

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

September 30, 2006

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November 23, 2006

**Auditors' Report**

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

We have audited the balance sheets of **Manson Creek Resources Ltd.** as at September 30, 2006 and 2005 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at September 30, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

**Chartered Accountants**

Calgary, Alberta

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# Manson Creek Resources Ltd.

## Balance Sheets

September 30

2006

2005

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	<b>Assets</b>	
<b>Current</b>		
Cash and cash equivalents (Note 3)	\$ 644,112	\$ 538,287
Accounts receivable	8,818	23,009
Prepays	<u>20,076</u>	<u>13,777</u>
	<b>673,006</b>	<b>575,073</b>
<b>Investments and other assets</b> (Note 4)	<b>22,417</b>	<b>42,653</b>
<b>Mineral properties and equipment</b> (Note 5)	<u><b>673,039</b></u>	<u><b>682,874</b></u>
	<b>\$ 1,368,462</b>	<b>\$ 1,300,600</b>
	<b>Liabilities</b>	
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 32,008	\$ 26,559
Due to related parties (Note 10)	16,534	24,257
Asset retirement obligation (Note 6)	<u>15,000</u>	<u>15,000</u>
	<u><b>63,542</b></u>	<u><b>65,816</b></u>
	<b>Shareholders' Equity</b>	
<b>Capital Stock</b> (Note 7)	<b>8,133,464</b>	7,651,822
<b>Warrants</b> (Note 7)	<b>318,529</b>	300,000
<b>Contributed Surplus</b> (Note 7)	<b>227,334</b>	221,334
<b>Deficit</b>	<u><b>(7,374,407)</b></u>	<u><b>(6,938,372)</b></u>
	<u><b>1,304,920</b></u>	<u><b>1,234,784</b></u>
	<b>\$ 1,368,462</b>	<b>\$ 1,300,600</b>
<b>Commitments</b> (Note 5 and 12)		

Approved by the Board

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"R. Chernish" Director

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"J.P. Jutras" Director

See accompanying notes to the financial statements.

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# Manson Creek Resources Ltd.

## Statements of Operations and Deficit

Years Ended September 30

2006

2005

### Expenses

General and administrative (Note 9)	150,938	240,930
Professional fees	28,512	25,950
Reporting to shareholders	24,087	9,160
Stock exchange and transfer agent fees	13,076	12,690
Asset retirement expense	28,252	-
Amortization of capital assets	4,216	4,297

(249,081) (293,027)

### Other Income (Expense)

Interest and other	18,441	10,324
Gain on sale of investments	6,322	-
Write-down of mineral properties (Note 5)	(262,717)	(728,103)

### Loss before income taxes

(487,035) (1,010,806)

Future income tax recovery (Note 11)

51,000 -

### Net Loss

(436,035) (1,010,806)

Deficit, beginning of year

(6,938,372) (5,927,566)

Deficit, end of year

\$ (7,374,407) \$ (6,938,372)

### Loss per share:

Basic and diluted

\$ (0.02) \$ (0.05)

### Weighted average number of shares outstanding:

Basic and diluted

25,285,895 20,529,816

See accompanying notes to the financial statements.

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# Manson Creek Resources Ltd.

## Statements of Cash Flows

Years Ended September 30

2006

2005

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

#### Operating activities

Interest and other income received	\$ 18,441	\$ 10,324
Cash operating expenses	<u>(247,359)</u>	<u>(141,377)</u>
	<u>(228,918)</u>	<u>(131,053)</u>

#### Financing activities

Exploration incentives received	10,538	4,901
Private placement proceeds	425,000	750,000
Share issue costs	(4,753)	(28,917)
Options and warrants exercised	<u>103,924</u>	<u>99,540</u>
	<u>534,709</u>	<u>825,524</u>

#### Investing activities

Proceeds on sale of investments	28,734	-
Mineral property additions	(223,700)	(344,881)
Exploration and drilling deposits	<u>(5,000)</u>	<u>-</u>
	<u>(199,966)</u>	<u>(344,881)</u>

### Increase in cash and cash equivalents

105,825

349,590

### Cash and cash equivalents,

Beginning of year	<u>538,287</u>	<u>188,697</u>
End of year	\$ <u>644,112</u>	\$ <u>538,287</u>

#### Supplementary Information:

##### Interest and taxes

The Company did not expend cash on interest or taxes during the years ended September 30, 2006 and September 30, 2005.

##### Non-cash transactions

During the year ended September 30, 2006, the Company issued 200,000 of its common shares, valued at \$27,000 pursuant to option agreements to acquire interests in the CR, Cuprum, Palomino and Meridian properties. During the year ended September 30, 2005, the Company issued 50,000 common shares, valued at \$7,000, pursuant to an option agreement to acquire an interest in the CR Property in British Columbia. The option payments were valued at the closing share price of the Company's stock on the transaction dates.

During the year ended September 30, 2006, the Company granted stock options to officers and/or directors resulting in a non-cash charge of \$6,000, (2005 - \$130,000), being included in general and administrative expenses, (note 9).

See accompanying notes to the financial statements.

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# Manson Creek Resources Ltd.

## Notes to the Financial Statements

September 30, 2006

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### 1. Nature and continuance of operations

Manson Creek Resources Ltd. is engaged in the business of mineral exploration and development in Canada. Since inception, the efforts of the Company have been devoted to the acquisition, exploration and development of mineral properties. To date the Company has not received any revenue from mining operations and is considered to be in the development stage.

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

These financial statements have been prepared by management on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing or to commence profitable operations in the future.

### 2. Summary of significant accounting policies

#### a) Use of estimates

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

#### b) Cash and cash equivalents

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

#### c) Mineral properties and equipment

Costs relating to the acquisition, exploration and development of mineral properties are capitalized on an area of interest basis. These expenditures will be charged against income, through unit of production depletion, when properties are developed to the stage of commercial production. If an area of interest is abandoned, the related costs are charged to operations. The Company views the carrying values of mineral property interests on a quarterly basis by reference to the project economics, including the timing of the exploration and/or development work, the work programs and exploration results experienced by the Company and others, and the extent to which optionees have committed, or are expected to commit to, exploration on the property. When it becomes apparent that the carrying value of the property exceeds its estimated net recoverable amount based on the foregoing criteria, an impairment provision is made for the decline in value.

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.

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# Manson Creek Resources Ltd.

## Notes to the Financial Statements

September 30, 2006

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

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

**d) Flow-through common shares**

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

**e) Investments**

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

**f) Asset Retirement Obligations**

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 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.

**g) Income taxes**

Income taxes are recorded using the liability method of tax allocation. Future income taxes are calculated based on temporary timing differences arising from the difference between the tax basis of an asset or liability and its carrying value using tax rates anticipated to apply in the periods when the timing differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

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# Manson Creek Resources Ltd.

