

Consolidated Financial Statements
(Expressed in Canadian dollars)

TAN RANGE EXPLORATION CORPORATION
(An Exploration Stage Company)

Years ended August 31, 2004 and 2003



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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Tan Range Exploration Corporation as at August 31, 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 August 31, 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.

KPMG LLP (signed)

Chartered Accountants

Vancouver, Canada

November 9, 2004, except as to note 9(d)
which is as of November 23, 2004

TAN RANGE EXPLORATION CORPORATION

(An Exploration Stage Company)

Consolidated Balance Sheets
(Expressed in Canadian dollars)

August 31, 2004 and 2003

	2004	2003
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,067,448	\$ 1,550,072
Short-term investments	415,201	926,192
Accounts and other receivables (note 7)	61,035	44,288
Prepaid expenses	521,889	31,360
	<u>2,065,573</u>	<u>2,551,912</u>
Mineral properties and deferred exploration costs (note 3)	19,853,296	18,672,446
Equipment and leasehold improvements (note 4)	173,504	200,207
	<u>\$ 22,092,373</u>	<u>\$ 21,424,565</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 146,672	\$ 459,000
Future income taxes (note 5)	647,565	647,565
Shareholders' equity:		
Share capital (note 6)	42,145,471	39,423,971
Share subscriptions received (note 6(b))	-	125,000
Deficit	<u>(20,847,335)</u>	<u>(19,230,971)</u>
	<u>21,298,136</u>	<u>20,318,000</u>
	<u>\$ 22,092,373</u>	<u>\$ 21,424,565</u>

Nature of operations (note 1)
Commitments (note 8)
Subsequent events (note 9)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

"James E. Sinclair" Director

"Rosalind Morrow" Director

"Victoria Luis" Director

TAN RANGE EXPLORATION CORPORATION

(An Exploration Stage Company)

Consolidated Statements of Operations and Deficit
(Expressed in Canadian dollars)

Years ended August 31, 2004 and 2003

	2004	2003
Expenses:		
Amortization	\$ 54,643	\$ 63,509
Annual general meeting	21,894	11,889
Capital tax	(46,052)	125,477
Consulting and management fees	140,099	170,468
Insurance	65,744	48,735
Memberships, courses and publications	6,551	14,628
Office and administration	82,643	110,123
Office rentals	103,134	142,148
Press releases	23,642	16,638
Printing and mailing	19,266	9,261
Professional fees	201,167	309,556
Promotions and shareholder relations	8,408	92,876
Salaries and benefits	604,368	637,327
Sustainable development	-	18,879
Telephone and fax	29,592	42,189
Training	14,433	-
Transfer agent and listing	68,895	85,432
Travel and accommodation	40,284	78,906
	<u>1,438,711</u>	<u>1,978,041</u>
Other earnings (expenses):		
Foreign exchange	48,630	(104,989)
Interest, net	30,626	75,876
Loss on sale of asset	(12,692)	-
Gain on sale of short-term investment	10,774	(36,102)
Property investigation costs	(254,991)	(380,086)
Write-off of mineral properties and deferred exploration costs (note 3)	-	(1,031,436)
	<u>(177,653)</u>	<u>(1,476,737)</u>
Loss before income taxes	(1,616,364)	(3,454,778)
Future income tax recovery	-	440,000
Loss for the year	(1,616,364)	(3,014,778)
Deficit, beginning of year	(19,230,971)	(16,216,193)
Deficit, end of year	<u>\$ (20,847,335)</u>	<u>\$ (19,230,971)</u>
Basic and diluted loss per share	<u>\$ (0.02)</u>	<u>\$ (0.04)</u>
Weighted average number of shares outstanding (note 2(i))	81,056,126	78,839,344

See accompanying notes to consolidated financial statements.

TAN RANGE EXPLORATION CORPORATION

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Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

Years ended August 31, 2004 and 2003

	2004	2003
Cash provided by (used in):		
Operations:		
Loss for the year	\$ (1,616,364)	\$ (3,014,778)
Items not affecting cash:		
Amortization	54,643	63,509
Loss on sale of asset	12,692	-
Gain on sale of short-term investments	(10,744)	
Write-off of mineral properties and deferred exploration costs	-	1,031,436
Future income tax recovery	-	(440,000)
	<u>(1,559,773)</u>	<u>(2,323,731)</u>
Changes in non-cash working capital		
Accounts receivable and other receivables	(16,747)	12,579
Prepaid expenses	(490,529)	24,901
Accounts payable and accrued liabilities	(312,328)	240,018
	<u>(2,379,377)</u>	<u>(2,046,233)</u>
Investments:		
Mineral properties and deferred exploration costs - net of option payments received	(1,180,850)	(1,151,327)
Equipment and leasehold improvement additions	(40,660)	(44,611)
Short-term investments	521,763	(962,294)
	<u>(699,747)</u>	<u>(2,158,232)</u>
Financing:		
Share capital issued - net of issuance costs	2,596,500	3,602,265
Share subscriptions received	-	125,000
	<u>2,596,500</u>	<u>3,727,265</u>
Increase (decrease) in cash and cash equivalents	(482,624)	(477,200)
Cash and cash equivalents, beginning of year	1,550,072	2,027,272
Cash and cash equivalents, end of year	<u>\$ 1,067,448</u>	<u>\$ 1,550,072</u>
Supplementary information:		
Interest received, net	\$ 50,382	\$ 47,428

