yangarra resources inc.

Consolidated Financial Statements
December 31, 2003 and 2002

To the Shareholders:

Yangarra Resources Inc.

Management has responsibility for preparing the accompanying consolidated financial statements. This responsibility includes selecting appropriate accounting principles and making objective judgments and estimates in accordance with Canadian generally accepted accounting principles.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded and proper records maintained.

The Board of Directors has appointed an Audit Committee, consisting of three Directors two of whom are neither employees nor officers of the Company. The Audit Committee is appointed by the Board to review the consolidated financial statements in detail with management and to report to the Board prior to their approval of the consolidated financial statements for publication.

External auditors are appointed by the shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically with, the Audit Committee, the Board and management.

"signed"
James G. Evaskevich

"signed"
Gordon A. Bowerman

To the Shareholders:

Yangarra Resources Inc.

We have audited the consolidated balance sheets of Yangarra Resources Inc. as at December 31, 2003 and 2002 and the consolidated statements of net earnings (loss) and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"Signed"
Meyers Norris Penny LLP
Chartered Accountants

Calgary, Alberta
February 13, 2004

Yangarra Resources Inc.
Consolidated Balance Sheets
As at December 31

	2003	2002
Assets		
Current		
Cash	**2,787,200**	9,446
Marketable securities	**252,727**	
Accounts receivable	**1,895,052**	3,536
Deposits	**59,012**	13,054
	4,993,991	26,036
Investments *(Note 4)*	**176,805**	176,805
Property and equipment *(Note 5)*	**41,074**	-
Resource properties *(Note 6)*	**9,097,758**	175,956
	14,309,628	378,797
Liabilities		
Current		
Accounts payable and accruals	**5,500,391**	188,714
Payable to shareholders	**-**	55,000
	5,500,391	243,714
Future income taxes *(Note 8)*	**1,529,553**	-
Future site restoration	**12,914**	12,000
	7,042,858	255,714
Shareholders' Equity		
Share capital *(Note 9)*	**11,934,348**	5,761,441
Contributed surplus *(Note 9)*	**586,000**	-
Deficit	**(5,253,578)**	(5,638,358)
	7,266,770	123,083
	14,309,628	378,797

Approved on behalf of the Board:

"signed" **Director**
James G. Evaskevich

"signed" **Director**
Gordon A. Bowerman

The accompanying notes are an integral part of these financial statements

Yangarra Resources Inc.
Consolidated Statements of Net Earnings (Loss) and Deficit
For the years ended December 31

	2003	*2002*
Revenue		
Petroleum and natural gas sales	**52,356**	2,152
Royalties, net of Alberta Royalty Tax Credit	**(878)**	-
Interest	**-**	154
	51,478	2,306
Expenses		
Production	**37,424**	12,326
Administration	**167,367**	71,820
Amortization, depletion and site restoration *(Note 5 and Note 6)*	**30,423**	719,824
	235,214	803,970
Loss from operations	**(183,736)**	(801,664)
Other income (expense)		
Non-cash stock-based compensation	**(586,000)**	-
Recovery on mining property	**-**	12,500
Write-down of investments to market value	**-**	(224,469)
	(586,000)	(211,969)
Loss before income taxes	**(769,736)**	(1,013,633)
Future income tax recovery *(Note 8)*	**1,154,516**	178,872
Net earnings (loss)	**384,780**	(834,761)
Deficit, beginning of year, as previously stated	**(5,638,358)**	(4,888,837)
Prior period adjustment *(Note 14)*	**-**	85,240
Deficit, beginning of year, as restated	**(5,638,358)**	(4,803,597)
Deficit, end of year	**(5,253,578)**	(5,638,358)

Earnings (loss) per share *(Note 13)*		
Basic	**0.05**	(0.27)
Diluted	**0.04**	-

The accompanying notes are an integral part of these financial statements

Yangarra Resources Inc.
Consolidated Statements of Cash Flows
For the years ended December 31

