

**MANSON CREEK RESOURCES LTD.**  
**Financial Statements**  
September 30, 2002

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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, 2002 and 2001 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, 2002 and 2001 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta  
December 13, 2002

“Grant Thornton LLP”

Grant Thornton LLP  
Chartered Accountants

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# Manson Creek Resources Ltd.

## Balance Sheets

September 30

2002

2001

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<b>Assets</b>			
Current			
Cash and cash equivalents	\$	<b>328,136</b>	\$ 778,913
Accounts receivable		<b>118,856</b>	59,605
Prepays		<u><b>9,721</b></u>	<u>16,152</u>
		<b>456,713</b>	854,670
Investments and other assets (Note 3)		<b>32,241</b>	60,000
Mineral properties and equipment (Note 4)		<u><b>1,295,598</b></u>	<u>1,021,729</u>
	\$	<u><b>1,784,552</b></u>	\$ <u>1,936,399</u>
<b>Liabilities</b>			
Current			
Accounts payable and accrued liabilities	\$	<u><b>40,011</b></u>	\$ <u>38,827</u>
<b>Shareholders' Equity</b>			
<b>Capital Stock</b> (Note 5)		<b>7,110,533</b>	7,110,533
<b>Deficit</b>		<u><b>(5,365,992)</b></u>	<u>(5,212,961)</u>
		<u><b>1,744,541</b></u>	<u>1,897,572</u>
	\$	<u><b>1,784,552</b></u>	\$ <u>1,936,399</u>

On behalf of the Board

"Jean Pierre Jutras"

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Jean Pierre Jutras Director

"James Devonshire"

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James Devonshire Director

See accompanying notes to the financial statements.

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## Manson Creek Resources Ltd.

### Statements of Operations and Deficit

Years Ended September 30

2002

2001

Revenue		
Interest and other	\$ <u>12,670</u>	\$ <u>46,195</u>
Expenses		
General and administrative	96,183	77,492
Reporting to shareholders	13,198	9,032
Professional fees	9,917	10,738
Stock exchange and transfer agent fees	<u>6,481</u>	<u>5,266</u>
	<u>125,779</u>	<u>102,528</u>
Loss for the year before the undernoted	(113,109)	(56,333)
Gain on sale of assets	8,243	-
Depreciation	(5,258)	(7,568)
Write-down of investments	(34,099)	-
Abandonments and write-down of mineral properties	<u>(8,808)</u>	<u>(1,827,592)</u>
Net loss	(153,031)	(1,891,493)
Deficit, beginning of year	(5,212,961)	(4,712,468)
Adjustment for change in accounting policy (Note 7)	<u>-</u>	<u>1,391,000</u>
Deficit, end of year	\$ <u>(5,365,992)</u>	\$ <u>(5,212,961)</u>
<b>Loss per share:</b>		
Basic and diluted	\$ <u>(0.01)</u>	\$ <u>(0.12)</u>
<b>Weighted average number of shares outstanding:</b>		
Basic and diluted	<u>15,570,402</u>	<u>15,549,569</u>

See accompanying notes to the financial statements.

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# Manson Creek Resources Ltd.

## Statements of Cash Flows

Years Ended September 30

2002

2001

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Increase (decrease) in cash and cash equivalents

**Operating activities**

Interest and other income received	\$ 12,670	\$ 46,195
Cash operating expenses	<u>(123,351)</u>	<u>(85,234)</u>
	<u>(110,681)</u>	<u>(39,039)</u>

**Financing activities**

Exploration incentives received	<u>45,000</u>	<u>26,000</u>
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**Investing activities**

Mineral property additions	(385,096)	(216,244)
Proceeds on sale of investments	<u>-</u>	<u>88,015</u>
	<u>(385,096)</u>	<u>(128,229)</u>

Decrease in cash and cash equivalents (450,777) (141,268)

Cash and cash equivalents,

Beginning of year	<u>778,913</u>	<u>920,181</u>
End of year	\$ <u>328,136</u>	\$ <u>778,913</u>

**Supplementary Information:**

No cash was expended on interest or taxes during the years ended September 30, 2002 and September 30, 2001.

See accompanying notes to the financial statements.

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# Manson Creek Resources Ltd.

## Notes to the Financial Statements

September 30, 2002

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### 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, or management determines that there is a permanent and significant decline in value, 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.

