

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

September 30, 2011

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**December 6, 2011**

**Independent Auditor's Report**

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

We have audited the accompanying financial statements of Manson Creek Resources Ltd. and its subsidiaries, which comprise the consolidated balance sheets as at September 30, 2011 and September 30, 2010 and the consolidated statements of net and comprehensive loss and deficit and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

**Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Manson Creek Resources Ltd. and its subsidiaries as at September 30, 2011 and September 30, 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**Emphasis of matter**

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern

*PricewaterhouseCoopers LLP*

**Chartered Accountants**

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**Manson Creek Resources Ltd.****Balance Sheets**

September 30

2011

2010

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**Assets****Current**

Cash and cash equivalents (Note 3)	\$ 377,921	\$ 103,730
Accounts receivable	23,424	6,395
Due from related parties (Note 11)	803	9,643
Prepaid expenses	<u>14,003</u>	<u>23,984</u>
	<b>416,151</b>	<b>143,752</b>

**Other assets** (Note 4) **3,000** 11,382

**Mineral properties and equipment** (Note 5) **532,665** **613,640**

**\$ 951,816** **\$ 768,774**

**Liabilities****Current**

Accounts payable and accrued liabilities	\$ 30,519	\$ 29,892
Due to related parties (Note 11)	<u>22,690</u>	<u>19,628</u>
	<b>53,209</b>	<b>49,520</b>

**Deferred sublease revenue** (Note 6) **11,092** 13,298

**Asset retirement obligation** (Note 7) **9,000** **7,000**

**73,301** **69,818**

**Shareholders' Equity**

<b>Capital Stock</b> (Note 8)	<b>10,321,637</b>	9,633,302
<b>Warrants</b> (Note 8)	<b>350,500</b>	93,000
<b>Contributed Surplus</b> (Note 8)	<b>1,103,765</b>	1,096,765
<b>Deficit</b>	<b><u>(10,897,387)</u></b>	<b><u>(10,124,111)</u></b>
	<b><u>878,515</u></b>	<b><u>698,956</u></b>

**\$ 951,816** **\$ 768,774**

**Nature of operations and going concern** (Note 1)

**Commitments** (Note 13)

Approved by the Board

\_\_\_\_\_  
"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 Net and Comprehensive Loss and Deficit**

Years Ended September 30

2011

2010

**Expenses**

General and administrative (Note 10)	\$ 234,466	\$ 211,986
Professional fees	44,450	32,995
Reporting to shareholders	16,887	18,475
Stock exchange and transfer agent fees	12,442	11,834
Amortization of capital assets	<u>1,708</u>	<u>422</u>
	<b>(309,953)</b>	<b>(275,712)</b>
<b>Other Income (Expense)</b>		
Sublease termination fee (Note 6)	-	84,000
Interest and other	6,081	1,202
Part XII.6 tax	(300)	(800)
Write-down of mineral properties (Note 5)	<u>(502,354)</u>	<u>(8,842)</u>
<b>Loss before income taxes</b>	<b>(806,526)</b>	<b>(200,152)</b>
Future income tax recovery (Note 12)	<u>33,250</u>	<u>25,000</u>
<b>Net and Comprehensive Loss</b>	<b>(773,276)</b>	<b>(175,152)</b>
<b>Deficit, beginning of year</b>	<b>(10,124,111)</b>	<b>(9,948,959)</b>
<b>Deficit, end of year</b>	<b>\$ (10,897,387)</b>	<b>\$ (10,124,111)</b>
<b>Net Loss per share:</b>		
Basic and diluted	\$ <u>(0.01)</u>	\$ <u>0.00</u>
<b>Weighted average number of shares outstanding:</b>		
Basic and diluted	<u>73,400,830</u>	<u>53,561,812</u>

See accompanying notes to the financial statements.

# Manson Creek Resources Ltd.

## Statements of Cash Flows

Years Ended September 30

2011

2010

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

#### Operating activities

Interest and other income received	\$ 6,081	\$ 1,202
Sublease termination fee received	-	84,000
Sublease rent deposit received	-	13,298
Cash operating expenses	<u>(285,653)</u>	<u>(242,760)</u>
	<u>(279,572)</u>	<u>(144,260)</u>

#### Financing activities

Private placement proceeds	1,058,000	350,000
Share issue costs	(77,915)	(4,713)
Receipt of government grant	-	22,710
Part XII.6 tax paid	<u>(920)</u>	<u>-</u>
	<u>979,165</u>	<u>367,997</u>

#### Investing activities

Mineral property additions	(425,402)	(153,422)
Exploration deposits expended	-	(28,585)
Exploration deposits received	<u>-</u>	<u>37,585</u>
	<u>(425,402)</u>	<u>(144,422)</u>

### Increase in cash and cash equivalents

274,191

79,315

### Cash and cash equivalents,

Beginning of year	<u>103,730</u>	<u>24,415</u>
End of year	<u>\$ 377,921</u>	<u>\$ 103,730</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, 2011 and September 30, 2010.

#### Non-cash transactions

##### 2011

The Company issued 100,000 of its common shares, valued at \$6,000, pursuant to an option agreement to acquire an interest in the Virgin Arm mineral property. The acquisition cost was valued using the closing share price on the transaction date.

