

DARNLEY BAY RESOURCES LIMITED

ANNUAL REPORT TO SHAREHOLDERS

2001

DIRECTORS

William P.G. Allen, B.A., L.L.B., L.L.M. John S. Dowsett, B.A.Sc, P.Eng. Leon F. La Prairie, B.A.Sc., P.Eng. Richard
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Canadian Venture Exchange (CDNX) Symbol - DBL

DIRECTORS' REPORT TO SHAREHOLDERS

The year 2001 has been busy, and productive. We have consolidated the results of our exploration and have prepared plans for continuation for which we are seeking new financing through equity issues and also joint venture participation with major mining companies or investment groups.

The results of our Darnley Bay project have been positive. The Company's consulting geophysicists recommended an intensive follow-up program of continued drilling of both base metals and kimberlite targets, additional airborne and ground geophysics, and till sampling. With success in new financing, we will proceed.

In our diamond area, our exploration has shown that kimberlite pipes on our property carry diamonds. We still have many kimberlite targets to be tested. In the base metals area, the one hole that we drilled suggests prospects of intersecting a base metal deposit to the east of the hole drilled.

At the end of August 2001, we issued a rights offering. The proceeds from this offering, if fully subscribed, would have been about \$2.4 million, enough to continue our exploration. However, the terrorists' events of September 11th aborted this offering. Although subsequently the financial markets remain depressed, impacting on quoted market prices for our shares, we followed with a second rights offering late in the year at a substantially reduced subscription price. The issue, which closed on January 31, 2002, was about 35% subscribed.

Notwithstanding the continuing negative impact of the events of 9/11 on the quoted market prices for the Company's shares, we believe that the potential for successful exploration of our project is strong. We remain confident that more exploration will be positive.

In this report are the Company's audited financial statements for the years 2000 and 2001, operating results for the 4th quarter of each year and the relating Management Discussion and Analysis. For more information about our Darnley Bay project, please visit our web site, www.darnley.com

We appreciate your continued support.

On behalf of the directors,

Leon F. La Prairie
President

April 26, 2002

AUDITORS' REPORT

TO THE SHAREHOLDERS OF DARNLEY BAY RESOURCES LIMITED

We have audited the balance sheets of Darnley Bay Resources Limited as at December 31, 2001 and 2000, and the statements of mineral properties and related expenditures, loss and deficit and cash flows for the years ended December 31, 2001 and 2000. 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 generally accepted auditing standards. These 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 financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years ended December 31, 2001 and 2000 in accordance with generally accepted accounting principles.

(Signed) Edmund Cachia & Co.
CHARTERED ACCOUNTANTS

Toronto, April 26, 2002

DARNLEY BAY RESOURCES LIMITED
FINANCIAL STATEMENTS

4TH QUARTERS (unaudited) and YEARS (audited) ENDED DECEMBER 31, 2001 and 2000

BALANCE SHEET	December 31	
	2001	2000
	\$	\$
Cash	9,231	210,278
Goods and services tax (GST) recoverable	50,571	128,646
Prepaid expenses	230,518	66,075
Current assets	290,320	404,999
Fixed assets (note 2)		6,923
Deposits on mining permits	170,601	193,144
Mineral property and related expenditures	11,863,565	10,484,728
Total assets	12,324,486	11,089,794
Accounts payable and accrued liabilities	997,617	320,898
Capital stock (note 5)	16,492,881	15,234,194
Deficit	(5,166,012)	(4,465,298)
Shareholders' equity	11,326,869	10,768,896
Liabilities and shareholders' equity	12,324,486	11,089,794