	2003	*2002*
Cash provided by (used for) the following activities		
Operating		
Net earnings (loss)	**384,780**	(834,761)
Amortization, depletion and site restoration	**30,423**	719,824
Loss on write-down of investments to market value	**-**	224,469
Loans payable forgiven	**-**	-
Non-cash stock-based compensation	**586,000**	-
Future income tax recovery	**(1,154,516)**	(178,872)
	(153,313)	(69,340)
Changes in non-cash working capital accounts		
Accounts receivable	**(1,891,516)**	(3,431)
Deposits	**(45,958)**	(13,054)
Accounts payable and accruals	**10,016**	(14,953)
	(2,080,771)	(100,778)
Financing		
Shares issued, net of share issuance costs	**8,646,976**	15,000
Repayment of shareholders' loans	**(55,000)**	-
Loans from shareholders	**-**	25,000
	8,591,976	40,000
Investing		
Purchase of marketable securities	**(252,727)**	-
Purchase of property and equipment *(Note 5)*	**(44,344)**	-
Purchase of and expenditures on resource properties *(Note 6)*	**(3,436,380)**	(391,161)
Mining property receipt	**-**	12,500
	(3,733,451)	(378,661)
Increase (decrease) in cash	**2,777,754**	(439,439)
Cash, beginning of year	**9,446**	448,885
Cash, end of year	**2,787,200**	9,446

Supplemental cash flow information

Interest paid	**6,529**	258

The accompanying notes are an integral part of these financial statements

1. Incorporation and nature of operations

The Company was incorporated under the laws of the Province of Alberta on January 22, 1985 as Ayrex Resources Ltd., but changed its name to Yangarra Resources Inc. ("the Company") and started trading on the TSX Venture Exchange under that name on July 21, 2003. The Company is a natural resource company and is involved in both oil and gas exploration and development and mineral exploration.

2. Accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and include the following significant accounting policies:

Going concern

These consolidated financial statements have been prepared on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due.

The Company's ability to continue as a going concern is dependent upon its ability to attain profitable operations and generate funds therefrom and to continue to obtain capital financing from investors sufficient to meet current and future obligations.

Basis of Consolidation

The Company has consolidated the assets, liabilities, revenues and expenses of the Company and its inactive subsidiary, Mount Julian Resources Ltd., after the elimination of inter-company transactions and balances.

Marketable securities

Marketable securities are valued at the lower of cost and market. At December 31, 2003, cost approximates market value.

Investments

Investments are stated at the lower of cost less any provisions for other than temporary impairment. They have been classified as long-term assets in concurrence with the nature of the investment.

Property and equipment

Property and equipment are initially recorded at cost. Amortization is provided using methods and rates intended to amortize the cost of assets over their estimated useful lives.

	Method	Rate
Computer equipment	Declining balance	30%
Leasehold improvements	Straight line	3 years
Office equipment	Declining balance	20%

In the year of acquisition, amortization is taken at one-half of the above rates.

2. Accounting policies *(continued from the previous page)*

Resource properties

The Company follows the full cost method of accounting for its petroleum and natural gas operations. Under this method all costs related to the acquisition of, exploration for, and development of petroleum and natural gas reserves are capitalized. Costs include lease acquisition costs, geological and geophysical expenses and costs of drilling both productive and non-productive wells and overhead costs directly related to exploration and development activities. Proceeds from the sale of properties and equipment are applied against capitalized costs, without any gain or loss being realized, unless such sale would significantly alter the rate of depletion and amortization.

Ceiling test

In applying the full cost method, the Company calculates a ceiling test whereby the carrying value of resource properties and production equipment, net of recorded future income taxes and the accumulated provision for site restoration and abandonment costs, is compared annually to an estimate of future net cash flow from the production of gross proven reserves. Net cash flow is estimated using year-end prices, less estimated future general and administrative expenses, financing costs, estimated future site restoration and abandonment costs and income taxes. Should this comparison indicate an excess carrying value, the excess is charged against operations as additional depletion and amortization.

