

MANSON CREEK RESOURCES LTD.

Financial Statements

September 30, 2010

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December 9, 2010

Auditors' Report

**To the Shareholders of
Manson Creek Resources Ltd.**

We have audited the consolidated balance sheets of Manson Creek Resources Ltd. (the "Company") as at September 30, 2010 and 2009 and the consolidated statements of net and comprehensive loss and deficit and cash flows for each of the years in the two year period ended September 30, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 September 30, 2010 and 2009 and the results of its operations and its cash flows for each of the years in the two year period ended September 30, 2010 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta

Manson Creek Resources Ltd.

Balance Sheets

September 30

2010

2009

	Assets	
Current		
Cash and cash equivalents (Note 3)	\$ 103,730	\$ 24,415
Accounts receivable	6,395	5,786
Due from related parties (Note 11)	9,643	1,041
Prepaid expenses	<u>23,984</u>	<u>11,857</u>
	143,752	43,099
Other assets (Note 4)	11,382	20,382
Mineral properties and equipment (Note 5)	<u>613,640</u>	<u>424,440</u>
	\$ 768,774	\$ 487,921
	Liabilities	
Current		
Accounts payable and accrued liabilities	\$ 29,892	\$ 32,715
Due to related parties (Note 11)	<u>19,628</u>	<u>15,760</u>
	49,520	48,475
Deferred sublease revenue (Note 6)	13,298	-
Asset retirement obligation (Note 7)	<u>7,000</u>	<u>5,000</u>
	<u>69,818</u>	<u>53,475</u>
	Shareholders' Equity	
Capital Stock (Note 8)	9,633,302	9,322,640
Warrants (Note 8)	93,000	71,000
Contributed Surplus (Note 8)	1,096,765	989,765
Deficit	<u>(10,124,111)</u>	<u>(9,948,959)</u>
	<u>698,956</u>	<u>434,446</u>
	\$ 768,774	\$ 487,921

Nature and continuance of operations (Note 1)

Commitments (Note 13)

Approved by the Board

"R. Chernish" Director

"J.P. Jutras" Director

See accompanying notes to the financial statements.

Manson Creek Resources Ltd.**Statements of Net and Comprehensive Loss and Deficit**

Years Ended September 30

2010

2009

Expenses

General and administrative (Note 10)	\$ 211,986	\$ 137,029
Professional fees	32,995	24,727
Reporting to shareholders	18,475	-
Stock exchange and transfer agent fees	11,834	10,416
Amortization of capital assets	<u>422</u>	<u>2,923</u>
	(275,712)	(175,095)
Other Income (Expense)		
Sublease termination fee (Note 6)	84,000	-
Interest and other	1,202	1,224
Part XII.6 tax	(800)	-
Write-down of mineral properties (Note 5)	<u>(8,842)</u>	<u>(2,008,662)</u>
Loss before income taxes	(200,152)	(2,182,533)
Future income tax recovery (Note 12)	<u>25,000</u>	<u>37,500</u>
Net and Comprehensive Loss	(175,152)	(2,145,033)
Deficit, beginning of year	<u>(9,948,959)</u>	<u>(7,803,926)</u>
Deficit, end of year	\$ <u>(10,124,111)</u>	\$ <u>(9,948,959)</u>
Net Loss per share:		
Basic and diluted	\$ <u>0.00</u>	\$ <u>(0.05)</u>
Weighted average number of shares outstanding:		
Basic and diluted	<u>53,561,812</u>	<u>45,067,150</u>

See accompanying notes to the financial statements.

Manson Creek Resources Ltd.

Statements of Cash Flows

Years Ended September 30

2010

2009

Increase (decrease) in cash and cash equivalents

Operating activities

Interest and other income received	\$ 1,202	\$ 1,224
Sublease termination fee received	84,000	-
Sublessor rent deposit received	13,298	-
Cash operating expenses	(242,760)	(160,730)
Reclamation expenditures	-	(1,920)
	<u>(144,260)</u>	<u>(161,426)</u>

Financing activities

Private placement proceeds	350,000	63,250
Share issue costs	(4,713)	(963)
Receipt of government grant	22,710	-
Part XII.6 tax paid	-	(4,400)
	<u>367,997</u>	<u>57,887</u>

Investing activities

Mineral property additions	(153,422)	(83,538)
Exploration deposits expended	(28,585)	-
Exploration deposits received	37,585	-
Proceeds on sale of domain name	-	15,000
	<u>(144,422)</u>	<u>(68,538)</u>

Increase (decrease) in cash and cash equivalents 79,315 (172,077)

Cash and cash equivalents,

Beginning of year	<u>24,415</u>	<u>196,492</u>
End of year	<u>\$ 103,730</u>	<u>\$ 24,415</u>

Supplementary Information:

Interest and taxes

Apart from Part XII.6 tax disclosed above, there were no expenditures on interest or taxes during the years ended September 30, 2010 and September 30, 2009.

Non-cash transactions

2010

The Company issued 1,175,000 of its common shares, valued at \$76,375, pursuant to option agreements to acquire interests in the Meridian, Virgin Arm and Black Lake mineral properties. The acquisition costs were valued using the closing share price on the transaction date.

The Company granted stock options to officers, directors and employees and recorded a non-cash charge for stock-based compensation expense of \$43,000 that is included in general and administrative expenses. (Note 10)

2009

The Company issued 1,325,000 shares in aggregate pursuant to the Gillman, CR and Meridian, British Columbia; Black Lake, Saskatchewan and Molygarchy, Yukon mineral property option agreements. Further, the Company issued 100,000 of its common shares as consideration for the extension of the deadline for the CR property cash option payment. The transactions were valued at \$41,375 and \$8,000 respectively using the closing share price of the Company's shares on the transaction date.

See accompanying notes to the financial statements.

Manson Creek Resources Ltd.

Notes to the Financial Statements

September 30, 2010

1. Nature and continuance of operations

Manson Creek Resources Ltd. is engaged in the business of mineral exploration and development in Canada. Since inception, the efforts of the Company have been devoted to the acquisition, exploration and development of mineral properties. To date the Company has not received any revenue from mining operations and has not determined whether mineral properties contain reserves that are economically recoverable.

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.

These financial statements have been prepared by management on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. At September 30, 2010 the Company had a deficit of \$10,124,111 and a loss of \$175,152 for the year then ended. Subsequent to year-end the Company raised \$1,058,000 through a private placement which management believes will allow the Company to operate through the end of the next fiscal year. While the Company has sufficient working capital to fund currently budgeted exploration and other working capital needs through the end of fiscal 2011, the Company is dependent upon raising funds through the issuance of shares and/or attracting joint venture partners in order to undertake long-term exploration and development of its mineral properties. The continuing operations of the Company are dependent upon its ability to continue to obtain adequate financing or to commence profitable operations in the future. There can be no assurance that the Company will be successful in obtaining financing. As a result, there is significant risk regarding the Company's ability to continue as a going concern. These financial statements do not reflect the adjustments that might be necessary to the carrying amount of reported assets, liabilities, revenues and expenses if the Company could not continue as a going concern. Such adjustments could be material.

2. Summary of significant accounting policies

a) Future accounting changes

In February, 2008, the Canadian Accounting Standards Board, (AcSB), announced that interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011 must be prepared in accordance with International Financial Reporting Standards, (IFRS). Accordingly the Company will be required to present their financial statements for the fiscal year ended September 30, 2012 in accordance with IFRS and will be required to restate the comparatives for the fiscal year ended September 30, 2011. While the Company has begun assessing the consequences of the adoption of IFRS, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

b) Newly adopted accounting policy

Effective for the Company's year ended September 30, 2010, CICA Section 3862, "Financial Instruments - Disclosures" requires disclosures about the relative inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurements. The three levels of fair value are summarized below:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for assets or liabilities either directly or indirectly; and
- Level 3 - Inputs that are not based on observable market data.

The effects, if any, on the adoption of this section have been disclosed in Note 9.

c) Financial instruments and comprehensive income

In accordance with the CICA Handbook Section 3855, the Company is required to classify all financial instruments as either held-to-maturity, available-for-sale, held for trading or loans and receivables. Financial assets held to maturity, loans and receivables and financial liabilities other than those held for trading, are measured at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments classified as held for trading are measured at fair value with unrealized gains and losses recognized in the statement of operations.

Manson Creek Resources Ltd.

Notes to the Financial Statements

September 30, 2010

2. Summary of significant accounting policies (continued)

c) Financial instruments and comprehensive income

In accordance with the CICA Handbook Section 1530, comprehensive income is the change in shareholders' equity during a period from transactions and other events and circumstances from non-owner sources. Accumulated other comprehensive income, if applicable, is included in the shareholders' equity section of the balance sheet. The components of this category include unrealized gains and losses on financial assets classified as available-for-sale, foreign currency gains or losses applicable to the Company's subsidiaries that are self-sustaining operations and the effective portion of cash flow hedges. The Company had no "other comprehensive income/loss" transactions during the two years ended September 30, 2010 and no opening or closing balances for accumulated other comprehensive income or loss.

d) 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. Significant estimates include recoverability of property and equipment and valuation of options and warrants. Actual results could differ from those estimates.

e) 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. If an area of interest is abandoned, the related costs are charged to operations. The Company reviews the carrying values of mineral property interests on a quarterly basis by reference to the project economics, including the timing of the exploration and/or development work, the work programs and exploration results experienced by the Company and others, and the extent to which optionees have committed, or are expected to commit to, exploration on the property. When it becomes apparent that the carrying value of a specific property exceeds its estimated net recoverable amount based on the foregoing criteria, an impairment provision is made for the decline in value.

