

Franconia Minerals Corporation
(a development stage Corporation)
Consolidated Financial Statements
For the years ended December 31, 2002 and
2001

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Auditors' Report

To the Shareholders of Franconia Minerals Corporation

We have audited the consolidated balance sheets of Franconia Minerals Corporation (a development stage Corporation) as at December 31, 2002 and 2001 and the consolidated statements of operations and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

“signed BDO Dunwoody LLP”

Chartered Accountants

Calgary, Alberta
May 22, 2003

Franconia Minerals Corporation
(a development stage Company)
Consolidated Balance Sheets
US Dollars

As at December 31	2002	2001
Assets		
Current		
Cash and equivalents (Note 10)	\$ 166,861	\$ 279,776
Prepaid expenses	3,228	-
	<u>170,089</u>	<u>279,776</u>
Investment (Note 1(d))	55,042	55,042
Deferred acquisition and exploration costs (Note 4)	344,859	91,716
	<u>\$ 569,990</u>	<u>\$ 426,534</u>
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	\$ 22,326	\$ 4,217
Due to related parties (Note 2)	-	35,703
	<u>22,326</u>	<u>39,920</u>
Deferred exploration advances (Note 5 (c))	229,348	300,000
	<u>251,674</u>	<u>339,920</u>
Share capital (Note 3)	1,428,223	668,408
Translation gain (loss)	(3,445)	4,415
Deficit accumulated during development stage	(1,106,462)	(586,209)
	<u>318,316</u>	<u>86,614</u>
	<u>\$ 569,990</u>	<u>\$ 426,534</u>

Approved on behalf of the Board:

“signed” _____ Director
 Brian Gavin

“signed” _____ Director
 Bonnie Kuhn

Franconia Minerals Corporation
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Consolidated Statements of Operations and Deficit
US Dollars

For the year ended December 31	2002	2001	Cumulative since inception
Expenses			
General administration	\$ 41,527	\$ 44,715	\$ 109,505
General exploration	511,605	136,834	696,132
Professional fees	28,311	12,265	44,912
	<u>581,443</u>	<u>193,814</u>	<u>850,549</u>
Loss from operations	(581,443)	(193,814)	(850,549)
Other income	61,190	10,596	76,335
Write off of deferred acquisition and exploration costs	-	(332,248)	(332,248)
Net loss for the year	(520,253)	(515,466)	(1,106,462)
Deficit accumulated during development stage, beginning of year	<u>(586,209)</u>	<u>(70,743)</u>	<u>-</u>
Deficit accumulated during development stage, end of year	\$ (1,106,462)	\$ (586,209)	\$ (1,106,462)
Earnings (loss) per share – basic and diluted (Note 8)	\$ (0.01)	\$ (0.02)	

Franconia Minerals Corporation
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Consolidated Statements of Cash Flows
US Dollars

For the year ended December 31	2002	2001	Cumulative since inception
Cash flows from operating activities			
Net loss for the year	\$ (520,353)	\$ (515,466)	\$(1,106,462)
Write off of deferred costs	-	322,248	322,248
Non cash services (Note 3(h))	376,223	123,000	499,223
	(144,130)	(70,218)	(284,991)
Changes in non-cash working capital balances			
Prepaid expenses	(3,228)	-	(3,228)
Accounts payable	18,109	(19,795)	22,326
	(129,249)	(90,013)	(265,893)
Cash flows from financing activities			
Advances from directors	(35,703)	23,180	-
Advances (payments) from joint venture partner, net of expenditures	(70,652)	300,000	229,348
Issue of share capital, net of share issue costs	383,592	197,463	1,428,223
	277,237	520,643	1,657,571
Cash flows from investing activity			
Payments of deferred acquisition and exploration costs	(260,903)	(274,765)	(1,224,817)
	(260,903)	(274,765)	(1,224,817)
Increase (decrease) in cash and equivalents	(112,915)	155,865	166,861
Cash and equivalents, beginning of year	279,776	123,911	-
Cash and equivalents, end of year	\$ 166,861	\$ 279,776	\$ 166,861

Franconia Minerals Corporation
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Notes to Consolidated Financial Statements
US Dollars

December 31, 2002 and 2001

1. Nature of Business and Significant Accounting Policies

The Company was incorporated on August 7, 1998 under the Alberta Business Corporations Act. The Company is in the development stage devoting substantially all of its efforts to establishing a new business and planned principal operations have not commenced. Most of the Company's efforts are to activities such as raising capital for the purpose of acquiring and exploring mineral properties.