STATEMENT OF MINERAL PROPERTIES AND RELATED EXPENDITURES	4th Quarter		Year		Cumulative December 31
	2001	2000	2001	2000	2001
	\$	\$	\$	\$	\$
Concession and permit fees to Inuvialuit and other agencies (note 3)	348,188	(15,196)	361,917	53,505	3,167,045
Professional and technical services provided by geophysicists, geologists and others	14,646	419,872	291,592	820,787	2,022,300
Technical services provided by management	21,166	27,167	94,662	114,181	926,789
Legal fees applicable to exploration agreements	30,000		30,000	23,503	182,571
Travel and project presentations			4,639	30,126	284,842
Wages and accomodation facilities	29,523	232,631	245,619	558,187	995,817
Air charters and fuel	500	871,119	86,401	1,552,024	2,090,663
Site administration	253	(17,901)	9,964	120,544	197,079
Equipment and supplies	8,300	220,908	150,828	558,249	835,351
Drilling contracts	74,281	187,469	100,200	811,377	911,577
Environmental surveys		59,531	3,015	79,811	249,531
Total expenditures for period	526,857	1,985,600	1,378,837	4,722,294	11,863,565
Cumulative beginning of the period	11,336,708	8,499,128	1,048,472	5,762,434	11,863,565
Cumulative at end of period	11,863,565	10,484,728	11,863,565	10,484,728	11,863,565

The accompanying notes are an integral part of these financial statements

Approved by the Board:

(Signed) Leon La Prairie, Director (Signed) William Allen, Director

DARNLEY BAY RESOURCES LIMITED
FINANCIAL STATEMENTS

4TH QUARTERS (unaudited) and YEARS (audited) ENDED DECEMBER 31, 2001 and 2000

	4 th Quarter		Year		Cumulative
	2001	2000	2001	2000	December 31,
	\$	\$	\$	\$	2001
					\$
STATEMENT OF LOSS AND DEFICIT					
Management and administrative services	59,003	63,634	270,786	232,449	1,219,144
Consultants	10,000	101,800	40,600	119,124	606,269
Legal and audit	38,000	66,874	35,334	101,847	525,875
Promotion	6,567	20,624	38,115	62,941	372,687
Communications	4,077	9,267	24,227	21,090	122,072
Rent	20,278	58,221	116,597	116,530	411,501
Stock transfer and shareholders' expenses	34,886	14,353	74,399	50,173	220,030
Office supplies and miscellaneous	7,856	35,020	35,971	63,291	225,876
Depreciation office equipment		1,644	6,923	5,819	30,736
Insurance	253	2,404	4,049	3,743	13,924
Capital tax	10,000	773	10,000	8,848	26,672
Provision for uncollected receivable					55,295
Interest and other financial expenses	1,681	(614)	(5,101)	(7,334)	39,519
NET LOSS FOR THE PERIOD	192,601	374,000	651,900	778,521	3,869,600
Deficit at beginning of the period	4,973,411	4,071,930	4,465,298	3,537,875	
Cost of issuing shares		19,368	48,814	148,902	1,296,412
DEFICIT AT END OF THE PERIOD	5,166,012	4,465,298	5,166,012	4,465,298	5,166,012
LOSS PER SHARE	0.01	0.01	0.02	0.04	
STATEMENT OF CASH FLOWS					
	4 th Quarter		Year		Cumulative
	2001	2000	2001	2000	December 31,
					2001
Net loss for the period	(192,601)	(374,000)	(651,900)	(778,521)	(3,869,600)
Depreciation		1,644	6,923	5,819	30,736
(Increase) decrease prepaid expenses	(172,706)	(56,075)	(164,443)	(66,075)	(230,518)
(Increase) decrease in GST recoverable	(19,918)	(69,136)	78,075	(117,122)	(50,571)
Increase (decrease) in accounts payable	725,138	264,281	676,719	(7,917)	997,617
CASH USED IN OPERATING ACTIVITIES	339,913	(233,286)	(54,626)	(963,816)	(3,122,336)
Purchase of fixed assets				(3,329)	(30,736)
(Increase) decrease permits and security			22,543	(179,749)	(170,601)
Increase mineral property expenditures	(526,857)	(1,985,600)	(1,378,837)	(4,722,294)	(11,863,565)
CASH USED IN INVESTING ACTIVITIES	(526,857)	(1,985,600)	(1,356,294)	(4,905,372)	(12,064,902)
Issue of common shares	187,063	999,600	1,258,687	6,157,177	16,492,881
Cost of issuing shares and warrants		(19,337)	(48,814)	(148,902)	(1,296,412)
CASH FROM FINANCING ACTIVITIES	187,063	980,263	1,209,873	6,008,275	15,196,469
INCREASE (DECREASE) IN CASH	119	(1,238,623)	(201,047)	139,087	9,231
Cash at beginning of the period	9,112	1,448,901	210,278	71,191	
CASH AT END OF THE PERIOD	9,231	210,278	9,231	210,278	9,231

