



**DRC RESOURCES CORPORATION**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2001 AND 2000**  
**(Prepared by Management)**

**DRC RESOURCES CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
**MARCH 31, 2001 AND 2000**  
**(Prepared by Management)**

	<u>2001</u>	<u>2000</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and term deposits	\$ 4,918,060	\$ 648,228
Marketable securities	5,750	5,750
Accounts receivable	131,366	4,095
	5,055,176	658,073
<b>RESOURCE PROPERTIES</b> (Notes 2 and 3)	1,486,083	392,011
<b>CAPITAL ASSETS</b> (Notes 2 and 4)	19,801	15,492
	\$ 6,561,060	\$ 1,065,576

**LIABILITIES**

**CURRENT LIABILITIES**

Accounts payable and accruals	\$	8,104	\$	2,384
Current portion of mortgages payable (Note 5)		-		8,633
		8,104		11,017

**SHAREHOLDERS' EQUITY**

SHARE CAPITAL (Note 6)		5,750,217		2,291,189
SPECIAL WARRANTS (Note 7)		1,988,892		-
DEFICIT		(1,186,153)		(1,236,630)
		6,552,956		1,054,559
		\$ 6,561,060		\$ 1,065,576

COMMITMENTS (Note 12)

APPROVED BY THE BOARD:

"JOHN KRUZICK" Director

"SHARON ROSS" Director

**DRC RESOURCES CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
**THREE MONTHS ENDED MARCH 31, 2001 AND 2000**  
**(Prepared by Management)**

		<u>2001</u>		<u>2000</u>
<b>INCOME</b>				
Interest and other	\$	70,504	\$	9,371
Oil and gas royalties		518		561
Foreign exchange gain		14,260		706
		85,282		10,638
<b>EXPENSES</b>				
Bank charges		123		59
Consulting and exploration		5,600		-
Dues and subscriptions		415		320
Mortgage interest		-		231
Office, secretarial services and stationery		11,669		10,745
Professional fees		-		-
Regulatory fees		1,493		1,605
Rent		6,344		4,229
Telephone		697		1,079
Transfer agent		904		943
Travel and promotion		8,977		3,025
		36,222		22,236
<b>NET INCOME(LOSS) FOR THE PERIOD</b>		49,060		(11,598)

See accompanying notes.

Deficit, beginning of year	(1,235,213)	(1,225,032)
<b>DEFICIT, END OF PERIOD</b>	<b>\$ (1,186,153)</b>	<b>\$ (1,236,630)</b>

**DRC RESOURCES CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**THREE MONTHS ENDED MARCH 31, 2001 AND 2000**  
**(Prepared by Management)**

	<u>2001</u>	<u>2000</u>
<b>OPERATING ACTIVITIES</b>		
Net Income (Loss) for the year	\$ 49,060	\$ (11,598)
Items not involving cash		
Amortization	-	-
	49,060	(11,598)
Cash provided (used) by changes in non-cash working capital items, net	(88,179)	(7,840)
Cash Flows Used By Operating Activities	(39,119)	(19,438)
<b>INVESTING ACTIVITIES</b>		
Additions to resource properties	(119,731)	(11,361)
Additions to capital assets	(2,879)	-
Cash Flows Used By Investing Activities	(122,610)	(11,361)
<b>FINANCING ACTIVITIES</b>		
Issue of shares for cash	-	6,000
Decrease in mortgage principal	-	37
Cash Flows Provided By Financing Activities	-	6,037
<b>INCREASE (DECREASE) IN CASH DURING THE PERIOD</b>	<b>(161,729)</b>	<b>(24,762)</b>
Cash, beginning of period	5,079,789	672,990
<b>CASH, END OF PERIOD</b>	<b>\$ 4,918,060</b>	<b>\$ 648,228</b>
<b>CASH COMPRISES:</b>		
Cash	\$ (8,576)	\$ 2,269
Term deposits	4,926,636	645,959
	<b>\$ 4,918,060</b>	<b>\$ 648,228</b>

See accompanying notes.

**DRC RESOURCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**1. DESCRIPTION OF BUSINESS**

DRC Resources Corporation is a public company incorporated under the Company Act, British Columbia. Its shares are traded on the Canadian Venture Exchange.

The Company is in the process of exploring its resource properties to determine whether the properties contain ore reserves that are economically recoverable.

