

MILLSTREAM MINES LTD.

FINANCIAL STATEMENTS

AUGUST 31, 2002

SEE ACCOMPANYING NOTES

LITVACK, ADELMAN  
CHARTERED ACCOUNTANTS

LITVACK, ADELMAN  
CHARTERED ACCOUNTANTS  
UNIT 27  
175 WEST BEAVER CREEK ROAD  
RICHMOND HILL, ONT., CANADA L4B 3M1

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HARRY LITVACK, C.A.  
RICHARD ADELMAN, C.A.

AUDITORS' REPORT

To the Shareholders of  
Millstream Mines Ltd.

We have audited the Balance Sheet of Millstream Mines Ltd. as at August 31, 2002 and August 31, 2001 and the Statements of Income and Deficit and Changes in Financial Position 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 an 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 August 31, 2002, and as at August 31, 2001 and the results of its operations and the changes in its financial position for the years then ended in accordance with Canadian generally accepted accounting principles.

Richmond Hill, Ontario  
January 10, 2003

Chartered Accountants

SEE ACCOMPANYING NOTES

LITVACK, ADELMAN  
CHARTERED ACCOUNTANTS

MILLSTREAM MINES LTD.  
(INCORPORATED UNDER THE LAWS OF THE PROVINCE OF NEW BRUNSWICK)  
BALANCE SHEET  
AS AT AUGUST 31, 2002

|  | 2002          | 2001          |
|--|---------------|---------------|
| <b>ASSETS</b>  |               |               |
| <b>CURRENT</b>   |               |               |
| Bank   | \$ 653        | \$ 8,752      |
| GST receivable   | 8,507         | 5,504         |
| Investments (cost 2002 - \$ 21,122; 2001 - \$ 10,027)            | 8,430         | 9,000         |
|  | 17,590        | 23,256        |
| <br>OIL AND GAS INTERESTS (Note 2)                               | <br>1         | <br>1         |
| <br>MINING CLAIMS AND DEFERRED EXPLORATION EXPENDITURES (Note 3) | <br>8,517,885 | <br>8,563,787 |
|  | 8,517,886     | 8,563,788     |
|  | \$ 8,535,476  | \$ 8,587,044  |
| <br><b>LIABILITIES</b>   |               |               |
| <b>CURRENT</b>   |               |               |
| Accounts payable and accrued liabilities                         | \$ 233,220    | \$ 12,440     |
| Due to related parties (Note 4)                                  | 3,797,646     | 3,647,760     |
|  | 4,030,866     | 3,660,200     |
| <br><b>SHAREHOLDERS' EQUITY</b>                                  |               |               |
| <b>ISSUED CAPITAL</b>  |               |               |
| Authorized      Issued   |               |               |
| Unlimited    31,632,043    Common shares (Note 5)                | 10,775,736    | 10,775,736    |
| <br>CONTRIBUTED SURPLUS  | <br>123,928   | <br>123,928   |
| DEFICIT  | (6,395,054)   | (5,972,820)   |
|  | 4,504,610     | 4,926,844     |
|  | \$ 8,535,476  | \$ 8,587,044  |

Approved on behalf of the Board:

\_\_\_\_\_  
"Ernest Harrison"

\_\_\_\_\_  
"Martin Martinello"