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. Option payments made by the Company are recorded as mineral property costs. Options are exercisable entirely at the discretion of the optionee and accordingly, are recorded as mineral property costs or recoveries when the payments are made or received.

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

f) 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. On the renunciation date future income tax liability is increased and capital stock is reduced by the estimated tax benefits transferred to shareholders. To the extent that qualifying flow-through expenditures are incurred in the calendar year following the year of renunciation, Part XII.6 tax, calculated at the legislated interest rate, accrues on the unexpended amounts. This Part XII.6 tax is expensed in the year that it accrues.

g) Asset retirement obligations

An asset retirement obligation is a legal obligation associated with the retirement of tangible long-lived assets that the Company is required to settle. This would include obligations related to future removal of property and equipment, and site restoration costs. A liability, for the fair value of environmental and site restoration obligations, is recorded when the obligations are incurred and the fair value can be reasonably estimated. The fair value of the obligations is based on the estimated cash flow required to settle the obligations discounted using the Government of Canada Bond Rate for the applicable term adjusted for the Company's credit rating. The fair value of the obligations is recorded as a liability with the same amount recorded as an increase in capitalized costs. The amounts included in capitalized costs are depleted using the unit-of-production method at such point that the mineral property achieves commercial production, or the costs will be written-off at such time that management considers that the value of the related property

Manson Creek Resources Ltd.

Notes to the Financial Statements

September 30, 2010

2. Summary of significant accounting policies (continued)

g) Asset retirement obligations

has been impaired. The liability is adjusted for accretion expense representing the increase in the fair value of the obligations due to the passage of time. The accretion expense is recorded as an operating expense.

The ultimate amount of future restoration costs is uncertain; circumstances could arise over the years that would require material revisions to these estimated obligations. Changes in assumptions could have a material effect on the fair value of asset retirement obligations.

h) Income taxes

Income taxes are recorded using the liability method of tax allocation. Future income taxes are calculated based on temporary 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 temporary 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 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.

i) 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. Reference can be made to note 8(c) and (e) for a summary of options and warrants outstanding that could potentially dilute basic earnings per share in the future but were excluded from the calculation in the years disclosed because their effect was anti-dilutive.

j) Stock-Based Compensation

The Company follows the "fair value" method of accounting for stock-based compensation arrangements, whereby the fair value of the stock options at the date of grant is recorded as compensation cost and a credit to contributed surplus over the vesting period. The fair value is determined using an option-pricing model that takes into account the exercise price and expected life of the option, the current price of the underlying stock, its expected volatility, the expected dividends on the stock, and the current risk-free interest rate for the expected life of the option.

k) Government incentives

Through its exploration in Newfoundland and Labrador, the Company is eligible for government exploration grants. These incentives are not repayable provided that the Company meets the requirements of the agreement, the most significant of which is that the incentives apply to qualifying expenditures. Qualifying expenditures are defined broadly within the agreement as all reasonable expenses for contracted services, machinery rental, transportation of machinery, personnel and supplies or other approved costs in connection with the Virgin Arm exploration program. The incentives reduce the mineral property costs to which they pertain in the period that the qualifying expenditures are incurred or when eligibility becomes apparent if this is later. These government incentives are subject to review by the relevant granting authorities, and by their nature are subject to measurement uncertainty. Adjustments, if any, resulting from such a review are recorded in the period during which the final grant payment amount is assessed by the governing agency.

3. Cash and cash equivalents

Cash and cash equivalents may include cash and highly liquid Canadian dollar denominated investments in bankers' acceptances, with terms to maturity of 90 days or less when acquired. The counter-parties are financial institutions.

Restricted cash

At September 30, 2010, unexpended proceeds from flow-through share issuances in the amount of \$8,800, (\$Nil -Sept. 30, 2009), that are restricted for use on qualifying exploration expenditures are included in cash and cash equivalents. The Company is committed to expend the restricted cash held at year end on qualifying exploration expenditures by December 31, 2010.

Manson Creek Resources Ltd.

Notes to the Financial Statements

September 30, 2010

4. Other assets		<u>2010</u>	<u>2009</u>
Long-term prepaid expense	\$	3,382	\$ 3,382
Mineral exploration deposits		3,000	17,000
Exploration advance		<u>5,000</u>	<u>-</u>
	\$	<u>11,382</u>	\$ 20,382

5. Mineral properties and equipment

The following summarizes changes in mineral property and equipment during the years ended September 30, 2010 and September 30, 2009 respectively:

2010	Total	Newfoundland	British Columbia	Other
		Virgin Arm	Meridian	
Exploration expenditures:				
Balance September 30, 2009	\$ 348,543	\$ -	\$ 348,543	\$ -
Geological consulting	68,104	64,738	966	2,400
Geochemical analysis	13,173	13,173	-	-
Geophysical survey	11,400	11,400	-	-
Field costs	10,838	5,838	5,000	-
Travel and accommodations	9,129	9,129	-	-
Asset retirement obligation	2,000	2,000	-	-
Equipment rental	8,905	8,905	-	-
Government exploration grant	(22,710)	(22,710)	-	-
Write-down of mineral properties	(717)	-	-	(717)
Balance September 30, 2010	448,665	92,473	354,509	1,683
Property acquisition costs:				
Balance September 30, 2009	75,475	-	75,475	-
Costs incurred	97,625	16,500	72,370	8,755
Write-down of mineral properties	(8,125)	-	-	(8,125)
Balance September 30, 2010	164,975	16,500	147,845	630
Total mineral properties September 30, 2010	\$ 613,640	\$ 108,973	\$ 502,354	\$ 2,313

2009	Total	Yukon	Sask.	British Columbia		
		Molygarchy	Black Lake	Gillman	Meridian	CR
Exploration expenditures:						
Balance September 30, 2008	\$2,032,533	\$ 97,333	\$ 921,747	\$63,287	\$315,379	\$634,787
Geological consulting	42,664	6,771	-	9,599	22,398	3,895
Geochemical analysis	8,950	-	3,172	-	5,778	-
Field costs	7,547	1,394	-	986	4,988	180
Adjust asset retirement obligation	(3,057)	-	-	-	-	(3,057)
Write-down of mineral properties	(1,740,094)	(105,498)	(924,919)	(73,872)	-	(635,805)
Balance September 30, 2009	348,543	-	-	-	348,543	-
Property acquisition costs:						
Balance September 30, 2008	294,835	11,592	38,525	43,260	63,232	138,226
Costs incurred	49,208	10,000	725	14,073	12,243	12,167
Write-down of mineral properties	(268,568)	(21,592)	(39,250)	(57,333)	-	(150,393)
Balance September 30, 2009	75,475	-	-	-	75,475	-
Total mineral properties September 30, 2009	\$424,018	\$ -	\$ -	\$ -	\$424,018	\$ -
Equipment	25,084					
Accumulated amortization	(24,662)					
Total mineral properties and equipment September 30, 2009	\$424,440					

Manson Creek Resources Ltd.

Notes to the Financial Statements

September 30, 2010

5. Mineral properties (continued)

Virgin Arm, Newfoundland and Labrador

During the year ended September 30, 2010, the Company entered into an acquisition agreement with a non-related party to acquire 42 claims approximately 65 kilometers from Gander, Newfoundland. In order to acquire a 100% interest in the property, subject to a 2.5% net smelter return royalty, the Company must make the following staged payments:

<u>Date</u>	<u>Cash</u>	<u>Common Shares</u>
Upon signing (paid/issued)	\$ 10,000	100,000
November 30, 2010 (paid/issued subsequent to year-end)	\$ 30,000	100,000
November 30, 2011	\$ 35,000	100,000
November 30, 2012	\$ 75,000	100,000
November 30, 2013	<u>\$150,000</u>	<u>100,000</u>
Total	<u>\$300,000</u>	<u>500,000</u>

Upon completion of the acquisition, the Company may acquire up to a 1.5% net smelter interest in the property for \$1,000,000 per percentage interest. If at any point the Company is in default of the above-noted payment schedule, the property will revert to the vendor. The Company can terminate the agreement without penalty at any time, provided that it has given proper and timely notice to the vendor, and will not be obligated to make payments or issue shares due after the termination date.

British Columbia

Meridian Property

During the year ended September 30, 2010 the Company completed the acquisition of 12 prospective gold/silver mineral tenures aggregating 675 hectares in the Revelstoke mining district in eastern British Columbia. As consideration for the acquisition of the 100% interest in the property, subject to a 2.0% net smelter return royalty, the Company paid \$50,000 and issued 1,425,000 shares over five years. The Company may acquire three quarters of the vendor's retained 2.0% net smelter interest in the property for \$1,500,000.

Impaired mineral properties 2010

During the year ended September 30, 2010 the Company made the final payment of 125,000 common shares to acquire 100% of the Black Lake mineral property, subject to a net smelter interest, so that the Company could pursue optioning out the property or investigating joint venture opportunities at some point in the future. The value associated with the current year share issue was booked to property and written-off in the current year to reflect management's assessment of the property value based on current market conditions.

