004</b>	<b>Sept.30 2004</b>	<b>June 30, 2004</b>	<b>Mar. 31, 2004</b>	<b>Dec. 31, 2003</b>	<b>Sept. 30, 2003</b>	<b>June 30, 2003</b>	<b>Mar. 31, 2003</b>
Net Income (Loss)	170,808	(194,215)	(43,996)	53,398	73,514	(38,657)	375,726	(98,280)
Earnings (Loss) Per Share	0.01	(0.01)	(0.02)	0.01	0.01	(0.01)	0.02	(0.01)

The quarter to quarter variance in net income is largely a factor of the level of sale of investments. For example, net income in the current quarter of \$170,808 is mainly due to the \$255,134 gain from sale of investments, while in the quarter ended December 31, 2003 the gain from sale of investments was only \$59,492 and the overall net income for the quarter was only \$73,514. The quarters with a loss as opposed to income are quarters in which the Company did not sell any of its investments.

Further significant variances in the current quarter compared to the December 31, 2003 quarter are:

- Increased professional fees due the Company's ongoing legal case with Revenue Canada
- Increased technical and consulting fees as the Company had a dispute with the Operator of the Magnacon Joint Venture and required an independent review of the work conducted by the Operator
- A decrease in the recovery of bad debts as the 2003 period had a one time recovery of a debt previously written off.

## **LIQUIDITY and CAPITAL RESOURCES**

The Company had working capital of \$111,632 at December 31, 2004, compared to working capital deficiency of \$22,671 at December 31, 2003. The increase in working capital has been affected by the continued divestment of investments. Windarra is in negotiations with various parties for financing, although general market conditions and the price of gold will have an impact on the Company's ability to raise financing in the future.

Other than optional payments and its participation in the Magnacon Joint Venture, Windarra has no ongoing property commitments. There is a bill in dispute with respect to the Magnacon Joint Venture in the amount of \$427,000.

## **OFF BALANCE SHEET ARRANGEMENTS**

The Company is in a dispute with Canada Customs and Revenue Agency as per Note 10 "Contingencies" in the attached financial statements. Management has retained Thorsteinssons, tax lawyers, to resolve its dispute with CRA. Partial hearings in Tax Court were held in October, 2004 and in late January 2005, with a continuation scheduled to begin in early May 2005.

## **TRANSACTIONS WITH RELATED PARTIES**

During the quarter, the Company entered into the following transactions with related parties:

- a) Paid or accrued corporate administration fees of \$8,667 to Susan Tessman, Corporate Secretary of the Company.
- b) Paid or accrued management fees of \$9,750 to John Pallot, President of the Company.
- c) Sold 349,599 common shares of a public company related by virtue of a common director for total proceeds of \$311,921. As at December 31, 2004, the Company held 146,731 common shares of this company with a market value of \$124,721.
- d) Accrued interest expense of \$10,518 payable to Westward.

Included in accounts payable at December 31, 2004 is \$712 owing to John Pallot.

## OUTSTANDING SHARE DATA

As at December 31, 2004 the Company had 23,771,909 outstanding common shares.

At the end of the period the Company had the following stock options outstanding:

<b>Date of Grant</b>	<b>Name</b>	<b>Amount</b>	<b>Exercise Price</b>	<b>Expiry Date</b>	<b>Type</b>
July 29, 2004	John Pallot	600,000	\$0.10	July 29, 2007	Director
July 29, 2004	Susan Tessman	150,000	\$0.10	July 29, 2007	Officer
July 29, 2004	Gary McDonald	200,000	\$0.10	July 29, 2007	Director
July 29, 2004	June Ballant	25,000	\$0.10	July 29, 2007	Officer
July 29, 2004	Steve Brunelle	<u>200,000</u>	\$0.10	July 29, 2007	Director
<b>TOTAL</b>		<b>1,175,000</b>			

No stock options were issued during the quarter.

