

WINFIELD RESOURCES LIMITED

Consolidated Financial Statements

December 31, 2002

Auditor's Report

**To the Directors of
WINFIELD RESOURCES LIMITED**

I have audited the consolidated balance sheets of Winfield Resources Limited as at December 31, 2002 and December 31, 2001 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with Canadian 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 consolidated financial statements present fairly, in all material respects, the financial position of the Corporation 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.

"Signed"

Calgary, Alberta
May 16, 2003

**STAN PELOSKI
Chartered Accountant**

WINFIELD RESOURCES LIMITED
Consolidated Balance Sheets

As at December 31

	Note	2002	2001
		\$	\$
Assets			
Current Assets			
Cash		10,978	462
Accounts receivable		10,350	16,443
Prepaid expenses and deposits	9	<u>88,093</u>	<u>3,000</u>
		109,421	19,905
Deferred Expenditures	4	134,355	-
Property and Equipment	5	121,511	213,307
		<u>365,287</u>	<u>233,212</u>
Liabilities			
Current Liabilities			
Operating overdraft		-	7,034
Accounts payable and accrued liabilities		74,881	47,388
Due to shareholder corporation	11	43,245	3,223
		<u>118,126</u>	<u>57,645</u>
Shareholders' Equity			
Share Capital	6	1,708,313	1,399,563
Contributed Surplus	6	187,700	-
Deficit		<u>(1,648,852)</u>	<u>(1,223,996)</u>
		247,161	175,567
		<u>365,287</u>	<u>233,212</u>

Approved on Behalf of the Board:

"signed"

Richard Haderer, Director

"signed"

Michael Foley, Director

WINFIELD RESOURCES LIMITED

Consolidated Statements of Operations and Deficit

For the Years Ended December 31

	Note	2002	2001
		\$	\$
Revenue			
Interest		155	214
Expenses			
Compensation costs	6	187,700	-
Consulting fees	11	66,205	5,975
Rent and occupancy costs		55,525	34,875
Legal and audit	11	31,919	31,180
Management fees	11	24,000	24,000
Public company costs		16,126	11,951
Office and general		5,379	21,711
Bank charges		2,224	493
Amortization		1,091	786
Travel		-	22,728
Entertainment and promotion		-	6,933
		<u>390,169</u>	<u>160,632</u>
Loss before the following		(390,014)	(160,418)
Gain on Expropriation of Mineral Resource Properties	5	2,158	-
Loss on Abandonment of Mineral Resource Properties	5	<u>(37,000)</u>	<u>(56,708)</u>
Loss before income taxes		(424,856)	(217,126)
Income Taxes	7	<u>-</u>	<u>-</u>
Net Loss		(424,856)	(217,126)
Deficit, beginning of year		<u>(1,223,996)</u>	<u>(1,006,870)</u>
Deficit, end of year		<u>(1,648,852)</u>	<u>(1,223,996)</u>
Loss per share			
On loss before loss on abandonment	6	<u>(0.031)</u>	<u>(0.014)</u>
On net loss		<u>(0.034)</u>	<u>(0.018)</u>

WINFIELD RESOURCES LIMITED
Consolidated Statements of Cash Flows

For the Years Ended December 31

	Note	2002	2001
		\$	\$
Operating Activities			
Net loss		(424,856)	(217,126)
Items not affecting cash flow			
Amortization		1,091	786
Compensation costs		187,700	-
Gain on expropriation of mineral resource properties		(2,158)	-
Loss on abandonment of mineral resource properties		37,000	56,708
Cash flow deficiency from operations		(201,223)	(159,632)
Change in non-cash working capital	9	(65,174)	16,201
Cash used in operating activities		(266,397)	(143,431)
Financing Activities			
Advances from shareholder corporation		40,022	2,264
Issuance of share capital		273,750	111,250
Cash provided by financing activities		313,772	113,514
Investing Activities			
Short term deposit		-	5,750
Deferred expenditures		(134,355)	-
Mineral resource properties		(9,137)	(84,242)
Proceeds of expropriation of mineral resource properties		100,000	-
Change in non-cash working capital	9	13,667	29,780
Cash used in investing activities		(29,825)	(48,712)
Increase (decrease) in cash		17,550	(78,629)
Cash (deficiency), beginning of year		(6,572)	72,057
Cash (deficiency), end of year		10,978	(6,572)
Cash (deficiency) comprises:			
Cash		10,978	462
Operating overdraft		-	(7,034)
		10,978	(6,572)
Supplemental Information on Non-Cash Transactions			
Issuance of shares for mineral resource properties		35,000	-

December 31, 2002

1. Nature of Business

Winfield Resources Limited (the Corporation) was incorporated under the British Columbia Company Act on June 19, 1987. On August 2, 2000, the Corporation completed its initial public offering and its shares were listed on the TSE Venture Exchange (TSX). The Corporation's primary focus is the evaluation, acquisition, exploration and development of resource properties.

