QUARTERLY AND YEAR END REPORT

FORM 51-901F

British Columbia Securities Commission

ISSUER DETAILS NAME OF ISSUER	TELEPHONE NO.	FOR QUARTER ENDED	DATE OF REPORT (YY-MM-DD)
SOUTHERN RIO RESOURCES LTD.	604.687.3959	August 31, 2003	03-10-09

ISSUER'S ADDRESS	CITY, PROVINCE	POSTAL CODE
1410 – 650 West Georgia Street	Vancouver, British Columbia	V6B 4N8

CONTACT PERSON	CONTACT'S POSITION	CONTACT TELEPHONE NO.
Lindsay R. Bottomer	President	604.687.3959

CONTACT E-MAIL ADDRESS	WEBSITE ADDRESS
info@southernrio.com	www.southernrio.com

CERTIFICATE

The three schedules required to complete this Quarterly Report are attached and the disclosure contained therein has been approved by the board of Directors. A copy of this Quarterly Report will be provided to any shareholder who requests it.

DIRECTOR'S SIGNATURE	PRINT FULL NAME	DATE SIGNED
"Lindsay R. Bottomer"	Lindsay R. Bottomer	03-10-20

DIRECTOR'S SIGNATURE	PRINT FULL NAME	DATE SIGNED
"Randy C. Turner"	Randy C. Turner	03-10-20

QUARTERLY AND YEAR END REPORT

FORM 51-901F

Southern Rio Resources Ltd. - August 31, 2003

SCHEDULE B - Supplementary Information

1. Analysis of expenses and deferred costs for the current fiscal year to date:

Refer to Schedule A Financial Statements – Statement of Operations and Deficit for details of expenses and Note 6 - Statement of Deferred Exploration Costs for expenditures made on property investigation, exploration and development during this period.

2. Related Party Transactions:

Refer to Note 7 of Schedule A - Consolidated Financial Statements.

3. For the quarter under review:

a) Summary of securities issued during the quarter:

Date of Issue	Type of Security	Type of Issue	Price Per Share	No. of Shares	Proceeds	Type of Consider-ation	Com-mission
Jun 24	Common Shares	Property Payment	$0.15	150,000	$22,500 (deemed)	Nil	Nil

b) Summary of options granted during the quarter: **Nil**

4. As at the end of the quarter:

a) Refer to Note 8 of Schedule A - Consolidated Financial Statements for a summary of authorized capital

b) Refer to Note 9 of Schedule A - Consolidated Financial Statements for a summary of outstanding options, warrants and convertible securities

c) Shares in Escrow: **163,500**

5. List of Officers and Directors as at the date this report was signed and filed:

Officers

Lindsay R. Bottomer, President
Randy C. Turner, CFO
Graham Scott, Secretary

Directors

Lindsay R. Bottomer
Randy C. Turner
Robert Watts
John A. McDonald
Wayne G. Beach

QUARTERLY AND YEAR END REPORT

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Southern Rio Resources Ltd. - August 31, 2003

SCHEDULE C - Management Discussion

Discussion of Operations and Financial Condition:

For the six month period ended August 31, 2003, the Company had a net loss of $128,012 or $0.01 per share compared with the loss of $147,008 or $0.01 per share for the corresponding period in the previous year. The Company had working capital of $63,219 at August 31, 2003.

The Company had general and administrative expenses of $128,721 as at August 31, 2003 compared to $147,676 during the same period in 2002.

The Company incurred deferred exploration expenditures of $276,475 during this period compared with $304,461 during the same period in 2002. As at August 31, 2003, the Company had insufficient funds to complete the exploration planned to the end of the year. A financing to raise $765,000 in new capital was recently announced.

During the quarter under review, the Company continued the investor relation services of Jeffrey Wilson for an additional two month period at a salary of $4,000 per month.