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# Manson Creek Resources Ltd.

## Notes to the Financial Statements

September 30, 2002

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**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.

**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 and/or the variable interest rate associated with the instrument.

**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. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

**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. For the years presented this calculation proved to be anti-dilutive. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments. Under the treasury stock method only "in-the-money" dilutive instruments impact the dilution calculations.

**l) Stock Options**

Compensation expense is not recognized when stock options are granted. Consideration paid on the exercise of stock options is credited to capital stock.

**3. Investments and other assets**

	<u>2002</u>	<u>2001</u>
Investments (market value \$26,000; 2001 – \$33,000)	\$ 26,000	\$ 60,000
Prepays	<u>6,241</u>	<u>-</u>
	<u>\$ 32,241</u>	<u>\$ 60,000</u>

# Manson Creek Resources Ltd.

## Notes to the Financial Statements

September 30, 2002

### 4. Mineral properties and equipment

2002 Exploration and development expenditures:	Total	Yukon				Unstaked Property And Other
		NAD	Rusty/KLA	Tanner	JRS	
<b>Balance September 30, 2001</b>	<b>\$ 929,267</b>	<b>\$501,671</b>	<b>\$203,525</b>	<b>\$102,935</b>	<b>\$120,505</b>	<b>\$ 631</b>
Geological consulting	75,809	8,698	17,738	21,495	20,032	7,846
Project field costs and miscellaneous	78,286	1,750	21,008	30,480	23,681	1,367
Drilling	65,602	-	12,983	26,026	26,593	-
Aircraft and fuel	155,263	-	43,467	56,255	55,541	-
Yukon Mineral Exploration Tax Credit	(91,000)	(3,000)	(24,000)	(33,000)	(31,000)	-
Write-offs	(7,808)	-	-	-	-	(7,808)
<b>Balance September 30, 2002</b>	<b>1,205,419</b>	<b>509,119</b>	<b>274,721</b>	<b>204,191</b>	<b>215,352</b>	<b>2,036</b>
<b>Property acquisition costs:</b>						
Balance September 30, 2001	71,259	22,991	40,875	5,610	286	1,497
Costs incurred	11,614	-	107	9,580	599	1,328
Write-offs	(1,000)	-	-	-	-	(1,000)
<b>Balance September 30, 2002</b>	<b>81,873</b>	<b>22,991</b>	<b>40,982</b>	<b>15,190</b>	<b>885</b>	<b>1,825</b>
<b>Total mineral properties September 30, 2002</b>	<b>\$1,287,292</b>	<b>\$532,110</b>	<b>\$315,703</b>	<b>\$219,381</b>	<b>\$216,237</b>	<b>\$ 3861</b>
Equipment	12,209					
Accumulated depreciation	(3,903)					
<b>Total mineral properties and equipment September 30, 2002</b>	<b>\$1,295,598</b>					

2001 Exploration and development expenditures:	Total	Yukon					Unstaked Property and Other	
		Kathleen Lakes	Craig	Nad	Rusty/KLA	Tanner		JRS
<b>Balance September 30, 2000</b>	<b>\$2,460,010</b>	<b>\$422,368</b>	<b>\$141,816</b>	<b>\$426,659</b>	<b>\$187,088</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$1,282,079</b>
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)
<b>Balance September 30, 2001</b>	<b>929,267</b>	<b>-</b>	<b>-</b>	<b>501,671</b>	<b>203,525</b>	<b>102,935</b>	<b>120,505</b>	<b>631</b>
<b>Property acquisition costs:</b>								
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)
<b>Balance September 30, 2001</b>	<b>71,259</b>	<b>-</b>	<b>-</b>	<b>22,991</b>	<b>40,875</b>	<b>5,610</b>	<b>286</b>	<b>1,497</b>
<b>Total mineral properties September 30, 2001</b>	<b>\$1,000,526</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$524,662</b>	<b>\$244,400</b>	<b>\$108,545</b>	<b>\$120,791</b>	<b>\$ 2,128</b>
Equipment	52,875							
Accumulated depreciation	(31,672)							
<b>Total mineral properties and equipment September 30, 2001</b>	<b>\$1,021,729</b>							

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# Manson Creek Resources Ltd.

## Notes to the Financial Statements

September 30, 2002

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#### 4. Mineral properties (continued)

##### Yukon

The Company has a 100% interest in claims in the Yukon properties of Tanner, NAD, JRS and Rusty.

