

DRC RESOURCES CORPORATION
(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2003

**BEAUCHAMP & COMPANY
CHARTERED ACCOUNTANTS
#205 - 788 BEATTY STREET
VANCOUVER, B.C.
V6B 2M1
PHONE: 604-688-2850
FAX: 604-688-2777**

AUDITORS' REPORT

To the Shareholders of
DRC Resources Corporation

We have audited the consolidated balance sheets of DRC Resources Corporation as at December 31, 2003 and 2002 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 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, 2003 and 2002 and the result of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the Company Act (British Columbia), we report that, in our opinion, these principles have been applied on a consistent basis.

Vancouver, B.C.
February 20, 2004

"BEAUCHAMP & COMPANY"
Chartered Accountants

DRC RESOURCES CORPORATION
(An Exploration Stage Company)
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 24,737,161	\$ 2,254,144
Restricted cash (Note 3)	-	1,618,000
Marketable security	1,500	1,500
Accrued interest receivable	25,741	9,212
Amounts receivable - government	58,832	164,240
Prepaid expenses	20,000	-
	24,843,234	4,047,096
MINERAL CLAIM INTERESTS		
- SCHEDULE (Notes 2 and 4)	3,487,296	2,293,327
INVESTMENT PROPERTY (Note 5)	110,867	110,867
EQUIPMENT (Notes 2 and 6)	28,999	41,535
	\$ 28,470,396	\$ 6,492,825
LIABILITIES		
CURRENT LIABILITIES		
Account payable and accruals	\$ 95,940	\$ 45,169
Capital taxes payable	71,445	-
	167,385	45,169
FUTURE INCOME TAXES (Note 7(c))	875,935	113,767
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 8)	30,398,361	8,086,803
DEFICIT	(2,971,285)	(1,752,914)
	27,427,076	6,333,889
	\$ 28,470,396	\$ 6,492,825

COMMITMENTS (Note 14)
SUBSEQUENT EVENTS (Note 16)

APPROVED BY THE BOARD:

“JOHN KRUZICK” Director

“SHARON ROSS” Director

See accompanying notes.

DRC RESOURCES CORPORATION
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
INCOME		
Interest and other income	\$ 181,698	\$ 116,676
Oil and gas royalties	1,713	1,743
Foreign exchange gain (loss)	(74,929)	(4,159)
	108,482	114,260
EXPENSES		
Bank charges	572	437
B.C. capital tax	30,945	-
Consulting and management fees	118,155	85,641
Amortization	12,536	12,068
Financing and sponsorship	-	52,000
Insurance	14,000	11,503
Office, secretarial services and stationary	83,163	81,886
Professional fees	109,007	57,644
Regulatory fees	66,871	52,855
Rent	22,103	19,861
Telephone	4,541	4,826
Transfer agent	9,031	7,379
Travel and promotion	53,259	88,462
Write-off of mineral claim interests	1	5,999
Write-down of marketable security	-	2,250
	524,184	482,811
LOSS FOR THE YEAR BEFORE INCOME TAXES	(415,702)	(368,551)
INCOME TAXES (Note 7)	(802,669)	182,644
LOSS FOR THE YEAR	\$ (1,218,371)	\$ (185,907)
WEIGHTED AVERAGE NUMBER OF SHARES ISSUED	9,746,722	8,828,466
LOSS PER SHARE	\$ (0.13)	\$ (0.02)

See accompanying notes.

DRC RESOURCES CORPORATION
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF DEFICIT
YEARS ENDED DECEMBER 31, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
DEFICIT, BEGINNING OF YEAR	\$ (1,752,914)	\$ (1,567,007)
LOSS FOR THE YEAR	(1,218,371)	(185,907)
DEFICIT, END OF YEAR	\$ (2,971,285)	\$ (1,752,914)

See accompanying notes.

DRC RESOURCES CORPORATION
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
CASH PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES		
Loss for the year	\$ (1,218,371)	\$ (185,907)
Items not requiring cash:		
Amortization	12,536	12,068
Write-off of mineral claim interests	1	5,999
Write-down of marketable security	-	2,250
Future income taxes	762,169	(182,644)
	(443,665)	(348,234)
Net change in non-cash working capital items	191,095	407,102
Cash (Used For) Provided By Operating Activities	(252,570)	58,868
INVESTING ACTIVITIES		
Payments for mineral claim interests exploration costs	(1,742,663)	(1,173,040)
Acquisition of equipment	-	(39,236)
Cash Used For Investing Activities	(1,742,663)	(1,212,276)
FINANCING ACTIVITIES		
Share capital issued for cash, net of issue costs	22,860,250	1,209,432
Cash Provided By Financing Activities	22,860,250	1,209,432
INCREASE IN CASH AND CASH EQUIVALENTS	20,865,017	56,024
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,872,144	3,816,120
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 24,737,161	\$ 3,872,144
CASH AND CASH EQUIVALENTS COMPRISES:		
Cash	\$ 27,760	\$ 65,781
Term deposits and short-term discount notes	24,709,401	3,806,363
	\$ 24,737,161	\$ 3,872,144

See accompanying notes.

