

## **FM RESOURCES CORP.**

Financial Statements

December 31, 2001 and 2000

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# ELLIS FOSTER

CHARTERED ACCOUNTANTS

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## AUDITORS' REPORT

To the Shareholders of

**FM RESOURCES CORP.**

We have audited the balance sheet of **FM Resources Corp.** as at December 31, 2001 and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Company Act of British Columbia, we report that, in our opinion, these principles have been applied on a consistent basis.

The financial statements as at December 31, 2000 and for the year then ended were audited by other auditors who expressed an opinion without reservation on the statements in their report dated May 10, 2001.

Vancouver, Canada  
April 26, 2002

**"ELLIS FOSTER"**  
Chartered Accountants



*A partnership of incorporated professionals*

*An independently owned and operated member of Moore Stephens North America Inc., a member of Moore Stephens International Limited  
- members in principal cities throughout the world*

# FM RESOURCES CORP.

Balance Sheet  
December 31, 2001

	2001	2000
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 13,737	\$ 14,014
Taxes recoverable	2,537	7,155
	16,274	21,169
<b>Mining capital assets held for resale</b> (note 3)	120,000	215,000
<b>Mineral property</b> (note 4)	80,000	80,000
	\$ 216,274	\$ 316,169
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 619,761	\$ 426,726
<b>Loans payable</b> (note 5)	990,524	990,524
	1,610,285	1,417,250
<b>SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
<b>Share capital</b> (note 6)	15,425,998	15,425,998
<b>Contributed surplus</b>	305,000	305,000
<b>Deficit</b>	(17,125,009)	(16,832,079)
	(1,394,011)	(1,101,081)
	\$ 216,274	\$ 316,169

Approved by the Directors:

"H Chris Schultze"  
Director

"Luard Manning"  
Director

## FM RESOURCES CORP.

### Statement of Operations and Deficit Year Ended December 31, 2001

	2001	2000
<b>Administrative expenses</b>		
Administration fees	\$ 72,000	\$ 69,000
Amortization	-	3,832
Filing and transfer agent fees	6,976	7,076
Interest and bank charges	88,623	57,543
Office and miscellaneous	22,227	19,582
Management fees	-	11,480
Professional fees	12,248	15,980
Rent	6,000	16,074
Travel	1,194	4,083
	<hr/> 209,268	<hr/> 204,650
<b>Other expenses (income)</b>		
Interest income	(338)	(5,401)
Loss on disposal of capital assets	-	3,492
Loss on disposal of mining capital assets	56,500	65,604
Write down of mining capital assets held for resale	20,000	100,100
Deferred exploration costs charged to operations	7,500	9,250
Write-off of milling credits	-	1
	<hr/> 83,662	<hr/> 173,046
<b>Loss for the year</b>	(292,930)	(377,696)
<b>Deficit, beginning of year</b>	(16,832,079)	(16,454,383)
<b>Deficit, end of year</b>	<hr/> \$ (17,125,009)	<hr/> \$ (16,832,079)
<b>Loss per share</b>	<hr/> \$ (0.12)	<hr/> \$ (0.16)
<b>Weighted average number of common shares outstanding</b>	<hr/> 2,397,216	<hr/> 2,375,430

# FM RESOURCES CORP.

Statement of Cash Flows  
Year Ended December 31, 2001

	2001	2000
<b>Cash flows from (used in) operating activities</b>		
Operations		
Loss for the year	\$ (292,930)	\$ (377,696)
Adjustment for items not involving cash:		
- amortization	-	3,832
Loss on disposal of capital assets	-	3,492
Loss on disposal of mining capital assets held for resale	56,500	65,604
Deferred exploration expenditures charged to operations	7,500	9,250
Write down of mining capital assets held for resale	20,000	100,100
Write-off of milling credits	-	1
	(208,930)	(195,417)
Changes in non-cash working capital:		
Decrease in taxes recoverable	4,618	21,364
Increase in accounts payable and accrued liabilities	193,035	50,858
	(11,277)	(123,195)
<b>Cash flows from (used in) investing activities</b>		
Proceeds on disposal of capital assets	-	545
Mining capital asset recoveries, net of expenditures	18,500	102,896
Deferred exploration expenditures, incurred	(7,500)	(9,250)
	11,000	94,191
<b>Cash flows from financing activities</b>		
Increase in loans payable	-	40,924
<b>Increase (decrease) in cash and cash equivalents</b>	(277)	11,920
<b>Cash and cash equivalents, beginning of year</b>	14,014	2,094
<b>Cash and cash equivalents, end of year</b>	\$ 13,737	\$ 14,014