See accompanying notes to consolidated financial statements.

TAN RANGE EXPLORATION CORPORATION

(An Exploration Stage Company)

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended August 31, 2004 and 2003

1. Nature of operations:

The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain mineral deposits that are economically recoverable. Consequently, the Company considers itself to be an exploration stage company. At August 31, 2004, the Company has funding commitments (note 3) which exceed funds on hand. The continuing operations of the Company and the recoverability of the amounts shown for mineral properties and related deferred costs are dependent upon the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, obtaining necessary financing to explore and develop the properties, entering into agreements with others to explore and develop the mineral properties, and upon future profitable production or proceeds from disposition of the mineral properties. The amounts shown as mineral properties and deferred exploration expenditures represent net costs incurred to date, being less amounts recovered from third parties and/or written off, and do not necessarily represent present or future values.

These financial statements have been prepared on the going concern basis which assumes that assets will be realized and liabilities settled in the normal course. These financial statements do not reflect adjustments that would be necessary if the going concern basis was not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments could be necessary to the carrying value of assets and liabilities and such adjustments could be material.

2. Significant accounting policies:

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles.

(a) Principles of consolidation:

These consolidated financial statements include the accounts of Tan Range Exploration Corporation and its subsidiaries. All intercompany amounts are eliminated on consolidation.

(b) Translation of foreign currencies:

The measurement currency of the Company in these consolidated financial statements is the Canadian dollar. The Company's subsidiaries are considered integrated foreign subsidiaries and their accounts are translated using the temporal method. Under this method, monetary assets and liabilities are translated at the prevailing year-end exchange rates. Non-monetary assets are translated at historical exchange rates. Revenue and expense items are translated at the average rate of exchange for the year except for those arising from non-monetary assets which are translated at the historical exchange rate. Translation gains and losses are included in the statements of operations and deficit.

(c) Cash and cash equivalents:

Cash and cash equivalents consist of cash on deposit with banks or highly liquid short-term interest-bearing securities with maturities at purchase dates of three months or less.

TAN RANGE EXPLORATION CORPORATION

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Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended August 31, 2004 and 2003

2. Significant accounting policies (continued):

(d) Short-term investments:

Interest-bearing securities having a term in excess of three months but less than one year are classified as short-term investments. Short-term investments are stated at the lower of cost and market value.

(e) Mineral properties and deferred exploration costs:

The Company holds various positions in mineral property interests, including prospecting licences, reconnaissance licences, and options to acquire mining licences or leases. All of these positions are classified as mineral properties for financial statement purposes.

Acquisition costs and exploration costs, including option payments, relating to mineral properties are deferred until the properties are brought into production, at which time they are amortized on a unit-of-production basis, or until the properties are abandoned, sold or to be sold or management determines that the mineral property is not economically viable, at which time the unrecoverable deferred costs are written off. Option payments arising on the acquisition of mineral property interests are exercisable at the discretion of the Company and, accordingly, are only recognized as paid.

Amounts recovered from third parties to earn an interest in the Company's mineral properties are applied as a reduction of the mineral property and deferred exploration costs.

Overhead costs directly related to exploration are allocated to the mineral properties explored during the year and are deferred and are to be amortized using the same method applied to property-specific exploration costs. All other overhead and administration costs are expensed in the year they are incurred.

Under CICA Handbook Section 3061, "*Property, Plant and Equipment*", for a mining property, the cost of the asset includes exploration costs if the enterprise considers that such costs have the characteristics of property, plant and equipment. Emerging Issue Committee Abstract 126, "*Accounting by Mining Enterprises for Exploration Costs*", ("EIC-126") states that a mining enterprise that has not established mineral reserves objectively, and therefore does not have a basis for preparing a projection of the estimated cash flow from the property, is not precluded from considering the exploration costs to have the characteristics of property, plant and equipment. EIC-126 also sets forth the EIC's consensus that a mining enterprise in the development stage is not required to consider the conditions in Accounting Guideline No. 11 "*Enterprises in the Development Stage*" ("AcG 11") regarding impairment in determining whether exploration costs may be initially capitalized. With respect to impairment of capitalized exploration costs, EIC-126 sets forth the EIC's consensus that a mining enterprise in the development stage that has not established mineral reserves objectively, and, therefore, does not have a basis for preparing a projection of the estimated cash flow from the property, is not obliged to conclude that capitalized costs have been impaired. However, such an enterprise should consider the conditions set forth in AcG 11 and CICA Handbook Section 3061 in determining whether a subsequent write-down of capitalized exploration costs related to mining properties is required.