On August 29, 2001, the Company effected a 5:1 stock split. All per share numbers have been reflected on a post split basis.

Although the Company has taken steps to verify the title to resource 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, transfers or native land claims and title may be affected by undetected defects.

These consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada. The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared using careful judgement with reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Franconia Minerals Corporation (US) LLC.

(b) Cash and cash equivalents

Cash and cash equivalents consist of short-term investments which include highly liquid investments with original maturities of three months or less.

(c) Deferred acquisition and exploration costs

The Company is engaged in the acquisition, exploration and development of mineral properties. Certain acquisition and exploration expenditures are deferred once the Company makes the decision that it intends to develop the property to commercial production. All other exploration costs are expensed as incurred. Costs deferred will be depleted over the estimated life of the property. The estimated life of a property depends on whether the property contains economically recoverable reserves that can be brought into production. The costs relating to a property abandoned are written off when the decision to abandon is made. Proceeds from disposition of mineral properties are normally credited to the capitalized costs with no gain or loss being recognized unless the sale is significant to the capitalized property costs. For such significant dispositions, a gain or loss would be recognized. In addition, if there has been a delay in development activity for several successive years, a write-down of those project-capitalized costs will be charged to income. The Company expenses all general exploration costs.

Franconia Minerals Corporation
(a development stage Company)
Notes to Consolidated Financial Statements
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1. Significant Accounting Policies – cont'd

(d) Investment

The Company accounts for its investments in companies subject to control by consolidation. Investments not subject to control or significant influence are recorded at cost. The Company currently holds one investment in a non-controlled company. Since there is no significant influence, the investment of 543,694 shares in Minera Andes Inc. is recorded at cost (Note 6(b)).

(e) Future income taxes

The Company has adopted the recommendations of the Canadian Institute of Chartered Accountants with respect to accounting for income taxes. Under the recommendations, the liability method of tax allocation is used, based on differences between financial reporting and tax bases of assets and liabilities. No future tax asset has been recorded for the losses incurred to date, as the Company has not established a history of profitability.

(f) Foreign exchange

Foreign currency balances of foreign subsidiaries are translated using the self-sustaining method on the following basis:

- Assets and liabilities are translated at the rates of exchange prevailing at the balance sheet dates.
- Sales, other revenue, royalties and all other expenses are translated at the average rate of exchange during the month in which they are recognized.

The resulting foreign exchange gains and losses are reflected as a separate component of shareholder's equity.

(g) Reporting currency

Most of the Company's operations are conducted by its United States subsidiary in United States Dollars. The Company's operations outside of the United States are primarily in Canada conducted in Canadian Dollars. Because only limited operations are conducted in Canadian Dollars, the Company adopted the United States Dollar as its reporting currency. Accordingly, the financial statements have been prepared on that basis. Comparative figures for the prior periods have been restated to reflect the change in reporting currency. All numbers reported in these financial statements are stated in United States Dollars unless otherwise denoted.

Franconia Minerals Corporation
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Notes to Consolidated Financial Statements
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1. Significant Accounting Policies – cont'd

(h) Stock-based compensation plan

Effective January 1, 2002, the Corporation adopted the recommendations of CICA Handbook Section 3870, Stock based compensation and other stock-based payments. This section requires that direct awards of stock and liabilities based on the price of common stock be measured at fair value at each reporting date, with the change in fair value reported in the statements of income and encourages, but does not require, the use of the fair value method for all other types of stock-based compensation plans. None of the Corporation's plans qualify as direct awards of stock or as plans that create liabilities based on the price of the corporation's stock and, as a result, the implementation of the section has no impact on the financial statements. The Corporation has chosen not to use the fair value method to account for stock-based employee compensation plans, but to disclose pro-forma information for options granted after January 1, 2002. The Corporation records no compensation expense when options are issued to employees. Any consideration paid by employees on the exercise of the options is credited to capital stock. Compensation expense is recorded for options issued to consultants and non-employees.

(i) Financial instruments

The Company's financial instruments consist of various assets and liabilities. 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.

(j) Per share amounts

Basic earnings per common share and cash flow from operations per common share are computed by dividing earnings and cash flow from operations by the weighted average number of common shares outstanding for the period. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments, in accordance with new standards approved by the Canadian Institute of Chartered Accountants.

