

**EMGOLD MINING CORPORATION**  
(an exploration stage company)  
**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**For the three and six months ended June 30, 2005 and 2004**  
(expressed in United States dollars)

**The Company's independent auditor has not performed a review of these consolidated financial statements.**

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## EMGOLD MINING CORPORATION

(an exploration stage company)  
Interim Consolidated Balance Sheets  
(expressed in United States dollars)

	June 30, 2005	December 31, 2004
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 6,132,761	\$ 1,304,994
Due from related parties (Note 4)	106,922	229,682
Prepaid expenses and deposits	73,559	42,758
Accounts receivable	48,417	74,079
	6,361,659	1,651,513
<b>Other</b>	6,399	6,399
<b>Ceramext™ process</b>	78,115	141,054
<b>Equipment</b> (Note 2)	394,367	351,825
<b>Mineral property interests</b> (Note 2)	833,430	797,956
	\$ 7,673,970	\$ 2,948,747
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 202,054	\$ 341,707
Due to related parties (Note 4)	125,457	117,242
	327,511	458,949
Preference shares (Note 3)	573,549	577,529
	901,060	1,036,478
<b>Shareholders' equity</b>		
Share capital (Note 3)	29,875,136	22,819,677
Preference shares (Note 3)	90,902	90,902
Cumulative translation adjustment	(577,456)	(577,456)
Contributed surplus	2,319,034	2,128,708
Deficit	(24,934,706)	(22,549,562)
	6,772,910	1,912,269
	\$ 7,673,970	\$ 2,948,747

See accompanying notes to consolidated financial statements.

Approved by the Directors

“Joel D. Schneyer”

Joel D. Schneyer  
Director

“William J. Witte”

William J. Witte  
Director

The Company's independent auditor has not performed a review of these consolidated financial statements.

## EMGOLD MINING CORPORATION

(an exploration stage company)

Interim Consolidated Statements of Operations and Deficit

(expressed in United States dollars)

	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
<b>Expenses</b>				
Amortization	\$ 14,377	\$ 5,280	\$ 26,613	\$ 5,280
Accretion of debt portion of preference shares	2,976	4,293	6,752	8,724
Ceramext™ process research (Note 7)	374,325	385,461	591,463	599,832
Exploration expenses (Note 6)	307,279	879,320	712,471	1,576,655
Foreign exchange (gain) / loss	(22,777)	64,387	(19,814)	181,678
Finance expense	11,110	10,159	21,683	20,645
Legal, accounting and audit	12,857	15,494	42,544	31,592
Management and consulting fees	6,071	5,571	12,189	11,181
Office and administration	130,956	50,928	216,565	75,793
Salaries and benefits	237,681	50,347	470,047	76,590
Shareholder communications	91,389	47,945	165,212	106,658
Stock-based compensation	143,979	87,599	143,979	100,808
Travel	22,743	23,681	40,932	33,193
	1,332,966	1,630,465	2,430,636	2,828,629
<b>Other expenses and income</b>				
Interest income	42,651	9,256	45,492	38,245
<b>Loss for the period</b>	(1,290,315)	(1,621,209)	(2,385,144)	(2,790,384)
<b>Deficit, beginning of period</b>	(23,644,391)	(18,272,108)	(22,549,562)	(17,102,933)
<b>Deficit, end of period</b>	\$ (24,934,706)	\$ (19,893,317)	\$ (24,934,706)	\$ (19,893,317)
<b>Loss per share – basic and diluted</b>	\$ (0.02)	\$ (0.03)	\$ (0.05)	\$ (0.06)
Weighted average number of common shares outstanding	52,646,451	46,943,184	49,917,436	44,958,070
Total common shares outstanding at end of period	65,518,099	46,998,099	65,518,099	46,998,099

See accompanying notes to consolidated financial statements.