##### 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)

See accompanying notes to the financial statements.

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# Manson Creek Resources Ltd.

## Notes to the Financial Statements

September 30, 2011

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### 1. Nature of operations and going concern

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 using Canadian Generally Accepted Accounting Principles applicable to a going concern which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due. At September 30, 2011, the Company had a deficit of \$10,897,387 and a loss of \$773,276 for the year then ended. While, without considering 2012 exploration and acquisition costs, the Company would have sufficient working capital to fund general and administrative and other operating costs through the end of fiscal 2012, the Company is dependent upon raising funds through the issuance of shares and/or attracting joint venture partners in order to undertake exploration during 2012 and beyond and to develop 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 assessed the consequences of the adoption of IFRS, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

#### b) Financial instruments and comprehensive income

Financial instruments are classified 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 net and comprehensive loss.

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, 2011 and no opening or closing balances for accumulated other comprehensive income or loss.

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# Manson Creek Resources Ltd.

## Notes to the Financial Statements

September 30, 2011

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### 2. Summary of significant accounting policies (continued)

#### b) Financial instruments and comprehensive income

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.

#### c) 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 these estimates.

#### d) 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 50%.

#### e) 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.

#### f) 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

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# Manson Creek Resources Ltd.

## Notes to the Financial Statements

September 30, 2011

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### 2. Summary of significant accounting policies (continued)

#### f) 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.

#### g) 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.

#### 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. 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.

#### i) 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.

#### j) 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 term deposits and bankers' acceptances, with terms to maturity of 90 days or less when acquired. The counter-parties are financial institutions.

#### Restricted cash

At September 30, 2011, unexpended proceeds from flow-through share issuances in the amount of \$Nil, (Sept. 30, 2010 - \$8,800), that are restricted for use on qualifying exploration expenditures are included in cash and cash equivalents.

# Manson Creek Resources Ltd.

## Notes to the Financial Statements

September 30, 2011

<b>4. Other assets</b>		<b>2011</b>		<b>2010</b>
Long-term prepaid expense		\$	-	\$ 3,382
Mineral exploration deposits			<b>3,000</b>	3,000
Exploration advance			-	5,000
		<b>\$</b>	<b>3,000</b>	<b>\$ 11,382</b>

### 5. Mineral properties and equipment

The following summarizes changes in mineral property and equipment during the years ended September 30, 2011 and September 30, 2010 respectively:

2011		Newfoundland	British Columbia	Yukon
	Total	Virgin Arm	Meridian	Tell
<b>Exploration expenditures:</b>				
Balance September 30, 2010	\$ 448,665	\$ 92,473	\$ 354,509	\$ 1,683
Drilling	97,753	97,753	-	-
Geological consulting	131,238	91,461	-	39,777
Geochemical analysis	40,209	37,409	-	2,800
Trenching	3,285	3,285	-	-
Field costs	15,052	7,343	-	7,709
Equipment rental	11,793	8,535	-	3,258
Helicopter and fixed wing	16,730	-	-	16,730
Travel and accommodations	30,083	23,651	-	6,432
Asset retirement obligation	2,000	2,000	-	-
Write-down of mineral properties	(354,509)	-	(354,509)	-
<b>Balance Sept 30, 2011</b>	<b>442,299</b>	<b>363,910</b>	<b>-</b>	<b>78,389</b>
<b>Property acquisition costs:</b>				
Balance September 30, 2010	164,975	16,500	147,845	630
Costs incurred	70,389	36,000	-	34,389
Write-down of mineral properties	(147,845)	-	(147,845)	-
<b>Balance Sept 30, 2011</b>	<b>87,519</b>	<b>52,500</b>	<b>-</b>	<b>35,019</b>
<b>Total mineral properties September 30, 2011</b>	<b>\$ 529,818</b>	<b>\$ 416,410</b>	<b>\$ -</b>	<b>\$ 113,408</b>
Equipment	4,555			
Accumulated amortization	(1,708)			
<b>Total mineral properties and equipment Sept 30, 2011</b>	<b>\$ 532,665</b>			

2010		Newfoundland	British Columbia	
	Total	Virgin Arm	Meridian	Other
<b>Exploration expenditures:</b>				
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)
<b>Balance September 30, 2010</b>	<b>448,665</b>	<b>92,473</b>	<b>354,509</b>	<b>1,683</b>
<b>Property acquisition costs:</b>				
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)
<b>Balance September 30, 2010</b>	<b>164,975</b>	<b>16,500</b>	<b>147,845</b>	<b>630</b>
<b>Total mineral properties September 30, 2010</b>	<b>\$ 613,640</b>	<b>\$ 108,973</b>	<b>\$ 502,354</b>	<b>\$ 2,313</b>

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# Manson Creek Resources Ltd.

## Notes to the Financial Statements

September 30, 2011

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### 5. Mineral properties and equipment (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)	\$ 30,000	100,000
November 30, 2011 (issued subsequent to year-end)	-	100,000
May 30, 2012	\$ 35,000	-
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.

#### Impaired mineral properties 2011

During the year ended September 30, 2011 the Company investigated options for furthering its Meridian, British Columbia property, through the involvement of joint venture partners or option agreements. When no such arrangements could be made by the deadline set by management and the board of directors, the Company wrote-off the property to reflect management's assessment of the property value based on current market conditions.

