

**SKN RESOURCES LTD.**

Interim Financial Statements

October 31, 2002

**(Unaudited)**

# SKN RESOURCES LTD.

## Balance Sheet (Unaudited)

	October 31, 2002	April 30 2002
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 7,620	\$ 1,037
Accounts receivable	<u>8,840</u>	<u>8,382</u>
	<b>16,460</b>	9,419
<b>Marketable securities</b> (note 4)	-	77,658
<b>Interest in and Expenditures on Resource Properties</b> (notes 3 and 5)		
Mineral claims	2,109,409	2,096,810
Oil and gas lease	1	1
Reclamation deposits	10,000	10,000
<b>Licensing agreement</b> (note 6)	<u>1</u>	<u>1</u>
	<b>\$ 2,135,871</b>	<b>\$ 2,193,889</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 86,832	\$ 365,616
Due to private parties (note 7 and 9)	<u>1,369,642</u>	<u>1,364,067</u>
	<u>1,456,474</u>	<u>1,729,683</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 8)	11,652,818	11,652,818
Deficit	<u>(10,973,421)</u>	<u>(11,188,612)</u>
	<u>679,397</u>	<u>464,206</u>
	<b>\$ 2,135,871</b>	<b>\$ 2,193,889</b>

Approved by the Board:

" G. A. ARMSTRONG "  
Director

" CAROL BROWNIE "  
Director

**SKN RESOURCES LTD.**  
**Statement of Loss and Deficit**  
**(Unaudited)**

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	Three months ended		Six months ended	
	October 31		October 31	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
<b>General and Administrative Expenses</b>				
Printing and shareholder information	5,050	2,789	\$ 8,448	\$ 6,959
Bank charges and interest, net	(263)	26,651	24,667	56,162
Property reclamation	-	7,099	-	8,108
Management fees	-	7,500	7,500	15,000
Rent	111	4,666	4,776	9,331
Office and miscellaneous	732	768	1,090	2,251
Professional fees	1,644	1,638	1,744	6,638
Filing and transfer agent fees	15,139	-	16,383	2,465
Salary and benefits	-	2,013	-	18,983
	<u>22,413</u>	<u>53,124</u>	<u>64,608</u>	<u>125,897</u>
<b>Capital gains</b>	(133,504)	-	(136,129)	-
<b>Forgiven accounts payable (note 9)</b>	(143,670)	-	(143,670)	-
<b>Loss on disposal of capital assets</b>	-	-	-	3,994
<b>Other income</b>	-	-	-	(10,000)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,000)</u>
<b>Net income (loss)</b>	<b>254,761</b>	(53,124)	<b>215,191</b>	(119,891)
<b>Deficit - beginning of period</b>	<b>(11,228,182)</b>	<b>(11,065,388)</b>	<b>(11,188,612)</b>	<b>(10,998,621)</b>
<b>Deficit - end of period</b>	<b><u>\$(10,973,421)</u></b>	<b><u>\$(11,118,512)</u></b>	<b><u>\$(10,973,421)</u></b>	<b><u>\$(11,118,512)</u></b>
<b>Earnings (loss) per share</b>	<b>\$ <u>0.07</u></b>	<b>\$ <u>(0.01)</u></b>	<b>\$ <u>0.07</u></b>	<b>\$ <u>(0.04)</u></b>
<b>Weighted Average Number of Shares</b>	<b><u>3,211,422</u></b>	<b><u>3,211,422</u></b>	<b><u>3,211,422</u></b>	<b><u>3,211,422</u></b>