# FM RESOURCES CORP.

Notes to Financial Statement  
December 31, 2001

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## 1. Future Operations

The Company is incorporated under the laws of the Province of British Columbia, Canada and its principal business activities include the exploration and development of mineral properties.

These financial statements are prepared on the basis that the Company will continue to operate as a going concern. The Company has incurred operating losses and significant development costs relating to its mineral property interests which have been written down to the estimated recoverable amount, and has a working capital deficiency of \$603,487 and a deficiency in assets of \$1,394,011 at December 31, 2001. Ninety percent of the Company liabilities are owed to one individual and a company related to this individual. The continued operations of the Company and the ability of the Company to recover amounts shown for mineral property and capital assets and discharge its liabilities in the normal course of business are dependent upon the continued financial support of an individual creditor and a company related to this individual, and of the Company's other creditors, as well as obtaining adequate financing, the existence of economically viable reserves in its mineral property, and bringing the property into profitable operations.

## 2. Significant Accounting Policies

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles and in management's opinion, have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

### (a) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results may differ from those estimates.

### (b) Mining Capital Assets Held for Resale

Mining capital assets held for resale are recorded at estimated net realizable value.

# FM RESOURCES CORP.

Notes to Financial Statement  
December 31, 2001

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## 2. Significant Accounting Policies (continued)

### (c) Mineral Property

The Company has capitalized exploration and development costs specifically identifiable to its mineral property. When commercial production is achieved for a specific property, the costs capitalized will be amortized against revenue realized on production from the property. In the event of the abandonment of a property, the costs capitalized for that property will be charged to operations. The exploration and development costs have been written down to an estimated net realizable value.

### (d) Impairment of Long-term Assets

The Company re-evaluates the recoverability of long-term assets, including mining capital assets held for resale and the mineral property based upon estimates using factors such as future asset utilization, business climate and future discounted cash flows expected to result from the use of the related assets or be realized on sale. The Company's policy is to write down assets to their net recoverable amount in the period when it is determined that the carrying amount of the asset is not likely to be recovered.

### (e) Income Taxes

The Company has adopted the provision of CICA Handbook Section 3465, Income Taxes. Under this standard, current income taxes are recognized for the estimated income taxes payable for the current period.

Future taxes are recognized for the tax consequences of "temporary differences" by applying enacted or substantively enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and tax basis of existing assets and liabilities. The effect on deferred taxes for a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. In addition, Section 3465 requires the recognition of future tax benefits to the extent that realization of such benefits is more likely than not.

### (f) Cash equivalents

Cash equivalents usually consist of highly liquid investments which are readily convertible into cash with maturities of three months or less when purchased. The Company has no cash equivalents as at December 31, 2001 and 2000.

# FM RESOURCES CORP.

Notes to Financial Statement  
December 31, 2001

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## 2. Significant Accounting Policies (continued)

### (g) Loss Per Share

The loss per share figure is calculated using the weighted average number of common shares outstanding during the year.

### (h) Stock Based Compensation

No compensation expense is recognized when stock options are issued to employees, directors and consultants of the Company. Any consideration paid on the exercise of stock options or purchase of stock is credited to share capital.