(k) Revenue recognition

Management fees are a 15% fee from a joint venture on certain expenditures and are recognized once the expenditure is incurred.

2. Due to Related Parties

Advances from shareholders, directors and officers were non-interest bearing, unsecured and had no specified terms of repayment. The balance of \$35,703 was repaid in 2002.

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3. Share Capital

(a) Authorized

Unlimited number of common shares

(b) Issued

Common shares

	December 31, 2002		December 31, 2001	
	Number	Amount	Number ⁽¹⁾	Amount
Balance, beginning of year	29,471,787	\$ 692,091	17,367,450	\$ 279,130
Issued for cash by a private placement (e)	-	-	669,305	44,655
Issued for cash in initial public offering (f)	14,242,926	473,774	-	-
Issue for services (h) ⁽²⁾	11,310,287	376,223	4,600,000	153,450
Issued upon exercise of Class A warrants (d)	100,000	3,407	362,725	12,100
Issued upon exercise of Class B warrants (d)	-	-	5,097,307	147,714
Issued in exchange for investment (Note 6 (b))	-	-	1,375,000	55,042
Balance, end of year	55,125,000	1,545,495	29,471,787	692,091
Share issue costs (f)	-	(117,272)	-	(23,683)
Net balance, end of year	55,125,000	\$ 1,428,223	29,471,787	\$ 668,408

⁽¹⁾ All numbers have been adjusted to give effect to the 5:1 split effected August 29, 2001.

⁽²⁾ Of these shares 1,403,635 common shares are to be issued subsequent to year end (Note 3(f)).

(c) Stock split

On August 29, 2001, a "split" or subdivision of the common shares was approved by the Board of Directors. The subdivision will be effected by the "push out" method whereby the shareholders keep the share certificates they currently hold, and shareholders as of the record date will receive an additional four common shares for every one share held for a total of five shares.

(d) Warrants

During 2001, 362,725 Class A warrants were exercised for \$12,100 (\$18,136 Cdn) and 5,097,307 Class B warrants were exercised for \$147,714 (\$221,400 Cdn).

During 2002, 100,000 Class A warrants were exercised for \$3,407 (\$5,107 Cdn).

As at December 31, 2002, the Company had a total of 15,192,432 warrants outstanding which have exercise prices of 2.33p and will expire from dates varying between May 18, 2004 to February 2006.

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3. Share Capital – cont'd

(e) Private placement

During 2001, the Company completed a private placement of 306,580 units a price of \$0.067 (\$0.10 Cdn) per unit. To each unit was attached a warrant that entitles the holder to acquire 1 common share at \$0.10 (\$0.15 Cdn) per warrant which expired May 18, 2005.

(f) Public offering

On February 18, 2002, the Company began trading on the OFEX trading facility in London, England following an offer for subscription by prospectus. The subscription raised \$473,774 by the sale of 14,242,926 shares at 2.33p per share together with 1 warrant for every 2 shares. Each warrant has an exercise price of 2.33p with an expiry of 4 years. The value of the warrants was not considered material to be recorded separately.

On February 6, 2001, the Company signed an equity financing agreement using an agent in the United Kingdom (Lion Mining Finance) to raise \$1,000,000 via issuing common shares at \$0.10 per share. The agent received 500,000 common shares from the Company's treasury and has received 750,000 common shares during 2002 when the Company was listed on the OFEX London.

Under the terms of the financing agreement, the Company is responsible for all expenses relating to the offering including expenses of the subscribers' counsel estimated to be approximately £25,000. The Company will be charged an agency fee of 6% plus 5% in options and/or warrants. In addition, the Company is committed to retain the agent's services for a minimum of 2 years at \$5,000 per month. This agreement expired February 2003

Subsequent to the listing, in conjunction with the listing application and subscription agreement, the agency agreement previously signed with Lion Mining Finance Ltd. were modified such that Lion Capital Corporation will act instead of Lion Mining Finance. The terms of the agreement were also modified so that Lion's commission is limited to 4% on the proceeds realized from uncommitted investors for a maximum fee of £8,388. Also, costs of OFEX listing including commissions paid to Lion are limited to £40,000. An additional 1,153,635 and 250,000 shares (post-split) are to be issued to Lion and Otto Snell for services rendered, respectively, once the Company had been accepted on the OFEX. These 1,403,635 shares have been included in the issued and outstanding shares at December 31, 2002, as the Company has committed to issue these shares.

