

**MANSON CREEK RESOURCES LTD.**  
**Financial Statements**

September 30, 2005

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December 13, 2005

## **Auditors' Report**

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

We have audited the balance sheet of **Manson Creek Resources Ltd.** as at September 30, 2005 and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at September 30, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at September 30, 2004 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated December 2, 2004.

*PricewaterhouseCoopers LLP*

**Chartered Accountants**

Calgary, Alberta

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# Manson Creek Resources Ltd.

## Balance Sheets

September 30

2005

2004

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	<b>Assets</b>	
<b>Current</b>		
Cash and cash equivalents	\$ 538,287	\$ 188,697
Accounts receivable	23,009	9,183
Prepays	<u>13,777</u>	<u>12,555</u>
	<b>575,073</b>	<b>210,435</b>
<b>Investments and other assets</b> (Note 3)	<b>42,653</b>	<b>42,653</b>
<b>Mineral properties and equipment</b> (Note 4)	<u><b>682,874</b></u>	<u><b>1,069,505</b></u>
	<b>\$ 1,300,600</b>	<b>\$ 1,322,593</b>
	<b>Liabilities</b>	
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 26,559	\$ 27,205
Due to related parties (Note 9)	24,257	7,421
Asset retirement obligation (Note 5)	<u>15,000</u>	<u>-</u>
	<u><b>65,816</b></u>	<u><b>34,626</b></u>
	<b>Shareholders' Equity</b>	
<b>Capital Stock</b> (Note 6)		
<b>Issued:</b> 23,734,775 common shares, (2004 – 16,420,402)	<b>7,651,822</b>	7,104,199
<b>Contributed Surplus</b> (Note 6)	<b>521,334</b>	111,334
<b>Deficit</b>	<u><b>(6,938,372)</b></u>	<u><b>(5,927,566)</b></u>
	<u><b>1,234,784</b></u>	<u><b>1,287,967</b></u>
	<b>\$ 1,300,600</b>	<b>\$ 1,322,593</b>
<b>Commitments</b> (Note 11)		

Approved by the Board

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"R. Chernish" Director

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"J.P. Jutras" Director

See accompanying notes to the financial statements.

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# Manson Creek Resources Ltd.

## Statements of Operations and Deficit

Years Ended September 30

2005

2004

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### Revenue

Interest and other	\$ <u>10,324</u>	\$ <u>5,801</u>
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### Expenses

General and administrative (Note 8)	240,930	82,572
Reporting to shareholders	9,160	8,336
Professional fees	25,950	9,885
Stock exchange and transfer agent fees	12,690	10,120
Amortization of capital assets	<u>4,297</u>	<u>2,313</u>

	<u>293,027</u>	<u>113,226</u>
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### Loss before the undernoted

	<u>(282,703)</u>	<u>(107,425)</u>
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Write-down of mineral properties (Note 4)	<u>(728,103)</u>	<u>(13,456)</u>
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### Net loss

	(1,010,806)	(120,881)
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### Deficit, beginning of year

	<u>(5,927,566)</u>	<u>(5,806,685)</u>
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### Deficit, end of year

	\$ <u>(6,938,372)</u>	\$ <u>(5,927,566)</u>
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### Loss per share:

Basic and diluted	\$ <u>(0.05)</u>	\$ <u>(0.01)</u>
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### Weighted average number of shares outstanding:

Basic and diluted	<u>20,529,816</u>	<u>15,654,238</u>
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See accompanying notes to the financial statements.

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# Manson Creek Resources Ltd.

## Statements of Cash Flows

Years Ended September 30

2005

2004

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### Increase (decrease) in cash and cash equivalents

#### Operating activities

Interest and other income received	\$ 10,324	\$ 5,801
Cash operating expenses	<u>(141,377)</u>	<u>(92,090)</u>
	<u>(131,053)</u>	<u>(86,289)</u>

#### Financing activities

Exploration incentives received	4,901	2,223
Private placement proceeds	750,000	100,000
Share issue costs	(28,917)	-
Options and warrants exercised	<u>99,540</u>	<u>-</u>
	<u>825,524</u>	<u>102,223</u>

#### Investing activities

Mineral property additions	(344,881)	(124,293)
Exploration and drilling deposits	<u>-</u>	<u>(14,000)</u>
	<u>(344,881)</u>	<u>(138,293)</u>

Increase (decrease) in cash and cash equivalents 349,590 (122,359)

#### Cash and cash equivalents,

Beginning of year	<u>188,697</u>	<u>311,056</u>
End of year	\$ <u>538,287</u>	\$ <u>188,697</u>

#### Supplementary Information:

##### Interest and taxes

The Company did not expend cash on interest or taxes during the years ended September 30, 2005 and September 30, 2004.

##### Non-cash transactions

During each of the years ended September 30, 2005 and September 30, 2004, the Company issued 50,000 common shares pursuant to an option agreement to acquire an interest in the CR Property in British Columbia. The option payments were valued at the trading price of the Company's stock on the transaction date.

Stock-based compensation of \$130,000 incurred during the year ended September 30, 2005 is a non-cash transaction.

See accompanying notes to the financial statements.

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# Manson Creek Resources Ltd.

## Notes to the Financial Statements

September 30, 2005

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### 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 is considered to be in the development stage.

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. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing or to commence profitable operations in the future.

### 2. Summary of significant accounting policies

#### a) Use of estimates

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

#### b) Cash and cash equivalents

Cash and cash equivalents may include bank and brokerage deposits, banker's acceptances and treasury bills with maturities equal to or less than 90 days on the date of acquisition.

#### c) Mineral properties and equipment

Costs relating to the acquisition, exploration and development of mineral properties are capitalized on an area of interest basis. These expenditures will be charged against income, through unit of production depletion, when properties are developed to the stage of commercial production. If an area of interest is abandoned, the related costs are charged to operations. The Company views 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 the property exceeds its estimated net recoverable amount based on the foregoing criteria, an impairment provision is made for the decline in value.

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# Manson Creek Resources Ltd.

## Notes to the Financial Statements

September 30, 2005

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**c) Mineral properties and equipment (continued)**

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%

**d) Flow-through common shares**

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

**e) Investments**

Portfolio investments are carried at cost, less a provision for declines in value that are considered to be other than temporary.

**f) Asset Retirement Obligations**

Effective October 1, 2004 the Company adopted the new recommendation of the Canadian Institute of Chartered Accountants relating to asset retirement obligations. This recommendation replaces the previous method of accounting for asset retirement liabilities on an accrual basis. The Company has adopted the standard on a retroactive basis. Since there were no material obligations relating to prior periods, no restatement was necessary.