Impaired mineral properties 2009

During the year ended September 30, 2009 the Company determined that it would devote its financial resources to the development of other mineral properties and would not be exploring further on the CR and Gillman mineral properties in British Columbia, the Black Lake property in Saskatchewan and the Molygarchy property in the Yukon. Consequently, it wrote off the carrying costs of approximately \$2,009,000 during fiscal 2009. All of the aforementioned mineral properties, with the exception of the Black Lake property, have been returned to the vendors.

6. Deferred sublease revenue and sublease termination fee

During the year ended September 30, 2010 the Company received an \$84,000 termination fee from a sublessor as payment for the early termination of its sublease with the Company. The full amount has been included in earnings in this period as the sublessor had foregone the rights and obligations associated with the use of the property effective on the lease termination date of June 1, 2010. This accounting is in accordance with EIC 61, "Lessor Accounting for a Lease Cancellation." Coincident with the termination, a corporation, related by virtue of certain common officers and directors, entered into a sublease agreement with the Company. Upon commencement of the sublease, the sublessor paid a deposit equal to the aggregate September, 2011 through December, 2011 sublease charges of \$13,298. This deposit is reflected as deferred sublease revenue in the balance sheet.

Manson Creek Resources Ltd.

Notes to the Financial Statements

September 30, 2010

7. Asset retirement obligation

Changes in the asset retirement obligation for the years ended September 30, 2010 and September 30, 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 5,000	\$ 9,977
Reclamation work performed during the year	-	(1,920)
Asset retirement obligation adjustments	<u>2,000</u>	<u>(3,057)</u>
Balance, end of year	<u>\$ 7,000</u>	<u>\$ 5,000</u>

The current year asset retirement obligation of \$7,000 represents the estimated reclamation costs for the Meridian, British Columbia and Virgin Arm, Newfoundland and Labrador mineral properties.

The remediation at CR, British Columbia was completed during the year ended September 30, 2009 and the adjustment to the 2009 estimate represented the excess of estimated remediation costs over actual costs. The remaining \$5,000 liability at September 30, 2009 represented an estimate of clean-up costs for the Meridian, British Columbia property.

8. Capital Stock, Warrants and Contributed Surplus

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) Issued

	<u>Number of Common Shares</u>	<u>Shares Amount</u>	<u>Contributed Surplus</u>	<u>Number of Warrants</u>	<u>Warrants Amount</u>
Balance Sept. 30, 2008	42,964,986	\$9,255,478	\$ 651,698	7,933,970	\$402,067
Warrant expiries	-	-	338,067	(6,426,470)	(338,067)
Issued in consideration of option payment extension	100,000	8,000	-	-	-
Issued pursuant to property acquisitions	1,325,000	41,375	-	-	-
Issued pursuant to private placement (net of share issue costs of \$963)	2,530,000	55,287	-	1,265,000	7,000
Tax effect of flow-through renunciation	-	(37,500)	-	-	-
Balance Sept. 30, 2009	<u>46,919,986</u>	<u>9,322,640</u>	<u>989,765</u>	<u>2,772,500</u>	<u>71,000</u>
Issued pursuant to private placement (net of share issue costs of \$4,713)	6,666,666	259,287	-	5,833,333	86,000
Warrant expiries	-	-	64,000	(1,507,500)	(64,000)
Issued pursuant to property acquisitions	1,175,000	76,375	-	-	-
Stock-based compensation (Note 10)	-	-	43,000	-	-
Tax effect of flow-through renunciation	-	(25,000)	-	-	-
Balance Sept. 30, 2010	<u>54,761,652</u>	<u>\$9,633,302</u>	<u>\$1,096,765</u>	<u>7,098,333</u>	<u>\$ 93,000</u>

Refer to subsequent events note 16.

Manson Creek Resources Ltd.

Notes to the Financial Statements

September 30, 2010

8. Capital Stock, Warrants and Contributed Surplus (continued)

b) Issued

During the year ended September 30, 2010, the Company issued 1,175,000 shares in aggregate pursuant to the Meridian, British Columbia; Black Lake, Saskatchewan and Virgin Arm, Newfoundland and Labrador mineral property option agreements. The acquisition costs were valued using the market price of the Company's shares on the issue date.

During the year ended September 30, 2010, the Company completed a non-brokered private placement consisting of 1,666,666 flow-through units at a price of \$0.06 per unit and 5,000,000 non-flow-through units at a price of \$0.05 per unit, for gross proceeds of \$350,000. Directors and/or officers acquired 46,666 of the flow-through units and 500,000 of the non-flow-through units. Each flow-through unit was comprised of one flow-through common share and one half of one warrant. Each whole warrant entitles the holder to acquire one common share at \$0.10 per share to November 24, 2011. Each non-flow-through unit was comprised of one common share and one warrant. Each warrant entitles the holder to acquire one common share at \$0.10 per share to November 24, 2011. The warrants issued pursuant to the private placement were valued at \$86,000 using the Black Scholes Option Pricing Model assuming volatility of 88%, a risk-free interest rate of 1.15%, a 0% dividend rate and a two year warrant life.

During the year ended September 30, 2010, the Company granted 900,000 options in aggregate to officers, directors and employees. The value assigned to the stock-based compensation is reflected above in contributed surplus. (Refer to note 10)

Exploration expenditures aggregating \$100,000 were renounced to flow-through share investors during the year ended September 30, 2010, (2009 - \$150,000). The \$25,000, (2009 - \$37,500), tax value associated with these resource expenditures reduced capital stock and was recognized as future income taxes payable. As the Company has unrecognized future tax assets, this liability was extinguished through the recognition of a future tax recovery in the statement of operations in both years.

During the year ended September 30, 2009, the Company closed a private placement of 2,530,000 units at \$.025 per unit for gross proceeds of \$63,250. Each unit was comprised of one common share and one half of one common share purchase warrant. Each whole common share purchase warrant may be exercised to acquire one common share at \$0.10 per share to April 30, 2011. Officers, directors, or their immediate family acquired, in aggregate, 730,000 of the units. The warrants were valued at \$7,000 using the Black Scholes Option Pricing Model assuming volatility of 88%, a 0.98% risk-free interest rate, a 0% dividend rate and a two year warrant life.

During the year ended September 30, 2009, the Company issued 1,325,000 shares in aggregate pursuant to the Gillman, CR and Meridian, British Columbia; Black Lake, Saskatchewan and Molygarchy, Yukon mineral property option agreements. Further, during this period, the Company issued 100,000 of its common shares as consideration for the extension by one year of the CR property final cash option payment deadline to June 30, 2010. The transactions were valued using the market price of the Company's shares on the issue date.

c) Outstanding options

<u>Expiry Date</u>	<u>Number of Shares</u>		<u>Price</u>
	<u>2010</u>	<u>2009</u>	
March 2, 2015	900,000	-	\$ 0.10
December 20, 2012	1,025,000	1,025,000	\$ 0.10
April 26, 2011	100,000	100,000	\$ 0.14
May 12, 2010	-	675,000	\$ 0.16
	<u>2,025,000</u>	<u>1,800,000</u>	

The Company has an option plan, (the Plan), under which up to 10% of the issued and outstanding common shares are reserved for issuance. Under the Plan, the options that have been granted expire on the earlier of five years from the grant date, the date at which the Directors determine, or 60 days from the date on which the optionee ceases to be a director, officer, employee or consultant. The exercise price of the options granted under the Plan will not be less than that from time to time permitted under the rules of the stock exchange or exchanges on which the shares are then listed, which price reflects trading values at that time. All of the above options vested immediately upon granting.

Manson Creek Resources Ltd.

Notes to the Financial Statements

September 30, 2010

8. Capital Stock, Warrants and Contributed Surplus (continued)

d) Option transactions

	<u>Number of Options</u>	<u>Average Exercise Price</u>
As at September 30, 2008 and September 30, 2009	1,800,000	\$0.12
Granted	900,000	\$0.10
Expired without exercise	<u>(675,000)</u>	<u>\$0.16</u>
As at September 30, 2010	<u>2,025,000</u>	<u>\$0.10</u>

e) Warrants

Warrant transactions during the years ended September 30, 2010 and September 30, 2009, and balances as at the respective year ends, are summarized below:

2010

Sept. 30, 2009	Issued	Expired	Sept. 30, 2010	Exercise Price	Expiry	Description
1,500,000	-	(1,500,000)	-	\$0.15	Jun.12/10	Warrants
7,500	-	(7,500)	-	\$0.13	Jun.12/10	Brokers' warrants
1,265,000	-	-	1,265,000	\$0.10	Apr. 30/11	Warrants
-	5,833,333	-	5,833,333	\$0.10	Nov.24/11	Warrants
2,772,500	5,833,333	(1,507,500)	7,098,333			

2009

Sept. 30, 2008	Issued	Expired	Sept. 30, 2009	Exercise Price	Expiry	Description
2,600,000	-	(2,600,000)	-	\$0.13	Dec. 28/08	Warrants
926,470	-	(926,470)	-	\$0.40	Jul.31/09	Series B warrants
2,900,000	-	(2,900,000)	-	\$0.50	Jul.31/09	Series C warrants
1,500,000	-	-	1,500,000	\$0.15	Jun.12/10	Warrants
7,500	-	-	7,500	\$0.13	Jun.12/10	Brokers' warrants
-	1,265,000	-	1,265,000	\$0.10	Apr. 30/11	Warrants
7,933,970	1,265,000	(6,426,470)	2,772,500			

Refer to subsequent events note 16.