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3. Share Capital – cont'd

(g) Options

During 2001, the Company issued 600,000 options. The options were granted at an issue price of \$0.03 (\$0.05 Cdn) and expire December 6, 2005. At year-end, no options had been exercised.

The Company has granted stock options to directors, officers, employees and consultants of the Company as follows:

	Number of Shares	Option Prices per Share	Weighted Average Exercise Price
Options outstanding, Dec. 31, 2000	-	-	-
Options – granted	600,000	\$0.03	\$0.03
Options outstanding, Dec. 31, 2001	600,000	\$0.03	\$0.03
Options – granted	-	-	-
Options outstanding, Dec. 31, 2002	600,000	\$0.03	\$0.03

The following table summarizes information about stock options outstanding at December 31, 2002:

	Options outstanding			Options exercisable	
	Options price range	Weighted average exercise price	Weighted average contractual life	Options exercisable	Weighted average exercise price
Options outstanding	600,000	\$0.03	\$0.03	2.9 years	600,000
					\$0.03

The following table summarizes information about stock options outstanding at December 31, 2001:

	Options outstanding			Options exercisable	
	Options price range	Weighted average exercise price	Weighted average contractual life	Options exercisable	Weighted average exercise price
Options outstanding	600,000	\$0.03	\$0.03	3.9 years	600,000
					\$0.03

(h) Issued for services

During 2001, the Company issued 4,600,000 shares for services rendered. 4,100,000 of these shares were in lieu of consulting services at a value of \$136,772 (\$205,000 Cdn). The other 500,000 shares were for an initial payment for the equity financing detailed in Note 3(f) and were valued at \$0.033 (\$0.05 Cdn) per share.

During 2002, the Company issued 11,310,287 shares for services rendered. These shares were issued in lieu of investor relations and financing advisory services at a value of \$376,223 (\$563,900 Cdn). Of these shares, 9,906,652 were issued to an individual who also subscribed for shares on the public offering (Note 3(f)).

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4. Deferred Acquisition and Exploration Costs	2002	2001
Acquisition costs	\$ 89,635	\$ 82,358
Exploration, development and other property costs	<u>255,224</u>	<u>9,358</u>
	\$ 344,859	\$ 91,716

5. Property Commitments

(a) San Francisco Project (Utah)

The Company entered into an agreement with Horn Silver Mines, Inc. on September 15, 2000. The agreement has a term of 20 years with an option to renew for 20 years. Included in this agreement is a royalty fee of 3% NSR with a right to buy down the royalty at \$750,000 per 1%.

The rental payments are due as follows:

2003	\$ 27,000
2004	36,000
2005	36,000
2006	<u>54,000</u>
	<u>\$ 153,000</u>

Teck Cominco American Incorporated (TCAI)

The Company signed a joint venture agreement with Teck Cominco American Incorporated (TCAI) relative to the San Francisco project effective January 2, 2002. This agreement provides TCAI with a three-year option to form a Joint Venture with the Company, within 60 days of completion by the Company of an exploration program consisting of eight 1200-foot exploration drill holes on the property. The subsequent joint venture will allow TCAI to earn a 60% interest in the property by expending \$3,000,000 in exploration on the property over four years. Subsequent expenditures will be on a pro rata basis, however, TCAI will make all contributions on the Company's behalf until a feasibility agreement has been completed and a positive construction decision has been made. These contributions will be repaid from 70% of the Company's share of production revenues. Failure to contribute to a work program will result in dilution of a party's interest. Dilution to 20% will cause a party's interest to be converted to a 10% net proceeds royalty interest.