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## EMGOLD MINING CORPORATION

(an exploration stage company)

Interim Consolidated Statements of Shareholders' Equity

(expressed in United States dollars)

	Common Shares Without Par Value		Preference Shares	Contributed Surplus	Cumulative Translation Adjustment	Deficit	Total Shareholders' Equity
	Shares	Amount					
Balance, December 31, 2003	43,455,880	\$ 21,312,846	\$ 90,902	\$ 1,654,998	\$ (577,456)	\$ (17,102,933)	\$ 5,378,357
Shares issued for cash:							
Warrants exercised	2,935,219	1,236,089	--	--	--	--	1,236,089
Stock options exercised	517,000	59,731	--	--	--	--	59,731
Shares issued for other:							
Ceramext™ license agreement	200,000	182,108	--	--	--	--	182,108
Stewart property payment at Cdn\$0.76	50,000	28,903	--	--	--	--	28,903
Stock-based compensation	--	--	--	473,710	--	--	473,710
Loss for the year	--	--	--	--	--	(5,446,629)	(5,446,629)
Balance, December 31, 2004	47,158,099	22,819,677	90,902	2,128,708	(577,456)	(22,549,562)	1,912,269
Non-cash transactions:							
Contributed Surplus on vesting of options	--	--	--	190,326	--	--	190,326
Shares issued for cash:							
Private placement, less share issue costs	18,360,000	7,055,459	--	--	--	--	7,055,459
Loss for the period	--	--	--	--	--	(2,385,144)	(2,385,144)
Balance, June 30, 2005	65,518,099	\$ 29,875,136	\$ 90,902	\$ 2,319,034	\$ (577,456)	\$ (24,934,706)	\$ 6,772,910

See accompanying notes to consolidated financial statements.

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## EMGOLD MINING CORPORATION

(an exploration stage company)

Interim Consolidated Statements of Cash Flows

(expressed in United States dollars)

	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
<b>Cash provided by (used for):</b>				
<b>Operations:</b>				
Loss for the period	\$ (1,290,315)	\$ (1,621,209)	\$ (2,385,144)	\$ (2,790,384)
Items not involving cash				
Amortization	42,053	40,543	89,552	75,806
Stock based compensation	190,326	87,599	190,326	100,808
Accretion of debt component of preference shares	2,976	4,293	6,752	8,724
Effect of currency translation	(7,408)	(8,705)	(10,732)	(14,522)
Changes in non-cash operating working capital				
Accounts receivable	46,332	(179)	25,662	(4,890)
Due to/from related parties	(126,230)	28,190	130,975	(35,625)
Prepaid expenses and deposits	(51,976)	22,641	(30,801)	(27,818)
Accounts payable and accrued liabilities	(120,363)	(25,860)	(139,653)	71,587
	(1,314,605)	(1,472,687)	(2,123,063)	(2,616,314)
<b>Investing activities:</b>				
Mineral property acquisition costs	(35,474)	(563,383)	(35,474)	(567,052)
Ceramext™ license agreement	--	--	--	(100,000)
Equipment additions	(70,640)	(61,535)	(69,155)	(102,913)
	(106,114)	(624,918)	(104,629)	(769,965)
<b>Financing activities:</b>				
Common shares issued for cash	7,055,459	14,607	7,055,459	1,280,409
Increase (decrease) in cash and cash equivalents during the period	5,634,740	(2,082,998)	4,827,767	(2,105,870)
Cash and cash equivalents, beginning of period	498,021	5,815,914	1,304,994	5,838,786
Cash and cash equivalents, end of period	\$ 6,132,761	\$ 3,732,916	\$ 6,132,761	\$ 3,732,916
Cash and cash equivalents is comprised of:				
Cash and in bank	\$ 941,259	\$ 1,783,599	\$ 941,259	\$ 1,783,599
Short-term money market instruments	5,191,502	1,949,317	5,191,502	1,949,317
	\$ 6,132,761	\$ 3,732,916	\$ 6,132,761	\$ 3,732,916

See accompanying notes to consolidated financial statements.