9. Financial instruments

The following summarizes the carrying values of the various financial instrument categories:

<u>Category</u>	<u>Carrying value</u>	
	<u>Sept. 30, 2010</u>	<u>Sept. 30, 2009</u>
Held for trading (Cash and cash equivalents)	\$ 103,730	\$ 24,415
Loans and receivables (Accounts receivable & due from related parties)	\$ 16,038	\$ 6,827
Other financial liabilities (Accounts payable and accrued liabilities & due to related parties)	\$ 49,520	\$ 48,475

Loans and receivables and other financial liabilities are carried at amortized cost which approximates fair value and cost due to the short-term nature of the instruments. Held for trading investments are carried at fair value which approximates cost due to their short-term nature. The fair value of cash and cash equivalents has been determined using Level 1 inputs, (Note 2b). Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

Manson Creek Resources Ltd.

Notes to the Financial Statements

September 30, 2010

10. Stock based compensation

Included in general and administrative expenses for the year ended September 30, 2010 is stock based compensation in the amount of \$43,000, (2009 - \$Nil). The fair value of the compensation was determined using the Black Scholes option-pricing model assuming 88% volatility, 1.46% risk-free interest rate, 0% dividend rate and an expected option life of 2 years for the 900,000 options granted at an exercise price of \$0.10 per share.

11. Related party transactions

Officers and directors of the Company billed for their consulting services at hourly or daily rates, either personally or through their controlled corporations. The aggregate billed for the year ended September 30, 2010 was \$101,000, (2009 - \$79,900). Related party payables at September 30, 2010 and September 30, 2009 pertained to general and administrative and secretarial billings and/or unpaid consultants' billings.

The Company sublet office space to companies related by virtue of certain common officers and directors and incurred certain administrative expenditures on their behalf. The aggregate base rent, operating and administrative costs charged to the related companies was \$51,800 during the year ended September 30, 2010, (2009-\$37,200). Amounts due from related parties pertain to rent and administrative charges unpaid at the respective year ends. During the year ended September 30, 2010, the Company received from a company, related by virtue of certain common officers and directors, a rental deposit of \$13,000, representing the final four months rent, as security for an office sublease they entered into with the Company. A company related by virtue of certain common officers and directors billed the Company \$700 for its share of postage during the year ended September 30, 2010, (2009 - \$Nil). Another company, related by virtue of certain common officers and directors, billed the Company \$4,500, (2009 - \$Nil), for its share of office and secretarial charges.

Related party transactions were in the normal course of operations and were measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

During the year ended September 30, 2009 the Company sold a domain name to two officers of the Company for its \$15,000 cost which was estimated to equate to fair value. The transaction was measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

Refer also to notes 8(b) and 16.

12. Income taxes

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

	<u>2010</u>	<u>2009</u>
Computed expected tax recovery at a combined Provincial and Federal rate of 28% (2009 – 29%)	\$ 56,000	\$ 633,000
Effect on income taxes resulting from:		
Change in valuation allowance	21,000	(357,000)
Tax rate adjustment	(2,000)	(207,000)
Permanent differences and other	(19,000)	500
Expiry of losses	(31,000)	(32,000)
Future income tax recovery	<u>\$ 25,000</u>	<u>\$ 37,500</u>

- b) The net future income tax asset at September 30, 2010 and 2009 is comprised of:

	<u>2010</u>	<u>2009</u>
Mineral properties and equipment with income tax values exceeding book values	\$ 1,044,000	\$ 1,067,000
Other	2,000	16,000
Non-capital losses carried forward	<u>372,000</u>	<u>356,000</u>
Future income tax asset before valuation allowance	1,418,000	1,439,000
Valuation Allowance	<u>(1,418,000)</u>	<u>(1,439,000)</u>
Future income tax asset	<u>\$ -</u>	<u>\$ -</u>

Manson Creek Resources Ltd.

Notes to the Financial Statements

September 30, 2010

12. Income taxes (continued)

- c) The Company has incurred losses for income tax purposes of approximately \$1,488,000 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 as follows:

<u>Expiry Year</u>	<u>Amount</u>
2014	\$ 104,000
2015	154,000
2026	231,000
2027	294,000
2028	321,000
2029	207,000
2030	177,000
	<u>\$1,488,000</u>

- d) As at September 30, 2010 the Company had 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	\$3,410,000	100%
Canadian development expense	867,000	30%
Foreign exploration and development expense	444,000	10%
Undepreciated capital cost	69,000	20 – 100%
	<u>\$4,790,000</u>	

13. Commitments

The Company rents office space pursuant to a lease agreement that extends to December 31, 2011. The Company subleases a portion of this space pursuant to sublease agreements that extend to December 31, 2011. Pursuant to these sublease agreements, companies, related by virtue of common officers and/or directors, are committed to pay 38% of the above-noted base rent. The Company's remaining base lease commitments by fiscal year as well as sublease commitments that represent a cost recovery are as follows:

<u>Fiscal year</u>	<u>Committed base lease expense</u>	<u>Committed base sublease income</u>	<u>Excess of committed base lease expense over committed base sublease income</u>
2011	\$ 99,500	\$ 37,600	\$ 61,900
2012	\$ 24,900	\$ 9,400	\$ 15,500

Refer also to Note 5 regarding option commitments relating to mineral property acquisitions.

14. Capital

The Company's objective when managing capital is to continue as a going concern so that it can provide value to shareholders by acquiring and conducting exploration on mineral exploration properties with the ultimate objective of finding commercial quantities of base and/or precious metals. Capital is defined as capital stock, warrants, contributed surplus and deficit. The Company has traditionally financed through equity issues rather than debt and does not anticipate using debt to finance its continuing grass roots exploration. Should the Company evolve to the point where it is developing or operating a mine, debt options will be investigated.

The Company will raise equity as cash flow requirements dictate and will attempt, when able, to time financings with more favorable market conditions. The Company can scale back exploration, and to a certain extent, discretionary administrative costs during tighter equity markets. The Company invests all capital that is surplus to its immediate operational needs in short-term, liquid and highly-rated financial instruments such as Bankers' Acceptances.

Manson Creek Resources Ltd.

Notes to the Financial Statements

September 30, 2010

14. Capital (continued)

The externally imposed capital requirement that the Company is exposed to relates to flow-through shares. Pursuant to flow-through agreements entered into with flow-through share subscribers, the Company is committed to use the full proceeds of these issuances to incur qualifying mineral exploration expenditures within a prescribed time frame. Should the Company not incur qualifying expenditures equal to the flow-through renunciations within the prescribed time frame, it would be required to pay the flow-through subscribers an amount equal to the tax payable by the subscriber as a result of the Company's failure to incur the expenditures. As indicated in note 3, as at September 30, 2010, the Company is required to incur a further \$8,800 of qualifying exploration expenditures by December 31, 2010.

15. Financial Risk Management

a) Credit risk

Credit risk is the risk of financial loss to the Company if counterparties to a financial instrument fail to meet their contractual obligations. The Company's financial instruments that could be subject to credit risk consist of related party receivables, GST/HST input tax credits and cash held in bankers' acceptances. The Company considers credit risk to be low on these instruments as at September 30, 2010.

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's approach to managing liquidity risk is the utilization of budgets, to attempt to maintain sufficient liquidity in order to meet operational and exploration requirements as well as property acquisition commitments. The Company raises capital through equity issues and its ability to do so is dependent on a number of factors including market acceptance, stock price and exploration results. Liquidity risk was high at September 30, 2010 due to limited cash resources. However, subsequent to year-end the Company raised \$1,058,000, before share issue costs, by way of a private placement – see note 16. The financing will allow the Company to pursue its 2011 exploration program and fund operating costs through the end of fiscal 2011. Refer also to Note 1, "Nature and continuance of operations."

c) Market risk

Market risk consists of currency risk, commodity price risk and interest rate risk. The objective of market risk management is to manage and control market risk exposures within acceptable limits. As all of the Company's transactions are denominated in Canadian dollars, the Company is not exposed to foreign currency exchange risk at this time. As the Company has not yet developed commercial producing mineral interests, it is not exposed to commodity price risk at this time. As the Company has no debt facility and does not have significant interest earnings at this time, it is not exposed to interest rate risk at this time.

16. Subsequent events

On November 3, 2010 the Company completed a non-brokered private placement of 18,500,000 units, ("Common Units"), at a price of \$0.05 per Common Unit, and 1,900,000 flow-through units, ("FT Units"), at a price of \$0.07 per FT Unit for gross proceeds of \$1,058,000. Each Common Unit consists of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one common share at a price of \$0.10 per share to May 3, 2012. Each FT Unit consists of one common flow-through share and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase one common share at a price of \$0.10 per share to May 3, 2012. A total of 200,000 Common Units were purchased by a director of the Company. Finders' fees aggregating \$71,610, (7% of eligible gross proceeds), were paid to eligible agents pursuant to the offering.

Immediately after the financing the number of common shares and warrants outstanding was 75,161,652 and 26,548,333 respectively.

Refer also to note 5 regarding shares and cash issued on November 30, 2010 pursuant to the Virgin Arm mineral property option agreement.

**MANSON CREEK RESOURCES LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

The information included in this document should be read in conjunction with the audited financial statements for the year ended September 30, 2010 and related notes thereto. The financial information in this Management Discussion and Analysis, (MD&A), is derived from the Company's financial statements prepared in accordance with Canadian Generally Accepted Accounting Principles. The effective date of this MD&A is December 9, 2010. All dollar amounts are in Canadian Dollars unless otherwise stated.