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. Under the new standard, 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 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.

As at September 30, 2005 the Company has included in liabilities an estimated current obligation of \$15,000 for the removal of empty fuel drums and miscellaneous items from its camp in the Yukon. Management has determined that it will include this clean-up in its 2006 summer exploration plans. Management has estimated that discounted clean-up obligations for subsequent future periods are not significant.

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# Manson Creek Resources Ltd.

## Notes to the Financial Statements

September 30, 2005

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**g) Income taxes**

Income taxes are recorded using the liability method of tax allocation. Future income taxes are calculated based on temporary timing differences arising from the difference between the tax basis of an asset or liability and its carrying value using tax rates anticipated to apply in the periods when the timing differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment 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.

**h) 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.

**i) Stock-Based Compensation**

Effective October 1, 2002, in accordance with the recommendations of the Canadian Institute of Chartered Accountants, (CICA), the Company prospectively adopted, with no restatement or disclosure pertaining to awards granted prior to October 1, 2002, new rules for the accounting for, and disclosure of, stock-based compensation.

The recommendations of the CICA establish financial accounting and reporting standards for stock-based compensation plans as well as transactions in which an entity issues its equity instruments to acquire goods or services from non-employees. 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.

**j) Government incentives**

Through its exploration in the Yukon, the Company has benefited from refundable exploration tax credits and grants. These incentives are not repayable provided that they apply to qualifying expenditures. The incentives reduce the mineral property costs to which they pertain in the year 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 Company is reassessed.

**3. Investments and other assets**

	<u>2005</u>	<u>2004</u>
287,334 Common shares Prism Resources Inc. (market value \$30,000, 2004 – \$23,000)	\$ 22,412	\$ 22,412
Long-term prepaid expenses	6,241	6,241
Mineral exploration deposit	14,000	14,000
	<u>\$ 42,653</u>	<u>\$ 42,653</u>

# Manson Creek Resources Ltd.

## Notes to the Financial Statements

September 30, 2005

### 4. Mineral properties and equipment

2005	Total	Yukon				British Columbia	
		NAD	Tanner	Cuprum	JRS	CR Property	Other
<b>Exploration and development expenditures:</b>							
<b>Balance September 30, 2004</b>	<b>\$997,982</b>	<b>\$510,144</b>	<b>\$207,850</b>	<b>\$ -</b>	<b>\$202,651</b>	<b>\$77,337</b>	<b>\$ -</b>
Geological consulting	66,675	-	9,521	6,674	-	48,105	2,375
Geochemical analysis	36,205	-	1,916	6,535	-	26,903	851
Geophysical survey	18,400	-	-	18,400	-	-	-
Field costs	(6,544)	-	708	3,521	-	10,349	(21,122)
Drilling	150,712	-	-	-	-	150,712	-
Travel	25,274	-	6,995	5,504	-	12,775	-
Asset retirement obligation Note 5	20,254	-	10,254	-	10,000	-	-
Exploration incentives	(4,901)	-	(4,901)	-	-	-	-
Mineral property write-offs	(701,092)	(510,144)	-	-	(212,651)	-	21,703
<b>Balance September 30, 2005</b>	<b>602,965</b>	<b>-</b>	<b>232,343</b>	<b>40,634</b>	<b>-</b>	<b>326,181</b>	<b>3,807</b>
<b>Property acquisition costs:</b>							
<b>Balance September 30, 2004</b>	<b>61,750</b>	<b>23,000</b>	<b>25,190</b>	<b>-</b>	<b>885</b>	<b>12,675</b>	<b>-</b>
Costs incurred	34,434	-	420	5,000	-	25,888	3,126
Mineral property write-offs	(27,011)	(23,000)	-	-	(885)	-	(3,126)
<b>Balance September 30, 2005</b>	<b>69,173</b>	<b>-</b>	<b>25,610</b>	<b>5,000</b>	<b>-</b>	<b>38,563</b>	<b>-</b>
<b>Total mineral properties September 30, 2005</b>	<b>\$672,138</b>	<b>\$ -</b>	<b>\$257,953</b>	<b>\$45,634</b>	<b>\$ -</b>	<b>\$364,744</b>	<b>\$ 3,807</b>
Equipment	23,115						
Accumulated amortization	(12,379)						
<b>Total mineral properties and equipment September 30, 2005</b>	<b>\$682,874</b>						

2004	Total	Yukon			British Columbia		
		NAD	Tanner	JRS	CR Property	Kendall	Other
<b>Exploration and development expenditures:</b>							
<b>Balance September 30, 2003</b>	<b>\$913,475</b>	<b>\$510,144</b>	<b>\$200,680</b>	<b>\$202,651</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Geological consulting	34,915	-	2,718	-	27,556	4,566	75
Field costs	31,714	-	5,822	-	23,523	4,869	(2,500)
Line-cutting and trenching	13,658	-	-	-	13,658	-	-
Geochemical analysis	14,479	-	853	-	12,600	1,026	-
Mineral property write-offs	(8,036)	-	-	-	-	(10,461)	2,425
Yukon mineral exploration tax credit	(2,223)	-	(2,223)	-	-	-	-
<b>Balance September 30, 2004</b>	<b>997,982</b>	<b>510,144</b>	<b>207,850</b>	<b>202,651</b>	<b>77,337</b>	<b>-</b>	<b>-</b>
<b>Property acquisition costs:</b>							
Balance September 30, 2003	39,075	23,000	15,190	885	-	-	-
Costs incurred	28,095	-	10,000	-	12,675	5,000	420
Mineral property write-offs	(5,420)	-	-	-	-	(5,000)	(420)
<b>Balance September 30, 2004</b>	<b>61,750</b>	<b>23,000</b>	<b>25,190</b>	<b>885</b>	<b>12,675</b>	<b>-</b>	<b>-</b>
<b>Total mineral properties September 30, 2004</b>	<b>\$1,059,732</b>	<b>\$533,144</b>	<b>\$233,040</b>	<b>\$203,536</b>	<b>\$90,012</b>	<b>\$ -</b>	<b>\$ -</b>
Equipment	17,856						
Accumulated amortization	(8,083)						
<b>Total mineral properties and equipment September 30, 2004</b>	<b>\$1,069,505</b>						

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# Manson Creek Resources Ltd.