## 3. Mining Capital Assets Held for Resale

	2001	2000
Mining capital assets on the La Forma property	\$ 120,000	\$ 215,000

## 4. Mineral Property

	Deferred Exploration Expenditures	Total	
		2001	2000
La Forma Property	\$ 80,000	\$ 80,000	\$ 80,000

The Company owns a 100% interest in the La Forma property located in the vicinity of Mount Freegold, Yukon Territory. Due to a lack of current and foreseeable activity, the investment in the La Forma property has been written down to its estimated recoverable value of \$80,000.



# FM RESOURCES CORP.

Notes to Financial Statement  
December 31, 2001

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## 5. Loans Payable

	2001	2000
Loans payable, without interest or fixed terms of repayment	\$ 865,924	\$ 865,924
Loan payable, with interest at 18% per annum, compounded monthly, with no fixed terms of repayment	120,100	120,100
Loans payable to directors and former director	4,500	4,500
	<u>\$ 990,524</u>	<u>\$ 990,524</u>

## 6. Share Capital

(a) Authorized: 100,000,000 common shares without par value.  
5,000,000 preferred shares without par value.

(b) Issued:

	2001		2000	
	Number of Shares	Amount	Number of Shares	Amount
Common shares:				
Balance, beginning of year	2,397,216	\$ 15,425,998	2,366,716	\$ 14,425,998
Shares issued on conversion of gold-based investment contract	-	-	15,500	737,500
Shares issued on conversion of gold purchase contract	-	-	15,000	262,500
Balance, end of year	<u>2,397,216</u>	<u>\$ 15,425,998</u>	<u>2,397,216</u>	<u>\$ 15,425,998</u>

(c) The Company's preferred shares are issuable in series, with each series to have such rights and restrictions as may be determined by the Board of Directors. The issuance of preferred shares of any series would be subject to regulatory approval.

# FM RESOURCES CORP.

Notes to Financial Statement  
December 31, 2001

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## 7. Related Party Transaction

As at December 31, 2001, the aggregate amount of expenditures made to parties not at arm's length from the Company amounted to \$nil (2000 - \$11,480), paid or accrued to a Company controlled by a former director for providing management services. Management is of the opinion that the terms and conditions are consistent with standard business practice.

## 8. Income Taxes

The components of the future income tax assets are as follows:

	2001	2000
Future income tax assets:		
Non-capital loss carryforwards	\$ 3,214,800	\$ 3,378,600
Unused cumulative development and exploration expenses	2,805,750	2,802,600
	6,020,550	6,181,200
Less: Valuation allowance	(6,020,550)	(6,181,200)
Total future income tax assets	\$ -	\$ -

The valuation allowance reflects the Company's estimate that the tax assets, more likely than not, will not be realized.

- (a) The Company has accumulated non-capital losses for income tax purposes of approximately \$7,144,000. The losses expire in the following years:

2002	\$ 1,152,000
2003	1,616,000
2004	2,603,000
2005	1,295,000
2006	136,000
2007	163,000
2008	179,000
	<u>\$ 7,144,000</u>

- (b) The Company has cumulative capital losses and unused cumulative development and exploration expenses of \$613,000 and \$6,235,000 respectively, which can be carried forward indefinitely.

# **FM RESOURCES CORP.**

Notes to Financial Statement  
December 31, 2001

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## **9. Financial Instruments**

The Company's financial instruments consist of cash and cash equivalents, accounts payable and accrued liabilities, and loans payable. 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. The fair value of these financial instruments approximate their carrying values, unless otherwise noted.

## **10. Comparative Figures**

Certain 2000 comparative figures have been reclassified to conform with the financial presentation adopted in 2001.

## FM RESOURCES CORP.

### Schedule of Deferred Exploration Expenditures Year Ended December 31, 2001

	2001	2000
<b>Deferred exploration expenditures</b>		
Consulting fees	\$ -	\$ 9,250
Recording and renewal fees	7,500	-
	7,500	9,250
<b>Deferred exploration expenditures, beginning of year</b>	80,000	80,000
	87,500	89,250
<b>Deferred exploration expenditures charged to operations</b>	(7,500)	(9,250)
<b>Deferred exploration expenditures, end of year</b>	\$ 80,000	\$ 80,000