## ADDITIONAL INFORMATION

Additional information on Windarra Minerals Ltd. can be found by visiting the Company's website at [www.windarra.com](http://www.windarra.com) and by viewing regulatory filings on SEDAR at [www.sedar.com](http://www.sedar.com).

ADDITIONAL INFORMATION FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

	Pukaskwa Claims, Ontario	Magnacon Claims, Ontario	3 months Dec 31 2004
Balance, beginning of period	\$ -	405,786	\$ 405,786
Additions during the period:			
Acquisition	4,750	-	4,750
Assay costs	1,981	-	1,981
Geology	14,224	-	14,224
Camp costs	1,665	-	1,665
Equipment rental	940	-	940
Travel and helicopter	10,795	-	10,795
	<u>34,355</u>	<u>-</u>	<u>34,355</u>
Balance, end of period	\$ 34,355	\$ 405,786	\$ 440,141

	Little Deer Lake Claims, Saskatchewan	Magnacon Claims, Ontario	FYE Sep 30 2004
Balance, beginning of year	\$ 1	\$ 82,292	\$ 82,293
Additions during the period:			
Geology	-	2,600	1,156
Travel and transportation	-	1,630	725
Joint venture management fees	-	22,391	9,959
Pumps and other equipment	-	77,245	34,360
Hydro, heating and electrical	-	47,105	20,951
Underground exploration	-	172,523	76,769
	<u>-</u>	<u>323,494</u>	<u>143,920</u>
Written off	(1)	-	(1)
Balance, end of year	\$ -	\$ 405,786	\$ 405,786

During the quarter, the Company did not work on the Magnacon Claims as there is a dispute with the operator. It is hoped this dispute can be resolved in 2005. (see note 4 to the interim financial statements)

The Company instead focused on the newly acquired Pukaskwa Claims in Ontario and conducted a program of prospecting and geological work more fully described above. As this was the first quarter in which work was done on the claims, no prior period variances are available for comparison and comment. It is management's intent to continue exploring the Pukaskwa Claims in 2005.

	3 months ended December 31	
	2004	2003
<b>EXPENSES</b>		
Amortization	\$ 612	\$ 201
Corporate and administration fee	9,748	-
Management and financial consulting	11,070	18,000
Office and miscellaneous	3,730	8,770
Professional fees	26,884	-
Public relations	2,556	4,759
Regulatory and transfer agent fees	2,040	2,221
Rent	5,460	3,466
Technical consulting fees	20,317	-
Travel and related costs	<u>2,330</u>	<u>137</u>
<b>Loss from operations</b>	<u>(84,747)</u>	<u>(37,554)</u>
<b>OTHER ITEMS</b>		
Rent and management income	-	-
Interest income	421	1,356
Oil and gas partnership income	-	-
Gain on appropriation of mineral property	-	-
Gain on sale of investment	255,134	59,492
Recovery of bad debt	<u>-</u>	<u>50,220</u>
	<u>255,555</u>	<u>111,068</u>
<b>Net Income (loss) for the period</b>	170,808	73,514

For explanation of variances please see Summary of Quarterly Results above.

Schedule of Share Capital

	As of the date of this Management Discussion and Analysis
Common Shares outstanding	23,771,909
Options outstanding	1,175,000
Warrants outstanding	-
Fully diluted share capital	24,946,909

**WINDARRA MINERALS LTD.**

**NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

*"John Pallot"*

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John Pallot  
President and Chief Executive Officer