#### 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.

### 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 was included in earnings during the year ended September 30, 2010 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. Coincident with the termination, a corporation, related by virtue of certain common officers and directors, entered into a sublease agreement with the Company. Pursuant to sublease agreements, certain sublessors paid a deposit for future months' rent. The portion of the deposit at the respective year ends that pertains to future rent is reflected as deferred sublease revenue in the balance sheet.

# Manson Creek Resources Ltd.

## Notes to the Financial Statements

September 30, 2011

### 7. Asset retirement obligation

Changes in the asset retirement obligation for the years ended September 30, 2011 and September 30, 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Balance, beginning of year	\$ 7,000	\$ 5,000
Asset retirement obligation adjustments	2,000	2,000
Balance, end of year	<u>\$ 9,000</u>	<u>\$ 7,000</u>

The current year asset retirement obligation of \$9,000 and prior year obligation of \$7,000 represent the estimated reclamation costs for the Meridian, British Columbia and Virgin Arm, Newfoundland and Labrador mineral properties.

### 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>
<b>Balance Sept. 30, 2009</b>	46,919,986	\$ 9,322,640	\$ 989,765	2,772,500	\$ 71,000
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 share renunciation	-	(25,000)	-	-	-
<b>Balance Sept. 30, 2010</b>	<u>54,761,652</u>	<u>\$9,633,302</u>	<u>\$1,096,765</u>	<u>7,098,333</u>	<u>\$ 93,000</u>
Private placement (net of share issue costs of \$77,915)	20,400,000	715,585	-	19,450,000	264,500
Tax effect of flow-through share renunciation	-	(33,250)	-	-	-
Issued pursuant to property acquisitions	100,000	6,000	-	-	-
Warrant expiries	-	-	7,000	(1,265,000)	(7,000)
<b>Balance Sept. 30, 2011</b>	<u>75,261,652</u>	<u>\$10,321,637</u>	<u>\$1,103,765</u>	<u>25,283,333</u>	<u>\$350,500</u>

During the year ended September 30, 2011 the Company completed a non-brokered private placement of 18,500,000 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 was comprised 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 was comprised 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 and are included in share issue costs above. In valuing the warrants issued pursuant to the 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.

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# Manson Creek Resources Ltd.

## Notes to the Financial Statements

September 30, 2011

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

#### b) Issued

Exploration expenditures aggregating \$133,000 were renounced to flow-through share investors during the year ended September 30, 2011, (\$100,000 – 2010). The \$33,250, (2010 - \$25,000), 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 during both the current and comparative periods.

During the year ended September 30, 2011 the Company issued 100,000 common shares pursuant to the Virgin Arm, Newfoundland and Labrador option agreement. The acquisition cost was valued using the market price of the Company's shares on the issue date.

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 expiry date of the warrants was subsequently extended to May 24, 2012. 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 in contributed surplus. (Refer to Note 10)

#### c) Outstanding options

<u>Expiry</u>	<u>Number of shares</u>		<u>Exercise</u>
	<u>Sept 30, 2011</u>	<u>Sept 30, 2010</u>	<u>Price</u>
April 26, 2011	-	100,000	\$0.14
December 20, 2012	1,025,000	1,025,000	\$0.10
May 4, 2014	25,000	-	\$0.10
March 2, 2015	900,000	900,000	\$0.10
	<u>1,950,000</u>	<u>2,025,000</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, 2011

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

#### d) Option transactions

	Number of Options	Average Exercise Price
As at September 30, 2009	1,800,000	\$0.12
Granted	900,000	\$0.10
Expired without exercise	(675,000)	\$0.16
As at September 30, 2010	2,025,000	\$0.10
Expired without exercise	(100,000)	\$0.14
Granted	25,000	\$0.10
Balance Sept 30, 2011	1,950,000	\$0.10

Subsequent to year-end the Company granted options to a geological consultant to acquire 20,000 common shares at \$0.10 per share, expiring October 11, 2014.

#### e) Warrants

Warrant transactions during the years ended September 30, 2011 and September 30, 2010, and balances as at the respective year ends, are summarized below:

##### 2011

Sept. 30, 2010	Issued	Expired	Sept 30, 2011	Exercise Price	Expiry
1,265,000	-	(1,265,000)	-	\$0.10	Apr. 30, 2011
5,833,333	-	-	5,833,333	\$0.10	May 24, 2012*
-	19,450,000	-	19,450,000	\$0.10	May 3, 2012
<b>7,098,333</b>	<b>19,450,000</b>	<b>(1,265,000)</b>	<b>25,283,333</b>		

\*Subsequent to year-end the expiry date of the warrants was extended from November 24, 2011 to May 24, 2012.

