

MID-NORTH RESOURCES LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2001

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

To the Shareholders of Mid-North Resources Limited:

The financial statements and the information in the annual report are the responsibility of the Board of Directors and management. The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. A system of controls is maintained by management to provide reasonable assurance that assets are safeguarded and financial information is accurate and reliable.

The Audit Committee is comprised of outside Directors, and meets with management and the independent auditors to assure that management is maintaining adequate financial controls and to approve the annual and quarterly financial statements. The Audit Committee also reviews the results of the annual audit performed by the independent auditors prior to submitting the financial statements to the Board of Directors for approval.

The financial statements in the annual report have been examined by Stuart W. Peterson Professional Corporation and their report is below.

Signed by Robert B. Dunlop
Robert B. Dunlop
President and Director

Signed by Keith Engel
Keith Engel
Secretary-Treasurer and Director

AUDITOR'S REPORT

To the Shareholders of Mid-North Resources Limited:

I have audited the balance sheet of Mid-North Resources Limited as at December 31, 2001 and December 31, 2000 and the statements of loss and deficit and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I 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 my opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and December 31, 2000 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Calgary, Alberta
May 15, 2002

Signed by Stuart W. Peterson
STUART W. PETERSON
PROFESSIONAL CORPORATION
Chartered Accountant

MID-NORTH RESOURCES LIMITED
BALANCE SHEET
DECEMBER 31, 2001 AND 2000

	2001 \$	2000 \$
ASSETS		
CURRENT		
Cash	903	4,423
Sales taxes recoverable	2,718	5,396
Prepaid expenses	1,332	2,217
	4,953	12,036
CAPITAL ASSETS (Note 3)	4,791	6,191
MINING CLAIMS AND DEFERRED EXPENSES (Note 4)	1,514,450	1,427,518
	1,524,194	1,445,745
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	212,856	140,497
Accrued interest payable	89,702	69,649
Due to related parties (Note 5)	244,903	163,001
Note payable (Note 6)	30,060	30,060
	577,521	403,207
SHAREHOLDERS' EQUITY		
CONVERTIBLE NOTES (Note 7)	220,600	220,600
SHARE CAPITAL (Note 8)	3,314,719	3,314,719
DEFICIT	(2,588,646)	(2,492,781)
	946,673	1,042,538
	1,524,194	1,445,745

Approved on behalf of the Board:

Signed by Robert B. Dunlop
 Robert B. Dunlop, President and Director

Signed by Keith Engel
 Keith Engel, Secretary-Treasurer and Director

See accompanying Notes to the Financial Statements.

MID-NORTH RESOURCES LIMITED
STATEMENT OF LOSS AND DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001 \$	2000 \$
EXPENSES		
Professional fees	31,432	32,296
Automotive	11,342	10,487
Filing and registration fees	11,059	17,956
Rent	5,927	6,270
Consulting and other fees (Note 5)	3,875	9,000
Office	3,571	5,241
Travel	2,586	882
Interest on promissory note	2,405	2,405
Insurance	2,338	1,878
Advertising and promotion	1,871	3,187
Amortization	1,400	1,154
Interest and bank charges	411	775
Equipment rentals	-	1,887
	<u>78,217</u>	<u>93,418</u>
NET LOSS FOR THE YEAR	(78,217)	(93,418)
DEFICIT, Beginning of year	(2,492,781)	(2,381,715)
INTEREST ON CONVERTIBLE NOTES	(17,648)	(17,648)
DEFICIT, End of year	<u>(2,588,646)</u>	<u>(2,492,781)</u>
LOSS PER SHARE (Note 10)	<u>(0.01)</u>	<u>(0.01)</u>

See accompanying Notes to the Financial Statements.

MID-NORTH RESOURCES LIMITED
STATEMENT OF CASH FLOW
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001 \$	2000 \$
CASH PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES		
Net loss for the year	(78,217)	(93,418)
Add non-cash items:		
Amortization	1,400	1,154
	(76,817)	(92,264)
Changes in other working capital elements		
Accrued interest payable	20,053	20,053
Prepaid expenses	885	(2,217)
Sales taxes recoverable	2,678	462
Accounts payable and accrued liabilities	72,359	79,464
Due to (from) related parties	81,902	(4,122)
	177,877	93,640
Cash flows from operating activities	101,060	1,376
FINANCING ACTIVITIES		
Interest on convertible notes	(17,648)	(17,648)
Proceeds on issuance of share capital	-	343,325
Cash flows (used for) provided by financing activities	(17,648)	325,677
INVESTMENT ACTIVITIES		
Additions to capital assets	-	(1,740)
Increase in deferred expenses	(86,932)	(283,218)
Acquisition of mining claims	-	(38,000)
Cash flows used for investment activities	(86,932)	(322,958)
NET (DECREASE) INCREASE IN CASH DURING THE YEAR	(3,520)	4,095
CASH, Beginning of year	4,423	328
CASH, End of year	903	4,423

1 NATURE OF OPERATIONS AND FINANCIAL CONDITION OF THE COMPANY

Mid-North Resources Limited is a TSX Venture Exchange listed public company. The Company currently has

See accompanying Notes to the Financial Statements.