The continued operations of the Company and the recoverability of the amounts shown as resource assets are dependent upon the existence of recoverable reserves, the ability of the Company to obtain financing to complete the developments, and upon future profitable production or proceeds from disposition from its resource properties.

Although the Company has taken steps to verify title to mineral properties in which it has an interest in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and may be affected by undetected defects.

**2. SIGNIFICANT ACCOUNTING POLICIES**

a) Principals of Consolidation

These consolidated financial statements include the accounts the Company and its wholly-owned subsidiary, Dynamic Resources Corporation, Inc. All inter-company transactions and balances have been eliminated.

2) 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 amount of assets, liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amount of revenues and expenditures during the reporting period. Actual results could differ from those reported.

c) Resource Properties

i) Mineral Interests

The Company capitalizes the acquisition and related exploration costs of mineral interests until such time as the mineral property to which they relate is brought into production or abandoned. The costs will be amortized on a unit of production basis following commencement of production or written off to operations if the mineral property is abandoned. Mineral option payments are recorded when received and are charged against the related mineral claim interest cost. General exploration, overhead and administration costs are expensed in the period they are incurred.

**DRC RESOURCES CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

4) Resource Properties (Cont'd)

See accompanying notes.

ii) Oil and Gas Interests

The acquisition, drilling and completion costs of oil and gas interests are capitalized when acquired. If proven to be productive, their costs are charged to operations over the producing life of the property by annual provisions for depletion calculated on a unit of production basis; otherwise, if abandoned, the costs less accumulated amortization are charged to operations. All oil and gas property interests are held in the United States.

d) Capital Assets

Capital assets are stated at cost less accumulated amortization. Amortization is calculated using the straight-line method at a rate of 20% per annum.

e) Foreign Currency Translation

The Company's foreign operation is considered fully integrated with the Company and is translated into Canadian dollars using the weighted average rates for the period for items included in the statement of operations and deficit, except for amortization which is translated at historical rates, the rate prevailing at the balance sheet date for monetary assets and liabilities, and historical rates for all other items. Exchange gains or losses on translation are included in the current years operations.

f) Share Option Plan

The Company from time to time issues stock options as described in Note 6(d). No compensation expense is recognized for this plan when options are issued. Consideration received for share options exercised is credited to share capital.

**3. RESOURCE PROPERTIES**

• Kamloops, B.C. "Afton" Mineral Property

The Company entered into an option agreement dated September 22, 1999 to acquire the Afton Mineral Claims Group, in the Kamloops Mining Division of B.C. Consideration is the issuance of 2,000,000 common shares of the Company in stages being 1,000,000 shares on effective date being the shareholder approval of the agreement and 200,000 shares annually for the next five years beginning in year 2, a work commitment of \$6,500,000 over nine years and a 10% net profit royalty. Minimum work commitments vary from \$400,000 to \$1,000,000 each year and are \$400,000 in year one and \$600,000 in year two. The property must be in production within ten years of agreement date or the property reverts to the Vendors. On July 19, 2000, 1,000,000 common shares were issued in accordance with the agreement.

The President of the Company has a one-half interest in the option agreement above as one of the optionors. (See Notes 8 and 13)

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**3. RESOURCE PROPERTIES (Cont'd)**

• Kamloops, B.C., Mineral Property

The Company owns a 100% interest in the Python Claim Group, subject to a 2% net smelter royalty, consisting of 62 mineral claims and 5 crown grants in the Kamloops Mining Division of B.C. The cost of the claims acquired was 100,000 common shares of the Company at a deemed value of \$0.50 per share. Claim work completed has extended the claims in good standing until August 19, 2004 - October 1, 2006.

The Company entered into a joint venture agreement dated April 4, 1999 with Planet Ventures Inc. (formerly Footwall Explorations Inc.), a CDNX listed public company, for them to acquire a 50% interest in the Python Claim Group. Consideration to be received was 100,000 common shares of Planet Ventures Inc. (25,000 shares per year) and they were to incur cumulative exploration expenditures of \$400,000 over four years. The Company received 25,000 shares of Planet Ventures Inc. upon signing the agreement, subject to a one-year hold period, and they incurred exploration expenditures of \$29,675 during the year. The Company and Planet Ventures Inc. by mutual agreement, terminated the option agreement on March 29, 2000.