Cominco America Incorporated

The Company entered into an Exploration and Option Agreement with Cominco America Incorporated ("Cominco") effective October 28, 2000. The agreement had a 2-year term with Cominco having the option to acquire or retain a royalty interest or form a joint venture agreement with the Company. The agreement has been extended to 2004

(b) Minnesota State Leases

The lease agreements signed with the State of Minnesota are being held in trust for the Company by Ernest K. Lehmann & Associates Inc. The lease terms include the following:

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December 31, 2002 and 2001

5. Property Commitments - cont'd

- (i) Leases MM-9733-P6 through MM-9739-P are effective June 16, 1999 and have a 50-year term. The base royalty is 3.95% NSR with a 0% bonus bid. The rental payments were paid beginning in 2002 of approximately \$16,800 per year but there are no work commitments. These leases were terminated
- (ii) Leases MM-9740-P through MM-9745-P are effective March 9, 2000 and have a 50-year term. The base royalty is 3.95% NSR with a 0% bonus bid. The rental payments are prepaid through 2002 and there are no work commitments. Annual rental payments required amount to \$8,888 per year in 2003 and 2004. All of these leases were terminated in 2003.
- (iii) Leases MM-9746-N through MM-9751-N are effective June 8, 2000 and have a 50-year term. The base royalty is 3.95% with a 0% bonus bid. The rental payments are prepaid through 2002 and there are no work commitments. Annual rental payments required amount to \$13,403 per year in 2003 and 2004. All of these leases were terminated in 2003.
- (iv) Leases MM-9777 through MM-9790 are effective December 14, 2000 and have a 50-year term. The base royalty is 3.95% with a bonus bid ranging from 0.11% to 0.26%. The rental payments are prepaid through 2002 and there are no work commitments. Lease MM-9777 to MM-9781, 9788, 9789 and 9790 were terminated in 2003. Annual rental payments required amount to \$10,031 per year from 2003 to 2005 and 30,092 in 2006.
- (v) Leases MM-9862 through MM-9894 and MM-9930 are effective September 6, 2001 and have a 50-year term. The base royalty is 3.95% with a bonus ranging from 0.23% to 0.27%. The rental payments are prepaid through 2003 and there are no work commitments. Annual rental payments required amount to \$42,315 per year.
- (vi) The Company entered into lease agreements with the State of Minnesota. Leases MM-9983 through MM-9987 are effective March 7, 2002 and have a 50-year term. The base royalty is 3.95% plus an additional royalty ranging from 0.23% to 0.27%. The rental payments are prepaid through 2004 and there are no work commitments. Annual rental payments required amount to \$8,339 per year beginning in 2005.
- (vii) The Company entered into lease agreements with the State of Minnesota. Leases MM-9993 through MM-9999 are effective September 5, 2002 and have a 50-year term. The base royalty is 3.95% plus an additional royalty ranging from 0.07% to 0.29%. There are no work commitments. Annual rental payments required amount to \$6,824 beginning in 2005.
- (viii) The Company entered into a 25-year agreement with an individual on February 15, 2002. The agreement entitles the Company to a 25% interest in 320 surface acres of property in St. Louis County, Minnesota for rental payments of US\$400 in 2003 and 2004, increasing to \$800 per year thereafter. The base royalty is \$3 per net mineral acre in 2002 and 2003, \$5 in 2004 to 2005, \$10 in 2006 to 2015, \$15 in 2016 to 2025 and \$25 for 2026 and thereafter.

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5. Property Commitments - cont'd

- (ix) The Company has entered into other agreements with certain individuals on August 26, 2002 pursuant to the terms of which it can earn interests ranging from 33% to 50% in 240 acres of mineral rights in St. Louis County, Minnesota. There are no work commitments. Annual rental payments required amount to \$1,200 US per year beginning in 2005.
- (x) In addition to the above, the Company has Federal Prospecting Permits for which it is committed to annual payments of approximately US\$2,000 per year. These permits are subject to a 4-year renewal in 2004.
- (c) Impala Platinum Holdings Ltd.

On October 22, 2001, the Company entered into an Earn-in and Joint Venture Agreement with Impala Platinum Holdings Ltd. ("Impala"). Impala agreed to pay the Company the initial sum of \$600,000 to explore certain target areas and shall receive a right of first refusal to fund a minimum of \$2,000,000 ("Initial Funding") over three years, if it selects one Initial Target Area, or \$1,000,000 per area over three years if it selects two Initial Target Areas. Impala may also fund \$2,000,000 ("Additional Funding") for each Additional Target Area over a period of no more than 4 years. Upon completion of the Initial and Additional Funding, Impala may, for each Target Area:

 - i) decline to do any further work and relinquish its interest in target areas;
 - ii) enter into a Joint Venture with the Company for the target area retaining a 51% interest;
 - iii) conduct further exploration and complete a bankable feasibility study based on Impala expending no less than \$1,000,000 per year within the selected target area. Within 90 days of the feasibility study, Impala may:
 - a) decline to do any further work and relinquish its interest in target area;
 - b) enter into a Joint Venture with the Company for the target area, retaining a 65% interest.

