

MANSON CREEK RESOURCES LTD.
Financial Statements
September 30, 2001

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Auditors' Report

To the Shareholders of
Manson Creek Resources Ltd.

We have audited the balance sheets of Manson Creek Resources Ltd. as at September 30, 2001 and 2000 and the 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 financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2001 and 2000 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

“Grant Thornton LLP”

Calgary, Alberta
December 3, 2001

Chartered Accountants

Manson Creek Resources Ltd.

Balance Sheets

September 30

2001

2000

Assets

Current

Cash and cash equivalents	\$ 778,913	\$ 920,181
Accounts receivable	70,132	58,460
Prepays	<u>5,625</u>	<u>22,500</u>

854,670 1,001,141

Investments and other assets (Note 3)

60,000 153,640

Mineral properties (Note 4)

1,021,729 2,692,598

\$ 1,936,399 \$ 3,847,379

Liabilities

Current

Accounts payable and accrued liabilities	\$ <u>38,827</u>	\$ <u>60,814</u>
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Capital Stock (Note 5)

7,110,533 8,499,033

Deficit

(5,212,961) (4,712,468)

1,897,572 3,786,565

\$ 1,936,399 \$ 3,847,379

On behalf of the Board

“Jean Pierre Jutras”

Director

Jean Pierre Jutras

“James Devonshire”

Director

James Devonshire

See accompanying notes to the financial statements.

Manson Creek Resources Ltd.

Statements of Operations and Deficit

Years Ended September 30

2001

2000

Revenue		
Interest and other	\$ <u>46,195</u>	\$ <u>49,727</u>
Expenses		
General and administrative	77,492	61,704
Professional fees	10,738	11,794
Reporting to shareholders	9,032	19,592
Stock exchange and transfer agent fees	<u>5,266</u>	<u>9,112</u>
	<u>102,528</u>	<u>102,202</u>
Loss for the year before the undernoted	(56,333)	(52,475)
Other		
Equity in loss of investee	-	(39,577)
Depreciation	(7,568)	(10,046)
Write-down of investments	-	(40,000)
Abandonments and write-down of mineral properties	<u>(1,827,592)</u>	<u>(1,863,135)</u>
Net loss	(1,891,493)	(2,005,233)
Deficit, beginning of year	(4,712,468)	(2,707,235)
Adjustment for change in accounting policy (Note 7)	<u>1,391,000</u>	-
Deficit, end of year	\$ <u>(5,212,961)</u>	\$ <u>(4,712,468)</u>
Loss per share:		
Basic and diluted	\$ <u>(0.12)</u>	\$ <u>(0.13)</u>
Weighted average number of shares outstanding:		
Basic and diluted	<u>15,549,569</u>	<u>15,483,416</u>

See accompanying notes to the financial statements.

Manson Creek Resources Ltd.

Statements of Cash Flows

Years Ended September 30

2001

2000

Increase (decrease) in cash and cash equivalents

Operating activities

Interest and other income received	\$ 46,195	\$ 51,537
Cash operating expenses	<u>(85,234)</u>	<u>(77,749)</u>
	<u>(39,039)</u>	<u>(26,212)</u>

Investing activities

Mineral property additions	(216,244)	(134,014)
Proceeds on sale of investments	<u>88,015</u>	<u>-</u>
	<u>(128,229)</u>	<u>(134,014)</u>

Financing activities

Exploration incentives received	<u>26,000</u>	<u>107,000</u>
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Decrease in cash and cash equivalents (141,268) (53,226)

Cash and cash equivalents,

Beginning of year 920,181 973,407

End of year \$ 778,913 \$ 920,181

See accompanying notes to the financial statements.

Manson Creek Resources Ltd.

Notes to the Financial Statements

September 30, 2001

1. Nature of operations

Manson Creek Resources Ltd. is engaged in the business of mineral exploration and development and, as the Company has no mining operations, is considered to be in the development stage. The majority of the Company's activities to date have been conducted in Canada and, as a result, segmented information is not presented.