## Notes to the Financial Statements

September 30, 2006

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**h) Earnings (Loss) per share**

Basic earnings (loss) per common share is computed by dividing the net earnings (loss) by the weighted average number of common shares outstanding for the year. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. For the years presented this calculation proved to be anti-dilutive. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments. Under the treasury stock method only "in-the-money" dilutive instruments impact the dilution calculations.

**i) Stock-Based Compensation**

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

**j) Government incentives**

Through its exploration in the Yukon, the Company has benefited from refundable exploration tax credits and grants. These incentives are not repayable provided that they apply to qualifying expenditures. The incentives reduce the mineral property costs to which they pertain in the year that the qualifying expenditures are incurred or when eligibility becomes apparent if this is later. These government incentives are subject to review by the relevant granting authorities, and by their nature are subject to measurement uncertainty. Adjustments, if any, resulting from such a review are recorded in the period during which the Company is reassessed.

**3. Restricted cash and cash equivalents**

Proceeds of \$425,000 received for the issuance of flow-through shares was included in cash and cash equivalents. Approximately \$151,000 of this amount has been expended on qualifying expenditures to September 30, 2006. The \$274,000 unexpended flow-through proceeds may only be used to incur qualifying exploration expenditures on Canadian mineral properties in accordance with Canadian Income tax legislation.

**4. Investments and other assets**

	<u>2006</u>	<u>2005</u>
2006 - Nil (2005-287,334) common shares		
Prism Resources Inc. (market value 2005-\$30,000)	\$ -	\$ 22,412
Long-term prepaid expense	3,417	6,241
Mineral exploration deposits	<u>19,000</u>	<u>14,000</u>
	<u>\$ 22,417</u>	<u>\$ 42,653</u>

# Manson Creek Resources Ltd.

## Notes to the Financial Statements

September 30, 2006

### 5. Mineral properties and equipment

2006	Total	Yukon		British Columbia			
		Cuprum	Tanner	Gillman	Meridian	CR Property	Palomino
<b>Exploration and development expenditures:</b>							
<b>Balance September 30, 2005</b>	<b>\$602,965</b>	<b>\$ 40,634</b>	<b>\$232,343</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$326,181</b>	<b>\$ 3,807</b>
Geological consulting	93,590	10,219	5,765	18,558	32,135	14,214	12,699
Geochemical analysis	6,999	2,249	-	1,159	3,463	-	128
Geophysical survey	33,263	10,180	-	-	-	7,386	15,697
Field costs	14,362	623	-	4,962	6,047	1,107	1,623
Drilling and drilling preparation	24,227	-	-	-	13,555	-	10,672
Travel costs	17,452	341	341	5,714	6,742	2,126	2,188
Asset retirement obligation	5,000	-	-	-	-	5,000	-
Exploration incentives	(10,538)	(8,201)	(2,337)	-	-	-	-
Mineral property write-offs	(236,112)	-	(236,112)	-	-	-	-
<b>Balance September 30, 2006</b>	<b>551,208</b>	<b>56,045</b>	<b>-</b>	<b>30,393</b>	<b>61,942</b>	<b>356,014</b>	<b>46,814</b>
<b>Property acquisition costs:</b>							
<b>Balance September 30, 2005</b>	<b>69,173</b>	<b>5,000</b>	<b>25,610</b>	<b>-</b>	<b>-</b>	<b>38,563</b>	<b>-</b>
Costs incurred	72,744	11,281	995	10,000	11,315	29,500	9,653
Mineral property write-offs	(26,605)	-	(26,605)	-	-	-	-
<b>Balance September 30, 2006</b>	<b>115,312</b>	<b>16,281</b>	<b>-</b>	<b>10,000</b>	<b>11,315</b>	<b>68,063</b>	<b>9,653</b>
<b>Total mineral properties September 30, 2006</b>	<b>\$666,520</b>	<b>\$ 72,326</b>	<b>\$ -</b>	<b>\$ 40,393</b>	<b>\$ 73,257</b>	<b>\$424,077</b>	<b>\$ 56,467</b>
Equipment	23,115						
Accumulated amortization	(16,596)						
<b>Total mineral properties and equipment September 30, 2006</b>	<b>\$673,039</b>						

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

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# Manson Creek Resources Ltd.

## Notes to the Financial Statements

September 30, 2006

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### 5. Mineral properties (continued)

#### British Columbia

##### CR Property

During the year ended September 30, 2004, the Company entered into an agreement with an unrelated individual to acquire a 100% interest in a mineral property situated in the Omineca Mining District of British Columbia. The agreement requires that the Company make the following cash payments and issue common shares in order to acquire the property as follows:

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

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

##### Palomino Property

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

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

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

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# Manson Creek Resources Ltd.

## Notes to the Financial Statements

September 30, 2006

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### 5. Mineral properties (continued)

#### Meridian Property

During the year ended September 30, 2006 the Company entered into an agreement to acquire a 100% interest in 12 prospective gold/silver mineral tenures aggregating 675 hectares in the Revelstoke mining district in eastern British Columbia. The Company is committed to the following payment schedule if it chooses to acquire 100% of the claims:

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

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

#### Gillman Property

During the year ended September 30, 2006, the Company entered into an agreement with an unrelated vendor to acquire twelve mineral claims totaling 1,179 hectares, 45 kilometers southeast of Revelstoke, British Columbia. The Company can acquire a 100% interest in the property, subject to a 2.0% net smelter returns royalty, by paying the vendor in staged payments over five years a total of \$95,000 cash and 475,000 of its capital stock as follows:

<u>Date</u>	<u>Cash</u>	<u>Common Shares</u>
Upon signing (paid)	\$10,000	-
November 30, 2006	\$ 5,000	25,000
November 30, 2007	\$10,000	75,000
November 30, 2008	\$20,000	100,000
November 30, 2009	\$20,000	125,000
November 30, 2010	<u>\$30,000</u>	<u>150,000</u>
Total	<u>\$95,000</u>	<u>475,000</u>

Upon completion of the acquisition, the Company may acquire three quarters of the vendor's retained 2.0% net smelter interest in the property for \$1,500,000. The Company may terminate the purchase agreement at any time without being obligated to make future payments.

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# Manson Creek Resources Ltd.

## Notes to the Financial Statements

September 30, 2006

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### 5. Mineral properties (continued)

#### Yukon

##### Cuprum Property

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

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

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

#### Saskatchewan

##### Black Lake Property

Subsequent to year end the Company entered into an acquisition agreement with a non-related party to acquire seven mineral dispositions in Northern Saskatchewan. In order to acquire a 100% interest in the property, the Company must, upon receipt of all regulatory approvals, make the following staged payments:

<u>Date</u>	<u>Cash</u>	<u>Common Shares</u>
Upon signing (paid/issued subsequent to year-end)	\$10,000	75,000
November 30, 2007	\$10,000	75,000
November 30, 2008	\$ -	125,000
November 30, 2009	<u>\$ -</u>	<u>125,000</u>
Total	<u>\$20,000</u>	<u>400,000</u>

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

##### Impaired Mineral Properties

During the year ended September 30, 2006 the accumulated costs attributable to the Tanner mineral property were written-off. Management determined that cash resources would be better allocated to newer projects and, although the Company investigated opportunities to interest joint venture partners in an expanded 2006 and/or future exploration program, there was no committed interest.