Impala may terminate this agreement at any time after paying the initial sum of \$600,000.

As at December 31, 2002, Impala had advanced the Company \$600,000 (\$942,000 Cdn). This amount has been reflected as deferred exploration advances and has been offset by the expenditures of \$436,062 incurred on the Target areas. Pursuant to the terms of the agreement, a 15% management fee has been charged on expenditures incurred. As a result, the Company received fees of \$65,410.

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5. Property Commitments - cont'd

(d) St. Croix Lumber Company (Minnesota)

The Company entered into a 25-year agreement with the St. Croix Lumber Company on December 1, 2001. The agreement entitles the Company to 50% interest in 114.74 surface acres of property in Lake County, Minnesota. The base royalty is \$5 per net mineral acre in 2002 and 2003, \$10 in 2004 to 2005, \$20 in 2006 to 2015, \$25 in 2016 to 2025 and \$50 for 2026 and thereafter. The royalty for minerals mined by underground methods is 4% and 5% for minerals mined by open pit methods. This agreement was terminated in 2003.

(e) United States Steel LLC (Minnesota)

The Company entered into a 20-year agreement with United States Steel LLC on December 3, 2001. The agreement entitles the Company to 2,390.56 (2001 – 2,190.56) total acres of property in Lake County, Minnesota. The Company is obligated to pay a minimum rental fee. The base fee is the greater of \$2,500 or \$2 per acre in 2002, \$5 in 2003 to 2006, \$10 in 2007 to 2011, \$25 in 2012 to 2014 and \$50 for 2015 and thereafter. The agreement also requires a work commitment to be paid of \$25,000 within 24 months and \$25,000 per year thereafter. If by the tenth anniversary, the Company has not incurred total exploration and development costs of a minimum of \$250,000, the rental payments will be increased to the greater of \$50 per acre or \$50,000 per year. The production royalty is 5%.

(f) Beaver Bay Joint Venture (BBJV) (Minnesota)

On November 12, 2002, the Company entered into an option agreement to hold the option to enter into an Earn-in and Joint Venture Agreement (“JV Agreement”) with Beaver Bay Joint Venture (BBJV), a company related by virtue of common shareholders. The Company paid BBJV the initial sum of \$15,000 US to explore certain target areas in the Birch Lake and St. Louis Counties in the State of Minnesota commonly referred to as the “Birch Lake Project” over four years (with an additional option to renew for a 5 year option period). The Company is committed to pay \$18,000 US over the four-year term to keep the option agreement alive.

If the JV Agreement is executed, the Company will commit to a total work commitment of \$10,000,000. Of this amount, \$1,000,000 is to be expended for each of the first three years and \$7,000,000 in the final year of the agreement. If the JV Agreement is executed, the Company will pay a consideration of \$5,200,000 US to the project. Of this amount, the Company will pay \$3,700,000 in cash and issue common shares totaling \$1,500,000.

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6. Related Party Transactions

Except as disclosed elsewhere in these financial statements, the Company had the following related party transactions:

- (a) In 2001, the Company reimbursed Ernest K. Lehmann & Associates an estimated \$30,787, which represents application fees of \$3,800 and lease rentals of \$26,987 for prospecting permits bid on in Minnesota.
- (b) During 2001, the Company issued 1,375,000 shares to Cominco America Incorporated. The consideration was settled via a transfer of Cominco's investment in Minera Andes Inc. Certain shareholders and directors of the Company also act as directors and officers for Minera Andes Inc. The Company holds 543,694 shares in Minera Andes Inc. (1.5% interest)
- (c) During 2001, the Company issued 4,100,000 shares to various directors and shareholders of the Company for services rendered (Note 3 (h)).

These transactions are in the normal course of operations and have been recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties and approximates the fair market value.

