

**MID-NORTH RESOURCES LIMITED**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2002**

## 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 Canadian generally accepted accounting principles. 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 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 PROACT Chartered Accountants and their report is below.

Calgary, Alberta

Date: May 12, 2003

*“Signed by Robert B. Dunlop”*

Robert B. Dunlop

Director

*“Signed by Keith Engel”*

Keith Engel

Director

## **AUDITOR'S REPORT**

To the Shareholders of Mid-North Resources Limited:

We have audited the balance sheet of Mid-North Resources Limited as at December 31, 2002 and December 31, 2001 and the statements of loss 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 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, 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.

Calgary, Alberta  
May 12, 2003

*“Signed by Stuart W. Peterson”*  
PROACT CHARTERED ACCOUNTANTS

**MID-NORTH RESOURCES LIMITED**  
**BALANCE SHEET**  
**DECEMBER 31, 2002 AND 2001**

	2002 \$	2001 \$
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	-	903
Sales taxes recoverable	2,912	2,718
Prepaid expenses	-	1,332
Share subscription receivable (Note 3)	7,000	-
	9,912	4,953
<b>CAPITAL ASSETS (Note 4)</b>	5,065	4,791
<b>MINING CLAIMS AND DEFERRED EXPENSES (Note 5)</b>	1,390,124	1,514,450
	1,405,101	1,524,194
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Bank indebtedness	766	-
Accounts payable and accrued liabilities	80,801	212,856
Accrued interest payable	109,755	89,702
Due to related parties (Note 6)	245,040	244,903
Notes payable (Note 7)	250,660	250,660
	687,022	798,121
<b>SHAREHOLDERS' EQUITY</b>		
<b>SHARE CAPITAL (Note 8)</b>	3,406,719	3,314,719
<b>DEFICIT</b>	(2,688,640)	(2,588,646)
	718,079	726,073
Approved on behalf of the Board:	1,405,101	1,524,194
<u>“Signed by Robert B. Dunlop”</u> Robert B. Dunlop, Director		
<u>“Signed by Keith Engel”</u> Keith Engel, Director		

**See accompanying Notes to the Financial Statements.**

**MID-NORTH RESOURCES LIMITED**  
**STATEMENT OF LOSS AND DEFICIT**  
**FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

	2002 \$	2001 \$
<b>EXPENSES</b>		
Professional fees	23,903	31,432
Interest and bank charges	18,634	18,059
Filing and registration fees	13,557	9,485
Consulting and other fees (Note 6)	12,000	3,875
Automotive	9,153	11,342
Rent	4,247	5,927
Advertising and promotion	3,410	1,871
Interest on promissory note	2,983	2,405
Office	2,575	3,571
Repairs and maintenance	2,450	-
Annual meeting	2,225	1,574
Travel	2,216	2,586
Insurance	1,332	2,338
Amortization	1,309	1,400
	99,994	95,865
<b>NET LOSS FOR THE YEAR</b>	(99,994)	(95,865)
<b>DEFICIT, Beginning of year</b>	(2,588,646)	(2,492,781)
<b>DEFICIT, End of year</b>	(2,688,640)	(2,588,646)
 <b>LOSS PER SHARE (Note 10)</b>	 (0.01)	 (0.01)

**See accompanying Notes to the Financial Statements.**

**MID-NORTH RESOURCES LIMITED  
STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

	2002 \$	2001 \$
<b>OPERATING ACTIVITIES</b>		
Cash receipts from Receiver General and related parties	-	84,580
Cash payments to suppliers and related parties	(223,963)	(1,168)
Cash flows (used for) from operating activities	(223,963)	83,412
 <b>FINANCING ACTIVITIES</b>		
Proceeds on issuance of share capital	92,000	-
Cash flows from financing activities	92,000	-
 <b>INVESTMENT ACTIVITIES</b>		
Additions to capital assets	(1,582)	-
Decrease (increase) in deferred expenses	131,876	(86,932)
Cash flows from (used for) investing activities	130,294	(86,932)
 <b>NET DECREASE IN CASH FOR THE YEAR</b>	 (1,669)	 (3,520)
<b>CASH, Beginning of year</b>	903	4,423
<b>(BANK INDEBTEDNESS) CASH, End of year</b>	(766)	903

**See accompanying Notes to the Financial Statements.**

**MID-NORTH RESOURCES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2002 AND 2001**

**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 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 Canadian 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, 2002 and 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**  
**YEARS ENDED DECEMBER 31, 2002 AND 2001**

**2. SIGNIFICANT ACCOUNTING POLICIES CON'T.**

Mining Claims and Deferred Expenses con't.