During the year ended September 30, 2005 the accumulated costs attributable to the Nad and JRS mineral properties were written-off. Management determined that it was unlikely that further exploration would be undertaken on these properties even though many of the claims continued to be in good standing.

# Manson Creek Resources Ltd.

## Notes to the Financial Statements

September 30, 2006

### 6. Asset retirement obligation

Changes in the asset retirement obligation for the years ended September 30, 2006 and September 30, 2005 are as follows:

	2006	2005
Balance, beginning of year	\$ 15,000	\$ -
Change in retirement accrual	15,000	20,254
Additional liability incurred	18,252	-
Reclamation work performed during the year	(33,252)	(5,254)
Balance, end of year	\$ 15,000	\$ 15,000

As at September 30, 2006 the Company has included in liabilities an estimated current obligation of \$15,000, (2005-\$15,000), for the removal of empty fuel drums and miscellaneous items from its camp in the Yukon and for trench reclamation at its CR property in British Columbia. Management has determined that it will include the remaining clean-up in its 2007 summer exploration plans. Management has estimated that discounted clean-up obligations for subsequent future periods are not significant.

### 7. 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:

	Number of Shares	Shares Amount	Contributed Surplus	Number of Warrants	Warrants Amount
<b>Balance Sept. 30, 2004</b>	16,420,402	\$7,104,199	\$ 91,334	500,000	\$ 20,000
Private placement (net of issue costs of \$28, 917)	6,525,973	421,083	-	6,525,973	300,000
Issued pursuant to property acquisitions	50,000	7,000	-	-	-
Warrants exercised	500,000	95,000	-	(500,000)	(20,000)
Options exercised	238,400	24,540	-	-	-
Stock option compensation	-	-	130,000	-	-
<b>Balance Sept. 30, 2005</b>	23,734,775	7,651,822	221,334	6,525,973	300,000
Issued pursuant to property acquisitions	200,000	27,000	-	-	-
Private placement (net of issue costs of \$4,753)	2,500,000	375,247	-	2,500,000	45,000
Warrants exercised	575,454	107,035	-	(575,454)	(26,471)
Options exercised	226,600	23,360	-	-	-
Stock option compensation	-	-	6,000	-	-
Tax effect of property expenditures renounced	-	(51,000)	-	-	-
<b>Balance Sept. 30, 2006</b>	27,236,829	\$8,133,464	\$227,334	8,450,519	\$318,529

During the year ended September 30, 2006 the company closed a non-brokered private placement consisting of 2,500,000 Units at \$0.17 per unit. Directors, officers and control persons of the Company purchased an aggregate of 169,294 of the units. Each unit consisted of one flow-through share and one warrant to acquire one flow-through share at \$0.20 per share to April 17, 2008. The warrants issued pursuant to the private placement were valued at \$45,000. In valuing the warrants, the Company utilized the Black Scholes Option Pricing Model assuming volatility of 49.6%, a risk-free interest rate of 4.08%, a one year expected warrant life, and a 0% dividend rate.

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# Manson Creek Resources Ltd.

## Notes to the Financial Statements

September 30, 2006

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

During the year ended September 30, 2006, the Company issued 50,000 shares, (2005 – 50,000), pursuant to the Cuprum, Yukon mineral property acquisition; 25,000 shares, (2005 – Nil), for each of the Palomino and Meridian, British Columbia mineral property acquisitions and 100,000 shares, (2005 – Nil), pursuant to the CR, British Columbia mineral property acquisition. The acquisition costs were valued using the market price of the Company's shares on the issue date.

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

Exploration expenditures aggregating \$150,000 were renounced to flow-through share investors on December 31, 2005. The \$51,000 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 as losses were incurred through the recognition of a future tax recovery in the statement of operations.

#### c) Outstanding options

<u>Expiry Date</u>	<u>Number of Shares</u>		<u>Price</u>
	<u>2006</u>	<u>2005</u>	
April 26, 2011	<b>100,000</b>	-	\$ 0.14
May 12, 2010	<b>700,000</b>	875,000	\$ 0.16
May 29, 2007	<b>315,000</b>	385,000	\$ 0.11
July 19, 2006	-	831,600	\$ 0.10
	<b><u>1,115,000</u></b>	<b><u>2,091,600</u></b>	

The Company has an option plan, (the plan), under which up to 10% of the issued and outstanding common shares are reserved for issuance. Under the Plan, the options that have been granted expire at the earlier of five years from the grant date, the date at which the Directors determine, or 60 days from the date from which the optionee ceases to be a director, officer, employee or consultant. The exercise price of the options granted under the Plan will not be less than the market price of the common shares, defined as the weighted average trading price per share for the last five trading days before the grant date. All of the above options vested immediately upon granting.

# Manson Creek Resources Ltd.

## Notes to the Financial Statements

September 30, 2006

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

#### d) Option transactions

	<u>Number of Options</u>	<u>Average Exercise Price</u>
Balance September 30, 2004	1,455,000	\$0.10
Granted	875,000	\$0.16
Exercised	<u>(238,400)</u>	<u>\$0.10</u>
Balance September 30, 2005	2,091,600	\$0.13
Expired/cancelled	(850,000)	\$0.11
Exercised	(226,600)	\$0.10
Granted	<u>100,000</u>	<u>\$0.14</u>
Balance September 30, 2006	<u><b>1,115,000</b></u>	<u><b>\$0.14</b></u>

#### e) Warrants

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

	<u>Number of warrants</u>		
	<u>\$0.14 warrants expiring March 7, 2007</u>	<u>\$0.20 flow- through warrants expiring April 17, 2008</u>	<u>\$0.15 warrants expiring December 24, 2005</u>
Balance Sept. 30, 2004	-	-	500,000
Exercised	-	-	(500,000)
Issued pursuant to private placement (note 7b)	<u>6,525,973</u>	-	-
Balance Sept. 30, 2005	6,525,973	-	-
Issued pursuant to private placement (note 7b)	-	2,500,000	-
Exercised	<u>( 575,454)</u>	-	-
<b>Balance Sept. 30, 2006</b>	<u><b>5,950,519</b></u>	<u><b>2,500,000</b></u>	<u><b>-</b></u>

### 8. Financial instruments

The fair market values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and due to related parties approximate their carrying values as a result of the short-term nature of the instruments and/or the variable interest rate associated with the instrument. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency, or credit risks arising from these financial instruments.

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# Manson Creek Resources Ltd.

