



**DRC RESOURCES CORPORATION**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

**(Prepared by Management - Unaudited )**



**DRC RESOURCES CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**PERIODS ENDED FROM JANUARY 1 TO**  
**(Prepared by Management)**

	Three Months Ended		Six Months Ended	
	June 30, 2001 (Unaudited)	June 30 2000 (Unaudited)	June 30 2001 (Unaudited)	June 30 2000 (Unaudited)
<b>REVENUE</b>				
Interest and other	\$ 62,968	\$ 15,736	\$ 133,472	\$ 25,107
Oil & gas royalties	1,656	1,031	2,174	1,592
Foreign exchange	(16,620)	(892)	(2,360)	(186)
Gain on sale of assets	-	-	-	-
<b>TOTAL REVENUE</b>	<b>48,004</b>	<b>15,875</b>	<b>133,286</b>	<b>26,513</b>
<b>EXPENSES</b>				
Bank charges	178	37	301	96
Consulting & property investigations	17,080	-	22,680	-
Amortization	5,600	-	5,600	-
Dues & subscriptions	5,019	2,970	5,434	3,290
Mortgage interest	-	251	-	482
Office, secretarial & stationery	20,117	10,497	31,786	21,242
Professional fees	15,149	5,983	15,149	5,983
Regulatory fees	6,115	3,515	7,608	5,120
Rent	3,102	4,356	9,446	8,585
Telephone	789	1,006	1,486	2,085
Transfer agent	2,685	777	3,589	1,720
Travel & promotion	7,512	3,176	16,489	6,201
Write-off of mineral interests	-	-	-	-
<b>TOTAL EXPENSES</b>	<b>83,346</b>	<b>32,568</b>	<b>119,568</b>	<b>54,804</b>
<b>LOSS FOR THE PERIOD</b>	<b>35,342</b>	<b>16,693</b>	<b>(13,718)</b>	<b>28,291</b>
Deficit, beginning of period	1,186,153	1,236,630	1,235,213	1,225,032
<b>DEFICIT, END OF PERIOD</b>	<b>\$ 1,221,495</b>	<b>\$ 1,253,323</b>	<b>\$ 1,221,495</b>	<b>\$ 1,253,323</b>

See accompanying notes.

**DRC RESOURCES CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**PERIODS ENDED FROM JANUARY 1 TO**  
**(Prepared by Management)**

	Three Months Ended		Six Months Ended	
	June 30, 2001 <u>(Unaudited)</u>	June 30, 2000 <u>(Unaudited)</u>	June 30, 2001 <u>(Unaudited)</u>	June 30, 2000 <u>(Unaudited)</u>
<b>OPERATING ACTIVITIES</b>				
Loss for the year	\$ (35,342)	\$ (16,693)	\$ 13,718	\$ (28,291)
Items not affecting cash:				
Amortization	5,600	-	5,600	-
Write-off of resource assets	-	-	-	-
 Gain on capital assets sold	 -	 -	 -	 -
	<hr/> (29,742)	<hr/> (16,693)	<hr/> 19,318	<hr/> (28,291)
 Cash provided (used) from changes in non-cash working capital items, net	 4,347	 3,316	 (83,832)	 (4,524)
	<hr/> (25,395)	<hr/> (13,377)	<hr/> (64,514)	<hr/> (35,815)
<b>INVESTING ACTIVITIES</b>				
Additions to resource properties	(456,313)	(140,487)	(576,044)	(151,847)
Additions to capital assets	(5,596)	(966)	(8,475)	(966)
	<hr/> (461,909)	<hr/> (141,453)	<hr/> (584,519)	<hr/> (152,813)
<b>FINANCING ACTIVITIES</b>				
Special warrants	-	-	-	-
Shares issued for cash	32,000	206,600	32,000	212,600
Decrease in mortgage principal	-	(3,823)	-	(3,786)
	<hr/> 32,000	<hr/> 202,777	<hr/> 32,000	<hr/> 208,814
<b>INCREASE (DECREASE) IN CASH</b>	(455,304)	47,947	(617,033)	23,185
<b>CASH, BEGINNING OF PERIOD</b>	4,918,060	648,228	5,079,789	672,990
<b>CASH, END OF PERIOD</b>	<hr/> \$ 4,462,756	<hr/> \$ 696,175	<hr/> \$ 4,462,756	<hr/> \$ 696,175

See accompanying notes.