MID-NORTH RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2001

interests in mining claims situated in the Provinces of Manitoba and Saskatchewan and the State of Nevada and intends to maintain and explore its mining claims directly and through joint ventures. These financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern. The ability of the Company to continue as a going concern is dependent on it raising the required capital to proceed with its operational plans and subsequently obtain profitable operations. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

Financial Instruments

Financial instruments of the Company consist mainly of the cash, term deposits, accounts payable, promissory demand note payable and convertible note payable. As at December 31, 2001, there are no significant differences between the carrying values of these amounts and their estimated market values.

Capital Assets

Capital assets are stated at cost less accumulated amortization. Amortization is recorded on the declining balance basis at rates designed to amortize the cost of the capital assets over their estimated useful lives, based on the following annual rates:

Equipment	20%
Computer equipment	30%
Furniture and fixture	20%

Mining Claims and Deferred Expenses

Mining claims and deferred expenses are valued at cost less option payments received.

Deferred expenses relate to exploration of mining claims and will be deferred until the properties are brought into production, at which time they will be amortized on a unit of production basis or until the properties are sold or abandoned, at which time the asset will be written off.

MID-NORTH RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2001

2. SIGNIFICANT ACCOUNTING POLICIES CONT.

Mining Claims and Deferred Expenses cont.

Administrative expenses which are considered to be wholly related to the acquisition and exploration of properties have been capitalized as part of deferred costs.

Recovery of deferred expenses is contingent upon either the Company's identifying mineral reserves in commercial quantities and bringing such reserves into profitable production or the profitable disposition of mineral leases.

Use of Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of the revenue and expenses during the reporting period. Actual results could differ from those estimated.

3. CAPITAL ASSETS

	2001		2000	
	\$		\$	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Office equipment	6,791	4,524	2,267	2,834
Display equipment	4,163	2,772	1,391	1,739
Computer equipment	1,740	607	1,133	1,618
	12,694	7,903	4,791	6,191

MID-NORTH RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2001

4. MINING CLAIMS AND DEFERRED EXPENSES

	2001	2000
	\$	\$
Mining claims	268,017	268,017
Deferred expenses (Schedule 1)	1,246,433	1,159,501
	1,514,450	1,427,518
	1,514,450	1,427,518

Central Manitoba Bissett (Gold Property)

The Company owns a 100% interest in 19 Central Manitoba claims and 2 Cryderman claims located approximately 160 kilometres northeast of Winnipeg, Manitoba.

Beaucage Lake (Gold Property)

The Company owns 18 mineral claims situated approximately 50 kilometres southeast of Lynn Lake, Manitoba covering approximately 3,839 hectares.

Bomber Lake (Gold/Copper Property)

The Company owns 12 contiguous claims in the Bomber Lake area approximately 3 kilometres to the east of the Hudson Bay mining and smelting smelter in Flin Flon Manitoba. There is currently a net smelter royalty of 2% on the claims. The Company has the option to purchase the net smelter royalty for \$100,000 for each 1% purchased.

Burntwood River (Nickel Property)

The Company has a 15% interest through a joint venture agreement with Falconbridge Limited in 62 mineral claims located in the Burntwood River area of Manitoba.

Apex/Miner (Gold Property)

The Company owns a total of 28 claims (Apex - 5, Miner - 23) in the Snow Lake area of Manitoba. W. Bruce Dunlop Ltd. (a related party) and Bart Kobar hold 2 separate net smelter royalties of 1.25% with an option for the Company to buy the royalties down to 0.5% for payments of \$200,000 for each area.

MID-NORTH RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2001

4. MINING CLAIMS AND DEFERRED EXPENSES CONT.

Gunman Property (Zinc/Copper Property)

The Company has a 50% interest in a base metal property consisting of 240 lode claims situated in White Pine County, Nevada. There is currently a net smelter royalty of 2% on the claims. The Company along with the other 50% interest holder has an option to purchase **3** of the net smelter royalty for US \$ 500,000 or **2** of the royalty for US \$ 1,000,000 (see subsequent events Note 12(a)).

Other Properties

Pursuant to certain agreements, the Company has the following options:

- (i) War Baby Property - Option to acquire a 10% interest in the block of claims covering an area of 17 acres located within the limits of the City of Flin Flon, Manitoba. Under the terms of the agreement, the Company may exercise its option to acquire a 10% interest in the mineral claims by paying 10% of the exploration expenditures incurred by Callinan within 90 days of the receipt of a positive feasibility study on the property.

- (ii) Fox River Sill Property - The company holds a first right of refusal to require a 25% interest in the property which consists of 58,700 acres in northeast Manitoba. Falconbridge Limited holds 75% of the property.

5. RELATED PARTY TRANSACTIONS

Amounts due to related parties consists primarily of accrued consulting fees and advances from shareholders, with no interest and with no fixed terms of repayment.

6. NOTE PAYABLE

The note payable, to a shareholder, bears interest at 8% per annum, is unsecured and was due on January 19, 2000.