Mineral properties are recognized in these financial statements in accordance with the accounting policies outlined in Note 2. Accordingly, their carrying values represent costs incurred to date, net of recoveries, abandonments and write-downs, and do not necessarily reflect present or future values. The recoverability of these amounts is dependent upon the existence of economically recoverable mineral reserves; the acquisition and maintenance of appropriate permits, licenses and rights; the ability of the Company to obtain necessary financing to complete the development of the properties, where necessary, and upon future profitable production; or, alternatively, upon the Company's ability to recover its costs through a disposition of its interests.

2. Summary of significant accounting policies

a) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates that affect the reported amounts of assets, such as resource properties (see Note 1), and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

b) Cash and cash equivalents

Cash and cash equivalents includes bank deposits and term deposits with maturities equal to or less than 90 days.

c) Mineral properties and equipment

Costs relating to the acquisition, exploration and development of mineral properties are capitalized on an area of interest basis. These expenditures will be charged against income, through unit of production depletion, when properties are developed to the stage of commercial production. Where the Company's exploration commitments for an area of interest are performed under option agreements with a third party, the proceeds of any option payments under such agreements are applied to the area of interest to the extent of costs incurred. The excess, if any, is credited to operations. If an area of interest is abandoned, the related costs are charged to operations.

Equipment is recorded at cost net of depreciation calculated on a declining balance basis at rates ranging from 20% to 30%

d) Flow-through common shares

Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Future income tax liability is increased and capital stock is reduced by the estimated tax benefits transferred to shareholders.

Manson Creek Resources Ltd.

Notes to the Financial Statements

September 30, 2001

e) **Joint interest operations**

Certain of the Company's exploration and development activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

f) **Investments**

Portfolio investments are carried at cost, less a provision for declines in value that are considered to be other than temporary. The investment in a limited partnership is accounted for on the equity basis.

g) **Foreign currency translation**

Foreign currency denominated monetary assets and liabilities are translated to Canadian dollars at the exchange rate in effect at the balance sheet date. Foreign currency denominated non-monetary assets and liabilities are translated to Canadian dollars at the exchange rate in effect on the transaction date. Revenue and expense items are translated at average exchange rates for the period. Foreign exchange gains or losses are included in the determination of net earnings for the period.

h) **Financial instruments**

The fair market values of cash, accounts receivable, accounts payable and accrued liabilities approximate their carrying values as a result of the short-term nature of the instruments.

i) **Reclamation costs**

The Company's activities have primarily been focused on exploration directed toward the discovery of mineral resources. When it is determined that a future reclamation cost is likely, and the amount can be reasonably estimated, the costs thereof will be accrued.

j) **Income taxes**

Income taxes are recorded using the liability method of tax allocation. Future income taxes are calculated based on temporary timing differences arising from the difference between the tax basis of an asset or liability and its carrying value using tax rates anticipated to apply in the periods when the timing differences are expected to reverse, see Note 7.

k) **Earnings (Loss) per share**

Basic earnings (loss) per common share is computed by dividing the net earnings (loss) by the weighted average number of common shares outstanding for the year. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments, in accordance with new standards approved by the Canadian Institute of Chartered Accountants, see Note 8.

3. **Investments and other assets**

	<u>2001</u>	<u>2000</u>
Investments (market value \$33,000; 2000 – \$148,000)	\$ 60,000	\$ 148,015
Prepaid rent	<u>-</u>	<u>5,625</u>
	\$ <u>60,000</u>	\$ <u>153,640</u>

Effective September 1, 1996, the Company entered into a sub-lease agreement for office space whereby base rent of \$120,000 was prepaid for the 64 month term of the lease. The rent expense is recognized as a charge to income on a straight-line basis over the term of the lease.

A portion of the office space is sublet to other companies, related by virtue of certain common directors and/or management. The annual base rent recovery from these related parties is approximately \$33,000.

Manson Creek Resources Ltd.

