

**PACIFIC COMOX RESOURCES LTD.**  
**Form 51**  
**For the year ended October 31, 2001**

**Schedule A:**

Please refer to attached Balance Sheets, Statements of Changes in Financial Position and Income Statement.

Consolidated Financial Statements of

**PACIFIC COMOX  
RESOURCES LTD.**

(A DEVELOPMENT STAGE ENTERPRISE)

Years ended October 31, 2001 and 2000

## **AUDITORS' REPORT TO THE SHAREHOLDERS**

We have audited the consolidated balance sheets of Pacific Comox Resources Ltd. (A Development Stage Enterprise) as at October 31, 2001 and 2000 and the consolidated statements of operations and deficit and cash flows 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 audits.

We conducted our audits 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the Company Act of the Province of British Columbia, we report that, in our opinion, these principles have been applied on a consistent basis.

A handwritten signature in black ink that reads "KPMG LLP". The letters are in a cursive, slightly slanted font. Below the signature is a single horizontal line that starts under the 'K' and ends under the 'P'.

KPMG LLP

Chartered Accountants

Toronto, Canada

December 14, 2001

# PACIFIC COMOX RESOURCES LTD.

(A DEVELOPMENT STAGE ENTERPRISE)

Consolidated Balance Sheets

October 31, 2001 and 2000

	2001	2000
<b>Assets</b>		
Current assets:		
Cash	\$ 63,597	\$ 16,118
Accounts receivable	768	1,860
Prepaid expenses	375	—
	<u>64,740</u>	<u>17,978</u>
Investment in related party (note 4)	41,870	—
	<u>\$ 106,610</u>	<u>\$ 17,978</u>

## Liabilities and Shareholders' Deficiency

Current liabilities:		
Payables and accruals	\$ 81,368	\$ 79,666
Due to shareholders and other related parties (note 4)	197,356	256,568
	<u>278,724</u>	<u>336,234</u>
Shareholders' deficiency:		
Share capital (note 8)	11,655,823	10,955,823
Deficit	(11,827,937)	(11,274,079)
	<u>(172,114)</u>	<u>(318,256)</u>
Going concern basis (note 1)		
	<u>\$ 106,610</u>	<u>\$ 17,978</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

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Marvin Wolff Director

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Donald Empey Director

# PACIFIC COMOX RESOURCES LTD.

(A DEVELOPMENT STAGE ENTERPRISE)

Consolidated Statements of Operations and Deficit

Years ended October 31, 2001 and 2000

	2001	2000
Expenses:		
Administration (note 4)	\$ 147,141	\$ 157,984
Interest, net	6,717	4,815
Write-off of mineral property and deferred exploration expenditures (note 3)	–	73,846
Write-off of investment in Papex Inc. (note 5)	400,000	–
	<u>553,858</u>	<u>236,645</u>
Loss for the year	(553,858)	(236,645)
Deficit, beginning of year	(11,274,079)	(11,037,434)
Deficit, end of year	<u>\$ (11,827,937)</u>	<u>\$ (11,274,079)</u>
Loss per share	\$ (0.01)	\$ (0.01)

See accompanying notes to consolidated financial statements.

# PACIFIC COMOX RESOURCES LTD.

(A DEVELOPMENT STAGE ENTERPRISE)

## Consolidated Statements of Cash Flows

Years ended October 31, 2001 and 2000

	2001	2000
Cash provided by (used in):		
Operating activities:		
Loss for the year	\$ (553,858)	\$ (236,645)
Items not affecting cash:		
Write-off of investment in Papex Inc.	400,000	—
Write-off of mineral property and deferred exploration expenditures	—	73,846
	(153,858)	(162,799)
Change in non-cash operating working capital	2,419	(17,249)
	(151,439)	(180,048)
Financing activities:		
Due to shareholders and other related parties	(59,212)	190,813
Issuance of share capital	700,000	—
	640,788	190,813
Investing activities:		
Investment in Papex Inc.	(400,000)	—
Investment in related party	(41,870)	—
	(441,870)	—
Increase in cash	47,479	10,765
Cash, beginning of year	16,118	5,353
Cash, end of year	\$ 63,597	\$ 16,118

See accompanying notes to consolidated financial statements.

# PACIFIC COMOX RESOURCES LTD.

(A DEVELOPMENT STAGE ENTERPRISE)

Notes to Consolidated Financial Statements

Years ended October 31, 2001 and 2000

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Pacific Comox Resources Ltd (the "Company") was incorporated to seek exploration and development opportunities primarily in Africa. The Company has abandoned its mining interests (note 3) and is actively seeking non-mining ventures (note 5). To date, the Company has not earned significant revenue and is considered to be in the development stage.