2. Significant Accounting Policies

The financial statements of the Corporation have been prepared in accordance with accounting principles generally accepted in Canada. Significant accounting policies are summarized below:

CONSOLIDATION

These consolidated financial statements include the accounts of the Company and its wholly owned Bahamian subsidiary, MacAllan Inc. MacAllan Inc has not undertaken any business activity to date.

MINERAL RESOURCE PROPERTIES

All expenditures relating to the acquisition of mining claims and permits and exploration thereof have been capitalized. The Corporation is presently evaluating these properties for the presence of mineral resources. Such resources have yet to be identified and accordingly the costs related to these properties are not yet subject to depletion. When a commercially acceptable level of sales has been attained, these capitalized costs will be depleted, using the unit of production method based upon estimated proven reserves as determined by independent engineers.

Management has determined that, at present, the Corporation has no material obligation for future removal and site restoration costs.

OFFICE EQUIPMENT

Office equipment is recorded at cost and amortized at the rate of 20% per annum, using the declining balance method.

DEFERRED EXPENDITURES

The Corporation defers costs incurred in connection with proposed corporate transactions, where completion is more likely than not. Upon completion of the transaction, these costs are included in the cost of assets acquired or as issuance costs of equity securities. If the transaction is abandoned the costs are expensed, in full, as at the date of abandonment.

FLOW-THROUGH SHARES

Under the provisions of the Income Tax Act (the "Act"), a corporation may issue shares, the proceeds of which are used to incur qualifying expenditures as defined in the Act. The subscriber for these shares, and not the Corporation, is entitled to deduct these qualifying expenditures for Income Tax purposes.

In the year the qualifying expenditures are incurred, share capital is reduced by the estimated benefit of the tax deductions renounced by the Corporation and the future income tax liability is increased by the same amount.

December 31, 2002

2. Significant Accounting Policies, continued

PER SHARE AMOUNTS

The Corporation uses the treasury stock method of computing diluted earnings and cash flow per share. Under this method, only options having an exercise price greater than the market price are included in the diluted weighted average number of shares. It is also assumed that the proceeds of exercise of those options is used to repurchase the Corporation's at the average market price experienced during the reporting period. The diluted weighted average number of shares is reduced by the number of shares which could have been repurchased.

STOCK BASED COMPENSATION PLAN

The Corporation has adopted the new accounting standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments. The new standards require that all stock-based awards made to non-employees be measured and recognized using a fair value based method and encourages the use of a fair value based method for all stock-based awards that call for settlement in cash or other assets. Awards that the Corporation has the ability to settle in stock are recorded as equity.

The Corporation has elected to use the fair value method for all stock options granted. Under this method, compensation expense is recorded based on the fair value of the options as estimated using the Black-Scholes option pricing model. The amount of compensation cost so determined is credited to contributed surplus. Upon exercise of the options, the cash payments together with the related contributed surplus are credited to share capital. If options are forfeited, the compensation expense is reversed in the year of forfeiture. If options are not exercised, the amount remains in contributed surplus.

INCOME TAXES

The Corporation records income taxes using the liability method of accounting. Under this method, future income taxes are recorded based on temporary differences between the accounting value and the income tax value of an asset or liability and on the benefit of losses and other deductions available to be carried forward to future years, for income tax purposes, to the extent they are likely to be realized.

MEASUREMENT UNCERTAINTY

The carrying value assigned to the mineral resource properties is based on actual costs incurred. The ability of the Corporation to recover these costs is dependent upon the existence of economically recoverable reserves, obtaining the financing necessary to complete their development and upon future profitable operations.

3. Change in Accounting Policy

Effective January 1, 2002, the Corporation adopted the new accounting standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. The new standards, as described in Note 2 above, are not required to be applied retroactively.

4. Deferred Expenditures

Deferred expenditures at December 31, 2002 includes \$124,355 representing the prepayment of a fee for services to be provided with respect to the identification and acquisition of resource properties and the financing of such acquisition by the Corporation. The amount is non-refundable and the related service contract expires September 30, 2004. Deferred expenditures also include a payment of \$10,000 to be applied against future exploration expenses.