- Alberta Mineral Property

The Company acquired, on October 23, 2000, twelve metallic and industrial mineral permits located in Northern Alberta. These permits are in good standing until April 12, 2003.

- Timmins, Ontario, Mineral Property

The Company has a 100% interest in 11 units (440 acres) located in the Porcupine Mining Division of Ontario. The mineral claims are in good standing until October 14, 2005.

- Oil and Gas Property, Texas, U.S.A.

The Company owns a 25% interest in approximately 358 acres of land located in Texas, U.S.A., which hold its oil and gas property royalty interests.

#### 4. CAPITAL ASSETS

	<u>Net Book Value</u>			
	<u>Cost</u>	<u>Accumulated</u>	<u>Mar. 31,</u>	
		<u>Depreciation</u>	<u>2001</u>	<u>Dec. 31,</u>
Auto	\$ 34,055	\$ 27,244	\$ 6,811	\$ 6,811
Office equipment	17,846	4,859	12,987	10,110
	<u>\$ 51,901</u>	<u>\$ 32,103</u>	<u>\$ 19,798</u>	<u>\$ 16,921</u>

#### 5. MORTGAGES PAYABLE

Principal and interest annual payments were \$6,597 U.S. to the year 2000 with respect to the Company's 25% oil and gas property's interest and land located in Texas, U.S.A.

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#### 6. SHARE CAPITAL

a) Authorized

20,000,000 common shares of no par value  
10,000,000 Class "A" preference shares, par value of \$10 each  
10,000,000 Class "B" preference shares, par value of \$50 each

2) Issued

	<u>Number</u>	<u>Amount</u>
	<u>Of Shares</u>	
<b>Balance, December 31, 1999</b>	4,456,016	2,285,189
Issued during the year for cash		
Exercise of options	212,000	49,800
Exercise of warrants	1,000,000	200,000
Exercise of special warrants	12,500	45,408
Issued during the year for mineral properties (Note 3)	1,000,000	300,000
<b>Balance, December 31, 2000</b>	6,680,516	\$ 2,880,397
Issued during the quarter		
Exercise of Special Warrants	790,000	2,869,820

**Balance, March 31, 2001**

7,470,516 \$ 5,750,217

The Company completed a private placement of 1,000,000 common shares at \$0.20 per share in 1999, attached to these shares were share purchase warrants to purchase 1,000,000 common shares at \$0.20 per share until May 12, 2000. These share purchase warrants were exercised in May, 2000.

During the year ended December 31, 2000, the Company issued 138,000 common shares on the exercise of stock options at \$0.20 per share and 74,000 common shares on the exercise of stock options at \$0.30 per share.

In addition, 1,000,000 common shares were issued for the first option payment as per the agreement to acquire the Kamloops "Afton" property.

3) Special Warrants

790,000 of the special warrants were exercised during the quarter ending March 31, 2001 and 12,500 of the special warrants were exercised on or before December 31, 2000. The net proceeds received were credited to share capital.

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6. SHARE CAPITAL (Cont'd)

1) Stock Options

The Company does not have an established share purchase option plan. However, from time to time, the board of directors may grant options to directors, officers, employees or consultants subject to the approval of the regulatory authorities.

Stock Options Outstanding	<b>Options Outstanding</b>	<b>Option Price</b>
<b>Balance, December 31, 1998</b>	-	
Granted	298,000	\$0.20
Granted	<u>125,000</u>	\$0.30
<b>Balance, December 31, 1999</b>	<u>423,000</u>	
Exercised	(138,000)	\$0.20
Exercised	(74,000)	\$0.30
Granted	<u>453,000</u>	\$7.00
<b>Balance, December 31, 2000</b>	<u>664,000</u>	
Exercised or Granted	<u>-</u>	-
<b>Balance, March 31, 2001</b>	<u><u>664,000</u></u>	-

e) Share Purchase Warrants Outstanding

At March 31, 2001 the Company has 1,350,000 non-transferable share purchase warrants outstanding at a exercise price of \$5.00 per warrant up to August 3, 2001 entitling the holder to purchase one common share.

7. SPECIAL WARRANTS

On August 3, 2000 the Company, by a brokered private placement, issued 1,250,000 special warrants at a price of \$4.00 per warrant and 100,000 agents special warrants as commission for the financing. Each special warrant is exchangeable for one common share and one non-transferable share purchase warrant at an exercise price of \$5.00 up to August 3, 2001 entitling the holder to one common share. The special warrants will be exchanged for common shares pursuant to a prospectus dated December 4, 2000. As at March 31, 2001 802,500 warrants were exchanged for common shares (See Note 6(c)).