**SKN RESOURCES LTD.**  
**Statement of Cash Flows**  
**(Unaudited)**

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	Three months ended October 31		Six months ended October 31	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
<b>Cash flows from operating activities</b>				
Net loss	\$ 254,761	\$ (53,124)	\$ 215,191	\$ (119,891)
Adjustments non-cash items:				
Gain on sale of securities	(133,504)	-	(136,129)	-
Loss on disposal of capital assets	-	-	-	3,994
	<u>121,257</u>	<u>(53,124)</u>	<u>79,062</u>	<u>(115,897)</u>
<b>Changes in non-cash working capital</b>				
Accounts receivable	(57)	(506)	(458)	(1,712)
Accounts payable	<u>(287,442)</u>	<u>(2,402)</u>	<u>(278,784)</u>	<u>18,041</u>
	<u>(166,242)</u>	<u>(56,032)</u>	<u>(200,180)</u>	<u>(99,568)</u>
<b>Cash flows from investing activities</b>				
Expenditures on resource properties	(12,600)	-	(12,600)	(7,497)
Reclamation deposits	-	24,000	-	24,000
Proceeds from sale of securities	<u>210,563</u>	-	<u>213,788</u>	-
	<u>197,963</u>	<u>24,000</u>	<u>201,188</u>	<u>16,503</u>
<b>Cash flows from financing activities</b>				
Advances from related parties	<u>(24,267)</u>	<u>47,800</u>	<u>5,575</u>	<u>99,474</u>
	<u>(24,267)</u>	<u>47,800</u>	<u>5,575</u>	<u>99,474</u>
<b>Net increase (decrease) in cash</b>	<b>7,454</b>	<b>15,768</b>	<b>6,583</b>	<b>16,409</b>
<b>Cash - beginning of period</b>	<u>166</u>	<u>2,234</u>	<u>1,037</u>	<u>1,593</u>
<b>Cash - end of period</b>	<u>\$ 7,620</u>	<u>\$ 18,002</u>	<u>\$ 7,620</u>	<u>\$ 18,002</u>
<b>Supplemental Disclosure of Cash Flow Information</b>				
Interest paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**SKN RESOURCES LTD.**  
**Notes to the Financial Statements**  
**(Unaudited)**

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**For the six months ended October 31,**

**2002**

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**1. Going Concern**

These financial statements have been prepared by management in accordance with generally accepted accounting principles on a going concern basis. This presumes funds will be available to finance ongoing development, operations and capital expenditures and the realization of assets and the payment of liabilities in the normal course of operations for the foreseeable future.

The Company has minimal capital resources available to meet obligations which normally can be expected to be incurred by similar companies and has an accumulated deficit of \$10,973,121 (2001 - \$11,118,512). These factors raise substantial doubt about the Company's ability to continue as a going concern and is dependent on its ability to obtain and maintain an appropriate level of financing on a timely basis and to achieve sufficient cash flows to cover obligations and expenses. The outcome of these matters cannot be predicted. These financial statements do not give effect to any adjustments to the amount and classification of assets and liabilities which might be necessary should the Company be unable to continue its operations as a going concern.

**2. Significant Accounting Policies**

(a) Interim financial statements

The interim financial statements follow the same accounting policies and methods of their application as the most recent annual financial statements for the year ended April 30, 2002. However, they may not include all of the information and disclosures required by the annual financial statements. In the opinion of management, all adjustments of a normal recurring nature necessary for a fair presentation have been included. The results for the interim periods are not necessarily indicative of the results for the entire year. The information contained in the interim financial statements should be read in conjunction with the Company's latest annual financial statements and the notes thereto.

(b) General

The Company is in the development stage and has yet to generate significant revenues.

(c) Portfolio investments

Portfolio investments are carried at written down value.

(d) Investment in and expenditures on resource properties

The Company is in the exploration stage with respect to its investment in mineral claims and, accordingly, follows the practice of capitalizing all costs relating to the acquisition of, exploration for and the development of mineral claims, net of all incidental revenues received. At such time as commercial production commences, these costs will be charged to operations on a unit-of-production method based on estimated recoverable reserves. The aggregate costs related to abandoned mineral claims will be charged to operations at the time of abandonment.

**SKN RESOURCES LTD.**  
**Notes to the Financial Statements**  
**(Unaudited)**

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**For the six months ended October 31,**

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**2. Significant Accounting Policies (Continued)**

(e) Flow-through shares

The Company finances a portion of its exploration program with flow-through common share issues. Income tax deductions relating to these expenditures are claimable only by investors. Proceeds from common shares issued pursuant to flow-through financing are credited to capital stock.

(f) Financial instruments

The Company's financial instruments consist of cash, accounts receivable, portfolio investments, accounts payable and accrued liabilities and amount due to private companies. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments due to the immediate or short term maturity of these financial instruments approximate their carrying values.

(g) 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 amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and would impact future results of operations and cash flows.

(h) Loss per share

Loss per share computations are based on the weighted average number of common shares outstanding during the year.

(i) Income taxes

Income taxes are calculated using the liability method of tax accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. A valuation allowance is provided to reduce the asset to the net amount management estimates to be reasonable to carry as a future income tax asset.