Statements and/or financial forecasts that are unaudited and not historical, including exploration and administrative budgets, are to be regarded as forward-looking statements that are subject to risks and uncertainties that can cause actual results to differ materially from those anticipated. Such risks and uncertainties include risks related to the Company's business including, but not limited to: general market and economic conditions, limited operating history, continued industry and public acceptance, regulatory compliance, potential liability claims, additional capital requirements and uncertainty of obtaining additional financing and dependence on key personnel. Actual exploration and administrative expenditures can differ from budget due to unforeseen circumstances, changes in the market place that will cause suppliers' prices to change, and additional findings that will dictate that the exploration plan be altered to result in more or less work.

All forward-looking information is stated as of the effective date of this document, and is subject to change after this date. There can be no assurance that forward-looking information will prove to be accurate and future events and actual results could differ materially from those anticipated.

1) Principal Business of the Company

Manson Creek Resources Ltd., (the Company), trading as MCK on the TSX.V, is engaged exclusively in the business of mineral exploration and development and, as the Company has no mining operations, is considered to be in the exploration stage. The Company's philosophy is to acquire projects at the grass roots level and advance them to a point where partners can be brought in to further the properties to the stage where a mine is commercially feasible or the property can be sold outright.

The recoverability of the amounts comprising mineral properties 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 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.

The Company has no operating income and no earnings; exploration and operating activities are financed by the sale of common shares and warrants. None of the Company's properties are in production. Consequently, the Company's net income is a less meaningful indicator of its performance or potential.

2) Year ended September 30, 2010 Highlights

- a) The Company completed the 100% acquisition of the Meridian property, subject to a 2% net smelter return royalty.
- b) The Company entered into an acquisition agreement to acquire a 100% interest, subject to a 2.5% net smelter return royalty, in the Virgin Arm prospective gold mineral property located approximately 65 kilometers from Gander Newfoundland.
- c) The Company completed a \$350,000 private placement financing, the proceeds of which have funded mineral property option payments, exploration on its newly-acquired Virgin Arm, Newfoundland property, and working capital needs.
- d) The Company completed its Spring 2010 trenching program on the Virgin Arm property. Work completed on the Hank and Homer Zones of the property resulted in the discovery of a new gold bearing system. Significant gold assays, ranging from 0.50 grams per tonne, (g/t), gold to 10.07 g/t gold, were received from continuous channel samples perpendicular to the exposed 410 meter long mineralized zone.
- e) Subsequent to year-end the Company completed a \$1,058,000 financing.

**MANSON CREEK RESOURCES LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

3) Mineral Properties

British Columbia

a) Meridian

During the year ended September 30, 2010, upon making the final option payment, the Company completed the acquisition of 100% of the Meridian property, subject to a 2.0% net smelter interest, three quarters of which may be purchased by the Company for \$1,500,000. Meridian, located 45 kilometers from Revelstoke, British Columbia, encompasses five past producing gold mines that were active in the early 1900's.

During 2006 a number of samples were taken during a due diligence visit, including grab samples from dumps proximal to historic mine workings and chip and composite samples taken from within a number of the historical underground workings. Mine dump samples ranged from 0.53 to 90.6 grams per tonne, (g/t), gold and 0.20 to 563 g/t silver. A composite sample along the length of a 2 meter wide quartz vein in one of the adits assayed 46.6 g/t gold and 24.7 g/t silver over a length of 10 meters. Excessive rainfall limited access to the property during 2007. A seven hole, 1141 meter drill program was completed in early July, 2008. The program tested a number of prospective zones proximal to the workings of the historical Eva Mine. All of the drill holes intersected shear zones and the associated quartz veins along strike and to depth of the historical workings.

Significant drill results from the 2008 exploration program ranged from 0.33 g/t, gold and 0.23 g/t silver over 23 meters on hole 1 to 5.94 g/t gold and 1.7 g/t silver over 1 meter on hole 2. Surface sampling conducted at the time of drilling further demonstrated the widespread mineralization. One grab sample assayed 194.00 g/t gold and 48.1 g/t silver. The sample was collected from an outcrop of sheeted quartz veins within a carbonate altered sediment host located along strike of the Camborne Fault and between drill setups for hole 2 and 3. Further, sampling from a 3.0 meter exposure of the cross fault between drill setups for hole 4 and 5 returned 4.42 g/t gold and 1.4 g/t silver on a 1.0 meter continuous chip sample and a grab sample returned 10.6 g/t gold and 4.4 g/t silver from the same location.

The summer 2009 exploration program included underground mapping and sampling of historical workings. Prospecting and sampling of the Imperial area, located 280 meters to the west/southwest of the main Meridian zone, returned 11.6 g/t gold and 2.4 g/t silver over 1.0 meter in a continuous chip sample. This interval was located within a broader 2.0 meter zone grading 6.65 g/t gold and 1.35 g/t silver. Sampling in the Criterion stope, a zone that is approximately perpendicular to the Meridian mineralized trend, returned an assay of 20.5 g/t gold and 3.3 g/t silver from a continuous chip sample of 0.60 meters of quartz vein containing iron carbonate within the broader 2.0 meter zone. Further, 15 samples collected in development stopes of the historical Eva Mine contained a weighted average of 0.26 g/t gold.

The results of the 2009 program, as integrated into the geological and structural model, will guide future drilling. Drilling would continue the process of delineating this gold-bearing system. Work on this property has been temporarily deferred while the Company focuses its efforts on the Virgin Arm, Newfoundland and Labrador property that can be advanced more quickly and efficiently at this time.

b) CR

The Company wrote-off the CR property costs during the year ended September 30, 2009. During the current period, the Company continued to examine various options for advancing the CR property, including optioning the property to another company or finding an interested joint venture partner. When no such arrangement could be made, the Company notified the vendor of its intention to terminate the option agreement and returned the property to the vendor.

Saskatchewan

Black Lake

During the year ended September 30, 2009 the Company determined that it would no longer pursue exploration on the Black Lake property. Consequently the property costs, aggregating \$964,000, were written-off. During the year ended September 30, 2010 the Company issued the final tranche of 125,000 of its common shares to the vendor resulting in the acquisition of a 100% interest in the property, subject to a

**MANSON CREEK RESOURCES LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

3) Mineral Properties (continued)

Black Lake

net smelter interest. The acquisition enables the Company to pursue optioning out the property or investigating joint venture opportunities at some point in the future. The value associated with the current period share issue was booked to property and written-off in the current year to reflect management's assessment of the property's value based on current market conditions.

Newfoundland and Labrador

Virgin Arm

During the year ended September 30, 2010, the Company entered into an acquisition agreement to acquire 42 mineral claims approximately 65 kilometers from Gander, Newfoundland. Historical data indicates that the road-accessible, 1047 hectare property hosts gold showings over a strike length of three kilometers. Visible gold was found at several showings along with assays up to 99.7 grams per tonne, (g/t) to 127 g/t gold. Work on the property by another party in 2002 outlined a 2 kilometer long gold in soils anomaly which remains uninvestigated.

The Company completed the Spring, 2010 trenching program that had a proposed budget for Phase 1 work of \$86,000 with actual costs approximating budget. Seven trenches were completed in the Hank and Homer zones of the property, while two trenches were completed on the Barney zone. Continuous rock saw channel samples were taken from exposed bedrock in the nine trenches. Detailed assay results can be found in the Company's press release dated June 16, 2010. Significant gold values from the Homer trench samples ranged from 0.54 g/t gold to 5.40 g/t gold over widths of 4.5 meters, (m), and 1.00 m respectively. Two exploratory trenches extending 85 m along strike length at the Hank showing returned strong gold mineralization values with the zone remaining open along strike. Assay results from the Hank showing included 0.69 g/t gold to 10.07 g/t gold over widths of 4.50 m and 1.12 m respectively. Broad zones of low grade mineralization of 0.10 g/t gold to 0.13 g/t gold over widths of 7.55 m and 4.35 m respectively were outlined during the trenching program on the Barney zone.

The Spring 2010 program has demonstrated a widespread, previously unrecognized, gold system and has confirmed the potential for the discovery of large bulk tonnage gold mineralization. With outcrop being sparse across the Virgin Arm claim block, mechanized trenching remains the most cost effective method for the early stage work on this newly discovered system. Permits are in place for continued trenching in the priority areas. Historical soil geochemical data is being integrated into the current dataset to assist in further outlining priority targets on the extensive claim block. During the year ended September 30, 2010, the Company received a Junior Exploration Assistance Grant from the Newfoundland and Labrador Government which returned 50% of eligible costs of the spring trenching program for a total of \$22,710.

The Company completed a 28.4 kilometer ground magnetic geophysical survey in August. Analysis of the data outlined high priority targets for follow-up exploration. Numerous soil geochemical zones with significantly elevated arsenic and/or gold values are coincident with many of the magnetic anomalies. The Company conducted a modest prospecting program during October, 2010 and examined these anomalies. This work will assist in prioritizing the next round of trenching.

With proceeds from the November financing, the Company plans to undertake exploration programs in 2011 that will include: 1) detailed soil sampling in priority areas of the claim block to further define trenching targets; 2) trenching to expand existing open-ended gold mineralization and expand identified geochemical and geophysical priority anomalies and; 3) conducting a diamond drill program that will expand open-ended gold mineralization, explore the nature of gold mineralization at depth, begin the process of building a resource estimate and test additional zones of gold mineralization shown in the trenching program.