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2. Significant accounting policies (continued):

- (e) Mineral properties and deferred exploration costs (continued):

The Company considers that its exploration costs have the characteristics of property, plant and equipment, and, accordingly, defers such costs. Furthermore, pursuant to EIC-126, deferred exploration costs would not automatically be subject to regular assessment of recoverability, unless conditions, such as those discussed in AcG 11, exist.

The Company follows these recommendations and therefore the unproven mineral property claim costs are initially capitalized. Such assets are tested for impairment in accordance with the provisions of the CICA Handbook Section 3063, "*Impairment of Long-Lived Assets*".

- (f) Equipment and leasehold improvements:

Equipment and leasehold improvements, other than mineral properties and deferred exploration and development costs, are recorded at cost and amortization is provided for on a declining balance basis using the following rates:

Assets	Rate
Machinery and equipment	20% to 30%
Automotive	30%
Computer equipment	30%
Leasehold improvements	20%

- (g) Stock-based compensation:

Effective September 1, 2002, the Company adopted the new standards of the Canadian Institute of Chartered Accountants with respect to the accounting for stock-based compensation and other stock-based payments. The new standards have been applied prospectively. All stock-based compensation will be determined based on the fair value method and expensed over the vesting period.

As the Company did not grant any stock options or had no other stock-based payments during the years ended August 31, 2004 and 2003, the new accounting standards have had no effect on the financial statements. Consideration paid on the exercise of stock options is credited to share capital.

- (h) Income taxes:

The Company follows the asset and liability method of accounting for income taxes. Under the asset and liability method, future income tax assets and liabilities are determined based on differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases (temporary differences) and are measured using the enacted or substantively enacted tax rates expected to be in effect when the temporary differences are likely to reverse. Future tax benefits, such as non-capital loss carry forwards, are recognized if realization of such benefits is considered more likely than not.

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2. Significant accounting policies (continued):

(i) Loss per share:

Loss per share has been calculated using the weighted average number of common shares issued and outstanding. Shares held in escrow subject to performance conditions for release are considered contingently issuable shares and are excluded from the weighted average number of shares used in calculating loss per share. Outstanding stock options, special warrants and share purchase warrants that could potentially dilute basic loss per share have not been included in the computation of diluted loss per share because to do so would be anti-dilutive.

(j) Financial instruments:

The Company's financial assets and liabilities consist of cash and cash equivalents, short-term investments, accounts and other receivables and accounts payable and accrued liabilities. The fair value of the Company's financial assets and liabilities is estimated to approximate their carrying value.

(k) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the year. Areas requiring the use of estimates and measurement uncertainties include the valuation and impairment of value of mineral properties and deferred exploration costs and the determination of future income taxes. Actual results may differ from management's estimates.

(l) Segmented information:

The Company's principal operations are located in Tanzania. The Company conducts its business in a single operating segment being the investment in and exploration of mineral properties. Substantially all mineral properties (note 3) and equipment and leasehold improvements are situated in Tanzania (note 4).

3. Mineral properties and deferred exploration costs:

The Company acquires gold or other precious metal concessions through its own efforts or through the efforts of its subsidiaries. All of the Company's concessions are located in Tanzania.

For each concession granted in Tanzania under a prospecting or a reconnaissance licence, the Company is required to carry out a minimum amount of exploration work before a mining licence can be granted for further development. A prospecting licence is issued for a period of up to three years and renewable two times for a period up to two years each. At each renewal at least 50% of the area is relinquished. A reconnaissance licence is issued for one year and renewed for a period not exceeding a year. All prospecting licences are granted subject to an annual rental fee of not more than U.S. \$30 per square kilometer payable to the government of Tanzania, a minimum exploration work commitment, and employment and training of Tanzanians. In addition, the government of Tanzania imposes a royalty on the gross value of all production at the rate of 3% of all gold produced.