WINFIELD RESOURCES LIMITED

Notes to Consolidated Financial Statements

December 31, 2002

5. Property and Equipment

	<u>2002</u>	<u>2001</u>
	\$	\$
Mineral Resource Properties		
Options on properties	72,500	72,500
Exploration expenses	44,646	135,351
	<u>117,146</u>	<u>207,851</u>
Office Equipment	6,824	6,824
less accumulated amortization	<u>2,459</u>	<u>1,368</u>
	<u>4,365</u>	<u>5,456</u>
	<u>121,511</u>	<u>213,307</u>
Net book value not subject to deduction for income tax purposes, being costs renounced pursuant to the issuance of flow-through shares.	<u>16,099</u>	<u>94,917</u>

During the year, the Corporation determined that there was no commercial value to property on which it had expended \$37,000 and the property was abandoned. During the prior year, \$56,708 was written off with respect to abandoned properties.

EXPROPRIATION

During the year ended December 31, 2002, settlement was reached with respect to mineral resource property which had been expropriated by the Province of British Columbia. Under the terms of the settlement, the Corporation received a payment of \$100,000.

6. Share Capital

AUTHORIZED

250,000,000 common shares without par value

ISSUED COMMON SHARES

	Number	Amount
	#	\$
Balance, December 31, 2000	11,677,853	1,288,313
For cash, on exercise of options	445,000	111,250
Balance, December 31, 2001	12,122,853	1,399,563
For mineral resource properties	100,000	35,000
For cash, on exercise of options	855,000	273,750
Balance, December 31, 2002	13,077,853	1,708,313

December 31, 2002

6. Share Capital, continued

SHARE PURCHASE WARRANTS

During the year ended December 31, 2000, the Corporation issued share purchase warrants to the holders of common shares issued prior to the Corporation's initial public offering. The warrants were issued on the basis of 1 warrant for each eligible common share held. The holders thereof were entitled to subscribe for common shares of the Corporation at a price of \$0.60 per share until December 31, 2002, being the amended expiry date thereof (formerly August 2, 2002). No warrants were exercised.

ESCROWED SHARES

Pursuant to an Escrow Agreement dated March 21, 2000, all 8,877,853 common shares issued prior to the Corporation's initial public offering were deposited with the Pacific Corporate Trust Company to be held in escrow. The Escrow Agreement provides that the escrowed shares may not be traded, released, transferred or dealt in any manner without the consent of the Executive Director of the Alberta Securities Commission. The Executive Director will normally consent to the release of 15% of the escrowed shares upon completion of the offering, a further 25% upon completion of the Corporation's work program and thereafter, a further 15% on each of the second, third, fourth and fifth anniversaries of the initial release, but may consent to an early release. As at December 31, 2002, 6,214,997 shares remain subject to Escrow. A further 1,331,678 were released subsequent to the year end.

VOLUNTARY POOLING AGREEMENT

The holders of all common shares of the Corporation issued prior to the initial public offering have entered into a Voluntary Pooling Agreement. All common shares issued prior to the initial public offering and all common shares which may be acquired by the pooled shareholders upon the exercise of warrants are subject to the Agreement. The Agreement is effective for a three year term, commencing August 2, 2000, during which time

the pooled shares will be held by a trustee. During that period, the pooled shareholders may not assign or transfer beneficial ownership or any other interest in the pooled shares. The terms and conditions of the Pooling Agreement may be amended by resolution of pooled shareholders representing not less than 60% of the pooled shares.

STOCK OPTION PLAN

The Corporation has established a Stock Option Plan for the benefit of directors, officers and employees. Under the Plan, the directors may reserve, from treasury, a number of shares not exceeding 10% of the issued and outstanding common shares of the Corporation for the granting of options to designated recipients. A summary of the Plan for 2002 and 2001 is as follows:

	2002		2001	
	Shares	Weighted Average Price	Shares	Weighted Average Price
Outstanding and exercisable, beginning of year	1,055,000	\$0.307	1,100,000	\$0.250
Granted	900,000	\$0.250	500,000	\$0.370
Exercised	(855,000)	\$0.320	(445,000)	\$0.250
Expired	-	-	(100,000)	\$0.250
Outstanding and exercisable, end of year	1,100,000	\$0.250	1,055,000	\$0.307

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6. Share Capital, continued

Outstanding options, under the Plan, as at December 31, 2002 are:

Expiry	Exercise Price	Outstanding and Exercisable	Weighted Average Remaining Life (years)
August 2, 2005	\$0.25	200,000	2.6
March 18, 2007	\$0.25	100,000	4.2
July 24, 2007	\$0.25	500,000	4.6
August 2, 2006	<u>\$0.25</u>	<u>300,000</u>	<u>4.6</u>
	<u>\$0.25</u>	<u>1,100,000</u>	<u>4.2</u>

Compensation cost related to options issued during the year ended December 31, 2002, was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

Risk free interest rate	4%
Dividend yield	0%
Expected life	5 years
Volatility	133%

The weighted average fair value of stock options granted during the year was \$0.2086 (\$187,700 in the aggregate).