**SKN RESOURCES LTD.**  
**Notes to the Financial Statements**  
**(Unaudited)**

**For the six months ended October 31, 2002 2001**

**3. Realization of Assets**

The Company's investment in and expenditures on resource properties comprise substantially all of the Company's assets. Realization of the Company's investment in these assets is dependent on establishing legal ownership of the properties, on the attainment of successful production from the properties or from the proceeds of their disposal.

**4. Portfolio Investments**

	<u>October 31, 2002</u>		<u>April 30, 2002</u>	
	<u>Written</u>		<u>Written</u>	
	<u>Down Value</u>	<u>Market</u>	<u>Down Value</u>	<u>Market</u>
81,779 common shares of International Enxco Limited	\$ -	\$ -	\$ 8,178	\$ 4,089
974,667 common shares of Rio Fortuna Exploration Corp.	-	-	58,480	116,960
100,000 common shares of Ivory Oils and Minerals Inc.	-	-	<u>11,000</u>	<u>5,000</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 77,658</u>	<u>\$ 126,049</u>

During the current period the investments were sold. During the year ended April 30, 1998, the investments were written down to their fair market value.

**5. Interest in and Expenditures on Resource Properties**

Mineral claims consist of:

	<u>October 31,</u> <u>2002</u>	<u>April 30,</u> <u>2002</u>
<b>Rex Mountain Gold Property</b> (note 5(a))		
Cost	\$ 699,782	\$ 699,782
Deferred expenditures	1,435,802	1,435,802
Writeoff of mineral property	<u>(2,135,584)</u>	<u>(2,135,584)</u>
	-	-
<b>Mac Molybdenum Property</b> (note 5(b))		
Cost	1,500,000	1,500,000
Deferred expenditures, net of revenues	2,544,858	2,532,258
Writedown of mineral property	<u>(2,016,128)</u>	<u>(2,016,128)</u>
	<u>2,028,730</u>	<u>2,016,130</u>
<b>Clearwater Property</b> (note 5(c))		
Deferred expenditures	<u>80,679</u>	<u>80,679</u>
<b>Voisey's Bay Property</b> (note 5(d))		
Cost	11,500	11,500
Deferred expenditures	45,964	45,964
Writedown of mineral property	<u>(57,463)</u>	<u>(57,463)</u>
	<u>1</u>	<u>1</u>

**SKN RESOURCES LTD.**  
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**5. Interest in and Expenditures on Resource Properties (Continued)**

(a) The Company was granted an option to acquire a 100% undivided interest in fifteen mineral claims and four crown grants located in the Lillooet Mining Division, British Columbia. The option would be deemed to have been exercised when \$632,000 in royalties had been paid to the optionor. Minimum royalty payments of \$25,000 must be paid to the optionor on September 1 of each year (paid to August 31, 1999). The option was terminated during the year ended April 30, 2002, and the claims are returned to the optionor.

The Company owned 100% undivided interest in seventeen additional mineral claims on this property.

(b) During the year ended April 30, 1997, the Company acquired a 100% interest in eleven mineral claims located in the Omineca Mining Division, British Columbia from Rio Algom Exploration Inc. for the issue of 150,000 post consolidated common shares (note 8(b)) of the Company at a price of \$10 per share of the Company. During the year ended April 30, 2000, the Company wrote down the property by 50% based on management assessed recoverable value of the property. One claim was forfeited during the year ended April 20, 2002 bringing the total number of claims to ten.

(c) During the year ended April 30, 1999, the Company acquired a 100% interest in 55 claim units in Kamloops Mining Division. The claims are in good standing until November 2006.

(d) The Company owns a 45% undivided interest in 100 mineral claims located at Tasiuyak in Voisey's Bay area of Labrador, Newfoundland. During the year ended April 30, 2001 the Company wrote down the property to one dollar (\$1.00).

(e) Oil and gas lease

The Company's "Sunrise Prospect" consists of a 0.562% working interest in a petroleum and natural gas lease situated in Northeastern British Columbia. This lease is registered in the name of Enermark Resources Inc., Calgary, Alberta. During the year ended 2001, the Company wrote-down the property to one dollar (\$1).

(f) The Company has renounced \$1,574,284 (2001 - \$1,574,284) of its deferred exploration and development expenditures for tax purposes to the investors of flow-through common shares.

