



Financial Statements of

**CHAPLEAU RESOURCES LTD.**

August 15, 2003



Kenneth R. Maki, CA\*

201, 135 10<sup>th</sup> Avenue South  
Cranbrook, BC, V1C 2N1

Telephone (250) 426-8464  
Telefax (250) 426-4880

\*denotes incorporated professional

[makistaudt@makistaudt.bc.ca](mailto:makistaudt@makistaudt.bc.ca)

## **REVIEW ENGAGEMENT REPORT TO THE DIRECTORS**

We have reviewed the balance sheet of Chapleau Resources Ltd. as at August 15, 2003 and the interim statements of operations, deficit and cash flows for the nine months then ended. Our review was made in accordance with Canadian generally accepted standards for review engagements and accordingly consisted primarily of enquiry, analytical procedures and discussion related to information supplied to us by the company.

A review does not constitute an audit and consequently we do not express an audit opinion on these financial statements.

Based on our review, nothing has come to our attention that causes us to believe that these financial statements are not, in all material respects, in accordance with Canadian generally accepted accounting principles.

**“MAKI STAUDT”**

Chartered Accountants

Cranbrook, B.C.

October 3, 2003

# CHAPLEAU RESOURCES LTD.

Balance Sheet – Interim  
(Unaudited)

## SCHEDULE “A”

As at August 15, 2003, with comparative figures for November 15, 2002

	2003	2002
<b>Assets</b>		
Current assets:		
Cash and term deposits	\$ 1,167,876	\$ 160,646
Marketable securities; at lower of cost or market value (notes 2 and 3)	1,736,543	1,743,279
Accounts receivable	72,680	6,961
Receivable from directors	-	744,438
	<u>2,977,099</u>	<u>2,655,324</u>
Reclamation bond	25,000	25,000
Mineral properties and deferred exploration and development costs (note 4)	5,441,568	3,767,817
Equipment (note 5)	21,827	5,793
	<u>\$ 8,465,494</u>	<u>\$ 6,453,934</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 169,086	\$ 60,793
Shareholders' equity:		
Capital stock (note 6):		
Authorized: 150,000,000 Common shares without par value		
Issued: 66,116,284 Common shares (2002 – 60,370,284)	27,525,610	24,743,815
Deficit	(19,229,202)	(18,350,674)
	<u>8,296,408</u>	<u>6,393,141</u>
	<u>\$ 8,465,494</u>	<u>\$ 6,453,934</u>

See accompanying notes to the financial statements.

Approved by the Board:

“Eric Wiltzen” Director

“Jim Stypula” Director

# CHAPLEAU RESOURCES LTD.

Statement of Operations – Interim  
(Unaudited)

Nine and three months ended August 15, 2003, with comparative figures for 2002

	Nine month period ended August 15, 2003 being cumulative current year to date	Three month period ended August 15, 2003	Nine month period ended August 15, 2002 being cumulative prior year to date	Three month period ended August 15, 2002
General and administrative expenses:				
Amortization	\$ 3,555	\$ 2,913	\$ 1,255	\$ 418
Exploration	2,694	754	131,008	41,139
Insurance	44,417	22,050	3,131	1,831
Management fees	135,000	45,000	85,000	45,000
Office	47,664	19,549	34,014	12,874
Permits	-	-	500	-
Professional fees	119,959	22,163	22,055	7,055
Rent	5,928	741	10,374	1,482
Transfer agent and filing fees	34,900	3,180	20,024	7,351
Travel	66,873	13,327	18,474	3,523
Wages and employee benefits	254,876	125,045	34,415	11,398
Loss before other (income) expenses	715,866	254,722	360,250	132,071
Other (income) expenses:				
Deferred exploration and development costs written off	147,431	-	-	-
Interest income	(6,591)	(5,202)	(479)	(109)
Foreign exchange (gain) loss	21,822	12,455	(10,940)	(12,386)
	162,662	7,253	(11,419)	(12,495)
Loss for the period	\$ 878,528	\$ 261,975	\$ 348,831	\$ 119,576

See accompanying notes to the financial statements.

# CHAPLEAU RESOURCES LTD.

Statement of Deficit – Interim  
(Unaudited)

Nine and three months ended August 15, 2003, with comparative figures for 2002

	Nine month period ended August 15, 2003 being cumulative current year to date	Three month period ended August 15, 2003	Nine month period ended August 15, 2002 being cumulative prior year to date	Three month period ended August 15, 2002
Deficit, beginning of period	\$ 18,350,674	\$ 18,967,227	\$ 15,752,098	\$ 15,981,353
Loss for the period	878,528	261,975	348,831	119,576
Deficit, end of period	\$ 19,229,202	\$19,229,202	\$ 16,100,929	\$ 16,100,929
Basic loss per share	\$ 0.014	\$ 0.004	\$ 0.006	\$ 0.002
Fully diluted earnings per share	antidilutive	antidilutive	antidilutive	antidilutive

See accompanying notes to the financial statements.