Yukon

Tell

Subsequent to year-end the Company staked additional claims surrounding the Tell claims that the Company holds. The Company had not explored the Tell claims since approximately 2005, however recent

**MANSON CREEK RESOURCES LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

3) Mineral Properties (continued)

Yukon

Tell

activity in the area motivated the Company to stake additional claims to encompass favorable geology hosting arsenic and mercury anomalies outlined during prospecting work from 2000 to 2005. This staking has expanded the Company's Tell property to approximately 1950 hectares. Planned 2011 exploration will include detailed soil and stream sampling, prospecting, geological mapping and trenching to further define the mineralization present.

4) Operating Results

Year ended September 30, 2010 compared to year ended September 30, 2009

A summarized statement of operations appears below to assist in the discussion that follows:

Year ended September 30	2010	2009	Variance
General and administrative expenses	\$ (211,986)	\$ (137,029)	\$ (74,957)
Professional fees	(32,995)	(24,727)	(8,268)
Reporting to shareholders	(18,475)	-	(18,475)
Stock exchange and transfer agent	(11,834)	(10,416)	(1,418)
Other	(20)	(1,699)	1,679
Write-off of mineral properties	(8,842)	(2,008,662)	1,999,820
Sublease termination fee	84,000	-	84,000
Future income tax recovery	25,000	37,500	(12,500)
Net and comprehensive loss	\$ (175,152)	\$ (2,145,033)	\$1,969,881

The largest variance in the period-to-period comparison pertains to the write-off of mineral properties. The write-off of mineral properties of \$2,008,662 in the comparative period was the largest single contributor to the significant loss in that period. The write-off during the year ended September 30, 2009 related to the Black Lake, Saskatchewan; CR and Gillman, British Columbia and Molygarchy, Yukon properties. The current period write-off of \$8,842 represented the final acquisition cost incurred on the Black Lake, Saskatchewan property. The property was written-off in the prior year, but the Company made its final option payment in the current period through the issuance of shares in order to give it an opportunity to vend the property through an option or joint venture arrangement.

Variances in general and administrative expenses and professional fees are discussed in more detail below. Reporting to shareholder costs relate to costs associated with the annual meeting including distribution of meeting materials. These costs have increased because the Company did not have an annual meeting during the comparative period in order to minimize cash outflows. The sublease termination fee that was recognized in the current period represents payment received from a sublessor as consideration for the early termination of its sublease. The Company was able to sublease a portion of the vacated space to another party. The termination fee received compensates the Company for the difference between the foregone future sublease payments and the sublease payments to be received from the new sublessor.

Future income tax recoveries pertained to the tax effect of flow-through share renunciations. The tax effect was recognized in the period in which the tax benefits were renounced to the shareholders. Since the Company had unrecognized tax benefits, a tax recovery was recorded to offset the future tax liability that would have been recorded in conjunction with the reduction in capital stock. The future income tax recovery is a function of the amount of flow-through expenditures renounced and the tax rate, each of which can vary in any given year.

The following summarizes the major expense categories comprising general and administrative expenses for the respective periods:

**MANSON CREEK RESOURCES LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

4) Operating Results (continued)

Year ended September 30, 2010 compared to year ended September 30, 2009

Year ended September 30	2010	2009
Administrative consulting fees	\$ 61,879	\$ 39,798
Stock-based compensation	43,000	-
Travel and promotion	8,975	4,820
Occupancy costs	56,612	41,147
Office, secretarial and supplies	25,432	14,040
Insurance	13,321	18,458
Investor relations	-	7,125
Miscellaneous	2,767	3,641
Property option extension fee	-	8,000
Total	<u>\$ 211,986</u>	<u>\$ 137,029</u>

The Company granted 900,000 stock options to officers, directors and employees during the current year. There were none granted in the prior period. The value assigned to these options accounts for the bulk of the variance in general and administrative expenses from period to period. The value is assessed using the Black Scholes Option Pricing Model and the assumptions and information outlined in Note 10 to the financial statements.

Administrative consulting fees increased approximately \$22,000 as a reflection of increasing activity levels once the Company completed its financing during fiscal 2010 as well as an increase in certain billing rates to more closely approximate market rates. Travel and promotion costs increased approximately \$4,000 as Mr. Chernish attended PDAC in Toronto and a Newfoundland exploration conference in fiscal 2010, but did not in the previous year and the Company purchased some promotional materials for Newfoundland. Investor relations costs decreased \$7,000 from the comparative period. The investor relations cost in the previous period reflected the last of a series of payments made to a firm for the preparation of a research report and investment analysis of the Company. There were no such costs incurred during the year ended September 30, 2010.

Office, secretarial and supply costs increased substantially due to a significant amount of secretarial time and associated general and administrative expenses associated with the private placement financing that took place in the first quarter of fiscal 2010 and administrative time spent on the annual general meeting mailings and documents. There was no annual general meeting in the comparative period. Insurance costs decreased due to the fact that the Company found a new carrier with lower rates commencing June 1, 2009. During the comparative period, the Company issued 100,000 common shares, valued at \$8,000, as consideration for the extension by one year of the due date for the CR property option payment and this is reflected above as a "property option extension fee." Occupancy costs increased as sublessors assumed a lesser portion of rent expense.

The following summarizes the components of professional fees included in the statement of earnings:

Year ended September 30	2010	2009
Legal and filing fees	\$ 7,595	\$ 5,450
Audit fees	25,400	19,277
Total	<u>\$ 32,995</u>	<u>\$ 24,727</u>

The rise in legal and filing fees was primarily associated with the increase in filing fees. Filing fees increased because there were more news releases and property transactions in fiscal 2010. Audit fees primarily reflect accrued audit fees for the year-end audits net of any prior year accrual adjustments. Quoted audit fees for 2010 increased over those quoted for 2009.

Three months ended September 30, 2010 compared to three months ended September 30, 2009

The Company recorded a loss of \$76,834 for the three months ended September 30, 2010 (2009 – loss of \$967,103). The significant expense categories comprising the losses were as follows:

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4) Operating Results (continued)

Three months ended September 30, 2010 compared to three months ended September 30, 2009

Three months ended September 30	2010	2009
General and administrative expenses	\$ (48,169)	\$ (24,850)
Professional fees	(25,267)	(21,140)
Mineral property write-offs	-	(917,403)
Other	(3,398)	(3,710)
Net and comprehensive loss	<u>\$ (76,834)</u>	<u>\$(967,103)</u>

The increase in general and administrative expenses is summarized below. Refer to the annual comparative above for a discussion of other significant variances.

General and administrative costs increased approximately \$23,000 from the comparative period. The following summarizes the major expense categories comprising general and administrative expenses for the respective periods:

Three months ended September 30	2010	2009
Administrative consulting fees	\$ 14,106	\$ 7,868
Travel and promotion	1,877	-
Occupancy costs	21,903	10,221
Office, secretarial and supplies	5,925	2,670
Insurance	3,375	3,411
Miscellaneous	983	680
Total	<u>\$ 48,169</u>	<u>\$ 24,850</u>

Refer to annual comparative for a discussion of significant variances. Occupancy costs have increased as, commencing June 1, 2010, sublease rent recoveries have decreased and will continue to be lower to the end of the lease term by \$4,113 per month. The lease termination fee that was received upon the termination of a sublease equates to the increased rent that has been assumed by the Company. This lease termination fee has been included in its entirety in the current period's earnings.

5) Liquidity and Capital Resources

The Company had working capital at September 30, 2010 of \$94,232, (2009 – working capital deficiency of \$5,376). The Company expended \$153,000 cash on mineral property additions during the year ended September 30, 2010, (2009 - \$84,000). Cash operating expenses in excess of interest income aggregated \$242,000 during the year ended September 30, 2010, (2009 - \$160,000). The sublease termination fee received from a former sublessor and a rent deposit received from a new sublessor contributed \$97,000 in aggregate to the Company. A private placement contributed \$345,000, after issue costs, during the current year, (2009 – \$62,000). During the year ended September 30, 2009, the company expended \$2,000 on asset retirement obligations and \$4,400 for Part XII.6 tax which is essentially an interest charge assessed on unexpended flow-through funds in the situation where exploration costs are renounced to investors in the calendar year preceding the expenditure of these funds on qualifying exploration. The Company expended \$29,000 on exploration deposits during the year ended September 30, 2010. The Company received \$14,000 during the current year as a refund of the exploration deposit for the CR, British Columbia property as well as \$24,000 as a refund of the deposit paid for the Virgin Arm property during the current year. The CR deposit was refunded upon satisfactory completion of site restoration on the property and the Virgin Arm deposit was returned upon the Company's completion of sufficient exploration expenditures within the year. The Company received \$23,000 in grant money from the Newfoundland government during fiscal 2010 in relation to its exploration program on the Virgin Arm property. In the prior year, the Company received \$15,000 for the sale of a domain name.