## Notes to the Financial Statements

September 30, 2005

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#### 4. Mineral properties (continued)

##### British Columbia

##### CR Property

During the year ended September 30, 2004, the Company entered into an agreement with an unrelated individual to acquire a mineral property situated in the Omineca Mining District of British Columbia. The agreement requires that the Company make the following cash payments and issue common shares in order to acquire the property as follows:

<u>Date</u>	<u>Cash</u>	<u>Common Shares</u>
Upon signing (paid)	\$ 2,500	-
June30,2004(paid/issued)	\$ 5,000	50,000
June30,2005(paid/issued)	\$15,000	50,000
June 30, 2006	\$15,000	100,000
June 30, 2007	\$15,000	100,000
June 30, 2008	\$20,000	125,000
June 30, 2009	<u>\$20,000</u>	<u>150,000</u>
Total	<u>\$92,500</u>	<u>575,000</u>

The Company may acquire 1.0% of the vendor's retained 1.5% Net Smelter Return in the property for \$1,000,000. If at any point the Company is in default of the above-noted payment schedule, the property will revert to the vendor. The agreement can be terminated at any time by the Company without the requirement to issue any shares or make any payments specified in the agreement that pertain to the period after termination.

##### Palomino property

During the year ended September 30, 2005, the Company entered into an agreement with an unrelated individual to acquire a mineral property situated in the Omineca Mining District of British Columbia. The agreement requires that the Company make the following cash payments and issue common shares in order to acquire a 100% interest in the property, subject to a 1.5% Net Smelter interest retained by the vendor, as follows:

<u>Date</u>	<u>Cash</u>	<u>Common Shares</u>
Upon signing (paid)	\$ 1,000	-
November 30, 2005 (paid/issued subsequent to year-end)	\$ 5,000	25,000
November 30, 2006	\$10,000	75,000
November 30, 2007	\$15,000	75,000
November 30, 2008	\$15,000	100,000
November 30, 2009	<u>\$20,000</u>	<u>150,000</u>
Total	<u>\$66,000</u>	<u>425,000</u>

Upon completion of the acquisition, the Company may acquire 1.0% of the vendor's retained 1.5% net smelter returns royalty in the property for \$1,000,000. If at any point the Company is in default of the above-noted payment schedule, the property will revert to the vendor. The agreement can be terminated at any time by the Company without the requirement to issue any shares or make any payments specified in the agreement that pertain to the period after termination.

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# Manson Creek Resources Ltd.

## Notes to the Financial Statements

September 30, 2005

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### 4. Mineral properties (continued)

#### Meridian property

Subsequent to year-end the Company entered into an agreement to acquire a 100% interest in 12 prospective gold/silver mineral tenures aggregating 675 hectares in the Revelstoke mining district in eastern British Columbia. The Company is committed to the following payment schedule if it chooses to acquire 100% of the claims:

<u>Date</u>	<u>Cash</u>	<u>Common Shares</u>
Upon signing (paid subsequent to year-end)	\$ 2,500	-
November 30, 2005 (paid/issued subsequent to year-end)	\$ 5,000	25,000
November 30, 2006	\$10,000	75,000
November 30, 2007	\$20,000	100,000
November 30, 2008	\$20,000	125,000
November 30, 2009	<u>\$30,000</u>	<u>150,000</u>
Total	<u>\$87,500</u>	<u>475,000</u>

Upon completion of the acquisition, the Company may acquire 1.5% of the vendor's retained 2.0% net smelter interest in the property for \$1,500,000. The Company may terminate the purchase agreement at any time without being obligated to make future payments provided that proper notice is given and the property is in good standing with at least \$5,200 of unutilized assessment work credits in place at that time.

#### Yukon

#### Cuprum Property

During the year ended September 30, 2005, the Company entered into an agreement with a non-related corporation to acquire ten staked claims located 50 kilometers north of Whitehorse, Yukon. The Company can acquire a 100% interest in the property, subject to a 2.0% net smelter returns royalty, by paying the vendor in staged payments over five years a total of \$75,000 cash and 450,000 of its capital stock as follows:

<u>Date</u>	<u>Cash</u>	<u>Common Shares</u>
Upon signing (paid)	\$ 5,000	-
October 31, 2005 (paid/issued subsequent to year end)	5,000	50,000
October 31, 2006	15,000	50,000
October 31, 2007	15,000	100,000
October 31, 2008	15,000	100,000
October 31, 2009	20,000	150,000
Total	<u>\$ 75,000</u>	<u>450,000</u>

Upon completion of the acquisition, the Company may acquire 1.5% of the vendor's retained 2.0% net smelter interest in the property for \$1,500,000. The Company can terminate the agreement without penalty at any time, provided that they have given proper and timely notice to the vendor, and will not be responsible for any payments due after the termination date.

#### Tanner Property

The Company continues to hold a 100% interest in the Tanner Property. The Company spent approximately \$18,000 on a sampling/prospecting program during fiscal 2005 and will continue to spend the funds required to maintain the key areas of the claim block in good standing for the upcoming year. The 2005 and prior year programs have contributed to the understanding of the geology of the property. Results of the 2005 program, the recent favorable commodities markets, and the recent activity by other exploration companies on near-by properties all demonstrate the potential of the property. The Company will be investigating opportunities to interest joint venture partners in an expanded 2006 exploration program.

# Manson Creek Resources Ltd.

## Notes to the Financial Statements

September 30, 2005

### 4. Mineral properties (continued)

#### NAD and JRS Properties

Management of the Company determined it was unlikely that further exploration would be undertaken on these properties even though many of the claims continue to be in good standing. The accumulated costs attributed to these properties were written off during the current year.

### 5. Asset retirement obligation

Changes in the asset retirement obligation for the year ended September 30, 2005 are as follows:

Balance, September 30, 2004	\$ -
Asset retirement accrual	20,254
Reclamation work performed during the year	(5,254)
Balance September 30, 2005	<u>\$ 15,000</u>

### 6. Capital stock 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 Shares</u>	<u>Stated Value Capital Stock</u>	<u>Contributed Surplus</u>
Balance September 30, 2003	<b>15,370,402</b>	<b>\$7,019,199</b>	<b>\$91,334</b>
Private placement	1,000,000	80,000	20,000
Issued pursuant to CR property acquisition	<u>50,000</u>	<u>5,000</u>	<u>-</u>
Balance September 30, 2004	<b>16,420,402</b>	<b>7,104,199</b>	<b>111,334</b>
Private placement (net of issue costs of \$28,917)	6,525,973	421,083	300,000
Issued pursuant to CR property acquisition	50,000	7,000	-
Warrants exercised	500,000	95,000	(20,000)
Options exercised	238,400	24,540	-
Stock option compensation	-	-	130,000
Balance September 30, 2005	<u><b>23,734,775</b></u>	<u><b>\$7,651,822</b></u>	<u><b>\$521,334</b></u>

During the year ended September 30, 2005, the company closed a non-brokered private placement consisting of 5,454,545 non-flow-through units at \$0.11 per unit and 1,071,428 flow-through units at \$0.14 per unit. Each of the 5,454,545 units was comprised of one common share and one share purchase warrant that may be exercised to purchase one common share at \$0.14 per share until March 7, 2007. Each of the 1,071,428 flow-through units was comprised of one flow-through common share and one warrant that may be exercised to purchase one common share at \$0.14 per share until March 7, 2007. The \$300,000 value of the 6,525,973 warrants issued pursuant to the private placement is included in contributed surplus. In valuing the warrants, the Company used a proration of proceeds method that utilized the Black Scholes Option Pricing Model assuming volatility of 125%, a risk-free interest rate of 2.96%, a two year warrant life and a 0% dividend rate.