DRC RESOURCES CORPORATION
(An Exploration Stage Company)
SCHEDULE OF MINERAL CLAIM INTERESTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

Acquisition Costs

	<u>2003</u>	<u>2002</u>
Kamloops "Afton" Claims	\$ 481,734	\$ 421,734
Kamloops "Ajax - Python" Claims	48,732	48,732
Alberta Mineral Permits	-	1
Timmins, Ontario Claims	1	1
Balance, End Of Year	530,467	470,468

Deferred Exploration Costs

	<u>Afton Claims</u>	<u>Ajax - Python Claims</u>	<u>2002</u>	<u>2001</u>
Balance, Beginning Of Year	\$ 1,763,674	\$ 59,185	1,822,859	1,136,649
Assays and testing	77,018	-	77,018	46,256
Drilling	984,845	-	984,845	738,557
Engineering	437,603	-	437,603	98,170
Geological consulting	158,050	-	158,050	163,705
Labour	32,542	-	32,542	39,512
Supplies and equipment	5,500	-	5,500	26,869
Travel and accommodation	36,111	-	36,111	38,477
Staking and filing fees	500	111	611	-
Miscellaneous	5,994	-	5,994	7,206
Grant recoveries (Note 2(f))	4,388	-	4,388	(96,335)
Tax effect of flow through shares	(608,692)	-	(608,692)	(376,207)
	1,133,859	111	1,133,970	686,210
Costs written-off	-	-	-	-
	1,133,859	111	1,133,970	686,210
Balance, End Of Year	\$ 2,897,533	\$ 59,296	2,956,829	1,822,859
Mineral Claim Interests			\$ 3,487,296	\$ 2,293,327

See accompanying notes.

DRC RESOURCES CORPORATION
(An Exploration Stage Company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2003

1. NATURE OF BUSINESS

DRC Resources Corporation is a public company incorporated under the Company Act (British Columbia). The common shares of the Company are traded on the Toronto Stock Exchange ("TSX").

The Company is in the process of exploring its mineral claim interests to determine whether the properties contain ore reserves that are economically recoverable.

The continued operations of the Company and the recoverability of the amounts shown as mineral claim interests are dependent upon the existence of recoverable reserves, the ability of the Company to obtain financing to complete the developments, and upon future profitable production or proceeds from disposition of its mineral claim interests .

Although the Company has taken steps to verify title to its mineral claim interests in which it has an interest in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and may be affected by undetected defects.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Principals of Consolidation

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

b) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit with banks and highly liquid short-term interest bearing securities with maturities at purchase dates of four months or less.

c) Marketable Securities

The following portfolio investments are recorded at the lower of cost and market value:

<u>Name Of Issuer</u>	<u>Class Of Security</u>	<u>Quantity</u>	<u>Cost Of Securities</u>	<u>Market Value Of Securities 2003</u>	<u>Market Value Of Securities 2002</u>
Planet Ventures Inc.	Common shares	25,000	\$ 5,750	\$ 8,250	\$ 1,500

In January 2004, the 25,000 common shares of Planet Ventures Inc. were sold for proceeds of \$9,790.

DRC RESOURCES CORPORATION
(An Exploration Stage Company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2003

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

d) Mineral Claim Interests

The Company records its mineral claim interests at cost. Exploration expenditures relating to mineral claim interests that have economically recoverable reserves or significant mineralization, which in the view of management, justify additional exploration, as well as interest and costs to finance those expenditures, are deferred until such time as the mineral claim interest to which they relate is brought into production, or is sold, allowed to lapse or abandoned. The costs will be amortized on a unit of production basis following commencement of production or written off to operations if the mineral claim interest is abandoned. Mineral option payments are recorded when received and are expensed in the period they are incurred.