PER SHARE AMOUNTS

Per share amounts are calculated using the weighted number of shares outstanding of 12,638,949 (2001 - 11,808,469).

Diluted per share amounts are not presented as the effect thereof would be to decrease the loss per share.

7. Income Taxes

PROVISION

The provision for income taxes varies from the amounts which would have been computed by applying the combined federal and provincial tax rates (approximately 39.6% (2001 - 44.6%)) to the Corporation's loss before

income taxes. This difference results from the following items:

	<u>2002</u>	<u>2001</u>
	\$	\$
Expected income tax recovery	(168,000)	(97,000)
Deduction for share issuance costs	(14,000)	(16,000)
Amounts not deductible for income tax purposes	68,000	27,000
Losses on which no tax benefit is recorded	114,000	86,000
Income Taxes	-	-

WINFIELD RESOURCES LIMITED
Notes to Consolidated Financial Statements

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7. Income Taxes, continued

FUTURE INCOME TAX LIABILITY

	2002	2001
	<u>\$</u>	<u>\$</u>
Future Tax Liabilities	-	-
Future Tax Assets		
Excess of tax values of property and equipment over carrying values	104,000	103,000
Share issuance costs	29,000	48,000
Losses for income tax purposes	<u>366,000</u>	<u>285,000</u>
	499,000	436,000
less amounts not likely to be realized	(499,000)	(436,000)
	-	-
Net future income tax liability	<u>-</u>	<u>-</u>

LOSSES

The Corporation has losses, for income tax purposes, of approximately \$922,800 available to reduce taxable incomes of future years, as follows:

	\$
2003	98,900
2004	33,200
2005	32,500
2006	58,200
2007	218,600
2008	193,000
2009	288,400
	<u>922,800</u>

TAX POOLS

The Corporation also has income tax pools of approximately \$457,800, available to reduce taxable incomes of future years at the annual rates indicated:

	Rate	\$
Undepreciated capital cost	20% - 30%	4,400
Canadian development expense	30%	136,300
Foreign exploration and development expense	10%	244,900

Share issuance costs

1/5

72,200

457,800

WINFIELD RESOURCES LIMITED
Notes to Consolidated Financial Statements

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8. Commitments and Contingencies

PROPERTY OPTION AGREEMENT

The Corporation is committed, pursuant to a Property Option Agreement with respect to a mineral resource property, to the following payments:

	<u>Option Payments</u>	<u>Exploration Expenditures</u>
	\$	\$
2003	35,000	600,000
2004	-	450,000
	<u>35,000</u>	<u>1,050,000</u>

During the year ended December 31, 2002, amounts due during 2002 were deferred (extended) for approximately one year.

9. Change in Non-Cash Working Capital

	<u>2002</u>	<u>2001</u>
	\$	\$
Operating Activities		
Accounts receivable	6,093	(7,729)
Prepaid expenses and deposits	(85,093)	1,671
Accounts payable and accrued liabilities	13,826	22,259
	<u>(65,174)</u>	<u>16,201</u>
Investing Activities		
Prepaid expenses and deposits	-	28,380
Accounts payable and accrued liabilities	13,667	1,400
	<u>13,667</u>	<u>29,780</u>

Prepaid expenses and deposits at December 31, 2002 includes a prepaid investor relations contract in the amount of \$73,145. The contract will be implemented at such time as the Corporation identifies a viable investment opportunity requiring additional equity funding.

10. Financial Instruments

The Corporation's financial instruments consist of accounts receivable, prepaid expenses and deposits, accounts payable and accrued liabilities and an amount due to a shareholder corporation. The fair values of the financial instruments other than the amount due to a shareholder corporation approximate their carrying amounts due to the short term maturity of those instruments. The fair value of the amount due to a shareholder corporation also approximates its carrying amount.

The Corporation is not exposed to significant credit risk or interest rate risk.

WINFIELD RESOURCES LIMITED

Notes to Consolidated Financial Statements

December 31, 2002

11. Related Party Transactions

	<u>2002</u>	<u>2001</u>
	\$	\$
Legal costs paid to a firm which employed a shareholder of the Corporation	6,722	17,319
Consulting fees paid to corporations controlled by officers and directors of the Corporation.	8,783	5,975
Management fees paid to a shareholder corporation which is controlled by a director of the Corporation.	24,000	24,000

The above transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

The amount due to a shareholder corporation is non-interest bearing and has no formal terms of repayment.