## 1. **Going concern basis:**

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company has no source of operating cash flow and its ability to continue as a going concern is dependent on the continuing financial support of its shareholders and other related parties. These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

## 2. **Significant accounting policies:**

### (a) Basis of consolidation:

The consolidated financial statements include the accounts of the Company's 94%-owned subsidiary, African Star Resources Ltd.

### (b) Cash and cash equivalents:

Cash and cash equivalents consists of cash at bank and investments with remaining maturities of less than three months on date of purchase.

### (c) Deferred exploration expenditures:

Deferred exploration expenditures are capitalized on an area-of-interest basis and include direct costs of maintaining and exploring properties, the costs of structures and equipment which are employed directly in the exploration process and other direct costs related to specific properties. All other costs, including administrative overhead, are expensed as incurred.

# PACIFIC COMOX RESOURCES LTD.

(A DEVELOPMENT STAGE ENTERPRISE)

Notes to Consolidated Financial Statements (continued)

Years ended October 31, 2001 and 2000

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## 2. Significant accounting policies (continued):

Management periodically reviews the carrying value of its investments in mineral leases and properties with internal and external mining professionals. A decision to abandon, reduce or expand a specific project is based upon many factors, including general and specific assessments of mineral reserves, anticipated future mineral prices, the anticipated future costs of exploring, developing and operating a producing mine, the expiration term and ongoing expense of maintaining leased mineral properties and the general likelihood that the Company will continue exploration. The Company does not set a predetermined holding period for properties with unproven reserves; however, properties which have not demonstrated suitable mineral values at the conclusion of each phase of an exploration program are reevaluated to determine if future exploration is warranted and their carrying values are appropriate. No significant proven reserves have been found to date.

If an area of interest is abandoned or it is determined that its carrying value cannot be supported by future production or sale, the related costs are charged against operations in the year of abandonment or decline in value.

### (d) Income taxes:

The Company has retroactively adopted the new recommendations of The Canadian Institute of Chartered Accountants for accounting for income taxes, which require the use of the asset and liability method. This change has been applied retroactively with no restatement to the prior year. Under this method of tax allocation, future income and mining tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using the enacted tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the year in which the change is enacted or substantively enacted. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized. The cumulative effect of this change in accounting for income taxes as at November 1, 2000 is nil.

Prior to the adoption of the new recommendations, income tax expense was determined using the deferral method of tax allocation. Under this method, future income and mining

# **PACIFIC COMOX RESOURCES LTD.**

(A DEVELOPMENT STAGE ENTERPRISE)

Notes to Consolidated Financial Statements (continued)

Years ended October 31, 2001 and 2000

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tax expense was based on differences in the recognition of revenue and expenses for income tax and financial reporting purposes.

# PACIFIC COMOX RESOURCES LTD.

(A DEVELOPMENT STAGE ENTERPRISE)

Notes to Consolidated Financial Statements (continued)

Years ended October 31, 2001 and 2000

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## 2. Significant accounting policies (continued):

### (e) Measurement uncertainty:

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the years. Actual results could differ from those estimates.

### (f) Loss per share:

Loss per share has been calculated based on the weighted average number of shares outstanding during the year. The full exercise of incentive stock options referred to in note 5 is anti-dilutive for 2001 and 2000 and, consequently, loss per share on a fully diluted shares basis has not been presented.

### (g) Stock-based compensation plans:

The Company provides compensation to certain employees, officers and directors in the form of stock options. No compensation expense is recognized for these plans when stock or stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital. If stock or stock options are repurchased from employees, the excess of the consideration paid over the carrying amount of the stock or stock option cancelled is charged to deficit.

## 3. Deferred exploration expenditures:

The Company was a party to a joint venture agreement in respect of a mineral exploration property in the Republic of Guinea. The government of the Republic of Guinea did not renew the Company's exploration permit during 2000 and the Company's interests were written off.

# PACIFIC COMOX RESOURCES LTD.

(A DEVELOPMENT STAGE ENTERPRISE)

Notes to Consolidated Financial Statements (continued)

Years ended October 31, 2001 and 2000

## 4. Due to shareholders and other related parties:

Amounts due to (from) related parties as at October 31 are as follows:

	2001	2000
Loan payable	\$ 164,863	\$ 155,049
Accrued interest	9,993	4,815
Consulting fees	22,500	60,000
Due from a corporation under common management	–	36,704
Investment in a corporation under common management	41,870	–

The loan payable is from an officer of the corporation, bears interest at 5% and is due on demand. The investment in a corporation under common management represents amounts advanced during the year which are non-interest bearing.