The accompanying notes are an integral part of these financial statements

DARNLEY BAY RESOURCES LIMITED

NOTES TO FINANCIAL STATEMENTS

For the Fourth Quarters (unaudited) and Years (audited)
ended December 31, 2001 and 2000

1 -NATURE OF OPERATIONS

The objective of Darnley Bay Resources Limited is to explore for nickel, copper and platinum/palladium group elements and diamond deposits within and surrounding the geophysical anomaly centred on the community of Paulatuk in the Inuvialuit Settlement Region on the coast of the Arctic Ocean in the Northwest Territories of Canada. The recovery of amounts capitalized as Mineral Property and Related Expenditures is dependent upon the discovery of economically recoverable ore reserves, the ability of the Company to obtain financing to complete the necessary exploration and development, and obtaining future profitable production or proceeds from the disposition thereof.

2 -SIGNIFICANT ACCOUNTING POLICIES:

MINERAL PROPERTY AND RELATED EXPENDITURES

Mineral Property and Related Expenditures consist of costs of acquiring claims and exploratory expenditures. These costs are deferred, or capitalized, until commencement of commercial mining operations, when the deferred costs applicable to the specific property will be amortized on the unit of production basis. If in any year, the interests in specific properties are disposed of, or abandoned, the applicable deferred expenditures will be written off in that year.

FIXED ASSETS

Fixed assets - consisting of furniture, fixtures and office equipment - for an accumulated cost of \$30,736 were fully depreciated in the Company's accounts by the year 2001.

FINANCIAL INSTRUMENTS

Financial instruments, consisting of current assets and liabilities, are stated at cost. Due to the short-term nature of these instruments, cost approximates fair market value.

3 - AGREEMENTS & MINERAL PROPERTY AND RELATED EXPENDITURES:

Under date of March 16, 2001, the Company entered into two new agreements with the Inuvialuit Land Corporation and associated companies (the "Inuvialuit"). These agreements replaced the previous agreement of October 5, 1995 with the Inuvialuit. One agreement covers base metals and the other

deals with diamonds. The agreements cover an area of about 14 million acres (about 60,000 square kilometres) from latitude 68 degrees north to 70 degrees north and longitudes 120 degrees 40 minutes west to 128 degrees west. The Inuvialuit own the mineral rights in 450,000 acres centred around Paulatuk, referred to as "the Concession Lands". The rest of the area is termed "the Area of Mutual Interest". The agreements also provides the Inuvialuit, at their option, with a 10% participation in any mine development, subject to pro rata cost sharing.

In the base metals agreement, the Company's rights in the Concession Lands are in three phases; an exploration phase, a development phase and a production phase. The exploration phase commenced on October 6, 1995 and runs for 10 years, during which time the Company can designate specific areas ("Project Areas") for more intensive work. Each Project Area runs for 10 years during which time the Company is entitled to acquire mining leases. The production phase runs for 10 years and for as long thereafter as commercial or reclamation work continues. During the exploration phase, the Company is committed to undertake \$2 million of work in each 2 year period. During the development phase, the Company is committed to undertake \$10 work per acre per year for the first 5 years and \$20 per acre for each year thereafter with a minimum of \$1 million per year for all Project Areas.

The diamond agreement is identical to the base metals agreement except that it commences on January 1, 2001 and Project Areas run for 6 years instead of 10.