President's Message:

During the quarter under review, the Company continued to focus on exploration of its gold-silver properties in the Nechako region of central British Columbia. These are the contiguous Tsacha, Tam and Taken Properties (collectively referred to as the 3Ts Project), the Trout Property, and the Sam Property. All are located southwest of Vanderhoof, BC, and are road accessible from the well-developed forestry road network which serves this region.

Following on from the winter drilling program on the Tam Property, additional geological mapping, prospecting and mineralogical/geochemical studies were proposed for the 3Ts Project. The geological mapping and mineralogical/geochemical studies were completed during the period, and the prospecting program commenced in late August. Results from this work will provide guidance for further drilling on the 3Ts Project planned for late 2003 or early 2004.

In the news release dated June 16, the Company announced the acquisition of a 100% interest in the Uduk Lake Property from Atna Resources Ltd. This property is also located in the Nechako region of central BC. The Uduk Lake Property, along with the Sam and Trout Properties, were inspected by myself and an independent geological consultant in late August to evaluate and prioritize the potential of all three properties.

To help fund the Company's on-going work programs in BC, the Company announced on August 7 a non-brokered private placement of flow-through shares for $100,000. In addition, on July 17, the Company announced a debt settlement with a trade creditor for the amount of $45,292.56.

Also during the period, the Company filed its updated AIF (Annual Information Form), which is available for review in SEDAR.

In the upcoming quarter, the Company will continue to focus mainly on the 3Ts Project, and particularly the east-central portion of the project area, where prospecting results announced after the end of the period have returned excellent gold and silver values from mineralized boulders. This area is almost completely covered by glacial till, and additional work (trenching, geological mapping and sampling, and refraction seismic surveying) to help define targets for drill testing is planned for the third quarter.

Outside of BC, the Company holds two precious metal properties, the Mayo silver property in the Yukon, and the Minnitaki Lake gold property in northwestern Ontario. With its continuing focus on the Nechako region projects, the Company is seeking joint venture partners to further explore these two well-located properties. With the recent increase in the price of copper, the Company is also seeking to further advance the Duke copper property near Merritt in southern BC.

Southern Rio Resources Ltd.

Consolidated Financial Statements
(Unaudited)

as at August 31, 2003

NOTICE TO READER

The Consolidated Balance Sheets of Southern Rio Resources Ltd. as at August 31, 2003 and the Consolidated Statement of Operations and Deficit and the Consolidated Changes in Financial Position for the six month period then ended have been compiled by Management. They have not been audited, reviewed or otherwise verified as to the accuracy or completeness of information. Readers are cautioned that these statements may not be appropriate for their purposes.

SOUTHERN RIO RESOURCES LTD.
Consolidated Balance Sheets

ASSETS

	August 31 2003	February 28 2003
Current Assets		
Cash	50,690	266,879
Restricted cash (Note 11)	204,078	312,613
Accounts receivable	63,497	73,808
Marketable securities	10,000	10,000
Prepaid expenses	2,000	2,000
	330,265	665,300
Reclamation deposit (Note 3)	3,500	3,500
Capital Assets (Note 4)	7,864	7,864
Mineral properties (Note 5)	174,891	106,974
Deferred exploration (Note 6)	891,864	615,389
	1,408,384	1,399,027

LIABILITIES

	August 31 2003	February 28 2003
Current liabilities		
Accounts payable and accrued liabilities	106,011	121,392
Due to related parties (Note 7)	161,035	161,035
	267,046	282,427

SHAREHOLDERS' EQUITY

	August 31 2003	February 28 2003
Share capital (Note 8)	9,816,623	9,663,873
Contributed surplus (Note 12)	106,444	106,444
Cumulative translation adjustment	2,048	2,048
Earnings (deficit)	(8,783,777)	(8,655,765)
	1,141,338	1,116,600
	1,408,384	1,399,027

On behalf of the Board:

"Lindsay R. Bottomer"
Lindsay R. Bottomer, Director

"Randy C. Turner"
Randy C. Turner, Director

Unaudited - prepared by management
The accompanying notes are an integral part of these financial statements.