##### 2010

Sept. 30, 2009	Issued	Expired	Sept. 30, 2010	Exercise Price	Expiry
1,500,000	-	(1,500,000)	-	\$0.15	Jun.12, 2010
7,500	-	(7,500)	-	\$0.13	Jun.12, 2010
1,265,000	-	-	1,265,000	\$0.10	Apr. 30, 2011
-	5,833,333	-	5,833,333	\$0.10	Nov.24, 2011
<b>2,772,500</b>	<b>5,833,333</b>	<b>(1,507,500)</b>	<b>7,098,333</b>		

### 9. Financial instruments

The following summarizes the carrying values of the various financial instrument categories at the respective year-ends:

Category	Carrying value	
	2011	2010
Held for trading (Cash and cash equivalents)	\$ 377,921	\$ 103,730
Loans and receivables (Accounts receivable & due from related parties)	\$ 24,227	\$ 16,038
Other financial liabilities (Accounts payable and accrued liabilities & due to related parties)	\$ 53,209	\$ 49,520

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, 2011

### 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. The fair value of the fiscal 2010 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

The Company incurred the following amounts charged by officers or their controlled corporations and by (to) companies related by virtue of certain common officers and directors, for the following years ended September 30:

	<u>2011</u>	<u>2010</u>
<b>Officers:</b>		
Geological consulting fees included in deferred exploration expenditures	\$ 76,700	\$ 39,100
Administrative consulting fees	\$ 77,700	\$ 61,900
<b>Related companies:</b>	\$	\$
Office rent and operating costs	\$ (76,200)	\$ (45,600)
General and administrative costs	\$ (4,300)	\$ (6,200)
General and administrative and secretarial costs	\$ 30,700	\$ 5,200

During the year ended September 30, 2010, the Company received a \$13,298 rental deposit from a company related by virtue of certain officers and directors as prepayment of sublease rental 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. Related party receivables and payables pertained to the unpaid portion of the above-noted billings. Refer also to note 8(b).

### 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>2011</u>	<u>2010</u>
Computed expected tax recovery at a combined provincial and federal rate of 27% (2010 – 28%)	\$ 217,800	\$ 56,000
Effect on income taxes resulting from:		
Change in valuation allowance	(179,000)	21,000
Tax rate adjustment	(17,000)	(2,000)
Permanent differences and other	11,450	(19,000)
Expiry of losses	-	(31,000)
Future income tax recovery	<u>\$ 33,250</u>	<u>\$ 25,000</u>

b) The net future income tax asset at September 30, 2011 and 2010 is comprised of:

	<u>2011</u>	<u>2010</u>
Mineral properties and equipment with income tax values exceeding book values	\$1,136,000	\$ 1,044,000
Other	3,000	2,000
Non-capital losses carried forward	458,000	372,000
Future income tax asset before valuation allowance	<u>1,597,000</u>	<u>1,418,000</u>
Valuation Allowance	<u>(1,597,000)</u>	<u>(1,418,000)</u>
Future income tax asset	<u>\$ -</u>	<u>\$ -</u>

# Manson Creek Resources Ltd.

## Notes to the Financial Statements

September 30, 2011

### 12. Income taxes (continued)

- c) The Company has incurred losses for income tax purposes of approximately \$1,833,000 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
2031	345,000
	<u>\$1,833,000</u>

- d) As at September 30, 2011 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	\$3,623,000	100%
Canadian development expense	937,000	30%
Foreign exploration and development expense	444,000	10%
Undepreciated capital cost	74,000	20 – 100%
	<u>\$5,078,000</u>	

### 13. Commitments

The Company rents office space pursuant to a lease agreement that extends to December 31, 2011. A portion of this space is subleased to companies related by virtue of common officers and directors pursuant to sublease agreements that extend to December 31, 2011. 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>
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 and term deposits.

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# Manson Creek Resources Ltd.

## Notes to the Financial Statements

September 30, 2011

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### 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, 2011, the Company has incurred sufficient qualifying expenditures by September 30, 2011 to meet its flow-through renunciation obligation.

### 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 and cash held in bankers' acceptances and term deposits. The Company considers credit risk to be low on these instruments as at September 30, 2011.

#### 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. The Company is continually investigating financing options. The Company feels that it has sufficient working capital to finance general and administrative expenses and other operating expenses to the end of fiscal 2012 without consideration of 2012 exploration costs. However, increases in activity levels, property acquisition costs and 2012 exploration, will require additional financing. Refer also to Note 1, "Nature of operations and going concern."

#### 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.

**MANSON CREEK RESOURCES LTD.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

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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, 2011 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 6, 2011. 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) Highlights - Year ended September 30, 2011**

- a) The Company completed a \$1,058,000 financing that funded mineral property acquisition costs, exploration on Virgin Arm, Newfoundland and Labrador and Tell, Yukon as well as working capital needs.
- b) The Company completed claim staking in the Mayo mining district of the Yukon, expanding the Company's Tell property to over 2000 hectares.
- c) Phase 1 of the 2011 Virgin Arm exploration program was completed including a detailed 18.6 line kilometer soil sampling program. The Phase 2 program of trenching and soil sampling was completed and results from trenching included 1 meter grading 0.83 grams per tonne, (g/t) gold within a broader zone of 9.6 meters grading 0.26 g/t gold and 1.37 g/t gold in a 1.0 meter interval hosted within 3.0 meters assaying 0.72 g/t gold.
- d) The Company completed its geological reconnaissance, stream sampling and prospecting program on the Tell, Yukon property.
- e) The Company completed its drill program on the Virgin Arm, Newfoundland property with results including 1.51 grams per tonne, (g/t), gold over 3.5 meters; 5.75 g/t gold and 3.39 g/t gold over 1.0 and 1.2 meters respectively.
- f) The Company wrote-off its Meridian, British Columbia property.