The Inuvialuit are entitled to a 6% NSR royalty (or its equivalent for diamonds) in the Concession Lands and a 2% royalty in the Area of Mutual Interest, where Crown royalties apply. The Inuvialuit can hold certain claims in the Area of Mutual Interest in which there is a 15 year deferral of Crown royalties. In such cases, the Inuvialuit will receive an additional 4% royalty while the deferral applies. Also, in the exploration phase, the Company is obligated to pay certain administration and land access fees to the Inuvialuit. The administration fee is \$250,000 annually, \$125,000 for each of the base metals and diamond agreements, adjusted annually for inflation based on the Consumers' Price Index from October 6, 2000.

In addition to the Inuvialuit agreements, the Company has an agreement with Falconbridge Limited ("Falconbridge") which entitles it to participate in the exploration and drilling for specific Project Areas on a shared cost basis. Falconbridge may select a specific Project Area for which it will be entitled to an overall 51 % interest, with 49% for the Company, or 39% if the Inuvialuit - as described above - decides to participate in the Project Area. Thereafter Falconbridge can retain 50% of the Company's interest in all subsequent Project Areas, subject to pro rata cost sharing.

4 RELATED PARTY TRANSACTIONS

Related party transactions consist of compensation paid, or payable, to the company's senior officers and directors for management and professional services; to its chief executive officer / director and a company owned by him of \$117,000 for year 2001 and \$152,800 for the year 2000; to the chief financial officer / director of \$89,129 for the year 2001 and \$62,030 for year 2000; to a legal firm, of which a director is a partner, of \$60,000 for the year 2001 and \$40,000 for year 2000. The company's

accounts payable as at December 31, 2001 includes \$53,297 and as at December 31, 2000 \$51,509 owing to these parties for unpaid compensation and expenses.

5. CAPITAL STOCK

(a) Authorized, issued and outstanding

The Company's authorized capital consists of an unlimited number of common shares

Common shares	Number	Amount \$
Balance, December 31, 1999	18,789,592	9,077,017
Issued in 2000		
Exercise of common share purchase warrants	1,298,234	1,140,961
Stock options exercised	300,000	265,000
Private placements	4,867,360	4,695,285
Shares issued to investment dealers as commissions on private placements	<u>68,260</u>	<u>55,931</u>
Balance, December 31, 2000	25,323,446	15,234,194
Issued in 2001		
Exercise of common share purchase warrants	1,521,296	1,071,624
Issued under rights offerings	61,139	13,888
Private placements	<u>692,700</u>	<u>173,175</u>
Balance, December 31, 2001	<u>27,598,581</u>	<u>16,492,881</u>

The 1,521,296 common shares exercised in 2001, in the range of \$0.70/\$0.71, were applicable to share purchase warrants issued in connection with private placements in 2000. The 61,139 issued under rights offering consists of 8,300 issued at \$0.40 per share and 52,839 at \$0.20 per share. See 5.(d) below for circumstances applicable to the rights issues. The private placements of 692,700 common shares made in 2001 were at \$0.25 per share.

(b) Share purchase warrants

As of December 31, 2001, a total of 745,539 common shares were reserved for exercise of share purchase warrants, on the basis of one share for each warrant. The outstanding warrants are 52,839 exercisable at \$0.30 per share with an expiry date of May 31, 2002 and 692,700 exercisable at \$0.25 with an expiry date of December 31, 2002

(c) Options

As of December 31, 2001 a total of 2,520,000 shares are reserved for exercise of options to directors,

officers, consultants and others. These options consist of 1,310,000 at \$0.85, 50,000 at \$0.95 and 1,160,000 at \$1.00 see these options expired on March 10, 2002 and were replaced by options on 750,000 shares exercisable at \$0.20 per share with an expire date of June 30, 2002. Subsequently, in April 2002, 250,000 of these options were exercised.