## Notes to the Financial Statements

September 30, 2006

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### 9. Stock based compensation

Included in fiscal 2006 general and administrative expenses is stock based compensation in the amount of \$6,000 (2005 - \$130,000). The fair value of the compensation was determined using the Black Scholes option-pricing model. The details and assumptions regarding stock options granted during the years ended September 30 are detailed below:

	<u>2006</u>	<u>2005</u>
Value of stock-based compensation	\$ 6,000	\$130,000
Number of options granted	100,000	875,000
Exercise price	\$ 0.14	\$ 0.15
Expected stock price volatility	71%	270%
Risk-free interest rate	4.14%	3.30%
Expected option life	2 years	5 years
Expected dividend yield	-	-

### 10. Related party transactions

Companies related by virtue of common officers and/or directors, billed the Company for its share of general and administrative costs and allocated secretarial salaries. The total billed for the year ended September 30, 2006 was \$22,200, (2005 - \$36,600). Officers and directors of the Company billed for their consulting services at hourly or daily rates, either personally or through their controlled corporations. The aggregate billed for the year ended September 30, 2006 was \$137,400, (2005 - \$84,700). Related party payables at September 30, 2006 and September 30, 2005 related to unpaid consultants' billings and general and administrative and secretarial billings.

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

The Company sublet office space to companies related by virtue of certain common officers and directors. The aggregate base rent, operating and miscellaneous costs charged to the related companies was \$88,700 during the year ended September 30, 2006, (2005-\$74,300).

### 11. Income taxes

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

	<u>2006</u>	<u>2005</u>
Computed expected tax recovery at a combined Provincial and Federal rate of 32%(2005 – 34%)	\$ 156,000	\$ 344,000
Effect on income taxes resulting from:		
Change in valuation allowance	117,000	(307,000)
Impact of change in tax rates on future income taxes	(215,000)	-
Non-deductible stock option compensation expense	(2,000)	(44,000)
Non-taxed investment gains	(9,000)	-
Other	4,000	7,000
Future income tax recovery	<u>\$ 51,000</u>	<u>\$ -</u>

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# Manson Creek Resources Ltd.

## Notes to the Financial Statements

September 30, 2006

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### 11. Income taxes (continued)

b) The net future income tax asset at September 30, 2006 and 2005 is comprised of:

	<u>2006</u>	<u>2005</u>
Mineral properties and equipment with income tax values exceeding book values	\$ 998,000	\$ 1,131,000
Investments with income tax values exceeding book values	-	11,000
Asset retirement obligation	4,000	5,000
Share issue costs	6,000	8,000
Non-capital losses carried forward	<u>239,000</u>	<u>209,000</u>
Future income tax asset before valuation allowance	1,247,000	1,364,000
Valuation allowance	<u>(1,247,000)</u>	<u>(1,364,000)</u>
Future income tax asset	<u>\$ -</u>	<u>\$ -</u>

c) The Company has incurred losses for income tax purposes of approximately \$823,000 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>
2007	\$ 55,000
2008	58,000
2009	109,000
2010	112,000
2014	104,000
2015	154,000
2026	<u>231,000</u>
	<u>\$823,000</u>

d) As at September 30, 2006 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	\$3,117,000	100%
Canadian development expense	485,000	30%
Foreign exploration and development expense	444,000	10%
Undepreciated capital cost	<u>67,000</u>	20-30%
	<u>\$4,113,000</u>	

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# Manson Creek Resources Ltd.

## Notes to the Financial Statements

September 30, 2006

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### 12. Commitments

Effective January 1, 2002, the Company entered into a five-year contract to lease office space. Concurrent with entering into the lease agreement, the Company entered into sublease agreements with three companies related by virtue of certain common officers and directors. Pursuant to the sublease agreements, as amended, the sublessors are, in aggregate, committed to pay 75% of base rent and lease operating costs for the remainder of the office lease. The Company's base rent commitments, without offset for sublessor commitments, for fiscal 2007, the final year of the current lease, aggregates \$13,400.

During the year ended September 30, 2006, the Company extended its lease for a further five years to December 31, 2011. The new lease results in the following annual base lease commitments by fiscal year:

2007	\$70,100	2009	\$93,500	2011	\$93,500
2008	\$93,500	2010	\$93,500		

Two companies related by virtue of common officers and/or directors are, in aggregate, committed to pay 69% of the above-noted rent pursuant to sublease agreements.

Refer also to Note 5 regarding commitments for mineral property expenditures.

### 13. Comparative Figures

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

**MANSON CREEK RESOURCES LTD.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

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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, 2006 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 November 23, 2006. All dollar amounts are in Canadian Dollars unless otherwise stated.

**1) Principal Business of the Company**

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

The recoverability of the amounts comprising mineral properties is dependent upon the existence of economically recoverable mineral reserves; the acquisition and maintenance of appropriate permits, licenses and rights; the ability of the Company to obtain financing to complete the development of the properties where necessary and upon future profitable production; or, alternatively, upon the Company's ability to recover its costs through a disposition of its interests.

The Company has no operating income and no earnings; exploration and operating activities are financed by the sale of common shares. None of the Company's properties are in production. Consequently, the Company's net income is not a meaningful indicator of its performance or potential.

**2) Mineral Properties**

**Yukon**

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

**a) Cuprum**

During the year ended September 30, 2005, the Company entered into an agreement with an unrelated corporation to acquire 10 staked claims located 50 kilometers north of Whitehorse, Yukon, having ATV access from the highway located 11 kilometers away. The prospective mineralization is primarily copper, silver and zinc, associated with skarns reported to be 9 to 30 meters wide that are outlined in outcrop for 750 meters. The prospect has not been extensively documented as it has primarily been explored by individual prospectors since 1953.

In order to acquire the property the Company must make staged payments aggregating \$75,000, (paid \$25,000 to date), and issue 450,000, (issued 100,000 to date), of the Company's common shares over a five year period. Once the final payment is made in October, 2009, the Company will own a 100% interest in the property subject to a 2.0% NSR, (net smelter returns), royalty of which 1.5%, (three quarters of the vendor's interest), could be purchased at the discretion of the Company for \$1,500,000.

The 2006 geophysical survey and geochemical survey on the property was completed in July. The magnetic survey data outlined a weak to moderately magnetic causative body that is over 1,000 meters in length in an overburden-covered area. The newly discovered magnetic feature, the "Wishbone Anomaly," is comprised of two limbs each approximately 500 meters in length with widths of 80 to 140 meters. The west limb of the Wishbone Anomaly is located along strike, and to south the known skarn system that is exposed in discontinuous outcrop for a strike length in excess of 700 meters. The geophysical survey does not cover the entire anomaly to the south where it is thought the limbs converge. The east limb is of particular interest as 2006 soil samples over the magnetic anomaly returned assay values of 44 to 201 parts per million copper, 204 to 1,275 parts per million zinc, and 10 to 331 parts per million lead, and 0.2 to 1.2 parts per million silver. The Company staked an additional 160 hectares adjacent to the Cuprum claims to fully encompass the anomaly.