SOUTHERN RIO RESOURCES LTD.
Consolidated Statement of Operations and Deficit

	Three Month Period Ended August 31 2003	Three Month Period Ended August 31 2002	Six Month Period Ended August 31 2003	Six Month Period Ended August 31 2002
Expenses				
Bank charges and interest	138	203	325	409
Advertising & media services	2,321	3,325	8,821	6,554
Courier and postage	1,465	1,711	1,485	1,720
Consulting and corporate services	22,500	10,500	40,067	21,000
Legal, audit and accounting	7,719	22,692	8,965	31,763
Management fees	20,800	25,150	35,500	47,650
Office and miscellaneous expenses	77	1,066	1,069	2,999
Printing	3,434	1,268	4,074	1,422
Regulatory & transfer agent fees	5,345	6,711	9,994	14,398
Rent	4,500	4,500	9,000	9,000
Telephone	414	645	858	1,174
Travel	2,031	157	6,551	6,109
Wages and benefits	263	1,558	2,013	3,478
	71,007	79,486	128,721	147,676
Interest income	891	563	2,339	668
Write-off of mineral properties (Note 5)	(1,630)	-	(1,630)	-
	(739)	563	709	668
Net loss for the period	71,746	78,923	128,012	147,008
Deficit, beginning of the period	8,712,031	8,350,275	8,655,765	8,282,190
Deficit, end of the period	8,783,777	8,429,198	8,783,777	8,429,198
Loss per share:	0.01	0.01	0.01	0.01
Weighted average number of common shares outstanding	31,107,771	24,443,098	31,000,271	23,473,306

Unaudited - prepared by management
The accompanying notes are an integral part of these financial statements.

SOUTHERN RIO RESOURCES LTD.
Consolidated Statement of Changes in Financial Position

	Three Month Period Ended August 31 2003	Three Month Period Ended August 31 2002	Six Month Period Ended August 31 2003	Six Month Period Ended August 31 2002
Cash provided by (used in)				
Operating Activities				
Loss for the period	(71,746)	(78,923)	(128,012)	(147,008)
Write-off of mineral property	1,630		1,630	
Changes in non-cash working capital items				
(Increase) decrease in pre-paid expenses	-	-	-	(1,000)
(Increase) decrease in accounts receivable	30,483	(5,930)	10,311	(10,844)
Increase (decrease) in accounts payable	8,350	134832)	(15,381)	125,783
	(31,283)	49,979	(131,452)	(33,069)
Financing Activities				
Issue of shares	100,000	195,799	100,000	485,966
	100,000	195,799	100,000	485,966
Investing Activities				
(Acquisition) disposition of mineral properties	(22,500)	(3,189)	(69,547)	(37,949)
Issue of shares for property	22,500	-	52,750	-
Recovered exploration expenditures	-	142,743	-	142,743
(Deferred) exploration expenditures	(45,430)	(288,500)	(276,475)	(304,461)
	(45,430)	(148,946)	(293,272)	(199,667)
Increase (decrease) in cash	23,287	96,832	(324,724)	253,230
Cash, beginning of the period	231,481	180,111	579,492	23,713
Cash, end of the period	254,768	276,943	254,768	276,943

1. NATURE AND CONTINUANCE OF OPERATIONS

The Company is considered to be in the exploration stage with respect to its interests in mineral properties.

The recoverability of the amounts comprising mineral properties and deferred exploration costs are dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain necessary financing to successfully complete their exploration and development and upon future profitable production.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. Continued operations of the Company are dependent on the Company's ability to receive continued financial support, complete public equity financing, or generate profitable operations in the future.

	For the period ended August 31, 2003	For the year ended February 28, 2003
Deficit	$(8,782,147)	$(8,665,765)
Working capital (deficiency)	63,219	382,873

2. SIGNIFICANT ACCOUNTING POLICIES

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 amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The significant area requiring the use of management estimates relates to the determination of impairment of mineral properties. Actual results could differ from those estimates.