SEE ACCOMPANYING NOTES

LITVACK, ADELMAN  
CHARTERED ACCOUNTANTS

MILLSTREAM MINES LTD.  
STATEMENT OF INCOME AND DEFICIT  
FOR THE YEAR ENDED AUGUST 31, 2002

|  | <u>2002</u>                      | <u>2001</u><br>(Note 1)          |
|--|----------------------------------|----------------------------------|
| REVENUE  |                                  |                                  |
| Oil and gas sales (net)                                  | \$ <u>          -</u>            | \$ <u>        252</u>            |
| EXPENSES   |                                  |                                  |
| Corporate services                                       | 7,200                            | 7,200                            |
| Interest on loan   | 86,214                           | 126,625                          |
| Loss on investments                                      | 2,187                            | 17,757                           |
| Office and general                                       | 1,536                            | 1,445                            |
| Operating expenses                                       | -                                | 183                              |
| Professional fees  | 23,787                           | 8,705                            |
| Rent   | -                                | 11,608                           |
| Shareholder information                                  | 8,005                            | 22,661                           |
| Sub-contract (Note 1)                                    | 71,057                           | 71,038                           |
| Transfer agent fee                                       | <u>4,248</u>                     | <u>4,221</u>                     |
|  | <u>204,234</u>                   | <u>271,443</u>                   |
| LOSS BEFORE AND UNUSUAL ITEM AND DISCONTINUED OPERATIONS | <u>(204,234)</u>                 | <u>(271,191)</u>                 |
| LITIGATION SEVERENCE COSTS (NOTE 3a)                     | 218,000                          | -                                |
| NET LOSS FROM DISCONTINUED OPERATIONS                    | <u>          -</u>               | <u>(27,206)</u>                  |
|  | <u>(218,000)</u>                 | <u>(27,206)</u>                  |
| NET LOSS   | (422,234)                        | (298,397)                        |
| DEFICIT, beginning of year                               | <u>(5,972,820)</u>               | <u>(5,674,423)</u>               |
| DEFICIT, end of year                                     | <u>\$ (6,395,054)</u>            | <u>\$ (5,972,820)</u>            |
| LOSS per common share                                    | <u>\$ <u>          (.01)</u></u> | <u>\$ <u>          (.01)</u></u> |
| Fully diluted earnings per share (Note 6)                |                                  |                                  |

SEE ACCOMPANYING NOTES

LITVACK, ADELMAN  
CHARTERED ACCOUNTANTS

MILLSTREAM MINES LTD.  
STATEMENT OF CHANGES IN FINANCIAL POSITION  
FOR THE YEAR ENDED AUGUST 31, 2002

|   | 2002         | 2001         |
|---|--------------|--------------|
|   |              | (Note 1)     |
| CASH PROVIDED BY (USED FOR)             |              |              |
| OPERATIONS                              |              |              |
| Net loss                                | \$ (422,234) | \$ (298,397) |
| Net change in operating working capital | 368,233      | (58,835)     |
|   | (54,001)     | (357,232)    |
| INVESTMENT                              |              |              |
| Mining claims and deferred exploration  | 45,902       | 335,028      |
| DECREASE IN CASH                        | (8,099)      | (22,204)     |
| CASH - beginning of year                | 8,752        | 30,956       |
| CASH - end of year                      | \$ 653       | \$ 8,752     |

SEE ACCOMPANYING NOTES

LITVACK, ADELMAN  
CHARTERED ACCOUNTANTS

MILLSTREAM MINES LTD.  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2002

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The accompanying financial statements have been prepared on the basis of accounting principles applicable to a going concern which presumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

The Company is in the process of exploring its resource properties and has not yet determined whether the properties contain economically recoverable reserves. The recovery of the amounts shown for resource properties and the related deferred expenditures is dependent upon the existence of economically recoverable reserves, confirmation of the Company's interest in the underlying mining claims, the ability of the Company to obtain necessary financing to complete the development, upon future profitable production and the support of the Company's trade creditors.

The financial statements do not give effect to any adjustments to the amount of assets and liabilities that might be necessary should the Company be unable to continue as a going concern and therefore, be required to realize its assets and discharge its liabilities in other than the ordinary course of business.

Mining Claims

Mining claims are carried at cost until they are brought into production at which time they are depleted on a unit-of-production basis.

Exploration expenditures relating to mining claims are deferred until the properties are brought into production at which time they are amortized on a unit-of-production basis.

The cost of claims abandoned or sold and the deferred exploration costs relating to claims abandoned or sold are charged to operations in the current year.

Administrative Expenses

Administrative expenses are charged to operations in the year incurred.

Oil and Gas Interests

The Company follows the successful efforts method of accounting for oil and gas interests whereby all costs relating to the acquisition, exploration and development of petroleum and natural gas reserves are capitalized until their economic status has been evaluated.

All costs of successful wells are amortized over their useful lives.

1. PRIOR PERIOD ADJUSTMENT

In December 2002, the corporation received an invoice for subcontracting fees relating to the 2001 fiscal year end. This expense was not accrued by the corporation in 2001. This change, which has been made retroactively, had the effect of increasing the net loss for the year ending August 31, 2001, as previously reported, by \$71,038, and increasing the deficit and the due to related parties as at August 31, 2001 by \$71,038. The financial statements of the prior period have been restated to reflect the correction of this error.

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MILLSTREAM MINES LTD.  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2002

2. OIL AND GAS INTERESTS

The Company holds a 6.25% interest in a producing well in Canadian County, Oklahoma, U.S.A. with royalty interests not exceeding 25%. The well is recorded on the books of the Company at the nominal value of \$1.