The Company is investigating the feasibility of using a lightweight percussion drill to test the coincident

**MANSON CREEK RESOURCES LTD.  
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**2) Mineral Properties**

**Yukon**

**a) Cuprum (continued)**

magnetic and geochemical anomaly on the east limb of the Wishbone Anomaly as well as a number of the mineralized zones outlined by the 2005 work. An existing bulldozer trail from the Alaska Highway to the center of the property would enable the Company to complete a cost-effective program.

As budgeted, approximately \$20,000 has been expended on the Spring/Summer exploration program to September 30, 2006. The Company has received approval for a Yukon Mineral Exploration grant to fund up to 50% of the cost of this exploration program to an overall maximum of \$20,000.

**b) Tanner**

During the year ended September 30, 2006 the property was written-off. Management determined that cash resources would be better allocated to newer projects and, although the Company investigated opportunities to interest joint venture partners in an expanded 2006 and/or future exploration program, there was no committed interest.

The Company completed its scheduled 2006 clean-up at its Rakla camp, including removal of used fuel drums. The actual costs incurred of \$34,000 exceeded the budget of \$15,000 due to the numerous trips required by air to remove fuel drums and large pieces of equipment. Although the Company is not obligated to complete the final clean-up until fiscal 2008, it plans to complete the clean-up in the summer of 2007, with an estimated cost of \$10,000. The \$10,000 in addition to \$5,000 for CR trench reclamation has been accrued as a current asset retirement obligation at September 30, 2006.

**British Columbia**

**a) CR**

The Company entered into an agreement in February, 2004 to acquire a 100% interest in the CR property located in the Omineca Mining District of British Columbia. In order to earn a 100% interest, the Company must make cash payments aggregating \$92,500, (paid \$37,500 to date), and issue 575,000 common shares, (issued 200,000 to date), over five years. The vendor will retain a 1.5% net smelter return, 1.0% of which, (two thirds of the vendor's interest), may be purchased by the Company for \$1,000,000.

The property consists of 2 recorded claims totaling approximately 1,300 hectares, as one of the peripheral tenures was allowed to lapse in 2006. The CR property has excellent road access and a power line cutting through the western property boundary. Two priority exploration targets have been identified; the South Porphyry zone, and the North Porphyry-Breccia zone. The Company was encouraged by the results of its first phase of surface exploration in fiscal 2004. The program confirmed the presence of a large zone of low-grade porphyry copper-molybdenum-gold mineralization at the South porphyry zone, expanded targets at the North porphyry zone, and identified a new high priority exploration target.

During the summer 2005 exploration program, the Company collected approximately 148 soil samples on infill lines to further delineate anomalies identified in the 2004 summer program. The assay results were in line with the 2004 samples and confirmed the anomaly size and shape. Further, the Company undertook a drilling program to test historical intercepts and to attempt to extend known mineralization by drill testing the soil anomaly located on the west side of the fault at the south zone. The work completed to the end of fiscal 2005; mapping, trenching and diamond drilling, outlined a mineralized porphyry system that is 975 meters in strike length by 100 to 180 meters in width.

The 2006 IP geophysical survey, with a budget of approximately \$11,000, (actual costs \$24,000), has been completed. The extra costs incurred related to extra trips to the property, including a walk-through with the Provincial Government's land use representative, data compilation and presentation of property details to industry representatives. The survey identified a 325 meter by up to 200 meter chargeability anomaly. The anomaly corresponds to the western portion of the drill-defined mineralized porphyry and it continues along strike to the west of the known porphyry for an additional 150 meters. This could represent a further

**MANSON CREEK RESOURCES LTD.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**2) Mineral Properties**

**British Columbia**

**a) CR (continued)**

extension of the known 975 meters long, (100 – 180 meter wide), mineralized porphyry that is open along strike and depth. The company intends to engage in further delineation of the porphyry in fiscal 2007.

**b) Palomino**

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

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

The 2006 IP geophysical survey has been completed. The budgeted cost of this phase of the program was \$18,000 and \$49,000 for the proposed drilling program. The actual cost of the IP program and prospecting was approximately \$26,000, the overrun being attributed to an expanded geophysical survey. The drilling budget was scaled down resulting in drilling costs incurred to September 30, 2006 of approximately \$15,000 and an additional \$14,000 during October, 2006.

Initial interpretation of the Palomino data from the IP survey has outlined a linear chargeability anomaly immediately adjacent to the strong magnetic feature identified previously. This chargeability anomaly could represent a porphyry dyke system which is responsible for the mineralized boulders found in the area. Copper values in the boulders range up to 0.23% copper. Drilling was undertaken in September and October, 2006 and successfully tested the strong magnetic anomaly and flanking chargeability anomaly identified by the IP survey. The drill hole totaled 254 meters in length. Previously undocumented feldspar/quartz porphyry dyke was encountered in the hole. This 14.33 meter porphyry intersection is hosted within a moderate to strong propylitic altered andesite volcanic assemblage. The propylitic alteration observed is interpreted to be related to hydrothermal alteration associated with a porphyry copper system.

Samples have been sent to Eco-Tech Laboratories for assay work and results are outstanding. Future exploration plans will be prepared once the results have been received and analyzed by Management.

**c) Meridian**

During the year ended September 30, 2006 the Company entered into an agreement to acquire 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, by making staged payments over five years aggregating \$87,500, (paid \$7,500 to date), and issuing 475,000, (issued 25,000 to date), of the Company's common shares.

In the course of the due diligence visit, a number of samples were taken, including grab samples from dumps proximal to historic mine workings and chip and composite samples taken from within a number of the historical underground workings. Mine dump samples ranged from 0.53 to 90.6 grams per tonne gold and 0.20 to 563 grams per tonne silver. A composite sample along the length of a 2 meter wide quartz vein in one of the adits assayed 46.6 grams per tonne gold and 24.7 grams per tonne silver over a length of 10

**MANSON CREEK RESOURCES LTD.  
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**2) Mineral Properties**

**British Columbia**

**c) Meridian** (continued)

meters. The Company was encouraged by these sampling results and planned a two-stage diamond drill program with a tentative budget of \$291,000.

During the fourth quarter of 2006, the drilling company that had been contracted to complete this drilling indicated that it would be unable to fulfill its drilling obligation. The Company is consequently actively seeking out a new drilling contractor in order to complete its drilling program as planned early in the spring of 2007. The Company has received all the permits required for the drill program and the access road and drill pads have been completed. Additional prospecting was completed while the road was being built. Prospecting and site preparation costs on the property to September 30, 2006 aggregated approximately \$62,000. It is expected that a further \$260,000 will be required to complete drilling in fiscal 2007.