# CHAPLEAU RESOURCES LTD.

Statement of Cash Flows – Interim  
(Unaudited)

Nine and three months ended August 15, 2003, with comparative figures for 2002

	Nine month period ended August 15, 2003 being cumulative current year to date	Three month period ended August 15, 2003	Nine month period ended August 15, 2002 being cumulative prior year to date	Three month period ended August 15, 2002
Cash provided by (used in):				
Operations:				
Loss for the period	\$ (878,528)	\$ (261,975)	\$ (348,831)	\$ (119,576)
Amortization which does not involve cash	3,555	2,913	1,255	418
Deferred exploration and development costs written off	147,431	-	-	-
Change in non-cash operating working capital:				
Accounts receivable	(65,719)	(14,967)	3,651	(552)
Receivable from directors	744,438	756,780	(97,993)	(47,210)
Subscriptions receivable	-	-	(10,000)	-
Prepaid expenses	-	-	335	-
Accounts payable	116,293	144,982	78,688	107,284
	67,470	627,733	(372,895)	(59,636)
Financing:				
Capital stock issued	2,768,545	25,000	1,598,200	801,850
Investments:				
Mineral properties and deferred exploration and development costs	(1,828,785)	(752,030)	(1,188,070)	(586,316)
Increase (decrease) in cash- carried forward	\$ 1,007,230	\$ (99,297)	\$ 37,235	\$ 155,898

# CHAPLEAU RESOURCES LTD.

Statement of Cash Flows – Interim (Continued)  
(Unaudited)

Nine and three months ended August 15, 2003, with comparative figures for 2002

	Nine month period ended August 15, 2003 being cumulative current year to date	Three month period ended August 15, 2003	Nine month period ended August 15, 2002 being cumulative prior year to date	Three month period ended August 15, 2002
Increase (decrease) in cash- brought forward	\$ 1,007,230	\$ (99,297)	\$ 37,235	\$ 155,898
Cash and term deposits, beginning of period	160,646	1,267,173	143,435	24,772
Cash and term deposits, end of period	\$ 1,167,876	\$ 1,167,876	\$ 180,670	\$ 180,670

See accompanying notes to the financial statements.

# CHAPLEAU RESOURCES LTD.

Notes to the Interim Financial Statements  
(Unaudited)

Period ended August 15, 2003

---

Chapleau Resources Ltd. is engaged in the resource industry at the exploration stage. At the exploration stage, a resource company has not determined whether its properties contain reserves that are economically recoverable, nor has it achieved significant revenue from production.

These financial statements are prepared on the basis of accounting principles applicable to a "going concern", which assume that the company will be able to realize its assets and discharge its liabilities in the normal course of operations.

The company's continued existence is dependent upon raising additional financing, the discovery of economically recoverable ore reserve in its properties and the attainment of profitable operations.

The financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate. If the going concern assumption was not appropriate for these financial statements, then adjustments would be required in the carrying value of assets.

## 1. Significant accounting policy:

These interim financial statements follow the same accounting policies and methods of their application as the November 15, 2002 audited financial statements.

## 2. Marketable securities:

	2003		2002	
	Cost	Market Value	Cost	Market Value
Far West Mining Ltd. (2003 - 4,928,200; 2002 - 4,928,200)	\$ 1,979,412	\$ 8,377,940	\$ 1,979,412	\$2,020,562
Bakbone Software Inc. (2003 - 10,500; 2002 - 10,500)	18,409	11,393	18,409	9,240

The Far West Mining Ltd. securities continue to be carried at the market value as at November 15, 2001.

# CHAPLEAU RESOURCES LTD.

Notes to Interim Financial Statements, page 2  
(Unaudited)

Period ended August 15, 2003

---

### **3. Related parties:**

Investment in Far West Mining Ltd.

The company owns 4,928,200 common shares of Far West Mining Ltd., representing a 20% interest in Far West Mining Ltd. This investment has been recorded as a marketable security due to management's intention to dispose of this investment.