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Golden Pavilion Resources Ltd., a British Columbia corporation and Minera Southern Rio S.A., a Chilean corporation. All inter-company balances and transactions have been eliminated upon consolidation.

Marketable securities

Marketable securities are recorded at the lower of cost or market value. The market value of marketable securities at August 31, 2003 is $13,000.

Capital assets and amortization

Capital assets, being furniture and equipment, are recorded at cost less accumulated amortization. Amortization is being provided for using the straight-line method over five years.

Mineral properties

The Company records its interests in mineral properties and areas of geological interest at cost. All direct and indirect costs relating to the acquisition of these interests are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold or management has determined there to be an impairment. These costs will be amortized on the basis of units produced in relation to the proven reserves available on the related property following commencement of production. Mineral properties which are sold before that property reaches the production stage will have all revenues from the sale of the property credited against the cost of the property. Properties which have reached the production stage will have a gain or loss calculated based on the portion of that property sold.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Mineral Properties (continued)

The recorded cost of mineral exploration interests is based on cash paid, the assigned value of share considerations and exploration and development costs incurred. The recorded amount may not reflect recoverable value as this will be dependant on the development program, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to bring its projects into production.

Deferred exploration costs

The Company defers all exploration expenses relating to mineral properties and areas of geological interest until the properties to which they relate are placed into production, sold or abandoned. These costs will be amortized over the proven reserves available on the related property following commencement of production.

Values

The amounts shown for mineral properties and for deferred exploration costs represent costs to date, and do not necessarily represent present or future values, as they are entirely dependent upon the economic recovery of current and future reserves.

Cost of maintaining mineral properties

The Company does not accrue the estimated future costs of maintaining its mineral properties in good standing.

Environmental protection and reclamation costs

Liabilities related to environmental protection and rehabilitation costs are accrued and charged to income when their likelihood of occurrence is established. This includes future removal and site restoration costs as required due to environmental law or contracts.

Foreign currency translation

The Company's foreign subsidiary is an integrated foreign operation and is translated into Canadian dollars using the temporal method. Monetary items are translated at the exchange rate in effect at the balance sheet date; non-monetary items are translated at historical exchange rates. Income and expense items are translated at the average exchange rate for the period. Translation gains and losses are reflected in the statement of operations.

In fiscal 2001, the Company's foreign subsidiary was a self-sustaining foreign operation and was translated into Canadian dollars using the current rate method. Gains and losses arising from translation of the financial statements of the subsidiary are included as a separate component of shareholders equity.

Stock-based compensation

Effective March 1, 2002, the Company adopted the new CICA Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments", which recommends the fair value-based methodology for measuring compensation costs. The new section also permits, and the Company has adopted, the use of the intrinsic value-based method, which recognizes compensation cost for awards to employees only when the market price exceeds the exercise price at date of grant, but requires pro-forma disclosure of earnings and earnings per share as if the fair value method had been adopted. Any consideration paid by the option holders to purchase shares is credited to capital stock.

Loss per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. For the years presented, this calculation proved to be anti-dilutive.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Loss per share (continued)

Loss per share is calculated using the weighted-average number of shares outstanding during the year.

Income taxes

Future income taxes are recorded for using the asset and liability method. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it to be more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Comparative figures

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

3. RECLAMATION DEPOSIT

The Company is responsible for certain reclamation relating to its mineral properties. As at August 31, 2003, a total of $3,500 (2002 - $Nil) had been lodged with the British Columbia Ministry of Energy and Mines.

4. CAPITAL ASSETS

	2003			2002		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Furniture and equipment	$17,560	$9,696	$7,864	$17,560	$6,184	$11,376

5. MINERAL PROPERTIES

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties are in good standing.