Depletion and amortization

Depletion of resource properties and amortization of production equipment, net of estimated salvage or residual value, is provided using the unit-of-production method based upon estimated proven resource reserves before royalties, as determined by independent engineers. For depletion and amortization purposes, relative volumes of petroleum and natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

Future site restoration and abandonment costs

The estimated cost of site restoration is based on the current cost and the anticipated method and extent of site restoration in accordance with existing legislation and industry practice. Estimated future site restoration and abandonment costs are accrued on a unit-of-production method based on gross proven reserves. The provision is recorded on the statement of earnings. Site restoration and abandonment expenditures are charged to the accumulated provision as incurred.

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 disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Accounts receivable are stated after evaluation as to their collectibility and an appropriate allowance for doubtful accounts is provided where considered necessary. The amounts recorded for depletion and amortization of resource properties, the provision for site restoration and abandonment and the ceiling test are based on estimates of gross proven reserves, production rates, oil and gas prices, future costs and other relevant assumptions. These assumptions are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

Joint venture activity

Substantially all of the Company's oil and gas exploration, development and production activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

2. Accounting policies *(continued from the previous page)*

Income taxes

The Company follows the asset and liability method to account for income taxes. The asset and liability method requires that income taxes reflect the future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax basis. Future income tax assets and liabilities are determined for each temporary difference based on the tax rates that are expected to be in effect when the underlying items of income and expenses are expected to be realized. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized.

Flow-through shares

Share capital includes flow-through shares issued pursuant to certain provisions of the Income Tax Act (Canada) ("the Act"). Under the Act, where the proceeds are used for eligible expenditures, the related income tax deductions may be renounced to subscribers.

Share capital is reduced by an amount equal to the estimated future income taxes payable by the Company as a result of the renunciations and the estimated future income taxes payable are recorded as an increase to the future income tax liability.

Stock based compensation

Effective January 1, 2002 the Company adopted *CICA Handbook 3870 "Stock-based Compensation and Other Stock-based Payments"*, which establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services to employees and non-employees. The standard sets out a fair-value based method of accounting that is required for certain, but not all, stock-based transactions.

The Company records compensation expense in the consolidated financial statements for stock options granted to employees and directors using the fair value method. Fair values are determined using the Black-Scholes option pricing model. Compensation costs are recognized over the vesting period *(Note 3)*.

Earnings per share

Basic earnings per share is calculated using the weighted average number of shares outstanding during the year. Diluted earnings per share is calculated based on the treasury stock method which assumes that any proceeds obtained on the exercise of options would be used to purchase common shares at the average price during the period.

3. Change in accounting policy

Stock based compensation

The Company has early-adopted the Canadian accounting standard as outlined in *CICA Handbook 3870 "Stock-based Compensation and Other Stock-based Payments"*. As allowed by the section, this policy has been adopted prospectively, with no restatement of prior years' balances. The adoption of the new accounting standard for stock-based compensation resulted in the Company recognizing an expense of $586,000 in 2003.

4. Investments

The Company owns 2,525,786 (2002 – 2,525,786) shares of Tandem Resources Ltd. As at December 31, 2003 the carrying value of these shares remained at $176,805, and its market value was $196,664 (2002 – $176,805), which is based on its last trading price as indicated on the TSX Venture Exchange. The company's shares are currently halted from trading.

5. Property and equipment

	Cost	*Accumulated Amortization*	*2003 Net Book Value*	*2002 Net Book Value*
Computer equipment	**15,750**	**1,648**	**14,102**	-
Leasehold improvements	**19,771**	**1,181**	**18,590**	-
Office equipment	**8,823**	**441**	**8,382**	-
	44,344	**3,270**	**41,074**	-

6. Resource properties

	Cost	*Accumulated Depletion*	*2003 Net Book Value*	*2002 Net Book Value*
Petroleum and natural gas properties	**9,723,066**	**734,064**	**8,989,002**	67,200
Mineral properties	**108,756**	**-**	**108,756**	108,756
	9,831,822	**734,064**	**9,097,758**	175,956

Based on the results of exploration activities and the year-end ceiling test, management has provided for no write down (2002-$707,824) of petroleum and natural gas properties.