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3. Mineral properties and deferred exploration costs (continued):

The continuity of expenditures on mineral properties is as follows:

	Itetemia Project (a)	Luhala Project (b)	Kigosi (c)	Lunguya (d)	Kanagele (e)	Tulawaka (f)	Ushirombo (g)	Mbogwe (h)	Biharamulu (i)	Other (j)	Total
Balance, August 31, 2001	\$ 6,762,014	\$ 1,949,444	\$ -	\$ -	\$ -	\$ 311,456	\$ -	\$ -	\$ -	\$ 44,822	\$ 6,853,957
Exploration expenditures:											
Camp, field supplies and travel	31,826	8,647	-	5,497	-	-	-	-	-	698	46,668
Exploration and field overhead	155,871	198,784	9,144	140,702	-	-	1,258	18,191	-	9,612	533,562
Geological consulting and field wages	70,900	73,104	-	-	-	-	-	-	-	-	144,004
Geophysical and geochemical	30,342	137,157	532	8,572	5,504	-	-	2,287	3,173	20,556	208,123
Property acquisition costs	82,583	57,125	1,062,840	1,945,732	780,061	1,111,747	1,328,744	976,320	676,696	275,957	8,297,805
Parts and equipment	5,542	150	-	-	-	-	-	-	-	-	5,692
Trenching and drilling	149,122	73,882	-	77,265	-	-	-	-	-	317	300,586
	526,186	548,849	1,072,516	2,177,768	785,565	1,111,747	1,330,002	996,798	679,869	307,140	9,536,440
	7,288,200	2,498,293	1,072,516	2,177,768	785,565	1,427,355	1,330,002	996,798	679,869	355,203	18,611,569
Write-offs	-	-	-	-	-	(2,810)	-	(12,608)	-	(43,596)	(59,014)
Balance, August 31, 2002	7,288,200	2,498,293	1,072,516	2,177,768	785,565	1,424,545	1,330,002	984,190	679,869	311,607	18,552,555
Exploration expenditures:											
Camp, field supplies and travel	2,512	3,747	1,223	15,687	218	42	24,275	2,770	1,659	6,172	58,305
Exploration and field overhead	(143)	33,543	6,240	182,437	52,319	185,825	66,311	36,418	17,743	149,041	729,734
Geological consulting and field wages	22	314	6,510	47,786	1,234	-	5,376	130	278	397	62,047
Geophysical and geochemical	13,910	2,814	3,298	80,985	8,465	-	24,619	16,421	1,896	34,623	187,031
Property acquisition costs	-	40,519	36,183	-	6,900	-	-	-	12,501	57,850	153,953
Parts and equipment	-	-	-	1,454	-	-	1,875	-	-	2,937	6,266
Trenching and drilling	-	-	-	122,563	-	-	-	16,393	-	-	138,956
Option payments received	(11,410)	-	-	-	-	(56,974)	(44,419)	(11,410)	(60,752)	-	(184,965)
Reclassifications	-	-	371,411	-	-	4,270	(371,411)	-	-	(4,270)	-
	4,891	80,937	424,865	450,912	69,136	133,163	(293,374)	60,722	(26,675)	246,750	1,151,327
	7,293,091	2,579,230	1,497,381	2,628,680	854,701	1,557,708	1,036,628	1,044,912	653,194	558,357	19,703,882
Write-offs	(729,309)	-	-	(35,342)	-	-	(106,386)	-	(10,744)	(149,655)	(1,031,436)
Balance, August 31, 2003	6,563,782	2,579,230	1,497,381	2,593,338	854,701	1,557,708	930,242	1,044,912	642,450	408,702	18,672,446
Exploration expenditures:											
Camp, field supplies and travel	-	13,967	-	5,528	3,406	-	1,098	-	2,259	21,386	47,644
Exploration and field overhead	-	168,588	39,175	129,371	101,526	56,643	52,614	41,485	28,182	348,888	985,189
Geological consulting and field wages	18,717	1,274	-	-	-	-	-	-	-	(21,113)	(19,839)
Geophysical and geochemical	-	4,813	3,986	60,625	73,524	2,598	16,065	2,288	5,244	91,976	261,119
Property acquisition costs	-	50,546	-	-	21,706	-	-	-	274	164,833	237,359
Parts and equipment	-	108	-	-	-	-	-	-	-	109	217
Trenching and drilling	-	1,095	-	-	-	-	-	-	-	-	1,095
Option payments received	(17,496)	-	(58,811)	-	-	(88,926)	(123,275)	(17,496)	(25,930)	-	(331,934)
Reclassifications	-	-	286,762	-	-	-	(286,762)	-	-	-	-
	1,221	240,391	271,112	195,524	200,162	(29,685)	(340,260)	26,277	10,029	606,079	1,180,850
Balance, August 31, 2004	\$ 6,565,003	\$ 2,819,621	\$ 1,768,493	\$ 2,788,862	\$ 1,054,863	\$ 1,528,023	\$ 589,982	\$ 1,071,189	\$ 652,479	\$ 1,014,781	\$ 19,853,296

TAN RANGE EXPLORATION CORPORATION

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Notes to Consolidated Financial Statements

Years ended August 31, 2004 and 2003

3. Mineral properties and deferred exploration costs (continued):

The Company has assessed the carrying value of mineral properties and deferred exploration costs as at August 31, 2004.