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 Canadian 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. SHARE SUBSCRIPTION RECEIVABLE**

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. As at December 31, 2002, \$ 85,000 had been received, leaving a share subscription receivable of \$ 7,000.

**4. CAPITAL ASSETS**

	2002		2001	
	\$		\$	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer equipment	3,322	1,184	2,138	1,133
Office equipment	6,791	4,977	1,814	2,267
Display equipment	4,163	3,050	1,113	1,391
	<u>14,276</u>	<u>9,211</u>	<u>5,065</u>	<u>4,791</u>

**MID-NORTH RESOURCES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2002 AND 2001**

**5. MINING CLAIMS AND DEFERRED EXPENSES**

	2002	2001
	\$	\$
Mining claims	268,017	268,017
Deferred expenses (Schedule 1)	1,122,107	1,246,433
	1,390,124	1,514,450

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**  
**YEARS ENDED DECEMBER 31, 2002 AND 2001**

**5. MINING CLAIMS AND DEFERRED EXPENSES CON'T.**

Gunman Property (Zinc/Copper 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 White Pine Country, 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 \$ 148,549 was repaid by reducing the Company's interest from 50% to 30%. Subsequent to the year end, an additional \$ 7,550 was repaid by reducing the Company's interest from 30% to 27.55%.

The Gunman property consists of 240 lode claims. There is currently a net smelter royalty of 2% on the claims. The Company along with the other interest holder has an option to purchase 1/4 of the net smelter royalty for US \$ 500,000 or 1/2 of the royalty for US \$ 1,000,000.

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 acquire a 25% interest in the property which consists of 58,700 acres in northeast Manitoba. Falconbridge Limited holds 75% of the property.

**6. 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. During the twelve months ended December 31, 2002, \$ 12,000 in consulting fees was paid to Rob Dunlop, president of the Company.

**MID-NORTH RESOURCES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2002 AND 2001**

**7. NOTES PAYABLE**

The notes payable bear interest at 8% per annum, are unsecured and the terms of repayment have not been renegotiated.

**8. SHARE CAPITAL**

Authorized  
Unlimited common shares

Issued:

	<u>Number of Shares</u>	<u>\$</u>
Balance December 31, 2000 and 2001	10,780,847	3,314,719
Private placements	920,000	92,000
Balance December 31, 2002	<u>11,700,847</u>	<u>3,406,719</u>

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.

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.

**MID-NORTH RESOURCES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2002 AND 2001**

**8. SHARE CAPITAL CON'T.**

ii. Options

The following options are outstanding at December 31, 2002:

	Options at \$ 0.10	Options at \$ 0.15	Options at \$ 0.30
William Aughey	-	180,000	-
Robert Dunlop	-	-	325,000
W. Dale Dunlop	-	-	200,000
Keith Engel	185,000	-	115,000
	<u>185,000</u>	<u>180,000</u>	<u>640,000</u>
Date of expiry	April 17, 2007	July 14, 2003	June 21, 2005

On April 17, 2002, the Company offered 185,000 options to Keith Engel, a Director of the Company. James Ramsay ceased to be director in June 28, 2002 and his options expired 90 days after that date.

Each option entitles the holder to purchase one common share at the price as identified above.

iii. Warrants

	Number of Warrants
Outstanding at December 31, 2001	1,550,500
Expired on May 4, 2002	(552,000)
Issued on April 15, 2002 private placement	920,000
Expired on November 14, 2002	<u>(998,500)</u>
Outstanding at December 31, 2002	<u>920,000</u>

The 920,000 warrants outstanding at December 31, 2002, entitle the holders to purchase one common share for \$0.10 and expire on April 15, 2004.

**MID-NORTH RESOURCES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2002 AND 2001**

**9. INCOME TAXES**

The Company has incurred non-capital losses of \$ 1,234,915 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:

	\$
2003	288,000
2004	313,000
2005	214,000
2006	112,990
2007	111,066
2008	95,865
2009	99,994
	<u>1,234,915</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.

**MID-NORTH RESOURCES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2002 AND 2001**

**11. COMMITMENTS AND CONTINGENCIES**

(i) 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. COMPARATIVE FIGURES**

Certain of the prior year's figures have been reclassified to conform to the current year's presentation.

**MID-NORTH RESOURCES LIMITED**  
**SCHEDULE 1 - DEFERRED EXPENSES**  
**YEARS ENDED DECEMBER 31, 2002 AND 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
Joint interest adjustment (See Note 4)	-	-	-	-	-	(148,549)	(148,549)
Drill program	-	-	24,223	-	-	-	24,223
Balance, December 31, 2002	285,403	19,871	35,921	547,137	12,174	221,601	1,122,107