**WINDARRA MINERALS LTD.**

**CONSOLIDATED BALANCE SHEETS**

Unaudited

*Prepared by Management*

	December 31 2004 (Unaudited)	September 30 2004
<b>ASSETS</b>		
<b>Current</b>		
Cash and equivalents	\$ 232,794	\$ 61,069
Receivables	1,359	12,226
Prepaid expenses and deposits	<u>1,746</u>	<u>1,754</u>
	235,899	75,049
<b>Equipment</b> (Note 3)	\$ 2,431	3,042
<b>Mineral properties and deferred exploration costs</b> (Note 4)	440,141	405,786
<b>Investment in partnership</b> (Note 5)	100	100
<b>Long-term investment</b> (Note 6)	<u>90,336</u>	<u>156,735</u>
	\$ 768,907	\$ 640,712
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ <u>124,267</u>	\$ <u>171,630</u>
<b>Shareholders' equity</b>		
Capital stock (Note 8)	21,822,276	21,817,526
Contributed surplus (Note 8)	71,100	71,100
Deficit	<u>(21,248,736)</u>	<u>(21,419,544)</u>
	<u>644,640</u>	<u>469,082</u>
	\$ 768,907	\$ 640,712

**Nature and continuance of operations** (Note 1)

**Contingencies** (Note 11)

**On behalf of the Board:**

“John Pallot”

Director

“Gary McDonald”

Director

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

**WINDARRA MINERALS LTD.****CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**

Unaudited

*Prepared by Management*

	3 months ended December 31	
	2004	2003
<b>EXPENSES</b>		
Amortization	\$ 612	\$ 201
Corporate and administration fee	9,748	-
Management and financial consulting	11,070	18,000
Office and miscellaneous	3,730	8,770
Professional fees	26,884	-
Public relations	2,556	4,759
Regulatory and transfer agent fees	2,040	2,221
Rent	5,460	3,466
Technical consulting fees	20,317	-
Travel and related costs	<u>2,330</u>	<u>137</u>
<b>Loss from operations</b>	<u>(84,747)</u>	<u>(37,554)</u>
<b>OTHER ITEMS</b>		
Rent and management income	-	-
Interest income	421	1,356
Oil and gas partnership income	-	-
Gain on appropriation of mineral property	-	-
Gain on sale of investment	255,134	59,492
Recovery of bad debt	<u>-</u>	<u>50,220</u>
	<u>255,555</u>	<u>111,068</u>
<b>Net Income (loss) for the period</b>	170,808	73,514
<b>Deficit, beginning of period</b>	<u>(21,419,544)</u>	<u>(21,308,245)</u>
<b>Deficit, end of period</b>	<u>\$ (21,248,736)</u>	<u>\$ (21,234,731)</u>
<b>Basic and diluted earnings (loss) per share</b>	\$ (0.01)	\$ .01
<b>Weighted average number of shares outstanding during the period</b>	<u>23,721,909</u>	<u>23,721,909</u>

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

**WINDARRA MINERALS LTD.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

Unaudited

*Prepared by Management*

	3 months ended December 31 2004	3 months ended December 31 2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss) for the period	\$ 170,808	\$ (73,514)
Items not affecting cash:		
Amortization	612	201
Gain on sale of investment	(255,134)	(59,492)
Recovery of bad debt	-	(50,220)
Changes in non-cash working capital items:		
(Increase) decrease in receivables	10,867	(27,278)
Increase (decrease) in prepaid expenses and	8	6,710
Increase (decrease) in accounts payable		
and accrued liabilities	<u>(47,363)</u>	<u>297,656</u>
Net cash used in operating activities	<u>(120,202)</u>	<u>241,091</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investment	321,534	67,151
Redemption (purchase) of term deposits	-	69,000
Deferred exploration	<u>(29,607)</u>	<u>(358,534)</u>
Net cash provided by (used in) investing activities	<u>291,927</u>	<u>(222,383)</u>
<b>Change in cash and equivalents during the period</b>	171,725	18,708
<b>Cash and equivalents, beginning of period</b>	<u>61,069</u>	<u>75,795</u>
<b>Cash and equivalents, end of period</b>	<u>\$ 232,794</u>	<u>\$ 94,503</u>

Significant non-cash transaction of the Company during the period ended December 31, 2004:

- a) Issued 50,000 shares for mineral property at a deemed price of 0.095 per share.