**6. Licensing Agreement**

Pursuant to an agreement dated November 18, 1988, the Company was granted exclusive worldwide manufacturing and distribution rights (excluding Canada) for the "Firelight II" barbecue.

Pursuant to an agreement dated June 30, 1990, the Company assigned all its rights, title and interest in the Firelight II for consideration of \$225,000 in future royalties based on \$0.25 per unit sold, to a maximum of 900,000 units with a minimum annual royalty of \$12,500.

The licensing agreement was written-down to a carrying value of \$1 during the year ended April 30, 1991. No royalties have been received by the Company.

**SKN RESOURCES LTD.**  
**Notes to the Financial Statements**  
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**For the six months ended October 31,**

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**7. Due to Private Parties**

A private company has advanced \$1,344,598 (2001 - \$1,265,217) including accrued interest to July 31, 2002 of \$24,842 (2001 - \$29,675) to the Company. The amount bears interest at prime plus 5% (see note 9(b)). The Company issued 1,000,000 post consolidated common shares (note 8(b)) at a deemed price of \$1.00 per share as a partial debt settlement during the year ended April 30, 2001. Subsequent to the period ended the Company approved a debt settlement for this loan (Note 9 and 11).

Included in this amount is \$25,044 due to a two private parties, \$12,522 each. The loans are non-interest bearing and have no terms of repayment.

**8. Capital Stock**

(a) Authorized

100,000,000 Common shares without par value

(b) Issued and allotted

	<b>October 31</b>		<b>April 30</b>	
	<b><u>2002</u></b>		<b><u>2002</u></b>	
	<b><u>Number</u></b>	<b><u>Amount</u></b>	<b><u>Number</u></b>	<b><u>Amount</u></b>
	<b><u>of Shares</u></b>		<b><u>of Shares</u></b>	
Balance, Beginning of Year	3,211,422	\$ 11,652,818	32,114,220	\$ 11,652,818
Reverse split one for ten	-	-	(28,902,798)	-
Balance, End of period	<u>3,211,422</u>	<u>\$ 11,652,818</u>	<u>3,211,422</u>	<u>\$ 11,652,818</u>

On July 25, 2001, the Company consolidated its shares on the basis of one new common share issued for every ten old common shares issued and increased its authorized capital to 100,000,000 common shares.

(c) Share option plan

At October 31, 2002, there were no stock options outstanding.

During the year ended April 30, 2002, the following activity occurred within the stock option plan:

	<b><u>Number</u></b>	<b><u>Weighted</u></b>
	<b><u>of Options</u></b>	<b><u>Average Price</u></b>
Options outstanding as of April 30, 2001	800,000	\$ 0.10
Reverse split one for ten	(720,000)	-
Options expired	(80,000)	-
Options outstanding as of April 30, 2002	<u>-</u>	<u>\$ -</u>

**SKN RESOURCES LTD.**  
**Notes to the Financial Statements**  
**(Unaudited)**

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**For the six months ended October 31,** **2002** 2001

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**9. Related Party Transactions**

(a) Included in accounts payable are the following amounts payable to:

	<b>October 31,</b> <b><u>2002</u></b>	October 31, <b><u>2001</u></b>
A law firm in which an officer and director is the proprietor	<b>44,314</b>	119,140
A company controlled by an officer and director	<b>300</b>	105,921
An accounting firm in which a former officer and director is the proprietor	<b>40,840</b>	81,679
Directors for directors' fees	<u>-</u>	<u>44,800</u>
	<b><u>85,454</u></b>	<b><u>346,939</u></b>

During the period ended, the Company had \$143,670 in accounts payable and accrued liabilities forgiven. Included in this amount was \$42,760 in legal fees in which an officer and director is the proprietor, \$12,600 by a private company controlled by an officer and director, \$43,510 by an accounting firm in which a former officer and director is the proprietor, and \$44,800 in director fees.

(b) The amount due to private parties includes \$1,344,598 due to a company controlled by a director of the Company (note 7 and note 11). Interest of \$24,842 (2001 - \$29,675) included in the above balance was expensed by the Company. Subsequent to the period ended, the Company approved a debt settlement for this loan (note 11).