(a) Itetemia Project:

The Itetemia property consists of nine contiguous prospecting licences (2003 - six prospecting licences). Collectively, the Company refers to these concessions as the Itetemia Project.

One prospecting licence is subject to a 3% net smelter royalty.

The Company acquired a 90% interest in another of the prospecting licences through an agreement with the State Mining Corporation ("Stamico") dated July 18, 1994. Stamico retains a 2% royalty interest as well as a right to earn back an additional 20% interest in the prospecting licence by meeting 20% of the costs required to place the property into production. The Company retains the right to purchase one-half of Stamico's 2% royalty interest in exchange for US\$1,000,000.

On December 6, 1999, Barrick Gold Corporation (Barrick) closed an agreement with the Company granting Barrick the exclusive option to earn an undivided 60% interest in the Itetemia Project. To exercise its option, Barrick must make a positive production decision with respect to the Itetemia Project which contemplates a rate of production of not less than 100,000 ounces per annum by April 30, 2005. In addition, Barrick must finance the entire project, with the Company to repay its portion of the costs from its share of the net proceeds of production. Once a production decision is taken by Barrick, if the property is not in production on a stand-alone basis within 18 months, or within 12 months on a custom-milling basis, Barrick must make penalty payments to the Company as follows:

Year one	US\$	500,000
Year two		750,000
Year three		1,000,000
Year four and subsequent years		1,200,000

Payments due after year five will be adjusted for inflation based on the Canadian Consumer Price Index.

In addition to the above, upon exercise of its option, Barrick will assume the Company's right to purchase Stamico's 10% interest in the prospecting licence acquired from Stamico. Should this occur, Barrick has agreed to pay the Company's portion of all production royalties payable from the Itetemia concession to the Tanzanian government.

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3. Mineral properties and deferred exploration costs (continued):

(b) Luhala Project:

The Luhala property consists of five contiguous prospecting licences. Collectively, the Company refers to these concessions as the Luhala Project.

During the years ended August 31, 2001 and 2000, the Company entered into option agreements to acquire three additional licences, named Shilalo, Ngobo and Sima. For Ngobo, the Company must make payments totalling US\$120,000 over six years (US\$66,000 paid to date) and for Sima, payments totalling US\$84,000 over six years (US\$50,000 paid to date) in order to maintain the options. The vendor in each case retains a 2% net smelter return royalty, of which the Company may buy back, in each case, one-half (i.e., 1%) for US\$1,000,000.

For the Shilalo licence, the vendor retains a 2% net smelter return royalty, of which the Company may buy back one-half (i.e., 1%) for US\$250,000.

(c) Kigosi:

The Kigosi property consists of nine prospecting licences. During the year ended August 31, 2003, the Company reclassified five licences from the Ushirombo and Ushirombo West with deferred costs of \$371,411 (note 3(g)) to the Kigosi property. The Company has a 100% interest in one of the licences and, through prospecting and mining option agreements entered into in the 2003 fiscal year, has options to acquire between 51% to 90% interests in the other eight licences. The Company must make payments totalling US\$162,000 over eight years (US\$22,000 paid to date) and is required to fund all costs of exploration of the properties in order to maintain the options.

On July 21, 2003, the Company entered into an agreement with Ashanti Goldfields (Cayman) Limited ("Ashanti"), granting Ashanti the option to acquire the total rights, titles and interests of the Company in the nine prospecting licences in the Kigosi area, save and except for a royalty varying between 0.5% to 2% of net smelter returns, depending on the market price of gold, to be paid by Ashanti to the licence owners. To maintain and exercise the option, Ashanti must expend US\$300,000 within the first year and US\$800,000 within the second year of closing the agreement, complete various diamond drilling requirements and complete a bankable feasibility report within five years of the closing of the agreement.

Ashanti must also make the following payments to the Company (nil paid to date):

Year one	US\$	200,000
Year two		150,000
Year three		180,000
Year four		260,000
Year five		340,000

In addition, Ashanti must make payments to the Company of US\$25,000 for each licence in excess of three held 24 months subsequent to the closing of the agreement and US\$25,000 for each licence held in excess of two in subsequent years.

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3. Mineral properties and deferred exploration costs (continued):

(c) Kigosi (continued):

Should Ashanti complete a bankable feasibility report and make a positive production decision before the fifth anniversary date of the closing of the agreement, then the above payments and drilling by Ashanti shall no longer be required.