The Company received gross proceeds of \$5,400,000 and after the offering costs of \$495,880, netted \$4,904,120.

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8. RELATED PARTY TRANSACTIONS

	<b>March 31, 2001</b>	<b>Dec. 31, 2000</b>
For consulting, property investigations and exploration costs charged by a private company controlled by the President/Director	\$ 18,000	\$ 86,300
For shares issued in payment on "Afton" property option agreement to the President/Director. 500,000 shares have been issued to date	\$ -	150,000
For secretarial and administrative services charged by a private company which a director has a 50% interest.	\$ 10,025	\$ 27,691

9. INCOME TAXES

The Company has adopted the liability method of accounting for income taxes as outlined in the provisions of Section 3465 of the handbook of the Canadian Institute of Chartered Accountants.

Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized.

The Company and its subsidiary are subject to income taxes on a corporate basis. Accordingly, losses of one entity cannot be used to offset taxable income of the other.

\$451,563 of Canadian income tax losses, expiring in the years up to 2007 and \$180,679 of U.S. income tax losses, expiring in the years up to 2015, are available to reduce future taxable income. In addition the Company has a cumulative Canadian exploration expense pool of \$386,293 and a cumulative Canadian development pool of \$98,797 to reduce future taxable income. Any potential benefits of these amounts have not been reflected in these financial statements.

10. SUPPLEMENTARY CASH FLOW INFORMATION

The statement of cash flows reflected the new requirement under Section 1540 of the Canadian Institute of Chartered Accountants Handbook.

For the year December 31, 2000, the Company conducted non-cash financing and investing activities as follows:

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10. SUPPLEMENTARY CASH FLOW INFORMATION (Cont'd)

Financing Activities	
Shares issued for mineral properties	\$ <u>300,000</u>
Investing Activities	
Shares issued for mineral property	\$ <u>(300,000)</u>

11. SEGMENTED INFORMATION

The Company's operations consist of two business segments - oil and gas, which is in the United States and mineral exploration which is in Canada. The other principal assets which are held in Canada consist primarily of cash and term deposits.

	<b>March 31, 2001</b>	<b>Dec. 31, 2000</b>
<b>CANADA</b>		
Current Assets	\$ 5,053,485	\$ 5,207,370
Resource Properties	1,372,216	1,225,485
Capital Assets	19,801	16,922
	<hr/> 6,445,502	<hr/> 6,479,777
<b>U.S.A.</b>		
Current Assets	1,691	1,119
Resource Property	110,867	110,867
	<hr/> 112,558	<hr/> 111,986
<b>TOTAL</b>	<hr/> \$ 6,558,060	<hr/> \$ 6,591,763

12. FINANCIAL INSTRUMENTS

The Company's financial instruments include cash, accounts receivable and accounts payable.

**Fair value of financial assets and liabilities**

The fair values of cash, accounts receivable and accounts payable approximate their carrying values due to the relatively short period to maturity of these instruments.

13. COMMITMENTS

The Company under the terms of the option agreement to acquire the "Afton" Mineral Property, is required to issue an additional 1,000,000 shares in 200,000 share instalments over the next five years and, to perform a work commitment of \$6,500,000 over nine years.

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14. ENVIRONMENTAL RISKS

Existing and possible future environmental legislation, regulations and actions could give rise to additional expense, capital expenditures, restrictions and delays in the activities of the Company, the extent of which cannot be predicted. Regulatory requirements and environmental standards are subject to constant evaluation and may be significantly increased, which could materially and adversely affect the business of the Company or its ability to develop its mineral properties on an economic basis. Before production can commence on any property, the Company must obtain

regulatory and environmental approvals. There is no assurance that such approvals will be obtained on a timely basis or at all. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations or preclude entirely the economic development of property.

15. PROSPECTUS OFFERING

The Company, by Prospectus dated December 4, 2000, is qualifying the issuance of 1,350,000 Special Warrants comprising of one common share and one non-transferable common share purchase warrant at a price of \$4.00 per common share and \$5.00 per common share purchase warrant, exercisable to August 3, 2001. 500,000 of these special warrants qualify as flow-through shares.