Pursuant to the issue of flow-through shares, the Company is required to renounce to the flow-through share investors certain tax deductions associated with mineral exploration costs incurred. When these expenditures are renounced in accordance with Canadian income tax legislation, share capital will be reduced by the tax effect of these renounced expenditures and a future tax liability will be recorded. As the Company has unrecognized future tax assets, this liability can be extinguished as losses are incurred through the recognition of a future tax recovery in the statement of operations. The Company has incurred

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# Manson Creek Resources Ltd.

## Notes to the Financial Statements

September 30, 2005

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### 6. Capital stock and contributed surplus (continued)

sufficient expenditures to fulfil its flow-through obligation and will renounce these expenditures December 31, 2005.

During the year ended September 30, 2004, the Company closed a private placement with CDG Investments Inc., (CDG), a company related by virtue of certain common officers and directors. CDG subscribed for 1,000,000 units at \$0.10 per unit. Each unit was comprised of one common share and one-half of a non-transferable share purchase warrant. Each full warrant could be exercised to purchase one common share at \$0.15 per share until December 24, 2005. The \$20,000 value of the 500,000 warrants issued pursuant to the private placement was included in contributed surplus. The valuation of the warrants was calculated using the Black-Scholes Option Pricing Model assuming volatility of 143%, a risk-free interest rate of 3.3%, a one year warrant life and a 0% dividend rate. All warrants were exercised during the year ended September 30, 2005 and their \$20,000 value reduced contributed surplus and increased capital stock.

#### c) Outstanding options

<u>Expiry Date</u>	<u>Number of Shares</u>		<u>Price</u>
	<u>2005</u>	<u>2004</u>	
May 12, 2010	875,000	-	\$ 0.15
May 29, 2007	385,000	455,000	\$ 0.11
July 19, 2006	831,600	1,000,000	\$ 0.10
	<u>2,091,600</u>	<u>1,455,000</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 at the earlier of five years from the grant date, the date at which the Directors determine, or 60 days from the date from 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 the market price of the common shares, defined as the weighted average trading price per share for the last five trading days before the grant date. All of the above options vested immediately upon granting.

#### d) Option transactions

	<u>Number of Options</u>	<u>Average Exercise Price</u>
Balance September 30, 2004 and September 30, 2003	1,455,000	\$0.10
Granted	875,000	\$0.15
Exercised	<u>(238,400)</u>	<u>\$0.10</u>
Balance September 30, 2005	<u>2,091,600</u>	<u>\$0.12</u>

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# Manson Creek Resources Ltd.

## Notes to the Financial Statements

September 30, 2005

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### 6. Capital stock and contributed surplus (continued)

#### e) Warrants

Warrant transactions during the year ended September 30, 2005 and balances as at September 30, 2005 and September 30, 2004 are summarized below:

	<u>Number of Warrants</u>	<u>Price</u>	<u>Expiry Date</u>
Balance September 30, 2004	500,000	\$0.15	December 24, 2005
Exercised	(500,000)	\$0.15	December 24, 2005
Issued pursuant to Private Placement Note 6(b)	<u>6,525,973</u>	<u>\$0.14</u>	March 7, 2007
Balance September 30, 2005	<u>6,525,973</u>	<u>\$0.14</u>	March 7, 2007

Subsequent to year end 30,000 warrants were exercised at \$0.14 per share.

### 7. Financial instruments

The fair market values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and due to related parties approximate their carrying values as a result of the short-term nature of the instruments and/or the variable interest rate associated with the instrument. 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.

### 8. Stock based compensation

Included in fiscal 2005 general and administrative expenses is stock based compensation in the amount of \$130,000 (2004 - \$Nil). During the year ended September 30, 2005, stock options were granted to purchase 875,000 common shares at \$0.15 per share. A value of \$130,000 was associated with the option grant using the Black-Scholes Option Pricing Model under the following assumptions:

Expected stock price volatility	270%
Risk-free interest rate	3.3%
Expected option life	5 years
Expected dividend yield	-

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# Manson Creek Resources Ltd.

## Notes to the Financial Statements

September 30, 2005

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### 9. Related party transactions

CDG Investments Inc., (CDG), a Company related by virtue of certain common officers and directors; officers of the Company, and corporations in which certain of the Company's officers and directors are shareholders, provided services, billing the amounts presented below for the respective fiscal years.

	<u>2005</u>	<u>2004</u>
Geological (capitalized to mineral properties)	\$ 57,000	\$ 22,000
Direct administrative	<u>64,000</u>	<u>48,000</u>
	<u>\$ 121,000</u>	<u>\$ 70,000</u>

Amounts due to related parties pertain to the above-noted billings which were paid subsequent to year-end.

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

The Company sublet office space to companies related by virtue of certain common officers and directors. The aggregate base rent, operating and miscellaneous costs charged to the related companies was \$74,000 during the year, (2004-\$64,000).

### 10. Income taxes

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

	<u>2005</u>	<u>2004</u>
Computed expected tax recovery at a combined Provincial and Federal rate of 34% (2004 – 34%)	\$ (344,000)	\$ (41,000)
Effect on income taxes resulting from:		
Change in valuation allowance	307,000	(79,000)
Impact of change in tax rates on future income taxes	-	120,000
Non-deductible stock option compensation	44,000	-
Other	<u>(7,000)</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ -</u>

- b) The net future income tax asset at September 30, 2005 and 2004 is comprised of:

	<u>2005</u> ( at 34%)	<u>2004</u> ( at 34%)
Mineral properties and equipment with income tax values exceeding book values	\$ 1,131,000	\$ 887,000
Investments with income tax values exceeding book values	11,000	11,000
Asset retirement obligation	5,000	-
Share issue costs	8,000	-
Non-capital losses carried forward	<u>209,000</u>	<u>159,000</u>
Future income tax asset before valuation allowance	1,364,000	1,057,000
Valuation allowance	<u>(1,364,000)</u>	<u>(1,057,000)</u>
Future income tax asset	<u>\$ -</u>	<u>\$ -</u>

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# Manson Creek Resources Ltd.