Notes to the Financial Statements

September 30, 2001

4. Mineral properties

2001 Exploration and development expenditures:	Total	Yukon						Unstaked Property and Other
		Kathleen Lakes	Craig	Nad	Kathleen Non-Option	Tanner	JRS	
Balance September 30, 2000	\$2,460,010	\$422,368	\$141,816	\$426,659	\$187,088	\$ -	\$ -	\$1,282,079
Geological consulting	70,660	2,775	660	30,669	-	800	31,720	4,036
Airborne geophysical	61,463	7,834	-	32,356	7,833	-	13,440	-
Project field costs and miscellaneous	60,370	2,023	-	27,010	1,758	1,762	26,112	1,705
Geochemical analysis	3,317	-	-	1,659	-	-	1,658	-
Reallocate to staked properties	-	12,440	-	-	14,169	108,993	54,843	(190,445)
Exploration incentives	(45,000)	(5,107)	-	(16,682)	(7,323)	(8,620)	(7,268)	-
Write-offs and abandonments	(1,681,553)	(442,333)	(142,476)	-	-	-	-	(1,096,744)
Balance September 30, 2001	929,267	-	-	501,671	203,525	102,935	120,505	631
Property acquisition costs:								
Balance September 30, 2000	206,412	47,000	20,850	22,991	40,875	-	-	74,696
Costs incurred	10,886	-	2,500	-	-	5,610	286	2,490
Write-offs and abandonments	(146,039)	(47,000)	(23,350)	-	-	-	-	(75,689)
Balance September 30, 2001	71,259	-	-	22,991	40,875	5,610	286	1,497
Total mineral properties September 30, 2001	\$1,000,526	\$ -	\$ -	\$524,662	\$244,400	\$108,545	\$120,791	\$ 2,128
Equipment	52,875							
Accumulated depreciation	(31,672)							
Total mineral properties and equipment September 30, 2001	\$1,021,729							

2000 Exploration and development expenditures:	Total	Yukon				Unstaked Property And Other
		Kathleen Lakes	Craig	Nad	Kathleen Non-Option	
Balance September 30, 1999	\$4,147,016	\$1,132,717	\$141,224	\$ -	\$ -	\$2,873,075
Reallocate opening amounts	-	(758,250)	-	426,659	187,088	144,503
Geological consulting	107,335	37,902	488	-	-	68,945
Air and fuel	24,030	10,581	-	-	-	13,449
Project field costs and miscellaneous	46,094	9,597	104	-	-	36,393
Drill demobilization	3,821	3,821	-	-	-	-
Exploration incentives	(26,000)	(14,000)	-	-	-	(12,000)
Write-offs and abandonments	(1,842,286)	(442,333)	-	-	-	(1,842,286)
Balance September 30, 2000	2,460,010	-	141,816	426,659	187,088	1,282,079
Property acquisition costs:						
Balance September 30, 1999	205,894	40,000	17,225	20,061	35,665	92,943
Costs incurred	21,368	7,000	3,625	2,930	5,210	2,603
Write-offs and abandonments	(20,850)	-	-	-	-	(20,850)
Balance September 30, 2000	206,412	47,000	20,850	22,991	40,875	74,696
Total mineral properties September 30, 2000	\$2,666,422	\$469,368	\$162,666	\$ 449,650	\$227,963	\$1,356,775
Equipment	50,281					
Accumulated depreciation	(24,105)					
Total mineral properties and equipment September 30, 2000	\$2,692,598					

Approximately \$187,000 (2000 - \$744,000) of the foregoing expenditures, funded from proceeds of flow-through share issues, have no cost basis for income tax purposes.

Manson Creek Resources Ltd.