(d) Lunguya:

The Lunguya property consists of six prospecting licences (2003 - six prospecting licences). Through prospecting and mining option agreements the Company has options to acquire interests ranging from 60% to 75% in the six licences. To maintain the options, the Company is required to make certain expenditure requirements and fund all exploration costs of the properties.

(e) Kanagele:

The Kanagele property consists of six prospecting licences. In 2002, the Company entered into an option agreement requiring payments totaling US\$72,000 over eight years (US\$15,000 paid to date) in exchange for a 90% interest in one prospecting licence and an option to purchase the remaining 10% upon production decision. In 2004, the Company entered into an option agreement for one prospecting license requiring payments of US\$145,000 (US\$10,000 paid to date) over nine years and another option agreement for one prospecting licence requiring payments of US\$90,000 over five years (none paid to date). The Company has options to acquire a 65% interest in the other three licences acquired through prospecting and option agreements. The Company is required to fund all exploration costs of the properties.

(f) Tulawaka:

The Tulawaka property consists of eight prospecting licences (2003 - eight prospecting licences). Four of the licences are held by the Company and through prospecting and option agreements has options to acquire interests ranging from 65% to 90% in the other four licences. Four licences are subject to an option agreement with Northern Mining Explorations Ltd. ("Northern") (note 3(l)).

During the year ended August 31, 2003, the Company entered into a prospecting mining option agreement to acquire a 90% interest in a prospecting license. The Company must make payments of US\$117,000 over nine years, (US\$19,000 paid to date) and is required to fund all exploration costs of property to maintain its option.

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3. Mineral properties and deferred exploration costs (continued):

(g) Ushirombo and Ushirombo West:

The Ushirombo and Ushirombo West properties consist of twelve prospecting licences (2003 - eight prospecting licences). The Company holds 100% interest in two of these licences and through prospecting and option agreements has options to acquire interests ranging from 65% to 80% in the other six licences. The Company is required to fund all exploration costs of the properties. Two licences are subject to the option agreement with BEAL (note 3(k)) and one licence is subject to the option agreement with Northern (note 3(l)).

(h) Mbogwe:

The Mbogwe property consists of seven licences. The Company, through prospecting and option agreements, has options to acquire interests ranging from 51% to 80% in these licences. The Company is required to fund all exploration costs of the properties. One of the licences is subject to the option agreement with BEAL (note 3(k)).

(i) Biharamulu:

The Biharamulu property consists of six prospecting licences. The Company has a 100% interest in two of these licences and through prospecting and option agreements has options to acquire interests ranging from 51% to 65% in the other four licences. The Company is required to fund all exploration costs of the properties. Four of the licences are subject to the option agreement with Northern (note 3(l)).

(j) Other:

The twenty-two other properties consist of several prospecting licences. The Company has options to acquire interests in these properties ranging from 51% to 100%. To maintain these licences, the Company must make the following future payments to maintain its options:

2005	\$	159,000
2006		164,000
2007		184,000
2008		204,000
2009		204,000
Thereafter		757,000
		<hr/>
	\$	1,672,000

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3. Mineral properties and deferred exploration costs (continued):

(k) Joint venture with Barrick Exploration Africa Ltd. ("BEAL"):

On December 14, 2001, including subsequent modifications, Barrick Exploration Africa Ltd. ("BEAL") closed an agreement with Tanzam 2000 granting BEAL the option to acquire the total rights, titles and interests of the Company in twelve prospecting licences in different properties, herein called the BEAL project. In exchange for this option, BEAL was required to pay US\$100. To maintain and exercise the option, BEAL was required to incur US\$250,000 in exploration and development on the BEAL project within a year of closing the agreement (completed), and thereafter, BEAL must expend US\$50,000 each year for each retained prospecting licence. In addition, BEAL must make the following annual payments to the Company for each retained prospecting licence:

December 2002	US\$	10,000
December 2003		20,000
December 2004		30,000
December 2005 and subsequent years		40,000

Within thirty days after commercial production, BEAL must pay US\$1,000,000 and an additional US\$1,000,000 on each of the next two years. BEAL will also pay the owner of the licence 1.5% of net smelter returns.

During the years ended August 31, 2002 and 2003, BEAL filed a notice of relinquishment for all rights, titles, and interests in eight prospecting licenses included in the option agreement.

As at August 31, 2004, of the four remaining prospecting licences in the BEAL project, two are located in Ushirombo, one licence is located in Mbogwe and one in Itetemia.

(l) Option Agreement with Northern Mining Explorations Ltd. ("Northern"):

On January 20, 2003, and as amended on March 18, 2003, the Company entered into an agreement with Northern granting Northern the exclusive option to acquire the total rights, titles and interests of the Company in nine prospecting licences. In exchange for this option, Northern was required to pay US\$80,000. In addition, to maintain and exercise the option, Northern must make annual payments for each retained prospecting licence, incur minimum exploration and development expenditures and certain drilling requirements, undertake all obligations of the Company in respect of the licences and complete a feasibility study by December 31, 2008. Upon exercise of the option, the Company shall retain a net smelter return royalty fluctuating between 0.5% to 2% depending on the price of gold.