## Notes to the Financial Statements

September 30, 2005

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### 10. Income taxes (continued)

- c) The Company has incurred losses for income tax purposes of approximately \$609,000 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>
2006	\$ 23,000
2007	55,000
2008	58,000
2009	109,000
2010	112,000
2011	104,000
2012	<u>148,000</u>
	<u>\$609,000</u>

- d) 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	\$3,087,000	100%
Canadian development expense	412,000	30%
Foreign exploration and development expense	444,000	10%
Undepreciated capital cost	<u>67,000</u>	20-30%
	<u>\$4,010,000</u>	

### 11. Commitments

Effective January 1, 2002, the Company entered into a five-year contract to lease office space. Concurrent with entering into the lease agreement, the Company entered into sublease agreements with three companies related by virtue of certain common officers and directors. Pursuant to the sublease agreements, as amended, the sublessors will, in aggregate, be committed to pay 75% of base rent and lease operating costs for the remainder of the office lease. The following summarizes the Company's base rent commitments, without offset for sublessor commitments, for the ensuing five fiscal years:

2006	\$53,500
2007	\$13,400
2008-2010	\$Nil

Refer also to note 4 regarding mineral property commitments.

### 12. Comparative Figures

Certain comparative amounts have been reclassified to conform to the current year's presentation.

**MANSON CREEK RESOURCES LTD.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

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The information included in this document should be read in conjunction with the audited financial statements for the year ended September 30, 2005 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 13, 2005. All dollar amounts are in Canadian Dollars unless otherwise stated.

**1) Principal Business of the Company**

The Company 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 development 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. None of the Company's properties are in production. Consequently, the Company's net income is not a meaningful indicator of its performance or potential.

**2) Mineral Properties**

**Yukon**

The minerals of interest in the Yukon region are copper, gold, silver, lead and zinc.

**a) Cuprum**

The Company has entered into an agreement with an unrelated corporation to acquire 10 staked claims located 50 kilometers north of Whitehorse, Yukon, having ATV access from the highway located 11 kilometers away. The prospective mineralization is primarily copper, silver and zinc, associated with skarns reported to be 9 to 30 meters wide that are outlined in outcrop for 750 meters. The prospect has not been extensively documented as it has primarily been explored by individual prospectors since 1953.

In order to acquire the property the Company must make staged payments aggregating \$75,000 and 450,000 of the Company's common shares over a five year period. The first payment of \$5,000 was made during fiscal 2005 and the second payment of \$5,000 and 50,000 shares was made October 31, 2005. Once the final payment is made in October, 2009, the Company will own a 100% interest in the property subject to a 2.0% NSR, (net smelter returns), royalty of which 1.5% could be purchased at the discretion of the Company for \$1,500,000.

The Company conducted a due diligence field program prior to year-end. The company undertook an extensive geochemical and magnetic survey on the property during July, 2005 at an approximate cost of \$41,000. A total of 19 kilometers of gridding, 18 kilometers of field magnetic surveys and the collection of 353 soil samples was completed. The magnetics outlined several new zones which are currently under overburden. A follow-up visit to Cuprum in August found previously undocumented calc silicate skarn on the property. The assays received from the soil samples have outlined numerous anomalous mineralized areas on the property that have helped to outline areas that the Company will revisit in fiscal 2006.

**MANSON CREEK RESOURCES LTD.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

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**2) Mineral Properties** (continued)

**Yukon**

**b) Tanner**

The Company had acquired 8 claims located in the Mayo mining district pursuant to an acquisition agreement dated June 18, 2001. The vendor has retained a 2% standard Net Profits Interest in the property which may be purchased by the Company for \$600,000. The Company has staked an additional 106 claims in the area. In June of 2002 two drill holes totaling 306 meters were drilled approximately 750 meters apart. Analytical data has revealed anomalous values of precious and base metals as well as pathfinder elements considered to be indicative of Sedex style mineralization. Precious and base metal indications include values ranging from 0 to 0.15 g/t gold, 3.8 g/t silver and 1370 ppm zinc throughout select sampled intervals of up to 1 meter in the first two drill holes on the Tanner Target.

In August, 2004 the Company completed two reconnaissance soil traverses in the central and southeast portion of the property. The Company had budgeted approximately \$40,000 for this summer exploration program, however only \$9,000 was expended, allowing the budget for the CR British Columbia property to be expanded. The soil traverses will serve as an orientation and a test to see if a larger program of soil sampling and mapping is warranted. The Company was pleased with the results of the reconnaissance soil program, which confirm the presence of elevated base and precious metals in the system, and suggest Zinc and Copper values are increasing in the southeast part of the property.

The Company undertook a soil sampling/prospecting program with a budget of approximately \$15,000, (actual costs \$18,000), during the fourth quarter of fiscal 2005. Soil samples outlined an approximately 400 by 400 meter area containing nickel and zinc values up to 4 percent. The 2005 and prior year programs have contributed to the understanding of the geology of the property. Results of the 2005 program, the recent favorable commodities markets, and the recent activity by other exploration companies on nearby properties, all demonstrate the potential of the property. During the upcoming exploration season in the summer of 2006, the Company will continue to spend the funds required to maintain the key areas of the claim block. During fiscal 2006 the Company will investigate opportunities to interest joint venture partners in an expanded 2006 and/or future exploration programs.

**c) JRS and NAD**

Management continues to believe that these properties have promise from a grass roots perspective. However, after evaluating the properties, Management determined that exploration programs would be better devoted to other properties in its portfolio. As a result, although claims continued to be current on the properties, Management decided to write-off the accumulated acquisition and exploration costs during the year ended September 30, 2005.

**British Columbia**

**a) CR Property**

The Company entered into an agreement in February, 2004 to acquire a 100% interest in the CR property located in the Ominica Mining District of British Columbia. In order to earn a 100% interest, the Company must make cash payments aggregating \$92,500, (paid \$22,500 to September 30, 2005), and issue 575,000 common shares, (issued 100,000 to September 30, 2005), over five years. The vendor will retain a 1.5% net smelter return, 1.0% of which may be purchased by the Company for \$1,000,000.