The Company holds interests in various mineral claims as follows:

	2003	**2002**
Tam property, British Columbia, Canada		
A 100% interest, subject to a 1% net smelter return royalty.	5,700	5,700
Minnitaki property, Ontario, Canada		
A 90% interest, subject to a sliding scale net smelter return royalty ranging from 1.5% to 3%.	45,000	32,500

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5. MINERAL PROPERTIES (continued)

Duke property, British Columbia, Canada		
An option to acquire a 100% interest in certain claims. In order to acquire its interest, the Company must pay $5,400 and issue 50,000 common shares. To date, the Company has paid $5,400 and issued 25,000 shares at an agreed value of $2,500. The property is subject to a 1% net smelter return royalty.	7,900	5,400
Tim property, British Columbia, Canada		
A 100% interest by staking. During the period, the Company abandoned the Tim property and all associated costs have been written off.	-	1,630
Taken property, British Columbia, Canada		
An option to acquire a 100% interest in certain claims located in British Columbia, Canada. To exercise its option, the Company is required to incur an aggregate of $250,000 in exploration expenditures and issue 200,000 common shares over a four year period. To date, the Company has issued 40,000 shares at an agreed value of $4,000. The property is subject to a sliding scale net smelter royalty ranging from 2 to 4%.	8,000	4,000
Tsacha property, British Columbia, Canada		
An option to acquire a 100% interest in certain claims located in British Columbia, Canada. To exercise its option, the Company is required to incur an aggregate of $1,200,000 in exploration expenditures and issue 400,000 common shares over a three year period. To date, the Company has issued 100,000 common shares at an agreed value of $15,000. The Company also staked additional claims at a cost of $1,630. The property is subject to varying net smelter return royalties, one half of which may be purchased back at any time for $2,000,000.	31,630	16,630
Dani property, British Columbia, Canada		
An option to acquire a 100% interest in certain claims. In order to acquire the claims, the Company must pay $30,000 and issue 198,000 common shares over a three year period. To date, the Company paid $3,000 and issued 49,500 shares at a value of $7,425. The property is subject to a 2.5% net smelter royalty, 1.3% of which may be purchased back at any time for $1,000,000. Commencing on the fourth anniversary, the property will be subject to an annual advance royalty of $12,000, half of which may be paid in common shares.	10,425	-
Sam property, British Columbia, Canada		
A 100% interest by staking.	5,616	-
Trout property, British Columbia, Canada		
An option to acquire a 100% interest in certain claims located in British Columbia. To exercise its option, the Company is required to pay $25,000, incur $200,000 in exploration expenditures and issue 175,000 common shares over a three year period. To date, the Company has paid $5,000 and issued 25,000 common shares at an agreed value of $3,750. The property is subject to a 2% net smelter royalty, 1% of which may be purchased back at anytime for $750,000.	13,120	-

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5. MINERAL PROPERTIES (continued)

Uduk Lake property, British Columbia, Canada

An option to acquire a 100% interest in certain claims located in British Columbia. To exercise its option, the Company is required to issue 150,000 common shares at an agreed value of $22,500. To date, the Company has issued 150,000 common shares at an agreed value of $22,500. The property is subject to a 3% net smelter royalty, 2% of which may be purchased back at anytime for $1 million per percentage.	22,500	-
Bond & Johnson property, Ontario, Canada		
A 100% interest, subject to a 2.5% net smelter royalty, 1.5% of which may be purchased back at any time for $1,500,000.	25,000	-
	$174,891	$78,360

6. DEFERRED EXPLORATION COSTS

	Dani Property	Duke Property	Minnitaki Property	Taken Property	Tam Property	Tsacha Property	Other	Total
Balance, beginning of year	$17,731	$10,968	$188,312	$24,039	$99,789	$240,915	$33,635	$615,389
Geology	2,502	185	6,481	1,803	14,168	19,200	8,263	52,602
Geophysics - Air								
Geophysics - Ground								
Geochemistry				423	176	106		705
Drilling					214,559	586		215,145
Land Retention				1,025	140		1,903	3,068
Land Use/Permitting	2,815				1,359			4,174
Environmental								
Data Evaluation					390	390		
Total deferred costs for the period	5,317	185	6,481	3,251	230,792	20,282	10,166	276,475
Balance, end of period	23,048	11,153	194,793	27,290	330,581	261,197	43,801	891,864