Amounts recorded during the year are as follows:

	2001	2000
Rent paid to a corporation under common management	\$ 18,700	\$ 37,498
Consulting fees due to an officer of the corporation	57,500	60,000

Transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the parties.

## 5. Investment in Papex Inc.:

During the year, the Company and Papex Inc. ("Papex"), a private Ontario corporation, based in Mississauga, Ontario, completed a definitive agreement whereby the Company was to acquire a 30% equity interest in Papex in exchange for cash payments of \$500,000 and the issuance of 3,004,000 common shares of the Company.

# PACIFIC COMOX RESOURCES LTD.

(A DEVELOPMENT STAGE ENTERPRISE)

Notes to Consolidated Financial Statements (continued)

Years ended October 31, 2001 and 2000

## 5. Investment in Papex Inc. (continued):

The Company would also have an option, exercisable during late 2002, to acquire an additional 19% equity interest in Papex for a cash price of five times Papex's annualized revenue during the February 1, 2002 to July 31, 2002 period. If the Company chose to exercise the option, the minimum payment would be \$600,000 and the maximum payment would be \$11,200,000. Papex also undertook to use its best efforts to complete a going public transaction during the late 2002 to late 2003 period.

The completion of the proposed transaction with Papex was subject to CDNX and Company shareholder approval. The Company advanced \$400,000 to Papex in the nine months ended July 31, 2001 against the above-mentioned commitment. In December 2001, the Company terminated the agreement with Papex and recorded an allowance against the \$400,000 which, under the terms of the original agreement was converted to a note receivable due December 31, 2002.

## 6. Income taxes:

The recovery of income taxes varies from the amounts that would be computed by applying the Canadian federal and provincial statutory rates of approximately 40% (2000 - 43.5%) to income before taxes as follows:

	2001	2000
Expected income tax recovery using statutory income tax rates	\$ 222,000	\$ 103,000
Tax benefit of losses not currently recognized	(222,000)	(103,000)
	\$ -	\$ -

The tax effects of temporary differences that give rise to significant portions of the future tax liabilities at October 31, 2001 and 2000 are as follows:

	2001	2000
Canada:		
Non-capital losses	\$ 560,000	\$ 600,000
Resource pools	1,000,000	1,100,000
Valuation allowance	(1,560,000)	(1,700,000)

# PACIFIC COMOX RESOURCES LTD.

(A DEVELOPMENT STAGE ENTERPRISE)

Notes to Consolidated Financial Statements (continued)

Years ended October 31, 2001 and 2000

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	\$	-	\$	-
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# PACIFIC COMOX RESOURCES LTD.

(A DEVELOPMENT STAGE ENTERPRISE)

Notes to Consolidated Financial Statements (continued)

Years ended October 31, 2001 and 2000

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## 6. Income taxes (continued):

At October 31, 2001, the Company has non-capital loss carryforwards of approximately \$1,400,000 available to reduce taxable income in future years. These losses expire through 2008. The benefit of these non-capital loss carryforwards has not been recognized in the financial statements.

## 7. Financial instruments:

The carrying values of cash, accounts receivable, payables and accruals and due to shareholders and other related parties approximate fair values due to the short-term maturities of these instruments.

## 8. Share capital:

(a) The Company's authorized share capital consists of 200,000,000 common shares without par value. Details of shares issued during 2001 and 2000 are as follows:

	Number	Amount
Balance, October 31, 1999 and 2000	38,467,546	\$ 10,955,823
Issued upon completion of a private placement	7,000,000	700,000
Balance, October 31, 2001	45,467,546	\$ 11,655,823

The Company raised \$700,000 through a number of private placements to fund the cash component of acquiring the interest in Papex and for working capital purposes. The funds were raised by the sale of 7,000,000 units at \$0.10 per unit. Each unit consists of one share and one share purchase warrant exercisable at \$0.20 per share expiring in January 2002.

# PACIFIC COMOX RESOURCES LTD.

(A DEVELOPMENT STAGE ENTERPRISE)

Notes to Consolidated Financial Statements (continued)

Years ended October 31, 2001 and 2000

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## 8. Share capital (continued):

- (b) The movements in the Company's stock option plan and those outstanding at October 31, 2001 are summarized below:

	Number	Average exercise price
Options outstanding, October 31, 1999	785,000	\$ 0.32
Expired	(135,000)	0.27
Options outstanding, October 31, 2000	650,000	0.33
Expired	(550,000)	0.31
Options outstanding, October 31, 2001	100,000	0.48

The options outstanding expired unexercised on December 5, 2001.