(c) The Company was charged the following amounts:

	<b>October 31,</b> <b><u>2002</u></b>	October 31 <b><u>2001</u></b>
Legal fees by a law firm in which an officer and director is the proprietor	<b>1,344</b>	-
Management fees by a company controlled by an officer and director	<b>7,500</b>	7,500
Office rental and accounting by a company controlled by an officer and director	<b>5,200</b>	4,800

**SKN RESOURCES LTD.**  
**Notes to the Financial Statements**  
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**For the six months ended October 31,** **2002** **2001**

**10. Income Taxes**

The components of the future income tax assets are as follows:

	<b>October 31, 2002</b>	<b>April 30, 2002</b>
Future Income Assets		
Non-capital loss carry-forwards	\$ 2,308,900	\$ 2,308,900
Unused cumulative exploration and development expenses	2,821,000	2,821,000
Taxable portion of write-down of marketable securities	<u>68,267</u>	<u>68,267</u>
	<b>5,182,207</b>	<b>5,182,207</b>
Approximate tax rate	<b>45%</b>	45%
	<b>2,339,175</b>	2,339,175
Less: Valuation allowance	<u>(2,339,175)</u>	<u>(2,339,175)</u>
	<u>\$ -</u>	<u>\$ -</u>

The non-capital losses which may be carried forward to apply against future years' income for Canadian income tax purposes will expire as follows:

2003	\$ 251,000
2004	409,900
2005	316,900
2006	508,000
2007	401,100
2008	236,000
2009	<u>186,000</u>
	<u>\$ 2,308,900</u>

**11. Subsequent Events**

On November 14, 2002, the Company held an extraordinary general meeting, during which the shareholders approved the debt settlement agreements announced on September 20, 2002. The Company agreed to settle \$1,388,912 in outstanding debt through the issuance of 13,899,120 securities, issued at a deemed price of \$0.10 per security. The securities are comprised of: 443,140 Common shares to be issued to the president of the Company, G. Arnold Armstrong in settlement of outstanding legal fees billed on a 50% discounted basis; 750,000 Common shares issuable to Kelvin Grove Estates Ltd., a private company in which G. Arnold Armstrong is director and controlling shareholder; and a total of 12,695,980 Units issuable to 13 arm's-length parties. Each of the Units is comprised of one Common share and one-half of a purchase warrant exercisable for a period of two years at \$0.15 per share. The arm's length parties obtained their debt through assignments from Kelvin Grove Estates Ltd. which had \$1,344,598 due from the Company as a result of cash advances made by Kelvin Grove Estates Ltd. to the Company to fund the Company's exploration programs in Mexico.

**SKN RESOURCES LTD.**  
**Notes to the Financial Statements**  
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**For the six months ended October 31,**

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**11. Subsequent Events (Continued)**

Issuance of the shares on the debt settlement will not result in a change of control, as all of the arm's-length parties receiving shares under the debt settlement will individually hold less than 10% in the capital of the Company after issuance. The arm's-length parties have also represented that they are not acting jointly or in concert together.

After completion of the debt settlement there will be a total of 17,089,120 shares issued with warrants outstanding for a further 6,347,990 shares exercisable at \$0.15 per share. All shares issued on the debt settlement will be subject to a one year hold period from the date of issuance.

On November 25, 2002, the Company entered into an agreement with the sole shareholder of Fortress China Inc. ("Fortress"), a British Virgin Islands company, to purchase all of the issued and outstanding shares of Fortress for \$165,000 payable through the issuance of 1,650,000 of the Company's common shares. A wholly owned subsidiary of Fortress has entered into a Cooperative Agreement with Yunnan Geology Mineral Resources Co. Ltd. ("YGMR") to acquire up to a 70% interest in its Tongchang precious and base metal exploration permits (the "Permits") covering an area of approximately 173 square kilometres (km) in the Tongchang area of Yunnan Province, China.

In order to acquire its 70% interest, Fortress must make cash payments to YGMR and contribute to the JV company a total of US\$4,200,000 over four years. The first year's firm commitments are the contribution of US\$500,000 to the JV Company and the payment to YGMR of US\$250,000. Upon Fortress earning its 70% interest, the parties will contribute to the JV Company based on their respective interests, subject to a standard dilution clause, provided that YGMR's interest will not be diluted to less than 10%. The acquisition is subject to a final joint venture contract, regulatory approvals, and an independent report on the project complying with National Instrument 43-101.

The 1,650,000 shares to be issued to the shareholder of Fortress will be subject to an escrow agreement. Twenty-five percent of the shares will be released from escrow upon TSX Venture Exchange acceptance, and 15% released every quarter thereafter.