**MANSON CREEK RESOURCES LTD.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

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**3) Mineral Properties**

**British Columbia**

**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. The Company wrote-off the property in the fourth quarter of the year after determining that there was no imminent interest by possible optionees or joint venture partners and financial resources were better devoted to its other properties at this time. The property can still be vended or optioned out at some point in the future if an opportunity arises.

**Saskatchewan**

**Black Lake**

The Company holds a 100% interest in the property, subject to a net smelter interest. The Company will continue to pursue optioning out the property or investigating joint venture opportunities at some point in the future, however the property was written-off in a prior year to reflect management's assessment of the property's value based on 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. 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. 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, 2010. 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 prospecting program during October, 2010 and examined these anomalies. This program lead to the discovery of numerous new gold occurrences.

With proceeds from the November, 2010 financing, the Company completed the following exploration at Virgin Arm during its Spring/Summer 2011 program: 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) approximately 1,100 meters of diamond drilling. The goal of the drilling was to 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. The preliminary budget for all phases of the program was approximately \$380,000. To September 30, 2011, approximately \$271,000 has been expended. Significant trenching results are summarized in the Company's news release dated July 14, 2011 and include 1.37 g/t gold in a 1.0 meter interval hosted within 3.0 meters assaying 0.72 g/t gold.

**MANSON CREEK RESOURCES LTD.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

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**3) Mineral Properties (continued)**

**Virgin Arm**

Significant drill results are summarized in the news release dated September 7, 2011 and include 1.51 grams per tonne, (g/t) gold over 3.5 meters from the Hank Zone, including 3.82 g/t gold over 1.1 meters. Drill hole 2011-Ho-05 from the Homer Zone returned assays of 5.75 g/t gold and 3.39 g/t gold over 1.0 and 1.2 meters respectively. The high variability in the gold grades from the samples lead management to believe that the variability may be a function in part of the nuggety nature of the gold present on the property. Metallic screen analysis has proven to be effective in determining a representative grade for samples tested which contain nuggety coarse free gold. Consequently, a 30 sample test group of previously fire-assayed core samples was re-assayed using the metallic screen analysis. The re-assays resulted in an average overall increase of 47.2% in gold grades, with 21 of the 30 samples returning an 88.9% average increase in gold grades and 9 samples returning an average decrease of 50.2% in gold grades.

Gold has been identified in a mineralized corridor of 4.2 kilometers by up to 800 meters on the Virgin Arm property, defined by trenching and diamond drilling. The Company has demonstrated that a widespread, previously unrecognized, gold system is present at the Virgin Arm property.

**Tell, Yukon**

The Tell property is located approximately 140 kilometers east of Mayo, Yukon and is contiguous to Strategic Metals Ltd.'s Goz claims and ATAC Resources Ltd.'s Rau claims. During the year ended September 30, 2011 the Company staked additional claims surrounding the Company's Tell claims, expanding its property to over 2000 hectares. The Company had not explored the Tell claims since approximately 2005, however recent 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. The Company completed its geological reconnaissance, stream sampling and prospecting program during the year ended September 30, 2011. The preliminary budget for the program was \$150,000 and approximately \$77,000 was expended to September 30, 2011. Geochemical results confirmed that the Crystal Springs, Ash Springs and Area 51 natural spring gossan discoveries on Tell are strongly mineralized. In addition, follow-up work on these gossans led to the discovery of three additional natural spring gossans: Majestic, Corona and Roswell. The presence of mineralized gossans is considered significant as the Ocelot discovery by ATAC Resources Ltd., within its Rau Trend, was made by targeting a natural spring surface gossan with associated strongly anomalous zinc and lead sample results.

Soil and rock samples collected from the Tell, Crystal Springs, Ash Springs, Area 51, Majestic and Corona natural spring gossan discoveries have returned highly anomalous zinc, nickel, lead, arsenic and numerous other gold pathfinder element values. Property-wide stream sampling outlined two additional, regional geochemical anomalies - Area 13 and Area 15. The Company believes the identified gossans to be significant due to the number of successful drill discoveries made on similar gossans in the region. The Company plans to undertake a drill program during its 2012 exploration season, the scope of which will be determined based on financing.

**4) Operating Results**

**Year ended September 30, 2011 compared to year ended September 30, 2010**

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

<b>Year ended September 30</b>	<b>2011</b>	<b>2010</b>
General and administrative expenses	\$ (234,466)	\$ (211,986)
Professional fees	(44,450)	(32,995)
Reporting to shareholders	(16,887)	(18,475)
Stock exchange and transfer agent	(12,442)	(11,834)
Other	4,073	(20)
Write-down of mineral properties	(502,354)	(8,842)
Sublease termination fee	-	84,000
Future income tax recovery	33,250	25,000
<b>Net and comprehensive loss</b>	<b>\$ (773,276)</b>	<b>\$ (175,152)</b>