# CHAPLEAU RESOURCES LTD.

Notes to Interim Financial Statements, page 3  
(Unaudited)

Period ended August 15, 2003

## 4. Mineral properties and deferred exploration and development costs:

Property	Balance November 15, 2002	Option payment during the period	Additions during the period	Written-off during the period	Balance August 15, 2003
Cruz, BC	\$ 540,885	\$ -	\$ 2,870	\$ -	\$ 543,755
Indian Ranch, NV	3,126,948	-	5,205	-	3,132,153
Kougarok, AK	-	77,494	63,201	140,695	-
Quartz Creek, BC	40,840	-	6,246	-	47,086
Bar 19, BC	28,579	18,750	722,483	-	769,812
Zinger, BC	1,271	20,000	357,454	-	378,725
Super Group					
Gold, BC	6,954	140,000	166,167	-	313,121
Cranbrook					
Gold, BC	22,340	5,501	217,621	-	245,462
Other			11,454		11,454
	\$ 3,767,817	\$ 261,745	\$1,552,701	\$ 140,695	\$ 5,441,568

### Exploration:

During the period ended August 15, 2003, the company expensed \$2,694 (2002 - \$149,194) of exploration costs related to geological and geochemical work performed on mineral claims that have not been pursued.

### Mineral properties and deferred exploration and development costs-additions:

Additions during the period	Bar 19 BC	Cranbrook Gold, BC	Zinger BC	Other	2003	2002
Drilling	\$ 634,808	\$ 3,775	\$228,812	\$ 3,076	\$ 870,471	\$ 763,922
Geochemical	20,129	4,262	68,724	113,145	206,260	12,427
Geology	67,310	25,312	59,681	113,541	265,844	186,285
Geophysics	237	880	237	791	2,145	-
Option payments	-	-	-	-	-	5,522
Staking	-	171,097	-	427	171,524	54,975
Tenure payments	-	12,296	-	24,161	36,457	571,506
	\$ 722,484	\$217,622	\$357,454	\$ 255,141	\$1,552,701	\$1,594,637

# CHAPLEAU RESOURCES LTD.

Notes to Interim Financial Statements, page 4  
(Unaudited)

Period ended August 15, 2003

---

## 4. Mineral properties and deferred exploration and development costs (continued):

### Zinger, British Columbia:

The company entered into an option agreement dated December 31, 2002 to acquire a 100% interest in the mineral claims collectively know as the Zinger mineral claim by agreeing to; issue 500,000 shares of capital stock, make cash payments of \$50,000 to the Optionor, and spend a total of \$1,000,000 on the properties at various dates prior to November 12, 2006. The company shall at any time have the right to terminate this agreement without liability therefore by giving written notice of such termination to the Optionor.

### Super Group Gold, British Columbia:

The company entered into an option agreement dated December 30, 2002 to acquire an undivided 90% interest in the mineral claims collectively know as the Super Group Gold mineral claim by agreeing to; issue 2,380,000 shares of capital stock, make cash payments of \$140,000 to the Optionor, and spend a total of \$2,000,000 on the properties at various dates prior to December 30, 2005. The company shall at any time have the right to terminate this agreement without liability therefore by giving written notice of such termination to the Optionor.

### Cranbrook Gold, British Columbia:

The company entered into an option agreement dated December 4, 2002 to acquire a 100% interest in the mineral claims collectively know as the Cranbrook Gold mineral claim by agreeing to; issue 10,000 shares of capital stock, make cash payments of \$3,500 to the Optionor. Both conditions had been met prior to May 15, 2003.

## 5. Equipment:

	2003		2002	
	Cost	Accumulated Amortization	Net	Net
Equipment	\$ 55,976	\$ 34,149	\$ 21,827	\$ 5,793

# CHAPLEAU RESOURCES LTD.

Notes to Interim Financial Statements, page 5  
(Unaudited)

Period ended August 15, 2003

## 6. Capital stock:

(a) Common shares issued and outstanding:

	Number of Shares	Amount
Balance, beginning of year	54,072,284	\$ 22,420,615
Issued during year ended November 15, 2002:		
For cash	6,283,000	\$ 2,378,200
Share issue costs	15,000	(55,000)
Balance, November 15, 2002	60,370,284	24,743,815
Issued during the period ended February 15, 2003:		
For cash	3,375,000	1,250,250
For properties	35,000	19,250
Balance, February 15, 2003	63,780,284	26,013,315
Issued during the period ended May 15, 2003:		
For cash	2,230,000	1,487,295
Balance, May 15, 2003	66,010,284	\$ 27,500,610
Issued during the period ended August 15, 2003:		
For cash	106,000	31,000
Share issue costs	-	(6,000)
Balance, August 15, 2003	66,116,284	\$ 27,525,610

# CHAPLEAU RESOURCES LTD.

Notes to Interim Financial Statements, page 6  
(Unaudited)

Period ended August 15, 2003

---

## 6. Capital stock (continued):

### (b) Warrants:

There are 8,620,833 warrants outstanding at August 15, 2003. 8,620,833 common shares have been reserved for the exercise of these warrants.