7. RELATED PARTY TRANSACTIONS

During the period, the Company entered into the following transactions with related parties:

a) Paid or accrued $21,000 (2002 - $21,000) for administration fees to a company controlled by a director.

b) Paid or accrued $9,000 (2002 - $9,000) for rent to a company controlled by a director.

c) Paid or accrued $10,524 (2002 - $9,875) for professional services to a law firm in which an officer of the Company is a partner.

d) Paid or accrued $35,500 (2002 - $47,650) for management fees to a company controlled by a director.

Included in accounts payable and accrued liabilities at August 31, 2003 is $56,170 (2002 - $45,680) due to companies controlled by directors and to a law firm in which an officer of the Company is a partner.

7. RELATED PARTY TRANSACTIONS (continued)

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Amounts due to related parties are non-interest bearing, unsecured with no specific terms of repayment.

8. CAPITAL STOCK

	Number of Shares	Amount
Authorized		
50,000,000 common shares without par value		
Issued		
As at February 28, 2003	30,817,771	$9,663,873
For cash – private placement (obligation to issue)	1,000,000	$100,000
For mineral property option	365,000	$52,750
As at May 31, 2003	32,182,771	$9,816,623

Included in capital stock are 163,500 common shares currently held in escrow, their release being subject to regulatory approval.

9. STOCK OPTIONS AND WARRANTS

Options

The Company, in accordance with its shareholder approved stock option plan, is authorized to grant options to directors, officers, employees and consultants, to acquire up to 3,500,000 common shares. The exercise price of each option equals the market price of the Company's stock as calculated on the date of grant. Options can be granted for a maximum term of 5 years.

The following incentive stock options were outstanding at August 31, 2003:

Number of Shares	Exercise Price	Expiry Date
200,000	$ 0.15	November 24, 2003
400,000	0.15	June 16, 2005
450,000	0.15	June 4, 2006
50,000	0.15	February 28, 2007
1,100,000	0.20	May 15, 2007

Warrants

As at August 31, 2003, the Company had outstanding share purchase warrants, enabling the holders to acquire further shares as follows:

Number of Shares	Exercise Price	Expiry Date
70,000	$0.21	October 23, 2003
2,012,500	$0.21/$0.25	December 31, 2004
3,260,000	$0.20/$0.25	January 31, 2005

10. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

Significant non-cash transactions for the period ended August 31, 2003 include:

a) The issuance of 40,000 common shares, with an agreed value of $4,000, as consideration towards the acquisition of the Taken Property in British Columbia (Note 5).

b) The issuance of 100,000 common shares, with an agreed value of $15,000, as consideration towards the acquisition of the Tsacha Property in British Columbia (Note 5).

c) The issuance of 50,000 common shares, with an agreed value of $7,500 as consideration towards the acquisition of the Bond & Johnson Property in Ontario (Note 5).

e) The issuance of 25,000 common shares, with an agreed value of $3,750 as consideration towards the acquisition of the Trout Property in British Columbia (Note 5).

f) The issuance of 150,000 common shares, with an agreed value of $22,500 as consideration for the acquisition of the Uduk Property in British Columbia (Note 5).

Significant non-cash transactions for the period ended August 31, 2002 include:

a) The issuance of 40,000 common shares, with an agreed value of $4,000, as consideration towards the acquisition of the Taken Property in British Columbia (Note 5).

b) The issuance of 100,000 common shares, with an agreed value of $15,000, as consideration towards the acquisition of the Tsacha Property in British Columbia (Note 5).

c) The issuance of 50,000 common shares, with an agreed value of $7,500 as consideration towards the acquisition of the Bond & Johnson Property in Ontario (Note 5).

11. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, restricted cash, receivables, marketable securities, reclamation deposit, accounts payable and accrued liabilities and amounts due to related parties. 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. The fair value of these financial instruments approximate their carrying values, unless otherwise noted.

12. STOCK-BASED COMPENSATION

The Company has elected to measure compensation costs using the intrinsic value-based method for employee stock options.

The Company granted 1,000,000 stock options during the prior fiscal year to employees at an exercise price below the share price at the date of granting and 100,000 to non-employees. Accordingly, the stock-based compensation recognized, using the intrinsic value-based method, was $26,444 (2002 - $Nil), $68,000 (2002 - $Nil) and $12,000 (2002 - $Nil) and was recorded as consulting fees, management fees and professional fees, respectively on the Statement of Operations. These amounts were also recorded as contributed surplus on the balance sheet.

Had the compensation costs been determined based on the fair value of the options at the grant date using the Black-Scholes option-pricing model, additional compensation expense would have been recorded in the statement of operations for the year, with pro-forma results as presented below. Under the transitional provisions of Section 3870, comparative figures are not required.

12. STOCK-BASED COMPENSATION (continued)

	2003
Loss as reported	$(373,575)
Compensation expense under Section 3870	(110,661)
Pro-forma loss for the year	$(484,236)
Pro-forma basic and diluted loss per share	$(0.02)

The following weighted-average assumptions were used for the Black-Scholes valuation of stock options granted during the period:

Risk-free interest rate	4.42%
Expected life of options	3 years
Annualized volatility	208.73%
Dividend rate	0%

Due to the illiquidity of the Company's shares, a block discount of 40% ($73,774) was applied to this value providing a pro-forma stock-based compensation expense of $110,661.

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Change in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

13. SUBSEQUENT EVENTS

The following events occurred subsequent to August 31, 2003:

a) The Company announced the closing of a private placement for 1,000,000 units (the "Units"), each Unit comprised of one flow-through common share (the "FT Shares") and one-half (½) of one non-flow-through non-transferable share purchase warrant (the "Warrants") of the Company at $0.10 per Unit. One whole Warrant will entitle the holder to purchase one additional non-flow-through common share (the "Warrant Shares") of the Company for a period of 18 months from the date of closing of the transaction at $0.125 per share. A finder's fee comprising (i) 8% of the value of the gross proceeds in the form of cash, and (ii) 10% of the number of Units placed in the form of non-transferable share purchase warrants having the same terms and conditions as the Warrants, will be paid.

b) The Company announced that it has settled in full indebtedness in the aggregate amount of $45,292.56 with a trade creditor (the "Creditor") by the conversion thereof into 377,438 units at a price of $0.12 per unit. Each unit is comprised of one common share and one non-transferable share purchase warrant entitling the Creditor to purchase one additional common share for a period of 24 months at a price of $0.15 during the initial 12-month period and at a price of $0.18 during the remaining 12 months of the 24-month period.

c) The Company announced that it has engaged Canaccord Capital Corporation (the "Agent") to act as agent for a brokered private placement of up to 5,100,000 units at a price of $0.15 per unit for gross proceeds of up to $765,000. Each unit will consist of one common share of the Company and one-half of one non-transferable share purchase warrant exercisable for a period of 12 months after the date of closing at a price of $0.20 per common share. The Agent will be paid a commission on all arms-length participants equal to 8% of the gross proceeds, of which the Agent may elect to be paid half in cash and half in units. The Agent will also receive an administration fee and Agent's warrants equal to 20% of the commission paid, exercisable for a period of 12 months from the date of closing at a price of $0.20 per common share. The terms of this private placement are subject to regulatory approval.

d) The Company announced the granting of incentive stock options to certain directors, officers and employees to purchase up to 600,000 common shares under the Company's Incentive Stock Option Plan. The options will be granted for a period of five (5) years, commencing on October 7, 2003, exercisable at a price of $0.15 per share. The granting of the said options is subject to acceptance by the TSX Venture Exchange.