During the year, resource property expenditures and acquisitions totaled $8,948,041 (2002 - $498,032) of which $5,301,661 (2002 -$106,871) were accrued in accounts payable and accruals, $210,000 (2002 – $nil) were acquired through issue of common shares and $3,436,380 (2002 - $391,161) were acquired with cash.

During the year, no administration expenses have been capitalized.

On July 1, 2003, the Company entered into an agreement with Entrada Energy Inc. ("Entrada"), a private company, related through common ownership and directors, to earn a 50% working interest in Entrada's resource properties. As consideration, the Company was required to spend approximately $4,600,000 on Entrada's property. This amount was to retired Entrada's working capital deficiency of approximately $1,000,000 and the balance was to be spent on the development of the property.

During the prior year, the Company and its joint venture partner entered into a Letter Agreement with a third party to option a 51% interest in the Frond Lake Property whereby the third party will incur exploration expenditures aggregating $750,000 over two years, of which 50% will be spent in the first year. During fiscal 2002, the Company received $12,500 relating to this agreement, which has been recorded as a recovery on mineral properties in the statement of earnings

The Company also holds a 100% interest in various claims in Quebec. The Company expects that these claims will expire during the next fiscal year. The required expenditures during fiscal 2002 were $25,000.

7. Credit arrangements

The Company has an operating line of credit available with the National Bank of Canada. The maximum available credit is $500,000, which bears interest at prime plus 0.75% and requires interest payments only. At December 31, 2003, this operating line of credit has no balance. The Company also has a non-revolving development demand loan with the National Bank of Canada. The maximum available credit is $2,000,000, which bears interest at prime plus 1.00%. At December 31, 2003, the demand loan has no balance.

These credit facilities are secured by a registered general assignment of book debts and a first fixed and floating charge debenture in the minimum face amount of $10,000,000.

Subsequent to the year-end, the line of credit was increased to $2,500,000 while the non-revolving development demand loan was cancelled. The other terms and conditions of the line of credit were unchanged.

The Company has a letter of credit with the National Bank of Canada in the amount of $252,727. This letter of credit is secured by a $252,727 term investment bearing interest at 0.875% maturing January 28, 2004. The letter of credit represents irrevocable assurances that the National Bank of Canada will pay if the Company cannot meet its obligations to the Alberta Energy and Utilities Board (EUB) for security deposits. As at December 31, 2003, no security deposits have been requested.

8. Income taxes

The components of the net future income taxes liability are as follows:

	2003	*2002*
Future income tax liabilities		
Property and equipment	**(67,183)**	-
Resource properties	**(2,090,656)**	-
Future income tax assets		
Property and equipment	**-**	9,146
Resource properties	**-**	700,504
Share issue costs	**110,385**	-
Site restoration	**4,845**	5,090
Provincial royalties	**2,583**	9,131
Non-capital losses	**510,473**	403,382
Future income tax asset (liability)	**(1,529,553)**	1,127,253
Valuation allowance	**-**	(1,127,253)
Future income tax liability	**(1,529,553)**	-

8. Income taxes *(continued from previous page)*

The income tax recovery differs from the amount that would be expected by applying the current tax rates for the following reasons:

	2003	*2002*
Earnings (loss) before taxes	**(769,736)**	(1,013,633)
Expected tax expense at 40.79% (2002 – 42.42%)	**(313,975)**	(429,983)
Tax effect of expenses not deductible for tax purposes:		
Resource loss	**20,632**	8,959
Stock based compensation	**239,029**	-
Valuation allowance from the prior year	**(1,127,253)**	242,152
Other	**27,051**	-
Future income tax recovery	**(1,154,516)**	(178,87)