Notes to the Financial Statements

September 30, 2001

4. Mineral properties (continued)

Yukon

- i) Kathleen Lakes
In fiscal 1998 the Company entered into an option/joint venture agreement with Prism Resources Ltd., ("Prism"), whereby the Company may earn an initial 50% interest in the Kathleen Lakes property. In order to earn the 50% interest, the Company was required to expend \$1,000,000 on the property by December 31, 2001 and issue 100,000 shares to Prism on each of December 31, 1998 and December 31, 1999. By September 30, 2001 the Company had issued the necessary shares, however it became apparent in the last quarter of 2001 that sufficient expenditures would not be incurred by the deadline. As a result, the carrying costs of \$489,333 were written-off.
- ii) Craig
In fiscal 1998 the Company entered into an agreement with Falconbridge Ltd., ("Falconbridge"), whereby the Company could earn a 60% interest in the Craig property by paying Falconbridge \$5,000, issuing 150,000 of its shares and incurring \$500,000 in exploration expenditures on the property by December 31, 2001. The shares were issued and cash payment made, however, it became apparent during the 2001 fiscal year that sufficient expenditures would not be incurred by the deadline. As a result, the \$166,000 carrying costs of the property were written-off during fiscal 2001.
- iii) Non-option properties
During fiscal 2001 the Company incurred exploration costs on Yukon properties, the claims of which are held 100% by the Company. These properties were NAD, Kathleen Lakes – non-option, Tanner and JRS.

Nunavut

- i) Parker Lake
The Company has 33.3% of the Parker Lake property in a joint venture with Cumberland Resources Ltd. A number of the claims comprising the property have expired and the Company does not intend to incur further expenditures on this property, therefore the Company wrote-off the carrying costs of \$851,000 during fiscal 2001.
- ii) Rankin Inlet
The Company has a 30% interest in Rankin Inlet in a joint venture with Comaplex Minerals Corp. The Company having determined that it will not incur further expenditures on the property, has written-off the carrying costs of \$318,590 during fiscal 2001.

British Columbia

During the 2000 fiscal year the Company wrote-off the carrying value of its Mets and Belle mineral properties, when Management determined that there would be no further exploration expenditures incurred on the two properties. The write-down attributable to these two properties was \$1,828,000.

5. Capital stock

- a) Authorized:
 - i) an unlimited number of voting shares
 - ii) an unlimited number of Class A preferred shares issuable in series
 - iii) an unlimited number of Class B preferred shares issuable in series

Manson Creek Resources Ltd.

Notes to the Financial Statements

September 30, 2001

5. Capital stock (continued)

b) Common shares issued and to be issued:

	<u>Number of Shares</u>	<u>Stated Value</u>
Balance, September 30, 1999	15,370,402	\$ 8,488,533
Issued pursuant to option agreement	<u>150,000</u>	<u>10,500</u>
Balance, September 30, 2000	15,520,402	8,499,033
Change in accounting policy for future income taxes (Note 7)	<u>-</u>	<u>(1,391,000)</u>
Restated balance	15,520,402	7,108,033
Issued for property pursuant to option agreement	<u>50,000</u>	<u>2,500</u>
Balance, September 30, 2001	<u>15,570,402</u>	<u>\$ 7,110,533</u>

c) Outstanding options

<u>Expiry Date</u>	<u>Number of Shares</u>		<u>Price</u>
	<u>2001</u>	<u>2000</u>	
July 19, 2006	1,100,000	-	\$ 0.10
February 27, 2002	75,000	75,000	\$ 0.62
January 22, 2001	-	110,000	\$ 1.24
June 19, 2001	<u>-</u>	<u>635,000</u>	\$ 0.25
	<u>1,175,000</u>	<u>820,000</u>	

d) Option Transactions

	<u>Number of Options</u>	<u>Weighted-average Exercise Price</u>
As at September 30, 1999	1,251,000	\$ 0.47
Granted	200,000	\$ 0.25
Expired or cancelled	<u>(631,000)</u>	\$ 0.47
As at September 30, 2000	820,000	\$ 0.42
Granted	1,100,000	\$ 0.10
Expired or cancelled	<u>(745,000)</u>	\$ 0.40
As at September 30, 2001	<u>1,175,000</u>	\$ 0.13

e) Outstanding Warrants

At September 30, 2000, the Company had warrants outstanding, issued in conjunction with private placements to Golden Rule Resources Ltd. to purchase 2,000,000 common shares, exercisable at \$1.50 per share until March 6, 2001. The warrants expired without exercise in fiscal 2001.

Manson Creek Resources Ltd.

Notes to the Financial Statements

September 30, 2001

6. Related party transactions

Golden Rule Resources Ltd. (Golden Rule), a Company related by virtue of certain common officers and directors, officers of the Company, and corporations in which certain of the Company's officers and directors are shareholders incurred exploration expenditures on the Company's behalf and provided services, at usual professional rates, as presented below.