##### Impaired Mineral Properties

During fiscal 2001 the Company wrote-off the carrying value of the Kathleen Lakes and Craig properties in the Yukon for which they had an option to earn an interest. It became apparent in fiscal 2001 that sufficient property expenditures would not be incurred by the option agreement deadlines and exploration results were not sufficiently promising to extend the option period.

During fiscal 2001 the Company wrote-off its two Nunavut properties, Parker Lake and Rankin Inlet.

#### 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

##### b) Common shares issued:

	<u>Number of Shares</u>	<u>Stated Value</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 and September 30, 2002	<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>2002</u>	<u>2001</u>	
May 29, 2007	455,000	-	\$ 0.11
July 19, 2006	1,000,000	1,100,000	\$ 0.10
February 27, 2002	<u>-</u>	<u>75,000</u>	\$ 0.62
	<u>1,455,000</u>	<u>1,175,000</u>	

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# Manson Creek Resources Ltd.

## Notes to the Financial Statements

September 30, 2002

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### 5. Capital stock (continued)

#### d) Option Transactions

	<u>Number of Options</u>	<u>Weighted-average Exercise Price</u>
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	1,175,000	\$ 0.13
Granted	455,000	\$ 0.11
Expired or cancelled	<u>(175,000)</u>	\$ 0.33
As at September 30, 2002	<u><b>1,455,000</b></u>	\$ 0.10

### 6. Related party transactions

CDG Investments Inc., (CDG), 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, provided services, at usual professional rates, as presented below.

	<u>2002</u>	<u>2001</u>
Geological	\$ <u>72,000</u>	\$ 32,000
Direct administrative	\$ <u>56,000</u>	\$ <u>47,000</u>
	\$ <u><b>128,000</b></u>	\$ <u><b>79,000</b></u>

Included in accounts payable is \$5,000 (2001 - \$7,000) due to CDG with respect to the foregoing.

The Company sublet office space to companies related by virtue of certain common officers and directors. The aggregate base rent and operating costs charged to the Companies was \$83,000 during the year, (2001-\$95,000). Included in accounts receivable is \$6,000 due from a related company for rent and operating costs.

### 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.

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# Manson Creek Resources Ltd.

## Notes to the Financial Statements

September 30, 2002

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### 7. Income taxes (continued)

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

	<u>2002</u>	<u>2001</u>
Computed expected tax recovery at a combined		
Provincial and Federal rate of 39.8% (2001 – 44.6%)	\$ (61,000)	\$ (844,000)
Effect on income taxes resulting from:		
Non-recognition of losses and future tax		
benefits for financial statement purposes	<u>61,000</u>	<u>844,000</u>
Future income tax recovery	\$ <u>-</u>	\$ <u>-</u>

The net future income tax asset at September 30, 2002 is comprised of:

	<u>at 39.8%</u>
Capital assets with income tax values exceeding	
book values	\$ 902,000
Investments with tax values exceeding book values	15,000
Non-capital losses carried forward	<u>95,000</u>
Future income tax asset before valuation allowance	1,012,000
Valuation allowance	<u>(1,012,000)</u>
Future income tax asset	\$ <u>-</u>

- b) The Company has incurred losses for income tax purposes of approximately \$251,000 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), 2008 (\$58,000). And 2009 (\$109,000).
- 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	\$ 2,709,000	100%
Canadian development expense	354,000	30%
Foreign exploration and		
development expense	444,000	10%
Undepreciated capital cost	<u>56,000</u>	20-30%
	\$ <u>3,563,000</u>	

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# Manson Creek Resources Ltd.

## Notes to the Financial Statements

September 30, 2002

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### 8. Commitment

Effective January 1, 2002, the Company entered into a five-year contract to lease office space. Concurrent with entering into the lease agreement, the Company entered into sublease agreements with three companies related by virtue of certain common officers and directors. Pursuant to the sublease agreements, the sublessors will, in aggregate, be committed to pay 75% of base rent and lease operating costs for the duration of the office lease. The following summarizes the Company's base rent commitments for the ensuing five fiscal years:

2003	\$48,600
2004	\$48,600
2005	\$48,600
2006	\$44,550
2007	\$ -

### 9. Comparative Figures

Certain comparative amounts have been reclassified to conform with the financial statement presentation adopted in the current year.