At December 31, 2003, the Company has the following estimated tax pools available for deduction against future taxable income:

	2003	*2002*
Canadian oil and gas property expense	**3,855,000**	1,191,000
Canadian development expense	**1,259,000**	317,000
Canadian exploration expense	**89,000**	89,000
Foreign exploration and development expense	**228,000**	228,000
Undepreciated capital cost	**2,034,000**	28,000
Share issuance costs	**294,000**	-
Non-capital losses	**1,360,000**	950,000

In 2002, a future income tax asset of $178,872 relating to the non-capital losses was recognized sufficient to offset the future tax liability recognized on the flow-through expenditures.

The non-capital losses will expire as follows:

2004	137,000
2005	356,000
2006	186,000
2007	120,000
2008	86,000
2009	64,000
2010	411,000

9. Share capital

Authorized
Unlimited number of Class A voting common shares, without nominal or par value
Unlimited number of Class B non-voting common shares, without nominal or par value
Unlimited number of Class C non-voting common shares, without nominal or par value
Unlimited number of Class D non-voting, non-cumulative redeemable preferred shares

	Number	*Value*
Issued		
Common shares		
Balance ending, December 31, 2001	11,606,999	5,505,313
Flow-through shares issued	1,740,000	435,000
Effect of future income taxes on flow-through expenditures	-	(178,872)
Balance ending, December 31, 2002	13,346,999	5,761,441
Share consolidation 4 to 1 (i)	(10,010,249)	-
Private placement (ii)	3,300,000	660,000
Private placement (iii)	2,500,000	1,050,000
Finder's fees (iii)	500,000	210,000
Flow-through shares issued (iv)	5,000,000	3,750,000
Flow-through shares issued (v)	3,500,000	3,500,000
Effect of future income taxes on flow-through expenditures (iv) (v)	-	(2,827,500)
Options exercised	78,750	54,750
Share issuance costs	-	(367,774)
Effect of future income taxes on share issuance costs	-	143,431
Balance ending, December 31, 2003	18,215,500	11,934,348

(i) On July 18, 2003, the TSX Venture Exchange Inc. approved the consolidation of the outstanding common shares of the Company, converting every four common shares into one common share, reducing the Company's issued and outstanding shares from 13,346,999 to 3,336,750. The Company's 2002 earnings per share has been restated to reflect the impact of this consolidation as if it had occurred at the beginning of 2002.

(ii) On July 31, 2003, the Company completed a non-brokered private placement of 3,300,000 units at a price of $0.20 per unit, for gross proceeds of $660,000. Each unit consisted of one common share of the Company and one share purchase warrant. Each warrant entitles the holder to purchase one common share, at any time, for a period of two years at a price of $0.30 per share.

(iii) On September 12, 2003, the Company completed a non-brokered private placement of 2,500,000 common shares at a price of $0.42 per common share, for gross proceeds of $1,050,000. Also on this date, the Company paid a finder's fee, through the issuance of 500,000 common shares at a price of $0.42 per share for a value of $210,000, to a director in consideration for securing a farmin agreement.

(iv) On October 10, 2003, the Company completed a non-brokered private placement of 5,000,000 common shares issued on a "flow-through" basis at a price of $0.75 per common share, for gross proceeds of $3,750,000. All of the qualifying expenditures relating to this issue have been renounced to the shareholders with all expenditures being incurred.

9. Share capital *(continued from previous page)*

(v) On November 20, 2003, the Company completed a brokered private placement of 3,500,000 common shares issued on a "flow-through" basis at a price of $1.00 per share, for gross proceeds of $3,500,000. All of the qualifying expenditures relating to this issue have been renounced to the shareholders with all expenditures being incurred.