As at August 31, 2004, of the nine prospecting licences optioned to Northern, four are located in Biharamulu, four are located in Tulawaka and one is located in Ushirombo.

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4. Equipment and leasehold improvements:

2004	Cost	Accumulated amortization	Net book value
Machinery and equipment	\$ 88,386	\$ 33,854	\$ 54,532
Automotive	169,300	111,231	58,069
Computer equipment	101,471	44,262	57,209
Leasehold improvements	10,770	7,076	3,694
	\$ 369,927	\$ 196,423	\$ 173,504

2003	Cost	Accumulated amortization	Net book value
Machinery and equipment	\$ 256,294	\$ 190,330	\$ 65,964
Automotive	275,582	182,095	93,487
Computer equipment	113,929	78,349	35,580
Leasehold improvements	26,828	21,652	5,176
	\$ 672,633	\$ 472,426	\$ 200,207

5. Income taxes:

Income tax expense (recovery) for the year ended August 31, 2004 differs from that calculated by applying statutory rates for the following reasons:

	2004	2003
Expected combined Canadian federal and provincial income tax rate	35.6%	37.6%
Expected recovery of income taxes	\$ 575,000	\$ 1,299,000
Tanzanian tax rate differential	(38,000)	(68,000)
Substantively enacted change in Canadian tax rates	-	(51,000)
Non-deductible foreign exploration costs	(133,000)	(112,000)
Write-off of mineral properties	-	(254,000)
Other	53,000	(7,000)
Recognition of previously unrecognized tax pools	-	1,299,000
Change in valuation allowance	(457,000)	(1,666,000)
Income tax recovery	\$ -	\$ 440,000

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5. Income taxes (continued):

The tax effects of significant temporary differences which would comprise tax assets and liabilities at August 31, 2004 and 2003 are as follows:

	2004	2003
Future income tax assets:		
Equipment	\$ 173,000	\$ 136,000
Non-capital losses for tax purposes	3,911,000	3,358,000
Capital losses for tax purposes	45,000	45,000
Resource related deductions carried forward	1,130,000	1,263,000
	<u>5,259,000</u>	<u>4,802,000</u>
Valuation allowance	(5,259,000)	(4,802,000)
Net future income tax assets	\$ -	\$ -
Future income tax liabilities:		
Mineral properties	\$ 647,565	\$ 647,565
Net future income tax liabilities	\$ 647,565	\$ 647,565

At August 31, 2004, the Company has approximately \$7,279,000 of Canadian non-capital losses available for income tax purposes to reduce Canadian taxable income in future years that expire as follows:

2005	\$ 2,266,000
2006	625,000
2007	602,000
2008	694,000
2009	733,000
2010	1,508,000
2011	851,000
	<u>\$ 7,279,000</u>

The Company has a capital loss carry forward of approximately \$250,000 which is available indefinitely to reduce future capital gains for tax purposes.

In assessing the recoverability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible.

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6. Share capital:

(a) Authorized:

91,000,000 common voting shares (2003 - 91,000,000; 2002 - unlimited number of common voting shares)

(b) Issued common shares and warrants:

	Number of shares	Amount
Balance, August 31, 2001	50,760,978	\$ 26,747,161
Stock options exercised	1,756,000	795,995
Issued on exercise of warrants	2,197,225	1,380,550
Issued on acquisition	20,000,000	7,000,000
Subscription receivable	-	(102,000)
Balance, August 31, 2002	74,714,203	35,821,706
Issued for cash	474,064	700,000
Collection of previous year's subscription receivable	-	102,000
Stock options exercised	2,454,000	1,255,700
Issued on exercise of warrants	2,549,275	1,544,565
Balance, August 31, 2003	80,191,542	39,423,971
Issued for cash	1,477,050	2,250,000
Issued for share subscription previously received	65,445	125,000
Stock options exercised	730,000	346,500
Balance, August 31, 2004	82,464,037	\$ 42,145,471

The Company had no share purchase warrants outstanding at August 31, 2004. A continuity of share purchase warrants for the year ending August 31, 2003 is as follows:

Balance, August 31, 2002	Exercised	Expired	Balance, August 31, 2003	Exercise price	Expiry date
150,000	150,000	-	-	\$ 0.70	October 9, 2002
2,362,275	2,237,275	125,000	-	0.60	September 5, 2002
162,000	162,000	-	-	0.60	May 30, 2003
2,674,275	2,549,275	125,000	-		