Significant non-cash transactions during the period ended December 31, 2003.

- a) The Company received 434,231 shares of Stingray in settlement of \$86,846 debt.

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

**WINDARRA MINERALS LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004

Unaudited

*Prepared by Management***1. NATURE AND CONTINUANCE OF OPERATIONS**

Windarra Minerals Ltd. ("the Company", "Windarra") was incorporated under the laws of British Columbia and its principal business activities include the acquiring and developing of mineral properties.

The Company is in the process of exploring and developing its mineral properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties and related deferred exploration costs is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development and upon future profitable production. The Company is considered to be in the development stage as it has not yet earned significant revenues.

	Dec 31 2004	Sep 30 2004
Working capital (deficiency)	\$ 111,632	\$ (96,581)
Deficit	\$ (21,248,736)	\$ (21,419,544)

**2. BASIS OF PRESENTATION**

These unaudited interim financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles. All financial summaries included are presented on a comparative and consistent basis showing the figures for the corresponding period in the preceding year or the preceding period. The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of annual financial statements. Certain information and footnote disclosure normally included in financial statements prepared in accordance with generally accepted accounting principles has been condensed or omitted. These interim period statements should be read together with the audited financial statements and the accompanying notes included in the Company's audited financial statements as at and for the year ended September 30, 2004. In the opinion of the Company, its unaudited interim financial statements contain all adjustments necessary in order to present a fair statement of the results of the interim periods presented.

These consolidated financial statements include the accounts of the Company and its approximate 72% interest in Westward Explorations Ltd. ("Westward"). All inter-company accounts and balances have been eliminated upon consolidation.

**3. EQUIPMENT**

	December 31, 2004			September 30 2004		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Office equipment	\$ 9,937	\$ 7,506	\$ 2,431	\$ 9,937	\$ 6,895	\$ 3,042

**WINDARRA MINERALS LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004

Unaudited

*Prepared by Management***4. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS**

	Pukaskwa Claims, Ontario	Magnacon Claims, Ontario	3 months Dec 31 2004
Balance, beginning of period	\$ -	405,786	\$ 405,786
Additions during the period:			
Acquisition	4,750	-	4,750
Assay costs	1,981		1,981
Geology	14,224		14,224
Camp costs	1,665	-	1,665
Equipment rental	940	-	940
Travel and helicopter	10,795	-	10,795
	<u>34,355</u>	<u>-</u>	<u>34,355</u>
Balance, end of period	\$ 34,355	\$ 405,786	\$ 440,141

	Little Deer Lake Claims, Saskatchewan	Magnacon Claims, Ontario	FYE Sep 30 2004
Balance, beginning of year	\$ 1	\$ 82,292	\$ 82,293
Additions during the period:			
Geology	-	2,600	1,156
Travel and transportation	-	1,630	725
Joint venture management fees	-	22,391	9,959
Pumps and other equipment	-	77,245	34,360
Hydro, heating and electrical	-	47,105	20,951
Underground exploration	-	172,523	76,769
	<u>-</u>	<u>323,494</u>	<u>143,920</u>
Written off	(1)	-	(1)
Balance, end of year	\$ -	\$ 405,786	\$ 405,786

**WINDARRA MINERALS LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004

Unaudited

*Prepared by Management*

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**4. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (cont'd...)****Magnacon Claims, Ontario**

The Company holds a 25% interest in certain freehold patented and leasehold patented claims situated in the Sault Ste. Marie Mining Division, Ontario. The operator of the joint venture on the claims has advised the Company that the company's interest in these minerals claims has been diluted to 22.72% as a result of non-payment of the Company's share of exploration expenditures since January 1, 2004, in an amount of approximately \$960,000, an amount for which no provision has been made in the accounts of the Company as at September 30, 2004. The Company has advised the operator that it disputes this claim on the basis that the exploration costs pertain to a work program that the Company has not approved.