**d) Gillman**

During the year ended September 30, 2006 the Company entered into an agreement to acquire 100% of the Gillman property, subject to a 2.0% net smelter interest three quarters of which may be purchased by the Company for \$1,500,000, by making staged payments over five years aggregating \$95,000, (paid \$10,000 to date), and issuing 475,000, of the Company's common shares.

The property consists of contiguous mineral tenures aggregating 1,179 hectares. The claim group envelopes 7.4 kilometers of the mineralized Camborne fault structure that hosts the majority of the mineral occurrences in the district. This new claim group, along with the adjacent Meridian property, gives the Company exposure to over 1,800 hectares of very favorable stratigraphy in the prolific Beaton-Camborne Camp. The Beaton-Camborne camp hosts 86 mineral deposits of which 18 are past producers having a reported combined production of more than 60 million grams of silver and significant amounts of gold, lead and zinc.

The Company completed a prospecting program in May, 2006. The prospecting program resulted in the discovery of the "Allison" silver/lead/zinc showing. This new mineral occurrence is located on a fault structure parallel to the dominant north trending Camborne regional fault. This fault is intimately tied to the mineralization of the area. Upon discovery of the Allison showing, further work in the area located an undocumented exploration adit. A grab sample taken from a one meter wide semi-massive sulphide vein in the adit assayed 14.15 grams per tonne gold and 23.1 grams per tonne silver.

Prospecting and geological mapping, focusing on the Gillman and Silver dollar mineral occurrence areas, was completed in July in conjunction with the drill road construction on the nearby Meridian claim group. Grab samples were taken from three existing trenches. The Silver Dollar mineral occurrence is comprised of at least two quartz veins/silicified zones that range from 0.20 meters to over 3.0 meters in width. Results from the Silver Dollar grab samples included a range from 0.41 grams per tonne gold to 4.94 grams per tonne gold and 11.7 grams per tonne silver to 586.0 grams per tonne silver.

A two meter wide exposure of the Gillman vein was sampled with two, contiguous, one meter wide chip samples and several grab samples. These samples included assays in the range of 0.19 grams per tonne to 66.60 grams per tonne gold and 6.30 grams per tonne to 43.70 grams per tonne silver.

A program of additional geological mapping and sampling on the Gillman/Silver Dollar property was completed in August. The Company has identified five distinct precious and base metal zones to date. The five zones, each comprised of a number of mineralized showings, occur within a several hundred meter wide zone of locally sheared and silicified metasedimentary rocks paralleling the prominent Camborne Fault. Assay results from the August sampling indicated gold in the range of 0.08 to 25.2 grams per tonne and silver in the range of 1.9 grams per tonne to 1,265 grams per tonne.

**MANSON CREEK RESOURCES LTD.  
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**2) Mineral Properties**

**British Columbia**

**d) Gillman** (continued)

An early stage estimate of 2006 exploration expenditures was in the range of \$30,000 to \$50,000 to be spent on soil sampling and regional geochemistry. Actual costs to September 30, 2006 approximated \$30,000. The Company's objective is to move the property to a drill-ready stage in fiscal 2007.

**Saskatchewan**

**Black Lake**

Subsequent to year-end the Company entered into an acquisition agreement to acquire 100% of 7 mineral claims, subject to a 1.5% net smelter interest, by making staged payments over three years aggregating \$20,000, (paid \$10,000 to date), and issuing 400,000, of the Company's common shares, (issued 75,000 to date). The Company has the option to purchase two thirds of the vendor's net smelter interest, (a 1.0% interest), for \$1,500,000.

The claims, comprising approximately 5,848 hectares, are approximately 40 kilometers from Stony Rapids in northern Saskatchewan. The property will be explored for basement-hosted uranium deposits. The claims host known uranium occurrences, and are located within, or near, major regional trends believed to be active during the mineralizing processes. Areas of the Black Lake property have seen varying levels of historic exploration including limited diamond drilling. The Company is currently compiling historic data to guide its future exploration programs on the property.

**3) Operating Results**

**Year ended September 30, 2006 compared to year ended September 30, 2005**

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

	<b>2006</b>	<b>2005</b>	<b>Variance (negative) positive</b>
Interest and other	\$ 18,441	\$ 10,324	\$ 8,117
General and administrative	(150,938)	(240,930)	89,992
Reporting to shareholders	(24,087)	(9,160)	(14,927)
Site restoration expense	(28,252)	-	(28,252)
Other	(45,804)	(42,937)	(2,867)
Gain on sale of investments	6,322	-	6,322
Write-down of mineral property	(262,717)	(728,103)	465,386
Future Income tax recovery	51,000	-	51,000
<b>Net loss</b>	<b>\$ (436,035)</b>	<b>\$(1,010,806)</b>	<b>\$ 574,771</b>

The decreased write-off of mineral property costs of \$465,000 was the primary contributor to the decreased loss. The prior period write-off pertained to NAD and JRS, Yukon as management determined that it was unlikely that further exploration would be undertaken on these properties, even though certain of the claims continued to be in good standing. The current period write-off pertains to the Tanner, Yukon property, (see above 2) Mineral Properties, Yukon, b) Tanner).

**MANSON CREEK RESOURCES LTD.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**3) Operating Results**

**Year ended September 30, 2006 compared to year ended September 30, 2005 (Continued)**

The following summarizes the major expense categories comprising general and administrative expenses for the year ended September 30, 2006 and September 30, 2005:

	<u>Year ended September 30, 2006</u>	<u>Year ended September 30, 2005</u>
Administrative consulting fees	\$ 54,933	\$ 27,661
Travel and promotion	25,796	8,158
Occupancy costs	25,661	28,719
Office, secretarial and supplies	20,364	32,231
Insurance	6,384	4,104
Miscellaneous	11,800	10,057
Stock-based compensation	6,000	130,000
Total	<u>\$ 150,938</u>	<u>\$ 240,930</u>

The decrease in general and administrative expenses of \$90,000 pertained primarily to the \$124,000 reduction in stock-based compensation expense that is included therein. This decrease in expenses was offset by increased costs resulting from activities directed at increasing the Company's profile and investor awareness. The Company invested \$5,000 in upgrading their website. The President of the Company attended the January, 2006 Mineral Exploration Round-up in Vancouver and presented at an investment conference while there. Further, the President attended the June, 2006 Cambridge Investment Conference in Vancouver. Attendance fees at these conferences, promotional materials, and travel to and from, resulted in an increase of \$17,000 in promotion costs over the comparative period. Increased administrative consulting fees accounted for the bulk of the remaining expense increase. These pertained to the President's corporate activities, including attendance at and preparation for conferences discussed above and administrative time spent on the private placement as well as time devoted to project generation.