Given current activity levels and planned 2011 exploration, the November, 2010 financing will be sufficient to cover estimated general and administrative expenses, professional fees, reporting to shareholder costs and stock exchange and transfer agent fees to the end of fiscal 2011. Additional financing will be required to fund significantly expanded exploration budgets and operations during years subsequent to 2011. The continuing operations of the Company will be dependent upon the Company's

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5) Liquidity and Capital Resources

ability to continue to obtain adequate financing. If the Company does not obtain adequate financing in future years, the Company will be unable to meet its obligations as they come due and accordingly, there is significant doubt as to the appropriateness of the use of accounting principles applicable to a going concern. There is no assurance that management will be successful in its future pursuits of financing. Therefore, there is a risk regarding the Company's ability to continue as a going concern. The Company's financial statements do not reflect the adjustments that might be necessary to the carrying amount of reported assets, liabilities, revenues and expenses if the Company could not continue as a going concern.

6) Contractual Obligations

Effective January 1, 2007, the Company's office lease was extended for five years. The following summarizes annual base lease commitments as at September 30, 2010 for the ensuing five fiscal years:

2011 \$99,500 **2012** \$24,900 **2013** \$Nil **2014** \$Nil **2015** \$Nil

Pursuant to sublease agreements, two related companies have committed to pay 38% of the aforementioned base lease amounts.

As at September 30, 2010, aggregate unpaid mineral property option cash payments and share issuances, by fiscal year required pursuant to the option agreement for the Virgin Arm, Newfoundland and Labrador property, are as follows:

<u>Fiscal year of payment</u>	<u>Cash</u>	<u>Common Shares</u>
2011	\$ 30,000	100,000
2012	\$ 35,000	100,000
2013	\$ 75,000	100,000
2014	\$150,000	100,000
	<u>\$290,000</u>	<u>400,000</u>

* paid/issued subsequent to year-end

7) Financing

During the year ended September 30, 2010, the Company completed a non-brokered private placement consisting of 1,666,666 flow-through units at \$0.06 per unit and 5,000,000 non-flow-through units at a price of \$0.05 per unit, for gross proceeds of \$350,000. Directors and/or officers acquired 46,666 of the flow-through units and 500,000 of the non-flow-through units. Each flow-through unit was comprised of one flow-through common share and one half of one warrant. Each whole warrant entitles the holder to acquire one common share at \$0.10 per share to November 24, 2011. Each non-flow-through unit was comprised of one common share and one warrant. Each warrant entitles the holder to acquire one common share at \$0.10 per share to November 24, 2011. The flow-through proceeds were used to fund the Spring, 2010 exploration program, the Summer geophysical survey and the Fall follow-up exploration program on the Virgin Arm, Newfoundland property. The non-flow-through proceeds funded the fiscal 2010 option payments on the Meridian and Virgin Arm mineral properties and funded working capital needs over the course of fiscal 2010.

Subsequent to year-end the Company completed a non-brokered private placement of 18,500,000 units, ("Common Units"), at a price of \$0.05 per Common Unit, and 1,900,000 flow-through units, ("FT Units"), at a price of \$0.07 per FT Unit for gross proceeds of \$1,058,000. Each Common Unit consists of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one common share at a price of \$0.10 per share to May 3, 2012. Each FT Unit consists of one common flow-through share and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase one common share at a price of \$0.10 per share to May 3, 2012. A total of 200,000 Common Units were purchased by a director of the Company. Finders' fees aggregating \$71,610, (7% of eligible gross proceeds), were paid to eligible agents pursuant to the offering. The proceeds of the financing are being used to fund mineral property option payments and acquisition costs, exploration programs planned for 2011, and general working capital needs.

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8) Selected Annual Financial Information

The following selected financial data has been extracted from the audited financial statements, prepared in accordance with Canadian Generally Accepted Accounting Principles, for the fiscal years indicated and should be read in conjunction with those audited financial statements.

For the years ended or as at September 30,	2010	2009	2008
Financial Results			
Interest and other income	\$ 1,202	\$ 1,224	\$ 17,099
Sublease termination fee	84,000	-	-
Net and Comprehensive Loss	\$ (175,152)	\$(2,145,033)	\$ (279,899)
Basic and diluted loss per share	\$0.00	\$(0.05)	\$(0.01)
Financial Position			
Working capital	\$ 94,232	\$ (5,376)	\$ 139,221
Total assets	\$ 768,774	\$ 487,921	\$ 2,595,101
Capital Stock	\$ 9,633,302	\$ 9,322,640	\$ 9,255,478
Warrants	\$ 93,000	\$ 71,000	\$ 402,067
Contributed Surplus	\$ 1,096,765	\$ 989,765	\$ 651,698
Deficit	\$(10,124,111)	\$(9,948,959)	\$(7,803,926)

Write-off of mineral properties, stock-based compensation, sublease termination fees and future tax recoveries all contributed to variances in the recorded losses from year to year. Mineral property write-offs aggregated \$9,000 in 2010, (2009 - \$2,009,000, 2008 - \$113,000). Stock based compensation aggregated \$43,000 during fiscal 2010, (2009 - \$Nil, 2008 - \$55,000). Future income tax recoveries aggregated \$25,000 during fiscal 2010, (2009 - \$37,500, 2008 - \$172,000). The sublease termination fee of \$84,000 received in 2010 was a non-recurring item that resulted from the early termination of a sublessor's sublease.

9) Selected Quarterly Financial Information

The following selected financial data has been extracted from the unaudited financial statements, prepared in accordance with Canadian Generally Accepted Accounting Principles, for the fiscal periods indicated and should be read in conjunction with those unaudited financial statements.

	Sept. 30 2010 (Q4 2010)	June 30 2010 (Q3-2010)	Mar. 31 2010 (Q2-2010)	Dec 31 2009 (Q1-2010)	Sept. 30 2009 (Q4-2009)	June 30 2009 (Q3-2009)	Mar. 31 2009 (Q2-2009)	Dec. 31 2008 (Q1-2009)
Three months ended:								
Interest & Other	\$ 215	\$ 409	\$ 405	\$ 173	\$ 208	\$ -	\$ 390	\$ 626
Earnings (Loss) before mineral property write-offs and income tax recoveries	(76,834)	33,154	(109,840)	(37,790)	(49,700)	(44,089)	(31,778)	(48,304)
Mineral property write-offs	-	-	(125)	(8,717)	(917,403)	(1,091,259)	-	-
Earnings (Loss) before income taxes	(76,834)	33,154	(109,965)	(46,507)	(967,103)	(1,135,348)	(31,778)	(48,304)
Future income tax recovery	-	-	25,000	-	-	-	37,500	-
Net and Comprehensive Earnings (Loss)	\$(76,834)	\$ 33,154	\$ (84,965)	\$(46,507)	\$(967,103)	\$(1,135,348)	\$ 5,722	\$(48,304)
Basic and diluted earnings (loss) per share	\$0.00	\$0.00	\$0.00	\$0.00	\$(0.02)	\$(0.03)	\$0.00	\$0.00

The most significant influence on net income/loss is the amount of mineral property write-offs and stock-based compensation expenses as well as tax recoveries associated with tax-effecting flow-through shares. The timing and amount of the Company's mineral property write-offs cannot be predicted in advance and will vary from one reporting period to the next. As a result, there may be dramatic changes in the financial results and balance sheet position reported by the Company from period to period. Future income tax recoveries pertain to the application of unrecognized future tax benefits to reduce the future tax liability that is recorded when tax benefits are renounced to flow-through share investors. Renunciations occur during the Company's second quarter and the related tax recovery is recorded at this time.

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9) Selected Quarterly Financial Information (Continued)

General and administrative expenses are generally higher in the quarter ended March 31 as annual report and other annual mailings as well as annual meeting costs tend to be incurred almost exclusively in this period. The result has traditionally been a higher net loss before mineral property write-offs in these periods. During the quarter ended March 31, 2009, however, this was not the case as the Company deferred calling an annual meeting in order to temporarily preserve cash. During the three months ended March 31, 2010, the Company granted options to officers, directors and employees and recorded the \$43,000 value associated with these options during Q2, 2010. This non-cash expense contributed to the relatively higher loss during the three months ended March 31, 2010. During the three months ended June 30, 2010, the Company experienced earnings rather than a loss primarily as a result of the recognition of a lease termination fee in the amount of \$84,000. This would be considered a non-recurring earnings item.

10) Off-Balance Sheet Transactions

The Company has no off-balance sheet transactions to report.

11) Directors and Officers

Regan Chernish	<i>Director and President</i>	Doug Bryan	<i>Director</i>
Jean Pierre Jutras	<i>Director and Vice-President</i>	Gordon Clarke	<i>Director</i>
Doug Porter	<i>Director</i>	Shari Difley	<i>Chief Financial Officer</i>
Shane Ebert	<i>Director</i>	Barbara O'Neill	<i>Corporate Secretary</i>

12) Related Party Transactions

The following non-arm's length transactions, (amounts rounded to nearest \$1,000), occurred during the year ended September 30, 2010:

- i) received or accrued \$26,000, (2009 - \$20,000), from corporations related by virtue of common officers and directors for rent of shared office space and \$26,000, (2009 - \$17,000), for lease operating and certain administrative expenses.
- ii) paid or accrued \$101,000, (2009 - \$80,000), for consulting fees charged by officers and directors or their corporate employers on a per diem basis for geological, (geological billings for work specifically related to a mineral property is capitalized to that property), accounting and administrative services provided.
- iii) paid or accrued \$1,000, (2009 - \$Nil), to a company related by virtue of certain common officers and directors, for its share of postage expenses.
- iv) paid or accrued \$5,000, (2009 - \$Nil), to a company related by virtue of certain common officers and directors, for its share of office and secretarial charges.
- v) officers and/or directors acquired, in aggregate, 46,666 of the flow-through units and 500,000 of the non-flow-through units issued pursuant to the non-brokered private placement that was completed during the year ended September 30, 2010. (Refer to 7) Financing)
- vi) received from a company, related by virtue of certain common officers and directors, a rental deposit of \$13,000, (2009 - \$Nil), representing the final four months rent, as security for an office sublease they entered into with the Company

The purpose of related company office and rent charges is to realize certain economies associated with sharing office space and administrative services. Related party transactions were in the normal course of operations and were measured at the "exchange amount," which is the amount of consideration established and agreed to by the related parties.