**MANSON CREEK RESOURCES LTD.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**4) Operating Results** (continued)

The largest variance in the period-to-period comparison pertains to the write-off of mineral properties. The write-off of mineral properties of \$502,354 was the largest single contributor to the significant loss in the current year. The write-off during the year ended September 30, 2011 related to the Meridian property and the prior year write-off pertained to the Black Lake mineral property. The Black Lake property was written-off in 2009, but the Company made its final option payment in 2010 through the issuance of shares in order to give it an opportunity to vend the property through an option or joint venture arrangement. The Company wrote off this final option payment during 2010. Reporting to shareholder costs relate to costs associated with the annual meeting including distribution of meeting materials. The sublease termination fee was received in the comparative period from a company as consideration for the early termination of its sublease. The Company was able to sublease a portion of the vacated space to another party. 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:

<b>Year ended September 30</b>	<b>2011</b>	<b>2010</b>
Administrative consulting fees	\$ 77,894	\$ 61,879
Stock-based compensation	-	43,000
Travel and promotion	15,103	8,975
Occupancy costs	86,826	56,612
Office, secretarial and supplies	35,394	25,432
Insurance	13,575	13,321
Computer networking, internet	2,788	1,773
Miscellaneous	2,886	994
<b>Total</b>	<b>\$ 234,466</b>	<b>\$ 211,986</b>

Administrative consulting fees increased approximately \$16,000. Higher activity levels contributed to the increase. Further, there was significant administrative time associated with the financing that took place in November, 2010 and research, planning and accounting for International Financial Reporting Standards that will be reported for the quarter ended December 31, 2011 and forward. Further, the President was involved in corporate presentations, preparation of promotional material for the Vancouver Round-Up, PDAC in Toronto and investor meetings. Travel and promotion costs increased approximately \$6,000 as a result of costs associated with the Yukon Chamber of Mines Conference and purchase of promotional items, neither of which occurred in the comparative period, as well as a greater number of days being spent by the President at Round-Up and PDAC in 2011 compared to 2010 as well as attendance at a Newfoundland conference during fiscal 2011 that was not attended in fiscal 2010.

The Company granted 900,000 stock options to officers, directors and employees during the comparative period and 25,000 during the current period. The value assigned to the 2010 options is reflected above. The value was assessed using the Black Scholes Option Pricing Model and the assumptions and information outlined in Note 10 to the financial statements. Due to the value associated with the 2011 option grant being immaterial, no compensation was recorded in 2011.

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 in November, 2010 as well as the significant increase in activity levels. Occupancy costs increased as sublessors assumed a lesser portion of rent expense upon the departure of one sublessor and the arrival of another. The departing sublessor paid a termination fee for the early termination of its lease. This fee was received during the third quarter of fiscal 2010 and included in income in that period. Costs incurred to update accounting software in 2011 are reflected in computer networking, internet and explain the increase from period to period. The increase in miscellaneous expenses is attributable to rental of a storage unit that

**MANSON CREEK RESOURCES LTD.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**4) Operating Results** (continued)

commenced in June, 2010 resulting in only four month's rental being included in the 2010 comparatives and a full year rental in the current year.

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

<b>Year ended September 30</b>	<b>2011</b>	<b>2010</b>
Legal and filing fees	\$ 7,965	\$ 7,595
Audit fees	<b>36,485</b>	25,400
Total	<b>\$ 44,450</b>	\$ 32,995

The audit of opening restated IFRS financial statements for fiscal 2011 increased audit fees.

**Three months ended September 30, 2011 compared to three months ended September 30, 2010**

The Company experienced a loss of \$600,000 during the three months ended September 30, 2011 and a loss of \$77,000 during the three months ended September 30, 2010. The following summarizes, by significant categories, the components of the loss:

<b>Three months ended September 30</b>	<b>2011</b>	<b>2010</b>
General and administrative expenses	\$ (56,800)	\$ (48,169)
Professional fees	<b>(39,241)</b>	(25,267)
Mineral property write-offs	<b>(502,354)</b>	-
Other	<b>(2,042)</b>	(3,398)
Net and comprehensive loss	<b>\$ (600,437)</b>	\$ (76,834)

General and administrative costs increased approximately \$8,000 from the comparative period. Other significant variances are explained in the one year comparison. The following summarizes the major expense categories comprising general and administrative expenses for the respective periods:

<b>Three months ended September 30,</b>	<b>2011</b>	<b>2010</b>
Administrative consulting fees	\$ 19,309	\$ 14,106
Travel and promotion	<b>4,945</b>	1,877
Occupancy costs	<b>19,543</b>	21,903
Office, secretarial and supplies	<b>8,096</b>	5,925
Insurance	<b>3,375</b>	3,375
Miscellaneous	<b>1,532</b>	983
Total	<b>\$ 56,800</b>	\$ 48,169

The significant variances are explained in the one year comparison.

**5) Liquidity and Capital Resources**

The Company had working capital at September 30, 2011 of \$362,942, (September 30, 2010 - \$94,232). The Company expended \$425,000 cash on mineral property additions during the year ended September 30, 2011, (2010 - \$153,000). Cash operating expenses in excess of interest income aggregated \$280,000 during the year ended September 30, 2011, (2010 - \$242,000). A private placement contributed \$980,000, after issue costs, during the current period, (2010 - \$345,000). During the comparative period, 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. The Company expended \$29,000 on exploration deposits during the prior year ended September 30, 2010. The Company received \$14,000 during the prior 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. 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 and Labrador government during fiscal 2010 in relation to its exploration program on the Virgin Arm property. Part XII.6 tax in the amount of \$900 was paid in the current period. It 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.