Reporting to Shareholder costs increased substantially. There was a significant increase in the number of registered shareholders prior to the distribution of annual reports and proxy circulars. During November, 2005, CDG Investments Inc. distributed a significant portion of its 25% investment in the Company to CDG shareholders, resulting in a substantial increase in the number of Manson Creek shareholders. Consequently printing and mailing costs increased considerably.

During the year ended September 30, 2006, the Company sold its investment in Prism Resources Ltd. for a gain of \$6,000. The investment had been received pursuant to a property option agreement. The site restoration expense pertains to costs incurred to clean-up the Tanner, Yukon Rakla camp site. Actual costs incurred exceeded the estimated liability. The property has been written-off, consequently the additional costs have been expensed. The future income tax recovery pertains to the draw-down of future taxes that were booked as a result of the renunciation of flow-through expenditures to investors during the current period. The Company has unrecognized future income tax recoveries that were recognized as losses were incurred, to reduce the future tax provision associated with the renunciation.

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

	<u>Year ended September 30, 2006</u>	<u>Year ended September 30, 2005</u>
Legal and filing fees	\$ 8,435	\$ 4,200
Audit fees	20,077	21,750
Total	<u>\$ 28,512</u>	<u>\$ 25,950</u>

Filing fees increased as a result of the increased number of news releases compared to the prior year, resulting in an increase of \$4,000 in legal and filing fees from 2005 to 2006.

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**3) Operating Results** (continued)

**Three months ended September 30, 2006 compared to three months ended September 30, 2005**

The net loss for the three months ended September 30, 2006 of \$44,000 was approximately \$196,000 less than the \$240,000 loss for the comparative three month period. The write-down of mineral properties in the three months ended September 30, 2005 of \$192,000 was the most significant contributor to the variance, with no other significant changes in other expense and income items.

**4) Liquidity and Capital Resources**

The Company's working capital position at September 30, 2006 was \$609,000, (September 30, 2005 - \$509,000). The Company expended \$224,000, on mineral property exploration and \$5,000 on exploration deposits during the year ended September 30, 2006, (2005 - \$345,000 on mineral property exploration). Net cash operating expenses aggregated \$229,000 during the year ended September 30, 2006, (2005 - \$131,000). The increase in cash expenditures on operations coincides with increased operating expenses discussed above.

The Company received approximately \$420,000 after share issue costs as a result of the April, 2006 private placement of flow-through units; the fiscal 2005 private placement contributed \$721,000 after issue costs. Further, the exercise of options and warrants contributed \$104,000, (2005 - \$100,000), and exploration incentives associated with Yukon exploration contributed \$11,000, (2005 - \$5,000). Proceeds on the sale of Prism Resources Ltd. shares contributed an additional \$29,000 to the treasury. Additional financing will be required to undertake the 2007 exploration program and management is currently investigating options.

**5) Contractual Obligations**

The Company has office base rent obligations associated with their current office lease that expires December 31, 2006 of \$13,400 for fiscal 2007. Related companies are obligated, pursuant to sublease agreements, to reimburse the Company for 75% of these costs.

The current lease has been extended for a further five years. The following summarizes annual base lease commitments for the ensuing five years:

2007	\$70,100	2009	\$93,500	2011	\$93,500
2008	\$93,500	2010	\$93,500		

Related Companies will be responsible for 69% of the aforementioned payments.

As at September 30, 2006, aggregate unpaid mineral property cash payments and share issuances, by fiscal year required to complete the acquisitions of the CR, Cuprum, Palomino, Meridian and Gillman properties are as follows:

<u>Fiscal year of payment</u>	<u>Cash</u>	<u>Common Shares</u>
2007	\$ 55,000	325,000
2008	\$ 80,000	475,000
2009	\$ 90,000	575,000
2010	\$ 90,000	575,000
2011	\$ 30,000	150,000
Total	<u>\$345,000</u>	<u>2,100,000</u>

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

Subsequent to year-end the Company entered into a property acquisition agreement that would result in paying \$10,000 in each of fiscal 2007 and 2008 and issuing 75,000 common shares in each of fiscal 2007 and 2008 and 125,000 shares in each of fiscal 2009 and 2010 in order to acquire a 100% interest in the Black Lake Property. The Company can terminate the agreement at any time without penalty or requirement to make subsequent payments.

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**6) Financing**

On March 8, 2005, the Company closed a non-brokered private placement for gross proceeds of \$750,000. The Company issued 5,454,545 non-flow-through units at \$0.11 per unit and 1,071,428 flow-through units at \$0.14 per unit. Each of the 5,454,545 units was comprised of one common share and one purchase warrant that may be exercised at \$0.14 to March 7, 2007 to acquire one common share. Each of the 1,071,428 flow-through units was comprised of one flow-through common share and one non-flow-through warrant that may be exercised at \$0.14 to March 7, 2007 to acquire one common share. The proceeds of the private placement were earmarked to undertake a drill program on the CR property in British Columbia, to evaluate new mineral prospects and for working capital purposes. The full amount of the flow-through funds were expended by December 31, 2005.

During April, 2006, the Company completed a \$425,000 non-brokered private placement flow-through financing. The financing consisted of 2,500,000 units issued at \$0.17 per unit. Each unit was comprised of one flow-through share and one warrant to acquire one flow-through share at \$0.20 per share to April 17, 2008. This financing ensured that the Company had sufficient funds for the 2006 exploration program and the postponed drilling on Meridian. Should the warrants be exercised, such proceeds will fund future exploration. The Company will renounce \$425,000 of qualifying Canadian Exploration Expenses at December 31, 2006, although they will be required to spend the last \$274,000 of the flow-through funds in the Spring/Summer of 2007.

The Company is investigating financing options, and will prepare a formal exploration budget for fiscal 2007 when financing is in place.

**7) Off-Balance Sheet Transactions**

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

**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>2006</b>	<b>2005</b>	<b>2004</b>
<b>Financial Results</b>			
Interest and other	\$ 18,441	\$ 10,324	\$ 5,801
Net Loss	\$ ( 436,035)	\$ (1,010,806)	\$ (120,881)
Basic and diluted loss per share	\$(0.02)	\$(0.05)	\$(0.01)
<b>Financial Position</b>			
Working capital	\$ 609,464	\$ 509,257	\$ 175,809
Total assets	\$ 1,368,462	\$ 1,300,600	\$ 1,322,593
Capital Stock	\$ 8,133,464	\$ 7,651,822	\$ 7,104,199
Warrants	\$ 318,529	\$ 300,000	\$ 20,000
Contributed Surplus	\$ 227,334	\$ 221,334	\$ 91,334
Deficit	\$(7,374,407)	\$(6,938,372)	\$ (5,927,566)

The large loss in fiscal 2005 was primarily attributable to the write-off of mineral properties aggregating \$728,000, (2006 - \$263,000, 2004 - \$13,000), and the recording of stock option compensation expense of \$130,000, (2006 - \$6,000, 2004 - \$Nil).

