

# **FM RESOURCES CORP.**

Financial Statements

December 31, 2002 and 2001

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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 sheets of **FM Resources Corp.** as at December 31, 2002 and December 31, 2001 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 December 31, 2002 and December 31, 2001 and the results of its operations and its cash flows for the years 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.

Vancouver, Canada  
March 18, 2003

"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, 2002

	2002	2001
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 2,508	\$ 13,737
Taxes recoverable	1,901	2,537
	4,409	16,274
<b>Mining assets held for resale</b> (note 3)	53,000	120,000
<b>Mineral property</b> (note 4)	1	80,000
	\$ 57,410	\$ 216,274
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 800,713	\$ 619,761
<b>Loans payable</b> (note 5)	996,524	990,524
	1,797,237	1,610,285
<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>	(17,470,825)	(17,125,009)
	(1,739,827)	(1,394,011)
	\$ 57,410	\$ 216,274

Approved by the Directors:

"H Chris  
Schultze"  
Director

"Luard  
Manning"  
Director

## FM RESOURCES CORP.

### Statement of Operations and Deficit Year Ended December 31, 2002

	2002	2001
<b>Administrative expenses</b>		
Administration fees	\$ 72,000	\$ 72,000
Filing and transfer agent fees	8,124	6,976
Interest and bank charges	122,740	88,285
Office and miscellaneous	22,455	22,227
Professional fees	13,648	12,248
Rent	6,000	6,000
Travel	-	1,194
	244,967	208,930
<b>Other expenses (income)</b>		
Loss on disposal of mining assets	17,000	56,500
Write down of mining assets held for resale	-	20,000
Deferred exploration costs charged to operations	83,849	7,500
	100,849	84,000
<b>Loss for the year</b>	(345,816)	(292,930)
<b>Deficit, beginning of year</b>	(17,125,009)	(16,832,079)
<b>Deficit, end of year</b>	\$ (17,470,825)	\$ (17,125,009)
<b>Loss per share - basic and diluted</b>	\$ (0.14)	\$ (0.12)
<b>Weighted average number of common shares outstanding - basic and diluted</b>	2,397,216	2,397,216

# FM RESOURCES CORP.

Statement of Cash Flows  
Year Ended December 31, 2002

	2002	2001
<b>Cash flows from (used in) operating activities</b>		
Operations		
Loss for the year	\$ (345,816)	\$ (292,930)
Adjustment for items not involving cash:		
Loss on disposal of mining assets held for resale	17,000	56,500
Deferred exploration expenditures charged to operations	83,849	7,500
Write down of mining assets held for resale	-	20,000
	(244,967)	(208,930)
Changes in non-cash working capital:		
Decrease in taxes recoverable	636	4,618
Increase in accounts payable and accrued liabilities	180,952	193,035
	(63,379)	(11,277)
<b>Cash flows from (used in) investing activities</b>		
Proceeds from disposition of mining assets, net	50,000	18,500
Deferred exploration expenditures, incurred	(3,850)	(7,500)
	46,150	11,000
<b>Cash flows from financing activities</b>		
Increase in loans payable	6,000	-
<b>Decrease in cash and cash equivalents</b>	(11,229)	(277)
<b>Cash and cash equivalents, beginning of year</b>	13,737	14,014
<b>Cash and cash equivalents, end of year</b>	\$ 2,508	\$ 13,737

# FM RESOURCES CORP.

Notes to Financial Statements  
December 31, 2002

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## 1. Future Operations

The Company was 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. As at December 31, 2002 the Company has a working capital deficiency of \$796,304 and a cumulative operating deficiency of \$17,470,825. The continued operations of the Company and the ability of the Company to realize its assets and to discharge its liabilities in the normal course of business are dependent upon the continued financial support of its creditors, the development of an economically viable reserve in its mineral property, and ultimately to reach a profitable level of operations.

## 2. Significant Accounting Policies

The financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles and in management's opinion, 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 their estimated net realizable value.