The property consists of 3 recorded claims totaling approximately 1,700 hectares. The CR property has excellent road access and a power line cutting through the western property boundary. Two priority exploration targets have been identified; the South Porphyry zone, and the North Porphyry-Breccia zone.

The Company undertook an exploration program during the summer of 2004 under the supervision of Dr. Shane Ebert. The program included geological mapping, 412 meters of backhoe trenching, rock and soil sampling and a ground magnetic survey.

**MANSON CREEK RESOURCES LTD.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

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**2) Mineral Properties** (continued)

**British Columbia**

**a) CR Property**

Field work to date has identified a large prospective coincident copper in soils and geophysical anomaly in previously untested areas of the property. The anomaly is interpreted to be related to a mineralized porphyry style system under shallow cover and warrants further work, including drill testing. A total of 172 rock and 510 soil samples were collected and analyzed by ALS Chemex. Trenches encountered significant mineralized intervals in the porphyry complex including 30 meters grading 0.12% copper and 0.036 % molybdenum and 18 meters grading 0.25% copper and 0.031% molybdenum in continuous representative chip sampling.

The Company was encouraged by the results of its first phase of exploration. The program has confirmed the presence of a large zone of low-grade porphyry copper-molybdenum-gold mineralization at the South porphyry zone, expanded targets at the North porphyry zone, and identified a new high priority exploration target.

During the summer 2005 exploration program, the Company collected approximately 148 soil samples on infill lines to further delineate anomalies identified in the 2004 summer program. The assay results were in line with the 2004 samples and confirmed the anomaly size and shape. Further, the Company undertook a drilling program to test historical intercepts and to attempt to extend known mineralization by drill testing the soil anomaly located on the west side of the fault at the south zone. The drill program, which occurred during July, 2005, was budgeted at approximately \$210,000. The budget had increased from the \$150,000 originally estimated in the Company's news release announcing the closing of the private placement described in 6) Financing. The increase was due to a reassessment of work that would be performed and upward revisions to drilling costs which were increasing due to a shortage of rigs. Actual costs approximated budget. Eight holes were drilled for a total of 1,580 meters. The Company announced drill results for all eight holes on August 11, 2005, news release # 05-09. The news release can be accessed through [www.sedar.com](http://www.sedar.com) and the Company's website at [www.manson.ca](http://www.manson.ca). The work completed to date; mapping, trenching and diamond drilling, has outlined a mineralized porphyry system that is 900 meters by 100 to 180 meters.

The Company also devoted time to prospecting surrounding properties and other prospective properties in the area during the months of May, June, and July 2005. The preliminary plan for 2006 includes additional trenching and diamond drilling on the recently discovered extension of the porphyry.

**b) Palomino property**

During the year ended September 30, 2005, the Company entered into an agreement to acquire the Palomino property situated in the Omineca Mining District of British Columbia. The property is comprised of five mineral claims totaling 2,174 hectares. In order for the Company to acquire a 100% interest in the property, subject to a 1.5% net smelter returns royalty, it must make staged payments aggregating \$66,000 and 425,000 of the Company's common shares over a five year period. The Company may purchase 1.0% of the vendor's 1.5% net smelter returns royalty for \$1,000,000 upon completing the transaction. The Company has paid \$6,000 to date and has issued 25,000 shares.

The property is a grass roots prospect that contains many previously unknown zones that have received little exploration. The property is primarily a copper target that has a strong gold showing in the immediate area. There is an association with magnetite and chalcopyrite in select hand samples and core from drill hole #1, (a drill hole undertaken by the vendor prior to acquisition), and management speculates that this could be the source rock that is at the large magnetic anomaly on the property. Historical sampling results date back to 1927 and included samples assaying 42.5 grams per tonne gold, 171.4 grams per tonne silver, and 9.4 percent copper. Management plans to focus its 2006 exploration on trenching and drilling on an airborne magnetic anomaly.

**MANSON CREEK RESOURCES LTD.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**2) Mineral Properties (continued)**

**British Columbia**

**c) Meridian**

Subsequent to September 30, 2005, the Company entered into an agreement to acquire 100% of the property, subject to a 2.0% net smelter interest, by making staged payments over five years aggregating \$87,500 and 475,000 of the Company's common shares. To date the Company has paid \$7,500 and issued 25,000 common shares.

The Company has performed the due diligence visit, and has confirmed to the vendor that the Company will go ahead with the acquisition. The proposed 2006 exploration program will be comprised of initial pass geological work followed up by a diamond drill program.

**3) Operating Results**

**Year ended September 30, 2005 compared to year ended September 30, 2004**

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

	<b>2005</b>	<b>2004</b>	<b>Variance (negative) positive</b>
<b>Revenue</b>			
Interest and other	\$ 10,324	\$ 5,801	\$ 4,523
<b>Expenses</b>			
General and administrative	240,930	82,572	(158,358)
Professional fees	25,950	9,885	(16,065)
Other expenses	26,147	20,769	(5,378)
<b>Loss before write-down</b>	(282,703)	(107,425)	(175,278)
Write-down of mineral property	(728,103)	(13,456)	(714,647)
<b>Net loss</b>	\$(1,010,806)	\$(120,881)	\$(889,925)

The increased write-off of mineral property costs of \$715,000 was the primary contributor to the increased loss. The write-off pertained primarily to NAD and JRS, Yukon, (see (2) "Mineral Properties" above). The mineral property write-off in the comparative period pertained primarily to the Kendall mineral property for which the initial due diligence precipitated the Company's decision to terminate the acquisition agreement. The increase in general and administrative expenses was also a significant contributor to the increased loss. The primary source of the increase in these general and administrative expenses was stock-based compensation expense of \$130,000 that was associated with the issue of options to directors, officers and consultants during the current year. Additional explanations of the variances are discussed below under professional fees and general and administrative expenses.

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

	<b>Year ended September 30, 2005</b>	<b>Year ended September 30, 2004</b>
Legal and filing fees	\$ 4,200	\$ 4,885
Audit fees	21,750	5,000
Total	\$25,950	\$ 9,885

The large increase in audit fees is primarily attributable to a \$16,000 accrual for the audit of the fiscal 2005 financial statements. The Company had simply recorded fees in the invoice period in the past due to their immateriality. Fees have increased significantly, however for the fiscal 2005 year. Public Company audit fees have increased substantially throughout the industry, and the Company reviewed competing bids before choosing their fiscal 2005 auditors.