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Years ended August 31, 2004 and 2003

6. Share capital (continued):

(b) Issued common shares and warrants (continued):

On March 5, 2003, the Company completed a private placement subscription agreement with the Company's chairman and CEO for the purchase of between \$1,500,000 to \$3,000,000 worth of common shares of the Company in 24 separate monthly closings. The purchase price of the common shares will be equal to the five day weighted average trading price for the last five consecutive trading days of each month immediately preceding the closing date. Each closing was to be between \$62,500 to \$125,000. As at August 31, 2004, the Company has issued in total 1,394,281 common shares and received \$2,075,000 pursuant to this subscription agreement. During the year ended August 31, 2004, in addition to the monthly private placements, the chairman and CEO also subscribed for an additional 622,278 common shares at \$1.607 per share, resulting in gross proceeds of \$1,000,000 to the Company.

(c) Stock options:

The Company has a stock option plan which is administered by the board of directors and options are granted at their discretion. The number of shares reserved, set aside and available for issue under the plan should not exceed 8,109,132 or such greater number of shares as may be determined by the board and approved, if required, by the shareholders of the Company and by any relevant stock exchange or regulatory authority. Options must expire no later than five years from the date such options are granted. The purpose of granting such options is to assist the Company in compensating, attracting, retaining and motivating directors, officers and employees of the Company and to closely align the personal interests of those directors, officers and employees with those of the shareholders. Stock option activity during the three years ended August 31, 2004 was as follows:

	Number of shares	Weighted average price
Outstanding, August 31, 2001	5,985,000	\$ 0.53
Granted	885,000	0.80
Exercised	(1,756,000)	0.45
Cancelled	(1,030,000)	0.72
Outstanding, August 31, 2002	4,084,000	0.56
Exercised	(2,454,000)	0.51
Cancelled	(375,000)	0.79
Outstanding, August 31, 2003	1,255,000	0.59
Exercised	(730,000)	0.47
Outstanding, August 31, 2004	525,000	0.76

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6. Share capital (continued):

(c) Stock options:

At August 31, 2004, the following director and employee stock options were outstanding and exercisable:

Number of common shares	Exercise price	Expiry date
50,000	\$ 0.50	January 19, 2005
15,000	0.51	August 7, 2006
400,000	0.79	May 3, 2007
10,000	0.96	May 23, 2007
50,000	0.83	June 20, 2007
525,000		

(d) Employee stock ownership plan:

On May 1, 2003, the Company established a non-leveraged employee stock ownership plan ("ESOP") for all eligible employees, consultants, and directors. The Company matches 100 percent of participants' contributions up to 5 percent of the participants' salaries and 50 percent of participants' contributions between 5 percent and 30 percent of the participants' salaries. All contributions fully vest immediately. ESOP compensation expense for the year ended August 31, 2004 was \$47,897 and is included in salaries and benefits.

7. Related party transactions:

In addition, to related party transactions disclosed elsewhere in these consolidated financial statements, during the year ended August 31, 2004 \$22,435, (2003 - \$178,894) was paid or payable by the Company to certain directors and a former director for consulting fees. Directors were paid \$88,470 (2003 - \$5,600) for director fees.

Accounts and other receivables include \$21,000 (2003 - nil) receivable from an entity related to a director.

Accounts payable and accrued liabilities include \$15,291 (2003 - \$16,081) payable to certain directors and a former director for consulting fees.

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8. Commitments:

The Company is committed to lease rental payments of \$15,700 for the year ending August 31, 2005. In addition, the Company is committed to property payments to maintain options in certain prospecting and mining option agreements (note 3).

9. Subsequent events:

- (a) From September 1, 2004 to November 9, 2004, the Company entered into 28 new prospecting licenses. Twelve of these represent renewals of past licenses. Three require option payments totaling US\$207,700 over eight years (\$8,700 paid to date), and the remaining were acquired from the government with no option payments.
- (b) Subsequent to August 31, 2004, the Company entered into a new royalty agreement with Northern (note 3(l)) whereby Northern will be entitled to earn 100% of the Company's interest in three prospecting licences in the Tulawaka area. Northern is required to make staged cash payments to the Company and incur certain exploration expenditures and complete drilling on a staged basis. The Company retains a net smelter return royalty fluctuating between 0.5% and 2.0% depending on the price of gold.
- (c) Subsequent to August 31, 2004, the Company issued 319,518 common shares, to the chairman and CEO of the Company for cash proceeds of \$375,000.
- (d) On November 23, 2004, the Company was informed that Barrick intends to return to the Company its rights in respect of the prospecting licences covered by the Itetemia project (note 3(a)), and that BEAL intends to return its rights in respect of the two prospecting licences in Ushiroombo (note 3(k)). The Company plans to continue exploring these properties.