**The Company's independent auditor has not performed a review of these consolidated financial statements.**

## **EMGOLD MINING CORPORATION**

(an exploration stage company)

Notes to the Interim Consolidated Financial Statements

Six months ended June 30, 2005 and 2004

(expressed in United States dollars)

The accompanying consolidated financial statements for the interim periods ended June 30, 2005 and 2004, are prepared on the basis of accounting principles generally accepted in Canada and are unaudited, but in the opinion of management, reflect all adjustments (consisting of normal recurring accruals) necessary for fair presentation of the financial position, operations and changes in financial results for the interim periods presented. The consolidated financial statements for the interim periods are not necessarily indicative of the results to be expected for the full year. These financial statements do not contain the detail or footnote disclosure concerning accounting policies and other matters, which would be included in full year financial statements, and therefore should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2004.

### **1. Going concern assumption**

These financial statements are prepared on a going-concern basis, which implies that the Company will continue realizing its assets and discharging its liabilities in the normal course of business. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities, contingent obligations and commitments in other than the normal course of business and at amounts different from those in these financial statements.

The Company is in the process of exploring its mineral property interests and has not yet determined whether its mineral property interests contain mineral reserves that are economically recoverable. The Company is also developing and commercializing novel technology for the production of high value ceramic products from siliceous waste products. The Company's continuing operations and the underlying value and recoverability of the amounts shown for mineral property interests and the Ceramext™ process are entirely dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of the mineral property interests, commercialization of the new ceramics technology and on future profitable production or proceeds from the disposition of the mineral property interests or new technology.

At June 30, 2005, the Company had working capital of \$6,034,148 and a deficit of \$24,934,706.

The Company has capitalized \$833,430 in acquisition costs related to the Rozan, Stewart, Jazz and Idaho-Maryland mineral property interests.

The Company's ability to continue operations is contingent on its ability to obtain additional financing. Management is confident that it will be able to secure the necessary financing; however, there is no assurance that management will be successful in achieving these objectives.

These financial statements do not reflect adjustments to the carrying value of assets and liabilities, the reported revenues and expenses and balance sheet classifications that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

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## **EMGOLD MINING CORPORATION**

(an exploration stage company)

Notes to the Interim Consolidated Financial Statements

Six months ended June 30, 2005 and 2004

(expressed in United States dollars)

### **2. Mineral property interests**

#### **(a) Equipment**

	<b>June 30, 2005</b>			<b>December 31, 2004</b>
	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>	<b>Net Book Value</b>
Plant and field equipment	\$ 176,786	\$ 32,442	\$ 144,344	\$ 142,067
Office furniture and equipment	54,856	9,229	45,627	27,373
Research equipment	80,771	9,639	71,132	36,967
Computer hardware and software	84,992	34,118	50,874	47,002
Leasehold improvements	113,306	30,916	82,390	98,416
<b>Total</b>	<b>\$ 510,711</b>	<b>\$ 116,344</b>	<b>\$ 394,367</b>	<b>\$ 351,825</b>

#### **(b) Mineral property interests**

##### **Jazz Property, British Columbia**

In April 2004, the Company entered into an option agreement to acquire a 100% interest in the Jazz Property consisting of twenty-four mineral claims (24 units) located in the Nelson Mining Division near Nelson, British Columbia. The property is contiguous to the Stewart Property and covers approximately 600 hectares. Under the terms of the agreement, the Company has agreed to make total cash payments of \$215,000 to the optionor over a ten-year period. Cash payments to June 30, 2005, totalled \$20,000. In exchange for the above cash payments, the Company will have the exclusive right and option to earn 100% interest in the property, subject only to the payment to the optionor of a 3.0% NSR and the completion of Cdn\$75,000 in exploration work on the property within 2 years from the date of the agreement. The Company will have the right to purchase 2/3 of the NSR from the optionor for \$1,000,000 at any time up to and including the commencement of commercial production.

##### **Rozan Gold Property, British Columbia**

In 2000 the Company entered into an option agreement to acquire the rights to the Rozan Gold Property, a prospect located south of the community of Nelson in the Red Mountain area of southeastern British Columbia. The Company may earn a 100% interest in the property by making stepped payments totalling Cdn\$100,000 (Cdn\$70,000 paid) and issuing 200,000 (200,000 issued) common shares by April 1, 2006. The property is subject to a 3% net smelter returns royalty ("NSR"). The Company has the right to purchase 2/3 of the royalty from the optionor for Cdn\$1,000,000 and has the first right of refusal to purchase the remaining 33 1/3%.