3. MINING CLAIMS AND DEFERRED EXPLORATION EXPENDITURES

|                                       | <u>Opening</u>      | <u>Additions</u> | <u>Reductions</u> | <u>Closing</u>      |
|---------------------------------------|---------------------|------------------|-------------------|---------------------|
| a) Potter Mine, Ontario               |                     |                  |                   |                     |
| Acquisition                           | \$ 4,360,000        | -                | -                 | \$ 4,360,000        |
| Exploration                           | 3,664,473           | \$ 8,082         | -                 | 3,672,555           |
| b) Falconbridge Twp. Airport Property |                     |                  |                   |                     |
| Exploration                           | 53,984              | -                | \$ 53,984         | -                   |
| c) Tamarack, Montana                  |                     |                  |                   |                     |
| Acquisition                           | 231,089             | -                | -                 | 231,089             |
| Exploration                           | <u>254,241</u>      | <u>-</u>         | <u>-</u>          | <u>254,241</u>      |
|                                       | <u>\$ 8,563,787</u> | <u>\$ 8,082</u>  | <u>\$ 53,984</u>  | <u>\$ 8,517,885</u> |

a) Potter Mine, Ontario

The company holds 100% interest in the Potter Mine Property with all purchase transactions ratified in the annual and special shareholders' meeting held May 4, 1999. An officer of the company controlling and directing the control block of shares in the company has divested his declared minority 10% interest in Harrison Mining and Engineering Corporation, the vendor of the property, but remains the sole director and chief executive officer of all of the companies with Harrison Group of Companies. The vendor retains a 2.5% net smelter return royalty on the property which the company may purchase at any time for \$3,000,000. A \$1,600,000 promissory note was issued by the company to the vendor as part of the purchase consideration and remains outstanding to date.

On June 1, 1999 the company entered into an agreement with Hunter Dickinson Group Inc. of Vancouver, B.C. ("farmee"), granting to the farmee an exclusive farmout right to earn interests in the property by incurring approved phased exploration expenditures on the property. Upon completing each phase of expenditure, the company has the right to reacquire the interests so earned. Failing such exercise to reacquire, the parties will form a joint venture to coordinate further exploration and development of the property. The maximum earnable interest must be achieved in each phase to have the right to proceed to the following phase as:

- phase 1 - terminating December 31, 1999, maximum 30% earnable interest for \$4,000,000 of expenditures;
- phase 2 - terminating December 31, 2000, maximum 25% earnable interest for \$10,000,000 of expenditures;
- and,
- phase 3 - terminating December 31, 2001, maximum 5% earnable interest for \$5,000,000 of expenditures.

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MILLSTREAM MINES LTD.  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2002

3. MINING CLAIMS AND DEFERRED EXPLORATION EXPENDITURES (continued)

a) Potter Mine, Ontario (continued)

In September, 1999, the farmee acknowledged insufficient funds had been secured and a deficit existed regarding the approved work program. That further raising of money was being undertaken to fund the existing deficit and the continuation of work on site. As of December 31, 1999, the farmee had not raised nor supplied any additional monies and remained in default within the terms of the agreement. This situation has yet to be resolved and the farmee remains in default with accounts to be paid and other matters within the agreement.

The claims by the company against Hunter Dickenson Group Inc. and related interests were severed from the claims in which the company was a co-defendant as between another company that performed drilling and related services on the Potter property. The company, in an effort to mitigate its damages and quantify some aspects of its claims against Hunter Dickenson Group Inc. and related interests, settled with the drilling company by agreeing to consent, effective June 30, 2003 to Judgment in the amount of \$218,000 inclusive of damages, interest and costs. In the circumstances, it is not possible at this stage of the claims against Hunter Dickenson Group Inc. to comment concerning the likely outcome of such proceedings.

On April 11, 2001, the company sold a 10% net profit interest royalty in and to the Potter Mine Tailings property for \$300,000 in cash. Net profits are determined quarterly and the final payment of net profits are due no later than 6 months after the end of the Project Operation's accounting year.

b) Falconbridge Twp. Airport Property

August 7, 2000 the company, as stated in its August 11, 2000 press release, negotiated to increase its purchase option agreement from a 50% interest to 100% interest in the Falconbridge Twp. Airport Property located in Ontario. The property consists of 45 mining claims. A payment of \$60,000 is to be made on or before the third anniversary date of this new agreement and an advance royalty payment of \$60,000 per year commencing November 1, 2000 is due up to the date when commercial production commences in lieu of further work commitments. The property now has a 3% net smelter return (NSR) royalty for which the company has the right to purchase two thirds (2/3 being 2%) for a payment of \$2,000,000 up to the date when commercial production commences.