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**5) Liquidity and Capital Resources** (continued)

Given current activity levels, the Company would have sufficient funds to finance operating needs through the end of fiscal 2012 without consideration of 2012 exploration and acquisition costs. However, additional financing will be required to fund 2012 exploration and acquisitions as well as operations beyond fiscal 2012. The continuing operations of the Company will be dependent upon the Company's ability to continue to obtain adequate financing. If the Company does not obtain adequate financing, 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. Consequently, 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**

The company's lease terminates on December 31, 2011. Although the Company plans to sublease new office space subsequent to December 31, 2011, it has not entered into a sublease agreement at this date. The Company's base lease commitment to the end of its current office lease is \$24,900 for fiscal 2012.

As at September 30, 2011, 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>
2012	\$ 35,000	100,000*
2013	\$ 75,000	100,000
2014	\$150,000	100,000
	<u>\$260,000</u>	<u>300,000</u>

\*The 100,000 common shares were issued subsequent to period end.

**7) Financing**

During the year ended September 30, 2011, the Company completed a non-brokered private placement of 18,500,000 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 was comprised 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 was comprised 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, 2011 exploration programs, and general working capital needs.

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 expiry date of the warrants was subsequently extended to May 24, 2012. 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 and into fiscal 2011.

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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.

<b>For the years ended or as at September 30,</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Financial Results</b>			
Interest and other income	\$ 6,081	\$ 1,202	\$ 1,224
Sublease termination fee	-	84,000	-
Net and Comprehensive Loss	\$ (773,276)	\$ (175,152)	\$ (2,145,033)
Basic and diluted loss per share	\$(0.01)	\$0.00	\$(0.05)
<b>Financial Position</b>			
Working capital	\$ 362,942	\$ 94,232	\$ (5,376)
Total assets	\$ 951,816	\$ 768,774	\$ 487,921
Capital Stock	\$ 10,321,637	\$ 9,633,302	\$ 9,322,640
Warrants	\$ 350,500	\$ 93,000	\$ 71,000
Contributed Surplus	\$ 1,103,765	\$ 1,096,765	\$ 989,765
Deficit	\$(10,897,387)	\$(10,124,111)	\$(9,948,959)

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 \$502,000 in 2011, (2010 - \$9,000, 2009 - \$2,009,000). Stock based compensation aggregated \$Nil during fiscal 2011, (2010 - \$43,000, 2009 - \$Nil). Future income tax recoveries aggregated \$33,250 during fiscal 2011, (2010 - \$25,000, 2009 - \$37,500). The sublease termination fee of \$84,000 received in 2010 was a non-recurring item that resulted from the early termination of a 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 2011 (Q4 2011)	June 30 2011 (Q3 2011)	Mar. 31 2011 (Q2 2011)	Dec. 31 2010 (Q1 2011)	Sept. 30 2010 (Q4 2010)	June 30 2010 (Q3 2010)	Mar. 31 2010 (Q2 2010)	Dec 31 2009 (Q1 2010)
Three months ended:								
Interest & Other	\$ 1,237	\$ 1,755	\$ 2,282	\$ 807	\$ 215	\$ 409	\$ 405	\$ 173
Earnings (loss) before write-down of mineral properties and income tax recoveries	(98,083)	(56,044)	(82,529)	(67,516)	(76,834)	33,154	(109,840)	(37,790)
Mineral property write-offs	(502,354)	-	-	-	-	-	(125)	(8,717)
Earnings (Loss) before income taxes	(600,437)	(56,044)	(82,529)	(67,516)	(76,834)	33,154	(109,965)	(46,507)
Future income tax recovery	-	-	33,250	-	-	-	25,000	-
Net and Comprehensive Earnings (Loss)	\$(600,437)	\$(56,044)	\$(49,279)	\$(67,516)	\$(76,834)	\$ 33,154	\$ (84,965)	\$(46,507)
Basic and diluted earnings (loss) per share	\$(0.01)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$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

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**9) Selected Quarterly Financial Information (Continued)**

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 that time.

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 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. The accrual of audit fees in Q4 in each year also contributes to higher general and administrative costs during this quarter and consequently higher losses.

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

Mr. Douglas Bryan was a director of the Company until his passing in June, 2011. Mr. Bryan provided strong guidance and geological knowledge and assistance throughout his period as a Director of the Company. His active support and friendship will be greatly missed by the board members and officers of the Company.

**12) Related Party Transactions**

The Company incurred the following amounts, (rounded to the nearest \$1,000) charged by officers or their controlled corporations and by(to) companies related by virtue of certain common officers and directors, for the following years ended September 30:

	<u>2011</u>	<u>2010</u>
<b>Officers:</b>		
Geological consulting fees included in deferred exploration expenditures	\$ 77,000	\$ 39,000
Administrative consulting fees	\$ 78,000	\$ 62,000
<b>Related companies:</b>	\$	\$
Office rent and operating costs	\$ (76,000)	\$ (46,000)
General and administrative costs	\$ (4,000)	\$ (6,000)
General and administrative and secretarial costs	\$ 31,000	\$ 5,000

During the year ended September 30, 2010 the Company received a \$13,000 rental deposit from a company related by virtue of certain common officers and directors as prepayment of sublease rental charges. Refer also to "7) Financing" regarding private placements subscribed by related parties.