Stock options

The Company has a stock option plan under which the Board of Directors may grant options to directors, officers, other employees and key consultants. The purpose of the plan is to advance the interests of the Company by encouraging these individuals to acquire shares in the Company and thereby remain associated with, and seek to maximize the value of, the Company. Under the plan, the number of shares reserved for issuance pursuant to the exercise of all options under the plan may not exceed 10% of the issued and outstanding common shares on a non-diluted basis at any time. The options vest immediately and expire not more than five years from the date of grant, or earlier if the individual ceases to be associated with the Company.

	Number of Options	*Price Range*	*Weighted Average Price*	*Expiry Date*
Balance ending, December 31, 2001	1,000,000	0.20	0.20	2005
Granted	1,075,000	0.15	0.15	2007
Cancelled	(650,000)	0.20	0.20	2005
Expired	(100,000)	0.20	0.20	-
Balance ending, December 31, 2002	1,325,000	0.15 - 0.20	0.16	2005-2007
Share consolidation 4 to 1	(993,750)	0.15 - 0.20	0.16	2005-2007
Granted	1,480,000	0.20 - 1.00	0.63	2007
Exercised	(78,750)	0.15 – 1.00	0.70	2005-2007
Balance ending, December 31, 2003	1,732,500	0.15 – 1.00	0.54	2005-2007

The Company uses the Black-Scholes option pricing model to estimate the fair value at the date of grant for options granted. During 2003, 1,480,000 options with an estimated fair value of $586,000 and a weighted average of $0.40 were granted and have been expensed as stock-based compensation with a corresponding credit to contributed surplus. The estimated fair value was determined using the following assumptions:

Risk free interest rate	**4.75%**
Expected volatility range	**75% to 80%**
Expected life	**4 to 5 years**

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 measure of the fair value of the Company's stock options.

9. Share capital *(continued from previous page)*

Warrants

In connection with financing activities, the Company has the following warrants outstanding:

	Number of Warrants	*Price Range ($)*	*Weighted Average Price ($)*	*Expiry Date*
Balance ending, December 31, 2002	-	-	-	-
Issued	3,300,000	0.30	0.30	2005
Balance ending, December 31, 2003	3,300,000	0.30	0.30	2005

10. Commitments

The Company has entered into operating lease agreements for equipment and building with estimated minimum annual payments as follows:

2004	261,837
2005	211,786
2006	46,939

One half of the monthly equipment lease payments will be reimbursed by a company controlled by certain of the Company's directors and officers.

11. Related party transactions

During the year, the Company had the following transactions with companies controlled by certain of the Company's officers and directors:

	2003	*2002*
Administration and consulting expenses	**148,479**	1,000
Production expenses	**-**	7,141
Capital expenditures	**1,876,878**	498,031

During the year, an aggregate of $50,114 was paid to Burstall Winger LLP for legal fees and disbursements. A director of the Company is a partner of Burstall Winger LLP.

Included in accounts payable and accruals is $260,665 (2002 - $159,985), and in accounts receivable is $1,384,249 (2002 - $nil), relating to the above transactions.

These 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.

12. Financial instruments

The Company, as part of its operations, carries a number of financial instruments. It is management's opinion that the Company is not exposed to significant interest, credit or currency risk arising from these financial instruments.

Fair value

The fair value of the Company's accounts receivable, marketable securities, accounts payable and accruals, and payable to shareholders approximate their carrying value due to the short-term nature of these instruments.

13. Per share amounts

Basic loss per share is calculated using the weighted average number of shares outstanding for the year. For purposes of the calculations, the weighted average number of shares outstanding was 7,539,387 (2002 – pre-consolidation: 12,479,382; post-consolidation: 3,119,846).

The number of shares added to the weighted average number of common shares outstanding for the dilutive effect of options utilizing the treasury stock method was 2,329,412 (2002 – nil).

14. Prior period adjustment

During 2002, the Company determined that the 2001 flow-through share issue was not tax effected. The Company also determined that sufficient future income tax assets exist to offset the liability arising from that flow-through share issue. As a result, 2001 after tax earnings were increased, and deficit decreased, by $85,240.

15. Comparative figures

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