**Magnacon East Block Claims, Ontario**

The Company holds a 25% joint venture interest in certain claims in the Sault Ste. Marie Mining Division, Ontario. The Company previously wrote-down related mineral property and deferred exploration costs to a nominal value.

**Little Deer Lake Claims, Saskatchewan**

The Company holds a 20% joint venture interest in certain claims in the La Ronge Mining Division, Saskatchewan. The Company previously wrote-down the related mineral property and deferred exploration costs to a nominal value. The claims were written off in the year ended September 30, 2004.

**Pukaskwa Claims, Ontario**

During fiscal 2004, the Company entered into an option agreement with Messina Minerals Inc. ("Messina"), a company related by way of common directors, regarding certain mineral claims in Sault Ste. Marie Mining Division, Ontario. Under the terms of the agreement, the Company has the right to earn a 100% interest in the claims by issuing 50,000 shares (issued) upon TSX Venture acceptance and a further 300,000 common shares over a period of 30 months from the date of acceptance. The Company must maintain the claims in good standing during the option period, and, if applicable for a period of 12 months from the date the Company elects to terminate its option under the agreement.

**5. INVESTMENT IN PARTNERSHIP**

During the year ended September 30, 2003, the Company, with two other companies, formed a general partnership, which acquired an interest in the 1999 Investment Co. Limited Partnership, an Alberta limited partnership.

During the year ended September 30, 2003, the Company received a cash distribution of \$412,459 from the general partnership, which represents the aggregate amount of cash the Company expects to receive from this investment. No cash distributions were received by the Company in fiscal 2004 or the quarter ended December 31, 2004.

**WINDARRA MINERALS LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004

Unaudited

*Prepared by Management***6. LONG-TERM INVESTMENTS**

The Company holds the following investments:

	Dec 31 2004	Sep 30 2004
Shares of publicly traded companies, quoted market value \$ 491,213 (Sep 30, 2004 - \$496,520), at cost	\$ 90,336	\$ 156,735

During the period the company sold common shares in various companies for total proceeds of \$321,534, which resulted in a gain of \$255,134.

**7. CAPITAL STOCK**

	Number of Shares	Amount	Contributed Surplus
Authorized			
100,000,000 common shares without par value			
Issued			
Balance at September 30, 2003	23,721,909	\$ 21,817,526	
Fair value of stock options			\$ 71,100
Balance at September 30, 2004	23,721,909	\$ 21,817,526	\$ 71,100
Issued for mineral property option	50,000	\$ 4,750	
Balance at December 31, 2004	23,771,909	\$ 21,822,276	\$ 71,100

**Stock options**

The Company follows the policies of the TSX-V under which it is authorized to grant options to executive officers and directors, employees and consultants, enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. The exercise price of each option equals the market price of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of five years.

Following is a summary of stock options outstanding at December 31, 2004:

Number of Shares	Exercise Price	Expiry Date
1,175,000	\$0.10	July 29,2007

**WINDARRA MINERALS LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2004  
Unaudited  
*Prepared by Management*

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**8. CAPITAL STOCK (cont...)**

**Stock-based compensation**

Stock-based compensation expense using the Black-Scholes option pricing model results in charge to income and a credit to contributed surplus when stock options are issued. The following assumptions are used by the Company when using the Black-Scholes pricing model:

Risk free interest rate	3.75%
Expected life of options	3 years
Annualized volatility	101%
Dividend rate	0.00%

No options were issued in the period.

**9. RELATED PARTY TRANSACTIONS**

The Company entered into the following transactions with related parties:

- a) Paid or accrued management fees of \$9,750 (2004 - \$7,000) to a director and officer of the Company.
- b) Paid or accrued accounting fees included in office expenses of \$Nil (2004 - \$2,076) to an officer of the Company.
- c) Paid or accrued corporate administration fees of \$8,667 (2004 - \$Nil) to an officer of Windarra.
- d) Accrued interest expense of \$10,518 (2004 - \$11,408) payable to Westward.
- e) Sold 349,599 (2004 - Nil) common shares of a public company related by virtue of a common director for total proceeds of \$311,921 (2004 - Nil) which resulted in a gain of \$228,387 (2004 - \$Nil). As at December 31, 2004, the Company held 146,731 common shares of this company with a market value of \$124,721.