MID-NORTH RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2001

7. CONVERTIBLE NOTES

	2001	2000
	\$	\$
i. Maturing December 1, 1998	120,600	120,600
ii. Maturing October 15, 1999	100,000	100,000
	220,600	220,600
	220,600	220,600

- i. These notes bear interest at 8% per annum and are convertible to units prior to maturity at a price of \$ 0.52 per unit. Each unit entitles the holder to receive one common share and one common share purchase warrant to subscribe for one additional common share at \$ 0.65 until December 1, 1998. These notes have not been converted and the Company and the note holders have agreed to a continuation of the existing terms until such time as a new agreement can be worked out.

- ii. These notes bear interest at 8% per annum and are convertible into common shares prior to maturity at \$ 0.28 per share. These notes have not been converted and the Company and the note holders have agreed to a continuation of the existing terms until such time as a new agreement can be worked out.

The convertible notes take on characteristics of equity and, accordingly, have been classified as such.

MID-NORTH RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2001

8. SHARE CAPITAL

Authorized
 Unlimited common shares

	Number of Shares	\$
Issued:		
Balance December 31, 2000 and 2001	10,780,847	3,314,719

i. Escrow Agreement

A total of 290,953 shares are subject to a performance based escrow agreement, effective December 15, 1995, between the Company, the Trustee and certain shareholders of the Company.

ii. Options

The following options are outstanding at December 31, 2001:

	Options at \$ 0.15	Options at \$ 0.30
William Aughey	180,000	-
Robert Dunlop	-	325,000
W. Dale Dunlop	-	200,000
James Ramsay	-	75,000
Keith Engel	-	115,000
	180,000	715,000

Each option entitles the holder to purchase one common share at the price as identified above. The \$ 0.15 options expire on July 14, 2003. The \$ 0.30 options expire on June 21, 2005.

iii. Warrants

At December 31, 2001 there were 1,550,500 warrants outstanding. Each warrant entitles the holder to purchase one common share for \$ 0.25. Of the 1,550,500 warrants 998,500 expire on November 14, 2002 and the remaining 552,000 expired on May 4, 2002.

MID-NORTH RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2001

9. INCOME TAXES

The Company has incurred non-capital losses of \$ 1,346,921 for tax purposes which are available to reduce future taxable income. Such benefits will be recorded as an adjustment to the tax provision in the year realized. The losses will expire as follows:

	\$
2002	212,000
2003	288,000
2004	313,000
2005	214,000
2006	112,990
2007	111,066
2008	<u>95,865</u>
	<u><u>1,346,921</u></u>

The potential benefit of any tax losses have not been reflected in these financial statements.

10. LOSS PER SHARE

Loss per share was calculated using the weighted average number of shares outstanding during the year. Loss per share on a fully diluted basis was not disclosed as it is anti-dilutive.

11. COMMITMENTS AND CONTINGENCIES

i. Commitments

The Company is committed under operating leases for an automobile. The minimum annual lease payments are \$ 7,510.

MID-NORTH RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2001

11. COMMITMENTS AND CONTINGENCIES CONT.

ii Environmental

The Company's mining and exploration activities are subject to various federal, provincial and state laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

12. SUBSEQUENT EVENTS

a. Gunman Property

The Company entered into a joint venture agreement dated January 31, 2002 with Cypress Development Corp. to continue exploration of the Gunman property in Nevada. The Company holds 30% interest and the other partner holds 70%. Both parties have agreed to file a Consent Dismissal Order without costs to dismiss the lawsuit initiated by Cypress Development Corp. in May 2001 to seek repayment of exploration expenditures incurred. The amount payable to Cypress as at December 31, 2001 of \$ 156,000 has been repaid by reducing the Company's interest from 50% to 30% when the new joint venture agreement was signed.

b. On April 15, 2002 the Company closed a private placement for the issue of 920,000 units at \$0.10 per unit for gross proceeds of \$ 92,000. A unit consists of 1 common share and 1 share purchase warrant exercisable at \$ 0.10 on or before April 15, 2004.

**MID-NORTH RESOURCES LIMITED
DEFERRED EXPENSES - SCHEDULE 1
YEAR ENDED DECEMBER 31, 2001**

	Central Manitoba Bissett \$	Beaucage Lake \$	Bomber Lake \$	Burntwood River \$	Apex/ Miner \$	Gunman Property \$	Total \$
Balance, December 31, 2000	285,403	19,871	11,698	547,137	12,174	283,218	1,159,501
Drill program	-	-	-	-	-	86,932	86,932
Balance, December 31, 2001	285,403	19,871	11,698	547,137	12,174	370,150	1,246,433

**MID-NORTH RESOURCES LIMITED
SCHEDULE 1 - DEFERRED EXPENSES
YEAR ENDED DECEMBER 31, 2000**

	Central Manitoba Bissett \$	Beaucage Lake \$	Bomber Lake \$	Burntwood River \$	Apex/ Miner \$	Gunman Property \$	Total \$
Balance, December 31, 1999	285,403	19,871	11,698	547,137	12,174	-	876,283
Drill program	-	-	-	-	-	283,218	283,218
Balance, December 31, 2000	285,403	19,871	11,698	547,137	12,174	283,218	1,159,501