13) Exploration Expenditures

Refer to note 5 to the financial statements for the schedule of expenditures incurred on the various properties during years ended September 30, 2010 and September 30, 2009 respectively.

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14) Capital Stock, Warrants, Options

a) Capital Stock and Warrants Issued and Outstanding

Refer to note 8 to the financial statements for details of issued and outstanding common shares and warrants as at September 30, 2010 and transactions during the year then ended. Subsequent to year-end the following capital stock and warrant transactions occurred to December 9, 2010.

	<u>Number of Shares</u>	<u>Share Amount</u>	<u>Number of Warrants</u>	<u>Warrants Amount</u>
Balance Sept. 30, 2010	54,761,652	\$ 9,633,302	7,098,333	\$ 93,000
Issued pursuant to private placement Nov.3, 2010	20,400,000	793,500	19,450,000	264,500
Share issue costs	-	(77,915)	-	-
Issued pursuant to Virgin Arm option agreement	100,000	6,000	-	-
Balance December 9, 2010	<u>75,261,652</u>	<u>\$10,354,887</u>	<u>26,548,333</u>	<u>\$357,500</u>

In valuing the warrants issued pursuant to the November, 2010 private placement, the Company used a proration of proceeds method that utilized the Black Scholes Option Pricing Model assuming volatility of 90%, a risk-free interest rate of 1.42%, a one and a half year warrant life and a 0% dividend rate.

b) Stock Options

No options were granted, exercised or cancelled, and none expired during the period from September 30, 2010 to December 9, 2010.

15) Outlook

The Company's primary objective is to discover mineral resources in economic quantities capable of supporting an operating mine. As the Company does not have expertise in operating a mine, should it discover such a promising property, it will attempt to ally with a more senior mining company that might option-in on the property or purchase the property outright. The Company successfully completed a private placement for gross proceeds of \$1,058,000 subsequent to year-end. The Company is using these funds to finance the November, 2010 option payment on the Virgin Arm, Newfoundland and Labrador property, and new property acquisition costs and will use the funds to finance working capital needs for fiscal 2011 as well as planned 2011 exploration programs on the Virgin Arm property that are currently budgeted at approximately \$500,000 and on the Tell, Yukon property that are tentatively budgeted at approximately \$175,000.

16) Risks

The success of the Company's business is subject to a number of factors including, but not limited to:

- a) Substantial expenditures are required to explore for mineral reserves and the chances of identifying economical reserves are extremely small.
- b) The junior resource market, where the Company raises funds, is extremely volatile and there is no guarantee that the Company will be able to raise funds as it requires. The Company may be forced to raise funds at a low share price resulting in increased dilution for current shareholders.
- c) Although the Company has taken steps to verify title to the mineral properties in which it has an interest or in which it is earning an interest, there is no guarantee that the properties will not be subject to title disputes or undetected defects.
- d) The Company is subject to laws and regulations relating to environmental matters, including provisions relating to reclamation, discharge of hazardous materials, and other matters. The Company conducts its exploration activities in compliance with applicable environmental protection legislation and is not aware of any existing environmental problems that may result in a material liability for the Company, however changes to legislation could result in the Company being offside at some point in the future.
- e) The Company is in competition with exploration companies with greater financial resources. This can hamper its ability to acquire certain exploration properties, attract joint venture parties and attract equity financing. Further, the Company must compete with these other companies to acquire contractors to perform certain exploration activities such as drilling. These contractors will often favor a larger project, making it more difficult for the Company to obtain their services.

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16) Risks (continued)

- f) The price of base and precious metals is highly volatile. Changes in these prices can alter the desirability of an exploration property, and feasibility of spending exploration dollars on it. Further, changes in commodity prices can affect the stock price of the Company.
- g) The Company is dependent upon certain key personnel. Loss of any of these people could have a material adverse effect on the Company and its business.
- h) The Company has a history of losses due to its status as an exploration company, with no production from mineral properties. Its ultimate success will depend on its ability to generate cash flow from producing properties at some point in the future, or alternatively from a disposition of its interests.

17) Critical Accounting Estimates

The most significant accounting estimate for the Company relates to the carrying value of its mineral property assets. Mineral properties consist of exploration and mining concessions. Acquisition and leasehold costs and exploration costs are capitalized and deferred until such time as the property is put into production or the properties are disposed of either through sales or abandonments. The estimated values of all properties are assessed by management on a quarterly basis by reference to project economics, including the timing of the exploration and/or development work, available financial resources to further exploration, the work programs and exploration results experienced by the Company and others, and the extent to which optionees have committed, or are expected to commit to, exploration on the property. When it becomes apparent that the carrying value of a specific property exceeds its estimated net recoverable amount based on the foregoing criteria, an impairment provision is made for the decline in value.

Another significant accounting estimate relates to accounting for stock-based compensation and warrants. The Company uses the Black-Scholes Option Pricing Model to value stock options and warrants. Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options granted and vested, or warrants issued, during the year.

The Company's estimate for asset retirement obligations is based on existing laws, contracts or other policies. The value of the obligation is based on estimated future costs for abandonments and reclamations. By their nature, these estimates are subject to measurement uncertainty.

18) New Accounting Policies

International Financial Reporting Standards

In February, 2008, the Canadian Accounting Standards Board, (AcSB), announced that interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011 must be prepared in accordance with International Financial Reporting Standards, (IFRS). Accordingly the Company will be required to present their financial statements during the fiscal year ended September 30, 2012 in accordance with IFRS and will be required to restate the fiscal 2011 comparatives that are included in each of the quarters' and the year end financial statements for fiscal 2012.

Conversion Plan

The Company has a transition plan that they have divided into three phases; research and planning, accounting policy assessment and determination, and implementation and review. The Company is currently in the research and planning phase. The CFO has attended a number of IFRS courses, including industry-specific courses, and has evaluated the financial statements of the Company in light of the new IFRS rules and guidelines. A matrix of the significant financial statement categories and their corresponding current Canadian GAAP accounting and presentation and IFRS accounting and presentation has been prepared for further analysis.

The accounting policy assessment and determination phase is expected to occur over the period from October 1, 2010 to March, 2011 and will include determining the accounting policies that will be adopted, any optional exemptions that may be utilized and designing any revisions to current accounting systems that might be

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**18) New Accounting Policies (Continued)
International Financial Reporting Standards**

Conversion Plan

necessary to facilitate the recording and retention of data. The implementation and review phase is expected to be complete by December 31, 2011. The Company will issue its first financial statements prepared in accordance with IFRS for its first quarter of fiscal 2012, (the three months ended December 31, 2011), with comparatives restated to be in accordance with IFRS.

Significant Differences between Current Canadian GAAP and IFRS

The single largest financial statement amount in the Company's financial statements tends to be the carrying cost of its mineral exploration properties, which is comprised of a combination of capitalized exploration expenditures and acquisition costs. The International Accounting Standards Board, (IASB), Framework would dictate that exploration expenditures be expensed because such costs would not meet the strict definition of an asset. However, IFRS 6 allows the retention of accounting policies that have been previously applied. IFRS 6 cannot be applied to expenditures incurred prior to obtaining the legal rights to explore a specific area or after the technical feasibility study and commercial viability of extracting a mineral resource is demonstrated. If a capitalization policy is adopted for mineral exploration and acquisition costs, the asset is initially measured at cost. Subsequently the asset either can continue to be measured at cost or measured using the revaluation model which requires that the asset be carried at its fair value.

The Company believes that it will continue to capitalize its acquisition and exploration costs relating to mineral properties. Further, it believes that it will choose the cost method of measurement. The cost method will require that the Company assess whether there has been an impairment in the value of its capitalized acquisition and exploration costs. Impairment shall be assessed when facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount. According to IFRS 6, one or more of the following facts and circumstances indicate that an entity should test exploration and evaluation assets for impairment:

- The period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future and is not expected to be renewed.
- Substantive expenditure on further exploration for, and evaluation of, mineral resources in the specific area is neither budgeted nor planned
- Exploration for and evaluation of mineral resources in the specific area has not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area
- Sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or sale.

Canadian GAAP also requires the assessment of impairment. However, IFRS differs from Canadian GAAP in that it is possible, under IFRS, that an impairment loss might be reversed in a situation where there is a change in circumstances such as the re-commencement of activity on a mineral property where a change in commodity prices makes the project feasible once again.

The Company does not anticipate a material difference between the carrying amount of its mineral exploration properties under Canadian GAAP and IFRS, at this point in time.

The Company has yet to analyze in detail other financial statement items, but will provide updates in future MD&A's to address differences as they become apparent throughout the accounting policy assessment and determination phase.

19) Other

Additional information relating to the Company may be found on SEDAR at www.sedar.com.