(d) Rights Offerings

On August 29, 2001 a rights offering was made to shareholders as of a record date of September 14, 2001. The expiry date of the offering was October 24, 2001. The subscription price under the offering was \$0.40 per common share and each subscribed share would be accompanied with a share purchase warrant exercisable at \$0.50 per share up to December 15, 2001. The events surrounding the terrorists' attacks in the USA on September 11th had a major impact on securities markets and caused a reduction of the Company's share price to the extent that the subscription price under the August 29th offer was materially higher than the prevailing market price of the Company's shares during the offering. By law, the offer of August 29th could not be amended or withdrawn and a new, and revised, offer could only be made after expiry of the August 29th offer. The offer produced nominal subscriptions totaling subscriptions for 8,300 shares (out of a maximum issuable of about 2.7 million shares).

As a follow up on the aborted offering of August 29th, the Company made a new rights offering on November 21, 2001 with a record date of December 5, 2001. This offering was made at a subscription price of \$0.20 per share, with an accompanying share purchase warrant exercisable at \$0.30 per share up to May 31, 2002. As at the offer's expiry date of January 31, 2002 a total of 962,555 common shares were subscribed including 52,839 as of December 31, 2001.

6. INCOME TAXES

To December 31, 2001, a total of \$11,864,000 has been expended on mineral property and related expenditures of which \$7,610,000 has been renounced for income tax purpose for deductibility by those shareholders who have subscribed for the Company's common share on a flow-through basis.

Flow-through shares are defined by the Income Tax Act (Canada). For the "flow-through" portion of shares subscribed, the Company has agreed to incur the equivalent amount of exploration expenditures and to renounce these expenditures to the subscribers of such shares and, accordingly, these expenditures will be deductible for income tax purposes by the subscribers rather than the Company. The mineral property expenditures, net of flow-through renunciations, of \$4,254,000 as of December 31, may be carried forward indefinitely and use to reduce taxable income of future years.

In addition, up to December 31, 2001, the Company has incurred losses for income tax purposes of \$5,243,000 which may be used to reduce taxable income of future years. These losses expire as follows;

2002	\$ 174,000	2003	\$ 140,000
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2004	1,094,000	2005	844,000
2006	719,000	2007	1,049,000
2008	931,000	2009/12	292,000

The tax effect of the above has not been recognized in the accounts of the Company.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CASH FLOW BY RECENT QUARTERS

		Funds disbursed on					
	Funds obtained from financing	Admin- istration	Explor- ations	Increase (decrease) in net payables	Total disburse- ments	Increase (decrease) in cash	
2000							
1st Quarter	\$ 2,375,118	(167,515)	(592,314)	206,385	(553,444)	1,821,674	
2nd Quarter	\$ 721,099	(83,796)	(1,040,693)	(453,175)	(1,577,664)	(856,565)	
3rd Quarter	\$ 1,931,795	(152,364)	(1,283,436)	(83,394)	(1,519,195)	412,601	
4th Quarter	\$ 980,263	(372,356)	(1,985,600)	139,070	(2,218,886)	(1,238,623)	
Year	\$ 6,008,275	(776,031)	(4,902,043)	(191,114)	(5,869,189)	139,087	
2001							
1st Quarter	\$ 1,016,495	(126,344)	(328,766)	23,232	(431,878)	584,617	
2nd Quarter	\$ 7,256	(179,148)	(420,841)	(38,704)	(638,693)	(631,437)	
3rd Quarter	\$ (941)	(145,562)	(121,899)	114,056	(153,405)	(154,346)	
4th Quarter	\$ 187,063	(192,601)	(526,857)	532,514	(186,944)	119	
Year	\$ 1,209,873	(643,655)	(1,398,363)	631,098	(1,410,920)	(201,047)	

The following Management's Discussion and Analysis (MD&A) should be read along with the Company's financial statements for the years ended December 31, 2001 and 2000 and the Company's quarterly reports for these years. Other information is available electronically on SEDAR (<http://www.sedar.com>); or copies are available upon request. In particular the Annual Information Form, available through Sedar, provides a detailed coverage of all aspects of the Company's exploration for minerals and diamonds in the Northwest Territories of Canada.

The financial statements provide a quarterly, year to date and cumulative (from inception of the Company) accounting for all expenditures and cash flows. Expenditures are classified by those applicable to

exploration - Statement of Mineral Properties and Related Expenditures - and general, administrative and share issue expenses - Statement of Loss and Deficit.