7. Income Taxes

The income tax provision on the income statement differs from the expected income tax provision as follows:

	<u>2003</u>	<u>2002</u>
Combined tax rate	41.2%	41.2%
Expected income tax provision at statutory rate	\$ (214,344)	\$ (212,372)
Unrecognized loss carryforwards	194,839	96,478
Share issue costs	-	136,222
Share issue costs	(9,575)	(1,856)
Other differences	29,080	(18,472)
Actual income tax provision	<u>\$ -</u>	<u>\$ -</u>

At December 31, 2002, the Company has estimated loss carryforward balances in Canada and US of approximately \$325,000 (\$511,000 Cdn) (2001 - \$171,000 (\$257,000 Cdn)) and foreign exploration and development expenses of \$1,171,000 (\$1,838,000 Cdn) (2001 - \$533,000 (\$837,000 Cdn)) that may be available to the Company with regard to the US cost centers. The amounts are subject to approval by tax authorities.

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7. Income Taxes – cont'd

The components of the Company's future income tax liability are a result of the origination and reversal of temporary differences and are comprised of the following:

Nature of temporary differences	2002	2001
Share issue costs	\$ 36,261	\$ 2,333
Deferred acquisition and exploration costs	340,321	181,809
Unused loss carryforwards	134,239	131,840
Future tax asset valuation allowance	(510,821)	(315,982)
Future income tax liability (asset)	\$ -	\$ -

No future tax asset has been set up for the unutilized tax balances as their ultimate utilization of this asset is currently uncertain.

8. Loss Per Share

The loss per share figures have been calculated using the weighted average number of common shares outstanding during the respective years, which amounted to 51,679,871 (2001 – 21,636,175). Basic loss per share are computed by dividing earnings by the weighted average number of common shares outstanding for the period. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments, in accordance with the new standards approved by the Canadian Institute of Chartered Accountants. During the year ended December 31, 2001, the Company retroactively adopted this method. This change had no effect on comparative reported loss per share.

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9. Segmented Information

The Company's activities include the acquisition and exploration of mineral properties.

Geographic Segments

The Company had two reportable segments: the United States of America ("US") and Portugal.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

December 31, 2002	Corporate and US	Portugal	Other	Total
Segment loss	\$ 520,253	\$ -	\$ -	\$ 520,253
Segment deferred exploration costs	\$ 344,859	\$ -	\$ -	\$ 344,859
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December 31, 2001	Corporate and US	Portugal	Other	Total
Segment loss	\$ 338,779	\$ 176,687	\$ -	\$ 515,466
Segment deferred exploration costs	\$ 91,716	\$ -	\$ -	\$ 91,716

10. Cash and Equivalents

Cash and cash equivalents included in the statement of cash flows comprise the following balance sheet amounts:

	2002	2001
Cash	\$ 76,219	\$ 93,181
Short-term investments	90,642	186,595
	\$ 166,861	\$ 279,776

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11. Non-Cash Transactions

- (a) During the first and second quarter of 2002, the Company issued 10,156,652 and 1,153,635 shares for services in the amount of \$335,397 and \$40,826 (\$61,192 Cdn), respectively (Note 3(h)).
 - (b) During 2001, the Company issued 4,100,000 shares for services in the amount of \$123,000 (\$205,000 Cdn) (Note 3(h)).
 - (c) During 2001, the Company issued 500,000 shares at \$0.03 (\$0.05 CDN) per share to Lion Mining Finance Ltd. In exchange for finance fees related to the Company's listing on the OFEX in London, England (Note 3(h)).
 - (d) The Company issued 1,375,000 shares in exchange for an investment in a company (Note 6(b)).
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12. Subsequent Events

- (a) Birch Lake Option Agreement
In May 2003, Franconia entered into an Amendment to the Birch Lake Option Agreement dated November 12, 2002. This Amendment extended the option term to September 30, 2003. The consideration for the extension was \$7,500. Also Franconia agreed to pay an additional US\$20,000 to the Beaver Bay Joint Venture (BBJV) on termination of the option and to be responsible for all costs related to maintaining BBJV's land position. Additionally the first year Allowable Expenditure under the Earn-In Agreement attached to the option agreement was reduced to US\$500,000. The Option Agreement remains unchanged in all other respects.
 - (b) Duluth Project
In May 2003, Franconia entered into an Amendment to the Duluth Complex Earn-in Agreement dated June 25, 2002. According to this Amendment Impala Platinum Holdings agreed to provide an additional US\$200,000 for the acquisition and exploration of PGM properties in the Duluth Complex. This additional amount of US\$200,000 will be a credit towards expenditures required in any subsequent joint venture agreement.
 - (c) On April 9, 2003, 60,000 warrants were exercised for total consideration of \$3,000 CDN.
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