**DRC RESOURCES CORPORATION**  
**SCHEDULE OF RESOURCES PROPERTIES**  
**FOR THE PERIOD ENDED JUNE 30, 2001 AND YEAR ENDED DEC. 31, 2000**

<u>Acquisition Costs</u>	<u>June 30</u>	<u>Dec 31</u>
	<u>2001</u>	<u>2000</u>
Kamloops Afton@ Claims	\$ 301,733	\$ 301,733
Kamloops Python Claims	47,135	47,135
Alberta Mineral Permits	6,000	6,420
Timmins, Ontario Claims	31,500	31,500
Texas Oil/Gas Property	110,867	110,867
<b>Balance at End of Period</b>	<b>\$ 497,235</b>	<b>\$ 497,655</b>

**Deferred Exploration Costs**

	<u>Afton</u>	<u>Python</u>	<u>Other</u>	<u>June 30</u>	<u>Dec 31</u>
	<u>Claims</u>	<u>Claims</u>		<u>2001</u>	<u>2000</u>
<b>Balance, Beginning of Period</b>	\$744,762	\$ 59,074	\$ 64,861	\$ 868,697	\$ 166,848
<b><u>Current period expenses</u></b>					
Assays and testing	17,232	-	-	17,232	42,065
Drilling	293,212	-	-	293,212	464,722
Engineering	86,361	-	-	86,361	27,132
Geological consulting	108,270	-	-	108,270	120,250
Labour	19,856	-	-	19,856	30,342
Supplies and equipment	13,485	-	-	13,485	9,603
Travel and accommodation	22,734	-	-	22,734	27,073
Staking and filing fees	11,617	110	-	11,727	2,496
Miscellaneous	3,587	-	-	3,587	111
Grant recoveries	-	-	-	-	(4,527)
Option payments	-	-	-	-	-
	576,354	110	-	576,464	719,267
Costs written-off	-	-	-	-	(17,418)
	576,354	110	-	576,464	701,849
<b>Balance, End of Period</b>	<b>\$ 1,321,116</b>	<b>\$ 59,184</b>	<b>\$ 64,861</b>	<b>\$ 1,445,161</b>	<b>\$ 868,697</b>

**Total Resource Assets** \$ 1,942,396 \$ 1,366,352

**DRC RESOURCES CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2001 AND 2000 AND DECEMBER 31, 2000**  
**(Prepared by Management)**

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) Principles of Consolidation

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

b) Use of Estimates

The preparation of financial statements in conformity with Canadian 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 amounts 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 interest 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**  
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2. SIGNIFICANT ACCOUNTING POLICIES (CONT=D)

c) Resource Properties (Cont=d)

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 and are royalty interests.

d) Capital Assets

Capital assets are recorded 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) Loss Per Common Share

The loss per common share has not been presented, given the development stage of the Company.

g) 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 paid for shares on exercise of the share options 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 next five years beginning in year 2, a work commitment \$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 \$600,000 in year 2001 and \$1,000,000 in year 2002.

**DRC RESOURCES CORPORATION**  
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3. RESOURCE PROPERTIES (CONT'D)

\$ Kamloops, B.C., Afton Mineral Property (Cont'd)

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 Note 13)

\$ 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 72 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 had 64 metallic and industrial mineral permits located in Southern Alberta. These permits were in good standing until June 22 - July 28, 2000. The Company allowed these permits to lapse. In October 2000 the Company applied for, and on April 12, 2001 was issued 12 new Metallic and Industrial mineral permits in the same general area.

\$ 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, 2006.

\$ 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 interests.

**DRC RESOURCES CORPORATION**  
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4. CAPITAL ASSETS

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	
			<u>June 31, 2001</u>	<u>Dec. 31, 2000</u>
Auto	\$ 34,055	\$ 28,634	\$ 5,421	\$ 6,812
Office equipment	<u>23,444</u>	<u>9,066</u>	<u>14,378</u>	<u>10,110</u>
	<u>\$ 57,499</u>	<u>\$ 37,700</u>	<u>\$ 19,799</u>	<u>\$ 16,922</u>

5. MORTGAGES PAYABLE

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

6. SHARE CAPITAL

- a) Authorized  
40,000,000 common shares without par value

The Company, by special resolution passed June 18, 2001, changed its authorized capital to 40,000,000 common shares without par value and cancelled all its Class AA@ and Class AB@ preference shares.

- b) Issued

	<u>Number Of Shares</u>	<u>Amount</u>
<b>Balance, December 31, 1999</b>	4,456,016	2,285,189
Issued during the period 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 period for mineral properties (Note 3)	<u>1,000,000</u>	<u>300,000</u>
<b>Balance, December 31, 2000</b>	6,680,516	2,880,397
Issued during the period for cash:		
Exercise of special warrants	790,000	2,869,820
Exercise of options	<u>160,000</u>	<u>32,000</u>
<b>Balance, June 30, 2001</b>	<u>7,630,516</u>	<u>\$ 5,782,217</u>

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6. SHARE CAPITAL (CONT=D)

b) Issued (Cont=d)

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, the Company issued 1,000,000 common shares on the exercise of warrants at \$0.20 per share and issued 1,000,000 common shares for the first option payment as per the agreement to acquire the Kamloops Afton property. 12,500 of the special warrants were exercised. The net proceeds received were credited to share capital.

During the first quarter ended March 31, 2001 a further 790,000 of the special warrants were exercised. The net proceeds received were credited to share capital.