Number of Warrants Outstanding	Exercise Price	Expiry Date
1,233,333	\$ 0.60	September 26, 2003
5,000,000	\$ 0.40 - 0.50	November 4, 2004
250,000	\$ 0.50 - 0.65	August 22, 2004
1,400,000	\$ 0.60	June 28, 2004
737,500	\$ 1.45	April 1, 2004
8,620,833		

## 7. Stock-Based compensation plan:

At August 15, 2003, the company has one stock-based compensation plan, which is described below;

### Fixed Stock Option Plan

The company has one fixed stock option plan. Under the 1997 Stock Option Plan, amendment no. 4, the company may grant options to its directors, officers and Service Providers for up to 12,974,056 shares of common stock. The plan requires that a total of 12,974,056 common shares be reserved for allotment and issuance upon exercise of stock options granted under the Plan. Options to vest as to 25% upon regulatory approval and 12-1/2% every quarter thereafter. Under the Plan, the exercise price of each option shall not be less than the market price on the Grant date and an option's maximum term is 10 years.

# CHAPLEAU RESOURCES LTD.

Notes to Interim Financial Statements, page 7  
(Unaudited)

Period ended August 15, 2003

## 7. Stock-Based compensation plan (continued):

(a) Stock options:

Incentive stock options for directors, officers and Service Providers are outstanding at August 15, 2003, as follows:

Number of Options	Price per Option	Expiry Date
70,000	\$ 0.50	October 2003
475,000	\$ 0.51	January 2004
722,200	\$ 0.52	January 2004
400,000	\$ 0.65	January 2006
867,500	\$ 0.30	May 2006
500,000	\$ 0.30	August 2006
200,000	\$ 0.40	September 2006
1,125,000	\$ 0.30	October 2006
390,000	\$ 0.50	May 2007
3,590,000	\$ 0.26	November 2007
100,000	\$ 0.52	December 2007
500,000	\$ 0.65	January 2008
750,000	\$ 1.00	February 2008
596,398	\$ 0.51	April 2009
525,000	\$ 0.51	April 2009
2,000,000	\$ 0.82	May 2013
<b>12,811,098</b>		

12,811,098 common shares have been reserved for the exercise of these options.

	Number of Options
Balance, November 15, 2002	11,126,098
Granted	3,376,000
Exercised	(1,196,000)
Expired	(335,000)
Cancelled	(160,000)
<b>Balance, August 15, 2003</b>	<b>12,811,098</b>

# CHAPLEAU RESOURCES LTD.

Notes to Interim Financial Statements, page 8  
(Unaudited)

Period ended August 15, 2003

---

## 7. Stock-Based compensation plan (continued):

### (b) Stock option compensation adjustment:

The company applies the intrinsic value based method of accounting for stock-based compensation awards to employees and accordingly no compensation cost is recognized. Had stock-based compensation for 600,000 options granted to employees under the Plan since November 16, 2002 been determined on the basis of fair value at the date of grant in accordance with the fair value method of accounting for stock-based compensation, the company's pro forma net loss and loss per share for the nine months ended August 15, 2003 would have been as follows:

	Loss	Loss per share
As reported	\$ 878,528	\$ 0.014
Pro forma	\$ 1,181,053	\$ 0.018

For purposes of the above calculations, the fair value of each option was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for grants: dividend yield of 0%, risk-free interest rate of 4.5%, the option is certain to finish in the money, and expected life of 5 years.

## 8. List of directors:

Eric Wiltzen; Jim Stypula; Allan Rella; Robert Hunziker; Serguei Soloviev and Eric Friedland.

## 9. Management fees:

During the three month period, management fees of \$45,000 were paid to two directors.

## 10. Financial instruments:

The company's financial instruments consist of all current assets, reclamation bond, accounts payable and accrued liabilities. It is management's opinion that the company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

Fair value of financial instruments:

The carrying value of financial instruments approximates their estimated fair value unless otherwise disclosed in the financial statements.

# CHAPLEAU RESOURCES LTD.

Notes to Interim Financial Statements, page 9  
(Unaudited)

Period ended August 15, 2003

---

## **11. Contingent liability:**

The company has been named the defendant in a lawsuit and a claim against the company has been filed in the amount of \$242,000. In the opinion of management, these matters are without substantial merit and no provision has been made for them in the accounts. However, should any loss result from the resolution of this claim, such loss would be accounted for as a current expenditure.

## **12. Comparative figures:**

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