**MANSON CREEK RESOURCES LTD.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

The following are the significant expenditures included in the General and Administrative expense financial statement category in the Statement of Operations:

	<u>Year ended September 30, 2005</u>	<u>Year ended September 30, 2004</u>
Stock-based compensation	\$ 130,000	\$ -
Administrative consulting fees	27,661	23,978
Occupancy costs	28,719	23,769
Office and secretarial	32,231	21,900
Travel and promotion	8,158	4,729
Insurance	4,104	3,594
Miscellaneous	10,057	4,602
Total	<u>\$ 240,930</u>	<u>\$ 82,572</u>

The primary contributor to the increase in expenses was the stock-based compensation of \$130,000; a non-cash measure of the value of stock options granted in the year. The increased exploration activity in the Company compared to the previous year has been reflected in greater support costs, as can be seen by the increases in both office and secretarial and administrative consulting costs. Further, the administrative requirements and regulatory compliance regarding the private placement and administering the private placement resulted in increased costs in fiscal 2005. Miscellaneous costs include networking and website maintenance costs of \$4,600 in the current year, (\$1,300 – 2004). The Company updated its network during fiscal 2005 and the expenses relate to consultant's set-up and maintenance charges.

**4) Liquidity and Capital Resources**

The Company's working capital position at September 30, 2005 was \$509,000, (September 30, 2004 - \$176,000). The Company expended \$340,000, (net after receipt of mineral exploration incentives), on mineral property exploration and \$131,000 on operations during the year ended September 30, 2005. The increase in cash operating expenses compared to the comparative period can be explained by the increase in expenses discussed above, (excluding stock-based compensation and write-down of mineral properties as well as an accounting accrual of \$16,000, all being non-cash expenses). Further, the receipt during fiscal 2004 of \$37,000 of receivables, pertaining to expense recoveries outstanding at fiscal 2003 year-end, reduced cash operating expenses in fiscal 2004.

The Company received approximately \$820,000 during the year ended September 30, 2005, comprised of the private placement proceeds of \$750,000 net of issue costs of \$29,000 and proceeds of \$99,000 from the exercise of options and warrants.

With the proceeds from the private placement, the Company was able to complete its planned summer exploration programs, aggregating approximately \$270,000, and will have sufficient cash to fund administrative requirements for fiscal 2006 as well as planned exploration programs. Expansion of exploration programs and administrative requirements after fiscal 2006 will require the Company to raise additional capital.

**5) Contractual Obligations**

The Company has office base rent obligations, (see note 11 to financial statements), of \$53,500 for fiscal 2006 and \$13,400 for fiscal 2007. Related companies will reimburse the Company for 75% of these costs. Aggregate unpaid mineral property cash payments and share issuances, by fiscal year, required to complete the acquisitions of the CR, Cuprum, Palomino and Meridian properties are as follows:

<u>Fiscal year of payment</u>	<u>Cash</u>	<u>Common Shares</u>
2006	\$ 32,500	200,000
2007	\$ 50,000	300,000
2008	\$ 70,000	400,000
2009	\$ 70,000	475,000
2010	<u>\$ 70,000</u>	<u>450,000</u>
Total	<u>\$292,500</u>	<u>1,825,000</u>

The Company can choose to terminate any of these agreements at any time without a requirement for further cash and share payments.

**MANSON CREEK RESOURCES LTD.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**6) Financing**

On March 8, 2005, the Company closed a non-brokered private placement for gross proceeds of \$750,000. The Company issued 5,454,545 non-flow-through units at \$0.11 per unit and 1,071,428 flow-through units at \$0.14 per unit. Each of the 5,454,545 units was comprised of one common share and one purchase warrant that may be exercised at \$0.14 to March 7, 2007 to acquire one common share. Each of the 1,071,428 flow-through units was comprised of one flow-through common share and one non-flow-through warrant that may be exercised at \$0.14 to March 7, 2007 to acquire one common share. The proceeds of the private placement were earmarked to undertake a drill program on the CR property in British Columbia, to evaluate new mineral prospects and for working capital purposes. The fiscal 2005 mineral property expenditures that were financed by this private placement aggregated approximately \$300,000.

During the year ended September 30, 2004, the Company undertook a private placement financing for net proceeds of \$100,000. CDG Investments Inc. subscribed to 1,000,000 units of the Company at \$0.10 per unit, with each unit comprised of one common share and one-half of a share purchase warrant. Each whole warrant could be exercised to purchase one common share at \$0.15 per share to December 24, 2005. CDG exercised all of its warrants for \$75,000 during the year ended September 30, 2005. The proceeds of the financing were earmarked to evaluate new mineral exploration projects with an emphasis on porphyry-style copper/gold targets, for grass roots exploration and for general and administrative costs. Approximately \$90,000 of the unit proceeds was spent on such exploration on the CR and Kendall properties in British Columbia. The remainder was applied to operations.

**7) 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.

<b>For the years ended or as at September 30,</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Financial Results</b>			
Interest and other income	\$ 10,324	\$ 5,801	\$ 6,799
Net Loss	\$ (1,010,806)	\$ (120,881)	\$ (440,693)
Basic and diluted loss per share	\$(0.05)	\$ (0.01)	\$(0.03)
<b>Financial Position</b>			
Working capital	\$ 509,257	\$ 175,809	\$ 316,206
Total assets	\$ 1,300,600	\$ 1,322,593	\$ 1,348,994
Share Capital	\$ 7,651,822	\$ 7,104,199	\$ 7,019,199
Contributed Surplus	\$ 521,334	\$ 111,334	\$ 91,334
Deficit	\$(6,938,372)	\$ (5,927,566)	\$ (5,806,685)

**8) Selected Quarterly 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.

Three months ended:	Sept. 30 2005	June 30 2005	March 31 2005	Dec. 31 2004	Sept. 30 2004	June 30 2004	Mar. 31 2004	Dec. 31 2003
Interest & Other	\$ 4,777	\$ 3,509	\$1,134	\$ 904	\$1,203	\$ 929	\$ 2,035	\$ 1,634
Net loss before mineral property write-offs and property proceeds	\$(48,181)	\$(165,456)	\$(42,608)	\$(26,458)	\$(25,825)	\$(18,300)	\$(36,822)	\$(26,478)
Mineral property (write-offs) net of proceeds in excess of carrying cost	\$(191,833)	\$ -	\$(3,125)	\$(533,145)	\$(8,248)	\$(7,708)	\$ -	\$ 2,500
Net Loss	\$(240,014)	\$(165,456)	\$(45,733)	\$(559,603)	\$(34,073)	\$(26,008)	\$(36,822)	\$(23,978)
Basic and diluted loss per share	\$ (0.01)	\$ (0.01)	\$ 0.00	\$ (0.03)	\$(0.01)	\$ 0.00	\$ 0.00	\$ 0.00

**MANSON CREEK RESOURCES LTD.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**8) Selected Quarterly Information** (continued)

The significant loss in the quarter ended June 30, 2005 is primarily attributable to stock-based compensation expense of \$130,000 being recorded in the period upon the granting of stock options. This is a non-cash charge. Interest revenue varies with the amount of invested cash and interest rates. The most significant influence on net income/loss is the amount of mineral property write-offs and stock-based compensation expenses. General and administrative expenses are 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 is a higher net loss before mineral property write-offs in these periods.