Darnley Bay is a mineral exploration company, incorporated in 1993, operating exclusively in the Arctic Region of Canada. The mineral property in which the Company has an interest, at this date, does not contain a known body of commercial ore. Programs proposed to be carried out on the property are exploratory in nature only. There is no assurance that a commercial ore body will be discovered, and, even if discovered, will be feasible to develop.

On-going funding is required for the purpose of continuation of exploration. While the Company anticipates further funding through equity sales from time to time, there is no assurance that such funds will be raised. In addition, not being an established mining company, there is no history of revenues, cash flow or earnings from operations. Preliminary success in the Company's exploratory operations depends upon its cash resources. Exploratory operations from quarter to quarter, and year to year, are related to the Company's success in obtaining the requisite funding through a combination of private and public equity financings. Consequently, disbursements on explorations are not consistent from period to period. The various stages of exploration are undertaken as funds become available. A reviewer of the Company's past annual and quarterly financial statements should have cognizance of this fact.

Since inception of the Company in 1993 to December 31, 2001, funding of approximately \$15,200,000 - net of share issue expenses - has been obtained. Exploration expenditures over this period of \$11.8 million include \$3.1 million of concession and permit fees paid to the Inuvialuit and other agencies, \$4.7 million on exploration for base metals and \$4 million for exploration of diamonds. Other expenditures, described as administrative, include legal and other costs of organization, maintenance of head office and project and financial promotions. Over the 8 years since inception of the Company, these expenditures have accumulated to \$3.9 million. The following discussions cover the most recent two fiscal years, which are the calendar years, and their quarters.

Year Ended December 31, 2000

There was good success with raising additional funds through equity financing in the year 2000 - a total of \$6,000,000 was obtained net of share issue costs, all through private placements. The proceeds from additional capital was applied chiefly to explorations; \$4,900,000. These expenditures includes \$3,200,000 for diamonds and \$1,300,000 for base metals drilling. General and administrative expenses increased from \$463,000 for 1999 to \$778,000 for 2000. The major increase were \$80,000 for office rents and supplies, \$124,000 for shareholders promotion and maintenance costs and \$86,000 additional legal and audit expenses. Expenses applicable to the issue of shares was \$149,000 which although almost identical with share issue expenses for 1999, \$147,000, was applicable to substantially greater equity financing, slightly over \$6 million of financing in 2000 compared with \$1 million for 1999.

Year Ended December 31, 2001

The Company's consulting geophysicists recommended further explorations for 2001, including drilling for both kimberlite and base metals targets. The total cost of their recommendations, if fully carried out, was estimated at \$7 million. The Company anticipated that it could obtain sufficient funding from a combination of a shareholders' rights offering and private placements to carry out the first stage of the consultants' recommendations.

A total of about \$1.25 million was obtained in the year through a combination of the exercise of share purchase warrants (issued in conjunction with private placements in 2000) and various private placements. Also a shareholders' rights issue was launched on August 29th, with a record date of September 14th, to obtain sufficient additional funds for a "kick start" to the program recommended by the geophysicists. The rights offering was for subscriptions to shares with attached share purchase warrants, which if fully exercised would have provided additional funding of approximately \$2.4 million. The Company anticipated that the offering, would be successful. Unfortunately the terrorists' events in the USA on September 11th had a major negative impact on securities markets and a reduction of the Company's share price to the extent that the subscription price under the offering was materially higher than the prevailing market price. By law, the Company could not amend or withdraw the offer and a replacement offer could only be made after its expiry date of October 24th. The offering was effectively aborted and consequently the next stage of exploration deferred. The impact of 9/11 is illustrated by a decrease in mineral properties expenditures from \$4.9 million for the year 2000 to approximately \$1.4 million for 2001.