	<u>2001</u>	<u>2000</u>
Geological and exploration	\$ 32,000	\$ 81,000
Direct administrative	<u>47,000</u>	<u>52,000</u>
	<u>\$ 79,000</u>	<u>\$ 133,000</u>

Included in accounts payable is \$7,000 (2000 - \$14,000) due to Golden Rule with respect to the foregoing.

The Company sublet office space to companies related by virtue of certain officers and directors. The aggregate base rent and operating costs charged to the Companies was \$95,000 during the year, (2000-\$94,000).

7. Income taxes

- a) On October 1, 2000 the Company retroactively adopted, without restatement of prior financial statements, the liability method of accounting for income taxes as recommended by the Canadian Institute of Chartered Accountants. The liability method of calculating income taxes is based upon the difference between the financial and tax bases of assets and liabilities. Previously the Company used the deferral method, which was based upon the differences between the timing of reporting income and expenses for financial and income tax purposes.

The effect of this change in accounting policy was to decrease the deficit by \$1,391,000 and decrease share capital by \$1,391,000. The adjustments were the result of the tax treatment of flow-through share issues.

Following is a reconciliation of income taxes calculated at statutory rates to the actual income taxes recorded in the accounts:

	<u>2001</u>	<u>2000</u>
Computed expected tax recovery at a combined Provincial and Federal rate of 44.6% (2000 - 44.6%)	\$ (844,000)	\$ (894,000)
Effect on income taxes resulting from:		
Non-recognition of losses and future tax benefits for financial statement purposes	<u>844,000</u>	<u>(894,000)</u>
Future income tax expense	<u>\$ -</u>	<u>\$ -</u>

The net future income tax asset at September 30, 2001 is comprised of:

	<u>at 44.6%</u>
Capital assets with income tax values exceeding book values	\$ 1,009,000
Investments with tax values exceeding book values	9,000
Non-capital losses carried forward	<u>58,000</u>
Future income tax assets before valuation allowance	1,076,000
Valuation allowance	<u>(1,076,000)</u>
Future income tax asset	<u>\$ -</u>

Manson Creek Resources Ltd.

Notes to the Financial Statements

September 30, 2001

7. Income taxes (continued)

- b) The Company has incurred losses for income tax purposes of approximately \$131,000 the related future benefit of which has not been recognized in the financial statements. Unless sufficient taxable income is earned in future years these losses will expire in 2005, (\$6,000), 2006 (\$23,000), 2007 (\$55,000) and 2008 (\$47,000).
- c) The Company has the following approximate amounts available that may be deducted, at the annual rates indicated, in determining taxable income of future years.

	<u>Amount</u>	<u>Rate</u>
Canadian exploration expense	\$ 2,425,000	100%
Canadian development expense	342,000	30%
Foreign exploration and development expense	444,000	10%
Undepreciated capital cost	<u>72,000</u>	20-30%
	<u>\$ 3,283,000</u>	

8. Loss per share

The Canadian Institute of Chartered Accountants has approved a new standard for the computation, presentation and disclosure of per share amounts. In the fourth quarter of 2001 the Company retroactively adopted the new standard. Under this standard, the treasury stock method is used instead of the imputed earnings method to determine the dilutive effect of stock options, warrants and other dilutive instruments. Under the treasury stock method only "in the money" dilutive instruments impact the dilution calculations.

No adjustments were required to either reported net loss or weighted average number of shares in computing diluted per share amounts for either fiscal 2001 or fiscal 2000. Prior period diluted loss per share has been restated for this change in accounting policy. If the imputed earnings method had been used to calculate these amounts the reported amounts would not have differed.

9. Commitment

Subsequent to year-end the Company entered into a five-year contract to lease office space commencing January 1, 2002. The annual base rent commitments ending December 31, 2006 will be \$46,800. The Company has entered into sub-lease agreements with three companies, related by virtue of certain common officers and directors. Pursuant to the sub-lease agreements, the sublessors will pay the Company monthly base rent aggregating \$35,100 annually, for the duration of the original lease, as well as their share of lease operating costs.