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**9) Selected Quarterly Information**

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

Three months ended:	Sept 30 2006	June 30 2006	March 31, 2006	Dec. 31 2005	Sept. 30 2005	June 30 2005	March 31 2005	Dec. 31 2004
Interest & Other	\$ 9,264	\$ 3,088	\$ 3,616	\$ 2,473	\$ 4,777	\$ 3,509	\$1,134	\$ 904
Net loss exclusive of mineral property write-offs	(44,324)	(75,778)	(68,305)	(35,911)	\$ (48,181)	\$(165,456)	\$(42,608)	\$ (26,458)
Mineral property write-offs	-	(262,717)	-	-	\$(191,833)	\$ -	\$( 3,125)	\$(533,145)
Net Loss before tax	(44,324)	(338,495)	(68,305)	(35,911)	\$(240,014)	\$(165,456)	\$(45,733)	\$(559,603)
Future income tax recovery	-	15,000	22,000	14,000	-	-	-	-
Net Loss	(44,324)	(323,495)	(46,305)	(21,911)	\$(240,014)	\$(165,456)	\$(45,733)	\$(559,603)
Basic and diluted loss per share	\$0.00	\$ (0.01)	\$ 0.00	\$ 0.00	\$ (0.01)	\$ (0.01)	\$ 0.00	\$ (0.03)

The significant loss in the quarter ended June 30, 2005 is primarily attributable to stock-based compensation expense of \$130,000 being recorded in the period that stock options were granted. This is a non-cash charge. Interest revenue varies with the amount of invested cash and interest rates. The most significant influence on net income/loss is the amount of mineral property write-offs and stock-based compensation expenses. Site restoration expense of \$28,000 in the quarter ended June 30, 2006 contributed to the comparatively larger loss before mineral property write-offs. General and administrative expenses are higher in the quarter ended March 31 as annual report and other annual mailings as well as annual meeting costs tend to be incurred almost exclusively in this period. The result is a higher net loss before mineral property write-offs in these periods.

**10) Directors and Officers**

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

**11) Management Remuneration**

The President, Vice-President and Chief Financial Officer bill the Company through their majority-owned companies, their employer or individually for number of days or hours worked. Their rates and aggregate billings for the year ended September 30, 2006 were as follows:

<u>Officer and position</u>	<u>Rate</u>	<u>Billings for the year ended September 30, 2006</u>
Mr. Chernish, President	\$475 per day	\$ 108,359
Mr. Jutras, Vice-President	\$400 per day	\$ -
Ms. Difley, Chief Financial Officer	\$ 60 per hour	\$ 17,094

Ms. O'Neill is employed by a related corporation. The related corporation bills the Company quarterly for the Company's share of her salary, based on time devoted to Company business. Ms. O'Neill's salary billed for the year ended September 30, 2006 aggregated \$6,818.

Directors are not remunerated in cash for fulfilling their directorial duties; however they receive stock options in recognition of their service. During the current period Mr. Porter was granted options to acquire 100,000 common shares at \$0.14 per share to April 26, 2011. Mr. Bryan, a director, received \$11,925 during the year for geological services provided to the Company.

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**12) Related Party Transactions**

The following non-arm's length transactions, (amounts rounded to nearest \$1,000), occurred during the year ended September 30, 2006:

- i) received or accrued \$40,000 from corporations related by virtue of common officers and directors for rent of shared office space and \$49,000 for lease operating and office costs.
- ii) paid or accrued \$137,000 for consulting fees charged by officers and directors or their companies on a per diem basis for geological, (geological billings for work specifically related to a mineral property is capitalized to that property), accounting and administrative services provided.
- iii) paid or accrued to companies related by virtue of certain common officers and/or directors \$22,000 for allocated office and secretarial expenses.

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

**13) Exploration Expenditures**

Refer to note 5 to the financial statements for the schedule of expenditures incurred on the various properties during the years ended September 30, 2006 and September 30, 2005.

**14) Capital Stock**

**a) Authorized and Issued**

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

The following capital stock transactions occurred subsequent to year-end to November 23, 2006:

	<b>Number of Shares</b>	<b>Capital Stock</b>
<b>Balance September 30, 2006</b> (note 7 financial statements)	27,236,829	\$8,133,464
Issued for acquisition of mineral properties	125,000	10,250
<b>Balance November 23, 2006</b>	<b>27,361,829</b>	<b>\$8,143,714</b>

**b) Stock Options and Warrants**

**i) Options**

No options were granted, cancelled or exercised, and none expired during the period from September 30, 2006 to November 23, 2006.

**ii) Warrants**

During the period from September 30, 2006 to November 23, 2006 no warrants were issued, exercised or cancelled and none expired.

**15) Investor Relations**

Responding to shareholder inquiries and attendance and presentations at conferences, comprised the Company's investor relations activities during the year ended September 30, 2006. The Company does not employ a dedicated "investor relations" individual or firm.

**16) Outlook**

The Company's primary objective is to discover mineral resources in economic quantities capable of supporting an operating mine. As the Company does not have expertise in operating a mine, should it discover such a promising property, it would attempt to ally with a more senior mining company that might option-in on the property or purchase the property outright. Current plans include drilling on Meridian using unexpended flow-through funds. Management will analyze the results of the summer 2006 exploration programs and historical data on the newly acquired Black Lake uranium property to assess the exploration program for fiscal 2007. Management is investigating financing options to ensure that it has adequate financing to undertake its 2007 exploration program.

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**17) Risks**

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

**18) Critical Accounting Estimates**

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

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

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.

**19) New Accounting Policies**

There were no new accounting policies adopted during the current year.

**20) Cautionary Statements**

Statements and/or financial forecasts that are unaudited and not historical, including exploration 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. While the Company disclaims any intention to update or revise this statement of forward-looking information, whether as a result of new information, future events or otherwise, it will endeavor to revise information in subsequent Management's Discussion and Analysis documents as circumstances change.

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**21) Disclosure Controls and Procedures**

Management, including the Company's President and Chief Financial Officer, evaluated the effectiveness and operation of the Company's disclosure controls and procedures. The President and Chief Financial Officer concluded that, as of September 30, 2006, the disclosure controls and procedures were effective, in all material respects, to ensure that information required to be disclosed in the reports the Company files and submits under the Exchange Act is recorded, processed, summarized and reported as and when required. The Company's President and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are also effective to ensure that information required to be disclosed in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its President and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. It should be noted that while the Company's President and Chief Financial Officer believe that our disclosure controls and procedures provide a reasonable level of assurance and that they are effective, they do not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

**22) Internal Controls over Financial Reporting**

The President and Chief Financial Officer, together with other members of management have designed internal controls, or caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian Generally Accepted Accounting Principles as of September 30, 2006. They have not identified any changes to the company's internal control over financial reporting which would materially affect, or is reasonably likely to materially affect the Company's internal control over financial reporting during the most recent interim period.

**23) Other**

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