**9) Directors and Officers**

Regan Chernish	Director and President
Jean Pierre Jutras	Director and Vice-President
James Devonshire	Director
Shane Ebert	Director
Doug Bryan	Director
Shari Difley	Chief Financial Officer
Barbara O'Neill	Corporate Secretary

**10) Management Remuneration**

The President, Vice-President and Chief Financial Officer bill the Company through their majority-owned companies or individually for number of days or hours worked. Their rates and annual billings for the year ended September 30, 2005 are as follows:

<u>Officer and position</u>	<u>Rate</u>	<u>Annual Billing for the year ended September 30, 2005</u>
Mr. Chernish, President	\$475 per day	\$ 63,500
Mr. Jutras, Vice-President	\$400 per day	\$ 3,100
Ms. Difley, Chief Financial Officer	\$ 60 per hour	\$ 10,100

Ms. O'Neill is employed by a related corporation. The related corporation bills the Company quarterly for the Company's share of her salary, based on time devoted to Company business. The salary billed for the year ended September 30, 2005 aggregated \$11,400.

Directors are not remunerated in cash, however they receive stock options in recognition of their service. Details regarding directors' and officers' stock options can be found in the management proxy circular.

**11) Related Party Transactions**

The following non-arm's length transactions, (amounts rounded to nearest \$1,000), occurred during the year ended September 30, 2005:

- i) received or accrued \$35,000 from corporations related by virtue of common officers and directors for rent of shared office space and \$39,000 for lease operating and office costs.
- ii) paid or accrued \$85,000 for consulting fees charged by officers and directors or their companies 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 to a corporation related by virtue of certain common officers and directors \$36,000 for allocated office and secretarial expenses

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.

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**12) Exploration Expenditures**

Refer to note 4 to the financial statements for expenditures incurred during the year on the various properties.

**13) Capital Stock and Contributed Surplus**

**a) Authorized and Issued**

- Authorized: Unlimited number of voting common shares
- Unlimited number of Class A preferred shares, issuable in series
- Unlimited number of Class B preferred shares, issuable in series

The following summarizes capital stock transactions from September 30, 2005 to December 13, 2005:

	<b>Number of Shares</b>	<b>Capital Stock</b>	<b>Contributed Surplus</b>
<b>Balance September 30, 2005</b> (note 6 financial statements)	23,734,775	\$7,651,822	\$ 521,334
Exercise of warrants	30,000	5,580	(1,380)
Issued for acquisition of mineral properties	100,000	12,500	-
<b>Balance December 13, 2005</b>	<b>23,864,775</b>	<b>\$7,669,902</b>	<b>\$ 519,954</b>

**b) Stock Options and Warrants**

**i) Options**

No options were granted, cancelled or exercised during the period from September 30, 2005 to December 13, 2005. Refer to Note 6 for details of options outstanding and option transactions as at, and for the years ended respectively, September 30, 2005 and September 30, 2004.

**ii) Warrants**

During the period from September 30, 2005 to December 13, 2005 warrants were exercised to acquire 30,000 common shares at \$0.14 per share. The value of \$1,380 that was attributed to these warrants was credited to contributed surplus when they were issued. This amount was reversed out of contributed surplus when the warrants were exercised and increased the \$4,200 proceeds received on warrant exercise to arrive at the \$5,580 credited to capital stock.

Outstanding warrants at December 13, 2005 aggregated 6,495,973. Refer to note 6 for details of warrants outstanding at year end and the terms of the warrants.

**14) Investor Relations**

With the exception of responding to shareholder inquiries, the Company undertook minimal investor relation activities during the year ended September 30, 2005. The Company does not employ a dedicated "investor relations" individual or firm.

**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 would attempt to ally with a more senior mining company that might option-in on the property or purchase the property outright. Management will be meeting with directors of the Company in the second quarter of fiscal 2006 to discuss exploration options for the various properties at which point budgets will be formulated. Preliminary plans include drilling on the CR, Palomino and Meridian properties. In addition, the Company will undertake the final removal of fuel drums and other field supplies from their Yukon properties.

**16) Risks**

The success of the Company's business is subject to a number of factors including, but not limited to, those risks normally encountered in the mineral exploration industry such as operating hazards, exploration uncertainty, increasing environmental regulation, competition with companies having greater resources, and lack of operating cash flow. As the Company relies on the sale of its common shares to finance operations and exploration, the state of the markets will affect its ability to raise further funds. The state of the markets is dependent on investor confidence and the price of mineral resources at any point in time, among other things.

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**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, 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 the 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. The Company uses the Black-Scholes Option Pricing Model. 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 during the year.

**18) New Accounting Policies**

Asset Retirement Obligations

Effective October 1, 2004 the Company adopted the new recommendation of the Canadian Institute of Chartered Accountants relating to asset retirement obligations. This recommendation replaces the previous method of accounting for asset retirement liabilities on an accrual basis. The Company has adopted the standard on a retroactive basis. Since there were no material obligations relating to prior periods, no restatement was necessary. 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. Under the new standard, 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 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.

As at September 30, 2005 the Company has recorded an estimated current obligation of \$15,000 for the removal of empty fuel drums and miscellaneous items from its camp in the Yukon. Management has determined that it will include this clean-up in its 2006 summer exploration plans. Management has estimated that discounted clean-up obligations for subsequent future periods are not significant.

**19) Cautionary Statements**

Statements and/or financial forecasts that are unaudited and not historical 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.

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**20) Disclosure Controls and Procedures**

Management, including the Company's President and Chief Financial Officer, evaluated the effectiveness and operation of the Company's disclosure controls and procedures. The President and Chief Financial Officer concluded that, as of September 30, 2005, the disclosure controls and procedures were effective, in all material respects, to ensure that information required to be disclosed in the reports the Company files and submits under the Exchange Act is recorded, processed, summarized and reported as and when required. The Company's President and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are also effective to ensure that information required to be disclosed in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its President and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

**21) Other**

Additional information relating to the Company may be found on SEDAR at [www.sedar.com](http://www.sedar.com).