Included in accounts receivable at December 31, 2004 is \$Nil (2004 - \$5,477) amounts owing by companies with management in common.

Included in accounts payable at December 31, 2004 is \$712 (2004 - \$1,201) amounts owing to directors, former directors and companies with management in common.

These transactions were in the normal course of operations and were measured at the exchange value which represented the amount of consideration established and agreed to by the related parties.



**WINDARRA MINERALS LTD.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004

Unaudited

*Prepared by Management*

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**10. SEGMENTED INFORMATION**

The Company primarily operates in Canada in one industry segment being the acquisition and development of mineral properties.

**11. CONTINGENCIES**

- a) During the year ended September 30, 1999, Canada Revenue Agency reviewed Westward's 1995 Corporate Income Tax Return filings regarding the sale of certain mineral properties. The review resulted in a reassessment on May 8, 2000 of approximately \$800,500 in taxes, plus accrued interest owing by Westward. The total is now approximately \$1,150,000 which includes interest accruing subsequent to the date of reassessment.

Management is of the opinion that the reassessment is without merit and has filed a Notice of Appeal with the Tax Court of Canada. It is management's opinion that the ultimate resolution with respect to the reassessment cannot be determined at this time, therefore, no provision has been made in these financial statements.

Partial hearings in Tax Court were held in October of 2004 and January of 2005 with a continuation scheduled to begin in early May 2005.

- b) During the period, the Company received notice from the operator of the joint venture on the Magnacon claims that the Company's interest in these claims has been diluted to 22.72% as a result of non-payment of the Company's share of exploration expenditures on the claims since January 1, 2004 in an amount of approximately \$960,000 (Note 4). Management is of the opinion that the work program undertaken by the operator was not approved by the Company and, accordingly, it is management's opinion that dilution, if any, of the Company's interest has been reflected in these financial statements and no provision has been made in the accounts of the Company for any liability associated with unpaid exploration expenditures.

# WINDARRA MINERALS LTD.

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## CORPORATE DATA

FEBRUARY 2005

### HEAD OFFICE

2300 - 1066 West Hastings St.  
Vancouver, BC V6E 3X2  
Tel: (604) 688-1508  
Fax: (604) 601-8253

Email: [info@windarra.com](mailto:info@windarra.com)  
Website: [www.windarra.com](http://www.windarra.com)

### REGISTERED OFFICE & SOLICITOR

Attention: Jay Sujir  
Anfield Sujir Kennedy & Durno  
1600 – 609 Granville Street  
Vancouver, BC V7Y 1C3

### REGISTRAR & TRANSFER AGENT

Computershare Trust Company of Canada  
3rd Floor, 510 Burrard Street  
Vancouver, BC V6C 3B9

### AUDITORS

Davidson & Company  
1200 – 609 Granville Street  
Vancouver, BC V7Y 1G6

### DIRECTORS AND OFFICERS

John Pallot, President/Director  
Gary McDonald, C.F.O./Director  
Steven Brunelle, Director  
Susan Tessman, Corporate Secretary

### INVESTOR CONTACTS

John Pallot  
Tel: (604) 688-1508  
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Email: [jpallot@windarra.com](mailto:jpallot@windarra.com)

### CAPITALIZATION

Authorized:	100,000,000
Issued:	23,771,909
Escrow:	Nil
Options:	1,175,000
Warrants:	Nil

### LISTINGS

TSX Venture Exchange  
Trading Symbol: WRA  
Cusip No.: 973151 10 3