# FM RESOURCES CORP.

Notes to Financial Statements  
December 31, 2002

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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 these assets to their net recoverable amount in the period when it is determined that the carrying amount 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 future income 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, 2002 and 2001.

# FM RESOURCES CORP.

Notes to Financial Statements  
December 31, 2002

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## 2. Significant Accounting Policies (continued)

### (g) Earnings (Loss) Per Share

Basic earnings (loss) per share is computed using the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share amounts are calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury stock method. The treasury stock method assumes that proceeds received from the exercise of stock options and warrants are used to repurchase common shares at the prevailing market rate.

### (h) Stock Based Compensation

Effective January 1, 2002, the Company adopted on a prospective basis, the Canadian Institute of Chartered Accountants ("CICA") Handbook, Section 3870, Stock-based compensation and other stock-based payments. As permitted by the CICA Handbook, Section 3870, the Company has chosen not to recognize any compensation cost on the grant of stock options to its employees. Any consideration paid by employees on exercise of stock options is credited to capital stock. The Company is required to provide pro-forma information with regard to its net income as if the compensation cost for the Company's stock option plan had been determined in accordance with the fair value based method prescribed in the CICA Handbook, Section 3870.

The adoption of the new accounting policy has no cumulative effect on the prior year's financial statement.

## 3. Mining Assets Held for Resale

	2002	2001
Mining equipment	\$ 53,000	\$ 120,000



# FM RESOURCES CORP.

Notes to Financial Statements  
December 31, 2002

## 4. Mineral Property

	Deferred Exploration Expenditures	Total	
		2002	2001
La Forma Property	\$ 1	\$ 1	\$ 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 reduced to a nominal value of \$1.

## 5. Loans Payable

	2002	2001
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	126,100	120,100
Loans payable to directors and former director	4,500	4,500
	\$ 996,524	\$ 990,524

## 6. Share Capital

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

(b) Issued:

	2002		2001	
	Number of Shares	Amount	Number of Shares	Amount
Common shares:				
Balance, beginning of year	2,397,216	\$ 15,425,998	2,397,216	\$ 15,425,998
Balance, end of year	2,397,216	\$ 15,425,998	2,397,216	\$ 15,425,998

# FM RESOURCES CORP.

Notes to Financial Statements  
December 31, 2002

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## 6. Share Capital (continued)

- (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.

## 7. Income Taxes

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

	2002	2001
Future income tax assets:		
Non-capital loss carryforwards	\$ 1,809,000	\$ 3,214,800
Unused cumulative development and exploration expenses	2,760,300	2,805,750
	4,569,300	6,020,550
Less: Valuation allowance	(4,569,300)	(6,020,550)
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 \$4,020,000. The losses expire in the following years:

2003	\$ 1,616,000
2004	1,043,000
2005	668,000
2006	136,000
2007	163,000
2008	179,000
2009	215,000
	<u>\$ 4,020,000</u>

- (b) The Company has cumulative capital losses and unused cumulative development and exploration expenses of \$817,000 and \$6,134,000 respectively, which can be carried forward indefinitely.

# **FM RESOURCES CORP.**

Notes to Financial Statements  
December 31, 2002

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## **8. Financial Instruments**

The Company's financial instruments consist of cash and cash equivalents, accounts payable and accrued liabilities, and loans payable. 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.

## **9. Comparative Information**

Certain comparative amounts have been reclassified to comply with the financial statement presentation adopted in the current year.

## FM RESOURCES CORP.

### Schedule of Deferred Exploration Expenditures Year Ended December 31, 2002

	2002	2001
<b>Deferred exploration expenditures</b>		
Line cutting fees	\$ 3,850	\$ -
Recording and renewal fees	-	7,500
	3,850	7,500
<b>Deferred exploration expenditures, beginning of year</b>	80,000	80,000
	83,850	87,500
<b>Deferred exploration expenditures charged to operations</b>	(83,849)	(7,500)
<b>Deferred exploration expenditures, end of year</b>	\$ 1	\$ 80,000