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. Related party receivables and payables pertained to the unpaid portion of the above-noted billings. 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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**13) Exploration Expenditures**

Refer to Note 5 to the financial statements

**14) Capital Stock, Warrants, Stock Options and Contributed Surplus**

Refer to Note 8 to the financial statements. The following changes to issued and outstanding common shares, options and warrants occurred from September 30, 2011 to December 6, 2011: 1) options were granted to acquire 20,000 common shares at \$0.10 per share to October 11, 2014; 2) the expiry date for 5,833,333 warrants exercisable at \$0.10 per share was extended to May 24, 2012 from November 24, 2011 and 3) 100,000 common shares were issued pursuant to the Virgin Arm Option agreement.

**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 during the year ended September 30, 2011. The Company used these funds to finance the November, 2010 option payment on the Virgin Arm, Newfoundland and Labrador property, new property acquisition costs, the 2011 exploration programs on the Virgin Arm property and the Tell, Yukon property and working capital needs for fiscal 2011 and will utilize these funds to continue to finance working capital needs for fiscal 2012. The Company plans to undertake a drill program on the Tell, Yukon property in fiscal 2012 and the scale of this program will depend on the amount of financing that it undertakes during the year. The Company has obtained an extension to May 30, 2012 for making its cash option payment for the Virgin Arm, Newfoundland property to provide additional time for the Company to evaluate data from the recent diamond drill program.

**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.
- 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.

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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, 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 has completed the research and planning and the assessment and determination phases given the current IFRS standards. This included determining accounting policies that would be adopted and whether optional exemptions would be utilized. The differences between Canadian GAAP and IFRS can be adequately addressed within the current accounting system through additional general ledger accounts that will keep track of valuation adjustments and retain original cost history. As IFRS rules and standards are continually changing, and the Company plans to review and evaluate the IFRS financial statements issued by calendar year companies, certain accounting policies or methods of accounting may be revised between now and the first IFRS reporting period for the Company.

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 following discussion summarizes certain of the differences between Canadian GAAP and IFRS that are expected to affect future financial statements and should not be considered exhaustive or conclusive, as IFRS rules and regulations are continually changing.

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**18) New Accounting Policies (continued)  
International Financial Reporting Standards  
Mineral Exploration Properties**

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 plans to continue to capitalize its acquisition and exploration costs relating to mineral properties. Further, it will utilize the cost method of measurement. When using the cost method the Company must 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.

**Flow-through shares**

Under Canadian GAAP, the Company utilizes the recommendations of EIC 146 in accounting for flow-through shares. This results in the Company reducing share capital by the future tax payable that results from the renunciation of flow-through expenditures. This reduction in share capital is recorded in the period that the qualifying expenditures are renounced. As the Company has unrecognized future income tax assets, a future income tax recovery is recognized.

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. Upon issue of the flow-through shares, the premium paid for flow-through shares over the value of the shares without the flow-through features, will be recorded as a liability representing the value of the tax deductions that the Company is obligated to renounce to the investors. At the end of each reporting period, the Company will record an adjustment to its deferred tax expense/liability accounts for the taxable temporary difference.

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**18) New Accounting Policies (Continued)**

**International Financial Reporting Standards**

**Significant Differences between Current Canadian GAAP and IFRS**

**Flow-through shares**

arising from the transfer of tax benefits to investors pursuant to flow-through share agreements. For this adjustment, the Company will consider the tax benefits to have been effectively transferred if it has renounced these expenditures at any time to the end of the reporting period and it has incurred qualifying expenditures by the end of the reporting period. This deferred tax impact is recognized as and when the expenditures have been renounced to investors and the expenditures have been incurred. To the extent that the Company has deferred tax assets, in the form of unutilized tax losses carryforward and other unused tax deductions, the Company uses the deferred tax assets to reduce its deferred tax liability that otherwise would be recognized.

If the Company has renounced the expenditures to the investors, the liability for obligation to flow-through shareholders will be relieved through earnings on the basis to which the qualifying expenditures are incurred in relation to the total amount of qualifying expenditures the Company has agreed to incur. The Company will continue to monitor IFRS transition date financial statements to determine the method adopted by similar companies before it finalizes the method of accounting for flow-through shares under IFRS.

**Impairment of non-financial assets**

IFRS requires a write-down of assets if the higher of the fair market value and the value in use of a group of assets is less than its carrying value. Value in use is determined using discounted estimated future cash flows. Current Canadian GAAP requires a write-down to estimated fair value only if the undiscounted estimated future cash flows of a group of assets are less than its carrying value. The Company's accounting policies related to impairment of non-financial assets will be changed to reflect these differences. There is no material impact expected at this time.

**Asset Retirement Provision**

IFRS requires the recognition of a decommissioning liability/asset retirement provision for legal or constructive obligations, while current Canadian GAAP only requires the recognition of such liabilities for legal obligations. A constructive obligation exists when an entity has created reasonable expectations that it will take certain actions. Further there is some question of the discount rate to use in discounting future obligations under IFRS. The Company has currently not discounted obligations due to the immaterial impact of discounting on its current provision. The Company does not expect a material adjustment to Asset Retirement Obligation provision resulting from transition to IFRS.

**19) Other**

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