Although market conditions remain generally negative, following the October 24th expiry of the offering, the Company proceeded with a replacement rights offering, with a substantially lower subscription price, and low expectations for a high percentage of subscriptions. By its closing on January 31, 2002, the offering was 36% subscribed with proceeds of \$192,000, plus a possible additional \$290,000 through exercise of the offering's accompanying share purchase warrants on or before May 31, 2002. Also outstanding are other share purchase warrants, issued in connection with private placements in 2001, for total subscriptions of \$175,000, with December 31, 2002 expiry.

General and administrative expenditures for 2001 were \$652,000, a decrease from \$778,000 for 2000.

Quarterly Information

Included in the preceding "Selected Financial Information" is a cash flow summary, quarter by quarter for the past 8 quarters of 2000 and 2001, which discloses funding obtained through equity financing and its subsequent disbursements on exploration and administrative expenses. The following remarks are made to explain significant changes in the Company's cash resources from quarter to quarter.

2000 Quarters

Funding of \$2,375,000 obtained in the 1st quarter consisted of \$2,108,000 from private placements and \$267,000 through exercise of share purchase warrants and stock options. This was followed in the 2nd quarter by \$533,000 of private placements and \$188,000 of exercise of warrants and options; in the 3rd quarter by \$1,932,000 from the exercise of warrants issued in conjunction with the private placements of the 1st quarter and in the 4th quarter, \$980,000 from private placements. In total for the year, additional funding of slightly over \$6 million was obtained.

Expenditures on exploration in 2000 was mainly drilling for base metals and exploration for diamonds. For base metals \$411,000 was spent in the 1st quarter, \$1,000,000 in the 2nd and \$200,000 in the 3rd. Diamond exploration commenced with \$1,038,000 in the 3rd quarter followed by \$1,985,000 in the 4th quarter.

Administration expenses were compatible for the first three quarters of 2000, allowing for a contra adjustment between the 1st and 2nd quarters. An increase of \$220,000 from the 3rd to the 4th quarter was principally attributable to three categories. Rent and office expenditures increased by \$60,000 as a consequence of moving to new premises. The move was caused by the expiry of the Company's office lease which was non renewable. Other increases were consulting services for \$85,000 and \$40,000 for a catch up on accrued legal fees.

As indicated by the analysis of Cash Flow presented above, expenditures for 2000 were covered by capital funds received in the year, with a positive cash flow of \$130,000.

2001 Quarters

In the 1st quarter of 2001, a total of \$1,016,000 was obtained through the exercise of share purchase warrants, \$55,000 in the 2nd quarter and \$187,000 in the 4th quarter.

Exploration expenditures of \$329,000 in the first quarter of 2001 were chiefly applicable to analysis and interpretation of diamond counts and indicator geochemistry from diamond exploration undertaken in 2000 and maintenance of the exploration sites. The analysis and site maintenance continued into the second quarter with total exploration expenditures of \$444,000. With a decrease in these activities, exploration expenditures were \$122,000 for the third quarter and \$527,000 for the fourth quarter which included \$348,000 of administration fees payable to the Inuvialuit Land Corporation for the periods of the 4th quarter of 2000 and all four quarters of 2001.

General and administrative expenses for the year amounted to approximately \$650,000 - \$133,000 for the 1st quarter, \$179,000 for the 2nd, \$146,000 for the 3rd and \$193,000 for the 4th. The major component of these expenses are those applicable to maintaining the Company's head office - staffing, rent, supplies - of about \$450,000 for the year. These expenses were generally constant from quarter to quarter. Costs associated with investors' presentations, fund raising and maintenance of shareholders records were \$156,000 and varied from quarter to quarter as fund raising activities were undertaken. In the 4th quarter

accruals were recorded for taxes on capital and unbilled legal and audit fees.

The cost of \$49,000 for issuing shares in 2001 included an assessment for \$48,000 in the 2nd quarter from the tax authorities. The assessment was for interest on the time gap between when mineral property expenditures were renounced to subscribers for flow through shares and the actual date when the Company incurred the expenditures. Generally the Company is required to cover the renounced expenditures within two years of passing the benefit along to subscribers for shares but is assessed interest on the expenditures remaining to be incurred over the two year period.