During the second quarter ended June 30, 2001 the Company issued 160,000 common shares on the exercise of stock options at \$0.20 per share.

c) 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

	<u>Options Outstanding</u>	<u>Options Price</u>
<b>Balance, December 31, 1999</b>	423,000	
Exercised	(138,000)	\$0.20
Exercised	(74,000)	\$0.30
Granted	<u>453,000</u>	\$4.00
<b>Balance, December 31, 2000</b>	<u>664,000</u>	
Exercised	(160,000)	\$0.20
Granted	90,000	\$4.00
Cancelled	<u>(25,000)</u>	\$7.00
	<u>569,000</u>	

51,000 of the options at \$0.30 expire on September 15, 2001  
428,000 of the options at \$4.00 expire on September 13, 2002  
90,000 of the options at \$4.00 expire on May 9, 2003

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6. SHARE CAPITAL (CONT=D)

c) Stock Options (Cont=d)

On May 9, 2001 the Company granted 90,000 incentive stock options at \$4.00 per share. In addition, it amended the exercise price to \$4.00 per share for 428,000 options previously issued at \$7.00 per share. 25,000 stock options were cancelled which were originally issued at \$7.00 per share and expiring on September 13, 2002.

d) Share Purchase Warrants Outstanding

At June 30, 2001, the Company had 1404,750 non-transferable share purchase warrants outstanding at an 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 and 100,000 agents special warrants at a price of \$4.00 per warrant. 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 purchased by Ontario residents were be exchanged for 1.1 common shares pursuant to the terms and conditions of the Subscription Agreements. A prospectus qualifying the issue of these shares was receipted by the Securities Commission of British Columbia, Alberta and Ontario.

12,500 special warrants were exercised for common shares before December 31, 2000 and 790,000 special warrants were exercised in the first quarter to March 31, 2001.

The Company received proceeds of \$5,400,000 and after the offering costs of \$495,880 netted \$4,901,120 for the Company's treasury.

8. RELATED PARTY TRANSACTIONS

	<u>June 30,</u> <u>2001</u>	<u>Dec. 31,</u> <u>2000</u>
For consulting, property investigations and exploration costs charged by a private company controlled by the President/Director	\$ 58,000	\$ 86,300
For shares issued in payment on Aafton@ 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.	\$ 19,613	\$ 27,691

**DRC RESOURCES CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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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 year up to 2007 and \$182,283 of U.S. income tax losses, expiring in the years up to 2014, are available to reduce future taxable income.

At the end of the year 2000, subject to confirmation by income tax authorities, the Company had the following undernoted tax pools:

Canadian Exploration Expenses	<u>\$ 386,293</u>
Canadian Development Expenses	<u>\$ 98,797</u>
Undepreciated Capital Costs	<u>\$ 28,590</u>
Share issue costs	<u>\$ 396,704</u>
Non-Capital Losses, expiring at varying dates to 2007	<u>\$ 451,563</u>

Any potential benefits of these amounts have not been reflected in these consolidated financial statements as there is no certainty at this time as to their ultimate recovery.

\$532,700 of year 2000 Canadian exploration expenditures were renounced to the investors as well as \$1,000,000 allowed under the look-back rules available under the Canadian Income Tax Act. The latter amount will be deducted from the year 2001 exploration expenditures on the Kamloops Afton® Property.

10. SUPPLEMENTARY CASH FLOW INFORMATION

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

**DRC RESOURCES CORPORATION**  
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10. SUPPLEMENTARY CASH FLOW INFORMATION (CONT'D)

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

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

	<u>June 30,</u> <u>2001</u>	<u>Dec. 31,</u> <u>2000</u>
<b>CANADA</b>		
Current Assets	\$ 4,643,480	\$ 5,207,370
Resource Properties	1,831,529	1,225,485
Capital Assets	<u>19,799</u>	<u>16,922</u>
	<u>6,494,808</u>	<u>6,479,777</u>
<b>U.S.A.</b>		
Current Assets	1,884	1,119
Resource Property	<u>110,867</u>	<u>110,867</u>
	<u>112,751</u>	<u>111,986</u>
<b>TOTAL</b>	<u>\$ 6,607,559</u>	<u>\$ 6,591,763</u>

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 Aafton® Mineral Property, is required to issue an additional 1,000,000 shares in 200,000 share installments over the next five years and the work commitment of \$6,500,000 over nine years.

**DRC RESOURCES CORPORATION**  
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**14. ENVIRONMENTAL RISKS**

Existing and possible future environmental legislations, 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 a property.

**15. PROSPECTUS OFFERING**

The Company by Prospectus dated August 3, 2001 is qualifying the issuance of 547,500 Special Warrants comprising of one common share and one transferable common share purchase warrant at a price of \$4.00 per common share and \$5.00 per common share purchase warrant, exercisable to October 3, 2001.