The company has negotiated an extension to pay the advance royalty payments to cover the years commencing November 1, 2000, 2001 and 2002 under the condition that the company actively pursue Crowflight Minerals Inc. and that partial payments are made before November 1, 2003.

August 11, 2000 the company entered into an agreement with Crowflight Minerals Inc. whereby Crowflight can earn a 50% undivided interest in Airport Property. To earn its interest, Crowflight has to make a cash payment totaling \$100,000 and issuing 200,000 Crowflight common shares and incur exploration expenditures of \$1.0 million within a 2-year period. Crowflight is committed to a 6 month Phase 1 program requiring a \$25,000 cash payment, the issuing of 50,000 Crowflight common shares and completion of a \$150,000 exploration program. Effective September 25, 2001, the company terminated the 50% option granted to Crowflight Minerals Inc. On March 4, 2002 the company commenced proceedings against Crowflight Minerals Inc. and related interests seeking damages for breach of agreement in the amount of \$200,000; damages for slander of property title in the amount of \$400,000; and declaratory relief including a declaration that Crowflight Minerals Inc. has no right, title or other interest in or to the Airport property. At this stage of the litigation, no comments are made regarding the likely outcome of such proceedings.

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MILLSTREAM MINES LTD.  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2002

3. MINING CLAIMS AND DEFERRED EXPLORATION EXPENDITURES (continued)

c) Tamarack, Montana

Pursuant to a Memorandum of Understanding dated April 19, 1998, the company acquired a 50.5% undivided interest in the Tamarack property for \$161,500 US (\$231,088 Cdn). The company has agreed to supply further funding for planned exploration and exploitation and shall be entitled to 80% of all revenues until funding provided by the company has been recaptured and 50.5% thereafter. The company continues to collect historical data of the property in addition to the exploration of the surface and the structural control (faults) to best establish drill targets. Management is of the opinion that the property potential is in finding a high-grade gold - low tonnage per day mine since the milling capacity is already on the site. Funding to advance the property towards production remains to be raised at this time.

4. RELATED PARTY TRANSACTIONS

An officer of the company controlling and directing the controlling block of shares in the company is also the sole director and chief executive officer of the entities within The Harrison Group of Companies.

|                                 |    |         |
|---------------------------------|----|---------|
| The Harrison Group of Companies | \$ | 563,706 |
|---------------------------------|----|---------|

An officer of the company controlling and directing the control block of shares in the company has divested his declared minority 10% interest in Harrison Mining and Engineering Corporation but remains the sole director and chief executive office of the Harrison Group of Companies.

Harrison Mining & Engineering Corp.

|                                  |    |                  |                     |
|----------------------------------|----|------------------|---------------------|
| a) demand loan                   | \$ | 1,274,763        |                     |
| b) promissory note (principal)   |    | <u>1,600,000</u> | 2,874,763           |
| promissory note accrued interest |    |                  | <u>359,177</u>      |
|                                  |    |                  | <u>\$ 3,797,646</u> |

a) This loan was due September 1, 1999. No demand has yet been made and no terms for interest have been determined on this loan. The extension of the due date is being negotiated with the interest free provision to remain.

b) This promissory note bears interest at the rate of the Toronto Dominion Bank prime plus 1% per annum, compounded annually, and due on April 3, 2000, provided that a commercial production decision has been announced on or before that date. The extension of the due date is being negotiated with the creditor.

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MILLSTREAM MINES LTD.  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2002

5. COMMON SHARES

Warrants outstanding at August 31, 2002 are as follows:

- 600,000 @ \$0.30 expiring October 29, 2002

Options outstanding at August 31, 2002 are as follows:

- 900,000 @ \$0.25 expiring September 4, 2003
- 330,332 @ \$0.25 expiring November 9, 2004
- 131,495 @ \$0.30 expiring December 16, 2002
- 90,000 @ \$0.30 expiring March 8, 2004
- 50,000 @ \$0.40 expiring January 30, 2003
- 100,000 @ \$0.40 expiring December 19, 2002
- 189,390 @ \$0.70 expiring March 30, 2003

6. FULLY DILUTED EARNINGS PER SHARE

Fully diluted earnings per share have not been reported, as required by generally accepted accounting principles, for the fiscal years ended August 31, 2001 and 2002 because the calculation would result in an increase in loss per share.