### **3. Share capital**

#### **Authorized:**

Unlimited number of common shares without par value

Unlimited number of preference shares without par value

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## **EMGOLD MINING CORPORATION**

(an exploration stage company)

Notes to the Interim Consolidated Financial Statements

Six months ended June 30, 2005 and 2004

(expressed in United States dollars)

### **3. Share capital (continued)**

#### **Preference shares:**

<b>Series A First Preference Shares</b>	<b>Number of Shares</b>	<b>Amount</b>
Balance, June 30, 2005 (Unaudited) and December 31, 2004	3,948,428	\$ 90,902

  

<b>Debt Portion of Class A Preference Shares</b>	<b>Six months ended June 30, 2005</b>	<b>Year ended December 31, 2004</b>
Debt balance, beginning of period	\$ 577,529	\$ 517,417
Accretion of debt	6,752	17,659
Foreign exchange (gain) / loss on debt	(10,732)	42,453
Debt balance, end of period	\$ 573,549	\$ 577,529

The Series A Preference shares rank in priority to the Company's common shares and are entitled to fixed cumulative preferential dividends at a rate of 7% per annum. At June 30, 2005, \$116,977 in dividends payable has been accrued and is classified as due to related party. The balance of \$517,417 is the value included in debt as preference shares, with accretion and foreign exchange loss on debt to June 30, 2005, totalling \$56,132.

The shares are redeemable by the Company on 30 days written notice at a redemption price of Cdn\$0.80 per common share, but are redeemable by the holder only out of funds available that are not in the Company's opinion otherwise required for the development of the Company's mineral property interest or to maintain a minimum of Cdn\$2 million in working capital.

The Series A First Preference Shares are convertible into common shares at any time at a ratio of one common share for every four Series A First Preference Shares, which represents an effective conversion price of Cdn\$0.80 per common share. The Preference Shares also have attached a gold redemption feature by which holders may elect at the time of any proposed redemption to receive gold in specie valued at \$300 per ounce in lieu of cash, provided the Company has on hand at the time gold in specie having an aggregate value of not less than the redemption amount.

#### **Stock options:**

The Company has a fixed stock option plan for its directors and employees to acquire common shares of the Company at a price determined by the fair market value of the shares at the date of grant. The maximum aggregate number of common shares reserved for issuance pursuant to the plan is 6,551,810 common shares, of which 1,208,616 stock options are still available to be issued. There are currently 6,324,000 stock options outstanding exercisable for periods up to ten years. During the six months ended June 30, 2005, 260,000 stock options were granted to employees at a price of Cdn\$ 0.36, expiring June 28, 2010.

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## **EMGOLD MINING CORPORATION**

(an exploration stage company)

Notes to the Interim Consolidated Financial Statements

Six months ended June 30, 2005 and 2004

(expressed in United States dollars)

### **4. Related party transactions and balances**

Related party balances are non-interest bearing and are due on demand, with no fixed terms of repayment, with the exception of preference shares (Note 3).

<b>Services rendered:</b>	<b>Six months ended June 30,</b>	
	<b>2005</b>	<b>2004</b>
Legal fees (a)	\$ 14,654	\$ 11,417
Lang Mining Corporation (d)	\$ 12,189	\$ 11,126
Director (b)	\$ 55,000	\$ 45,000
LMC Management Services Ltd. (c)	\$ 445,660	\$ 296,309
<b>Balances receivable from:</b>	<b>June 30, 2005</b>	<b>December 31, 2004</b>
LMC Management Services Ltd.	\$ 106,922	\$ 229,682
<b>Balances payable to (e):</b>		
Directors, officers and employees (b) and (Note 3)	\$ 125,457	\$ 117,242

Related party transactions not disclosed elsewhere in these consolidated financial statements are as follows:

- (a) Legal fees were paid to a law firm for which a director is an associate counsel.
- (b) A director of the Company receives consulting fees and has commenced receiving advance royalties on the Ceramext™ agreement.
- (c) Commencing August 1, 2001, management, administrative, geological and other services are provided by LMC Management Services Ltd. ("LMC"), a private company held jointly by the Company and other public companies, to provide services on a full cost recovery basis to the various public entities currently sharing office space with the Company. LMC is not related to Lang Mining Corporation. Currently the Company has a 25% interest in LMC. Three months of estimated working capital is required to be on deposit with LMC under the terms of the services agreement. There is no difference between the cost of \$1 and equity value, as LMC does not retain any profits in connection with the services it provides.
- (d) Lang Mining Corporation ("Lang Mining") is a private company controlled by a director of the Company. From January 1, 2003, until June 30, 2005, the Company paid Cdn\$2,500 per month to Lang Mining for the services of Mr. Lang as chairman of the Company. A new chairman was appointed in June 2005, and fees will no longer be paid to Lang Mining for services of Mr. Lang as chairman.
- (e) Related party balances are non-interest bearing and are due on demand, with no fixed terms of repayment, except for preference shares.

### **5. Comparative figures**

Where necessary, comparative figures have been changed to conform to the current period's presentation.

The Company's independent auditor has not performed a review of these consolidated financial statements.

## EMGOLD MINING CORPORATION

(an exploration stage company)

Notes to the Interim Consolidated Financial Statements

Six months ended June 30, 2005 and 2004

(expressed in United States dollars)

### 6. Consolidated Schedules of Exploration Expenses

	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
<b>Idaho-Maryland Mine, California</b>				
<b>Exploration costs</b>				
Assays and analysis	\$ 998	\$ 54,355	\$ 3,932	\$ 58,938
Drilling	--	269,435	--	649,603
Geological and geochemical	158,954	177,760	312,800	260,652
Land lease and taxes	31,000	25,500	63,787	52,500
Mine planning	49,804	257,094	223,116	314,357
Site activities	40,571	71,837	77,139	197,753
Stock based compensation	17,858	--	17,858	--
Transportation	6,395	9,634	8,320	27,662
Incurring during the period	305,580	858,618	706,952	1,561,465
<b>Rozan Property, British Columbia</b>				
<b>Exploration costs</b>				
Geological and geochemical	1,433	2,529	1,788	3,177
Incurring during the period	1,433	2,529	1,788	3,177
<b>Stewart Property, British Columbia</b>				
<b>Exploration costs</b>				
Geological and geochemical	40	9,866	2,004	10,506
Transportation	--	1,507	--	1,507
Incurring during the period	40	11,173	2,004	12,013
<b>Jazz Property, British Columbia</b>				
<b>Exploration costs</b>				
Geological and geochemical	226	--	1,727	--
Incurring during the period	226	--	1,727	--
<b>Exploration cost incurred during the period</b>	<b>\$ 307,279</b>	<b>\$ 879,320</b>	<b>\$ 712,471</b>	<b>\$ 1,576,655</b>

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## EMGOLD MINING CORPORATION

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Notes to the Interim Consolidated Financial Statements

Six months ended June 30, 2005 and 2004

(expressed in United States dollars)

### 7. Consolidated Schedules of Research Costs

	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
<b>Ceramext™ Process Costs</b>				
Prototype materials for research	\$ 15,164	\$ 61,877	\$ 42,201	\$ 120,416
Ceramext™ technology royalties and amortization of license fee and bench-scale research facility	32,676	35,263	72,939	70,526
Commercialization costs	2,287	--	3,060	--
Consumable materials	22,753	89,311	38,804	89,311
Engineering costs	191,766	176,062	293,279	253,781
Sample preparation	13,470	--	26,441	--
Site costs	63,997	17,117	81,588	52,041
Stock based compensation	28,489	--	28,489	--
Transportation	3,723	5,831	4,662	13,757
<b>Incurred during the period</b>	<b>\$ 374,325</b>	<b>\$ 385,461</b>	<b>\$ 591,463</b>	<b>\$ 599,832</b>