The Company reviews capitalized costs on its mineral claim interests on a period, or annual, basis and will recognize an impairment in value based upon current exploration results and upon management's assessment of the future probability of profitable revenues from the mineral claim interest's estimated current fair market value may also be based upon a review of other mineral claim interest transactions that have occurred in the same geographic area as that of the mineral claim interest under review.

e) Equipment

Equipment is stated at cost less accumulated amortization. Amortization is calculated using the straight-line method at a rate of 20% per annum.

f) Grant Recoveries

Grant recoveries represent British Columbia Mining Exploration Tax Credit claim refunds of 20% of eligible Canadian exploration expenditures. These grants are for qualifying exploration expenditures at a grassroots level for mineral claim interests in the Province of B.C.

g) Loss Per Share

Basic loss per common share is computed by dividing the loss by the weighted average number of common shares outstanding during the year. 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, warrants and other dilutive instruments. No dilutive loss per share has been presented as the effect would be anti-dilutive.

DRC RESOURCES CORPORATION
(An Exploration Stage Company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2003

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

h) Use of Estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires the Company's management to make estimates and assumptions that affect the amounts reported in these consolidated financial statements and accompanying notes. Significant areas of estimate relate to mineral claim interests and related deferred exploration costs, future site restoration costs, and future income tax asset valuation allowance. Actual results could differ from those estimates. By their nature, these estimates are subject to measurement uncertainty, and the impact on the consolidated financial statements of future changes in such estimates could be material.

i) Income Taxes

The Company recognizes and measures, as assets and liabilities, income taxes currently payable or recoverable as well as future taxes which will arise from the realization of assets or settlement of liabilities at their carrying amounts, which differ from their tax bases. Future tax assets and liabilities are measured using substantially enacted or enacted tax rates expected to apply to taxable income in the years in which such temporary differences are expected to be recovered or settled. A valuation allowance is recognized to the extent the recoverability of future income tax assets is not considered more likely than not.

j) Foreign Currency Translation

The Company's foreign operation is considered fully integrated with the Company and is translated into Canadian dollars using the weighted average rates for the period for items included in the statement of operations and deficit, except for amortization which is translated at historical rates, the rate prevailing at the balance sheet date for monetary assets and liabilities, and historical rates for all other items. Exchange gains or losses on translation are included in the current period's operations.

k) Adoption of New Accounting Standards

Share capital includes flow-through shares issued pursuant to certain provisions of the Income Tax Act of Canada ("the Act"). The Act provides that, where the share issuance proceeds are used for exploration and development expenditures, the related income tax deductions may be renounced to subscribers. Accordingly, these expenditures provide no tax deduction to the Company.

The Company reduces share capital and deferred exploration costs for the year by the estimated amount of the related future tax liability when the capital expenditures are incurred.

DRC RESOURCES CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2003

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

1) Stock-based Compensation

The Company grants stock options to executive officers and directors, employees and consultants. Effective January 1, 2002, the Company adopted the new Canadian Institute of Chartered Accountants accounting standards for stock-based compensation and other stock-based payments. These new standards establish the method for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments.

The Company has elected to adopt the intrinsic value method, which recognizes compensation cost for awards to employees and non-employees only when the market price exceeds the exercise price at the date of the 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 share capital.

There were no stock options granted to directors, employees or consultants during 2003. Last year, had the Company followed the fair value method of accounting, the Company would have recorded a compensation expense of \$115,281 pursuant to the share options issued during the year. Pro-forma loss information determined under the fair value method of accounting for stock options is as follows:

		<u>Year 2003</u>	<u>Year 2002</u>
Loss for the year	As reported	\$ 1,218,371	\$ 185,907
	Pro Forma	\$ 1,218,371	\$ 301,188
Loss per share	As reported	\$ 0.13	\$ 0.02
	Pro forma	\$ 0.13	\$ 0.03

The pro-forma amounts exclude the effect of stock options granted prior to January 1, 2002. The fair value of each stock option grant was estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions:

- risk free interest rate of 2.8%, dividend yield of 0%, expected life of 2 years, and volatility of 56%.

3. RESTRICTED CASH

During the years ended December 31, 2000 - 2002, the Company raised a total of \$3,935,515 in proceeds from the private placement of flow-through common shares. These proceeds can only be used on exploration of Canadian mineral claim interests and the tax benefits flow-through to the subscribers. As at December 31, 2003, the unspent cash balance was Nil (2002 - \$1,618,000).

DRC RESOURCES CORPORATION
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4. MINERAL CLAIM INTERESTS

- Kamloops, B.C. "Afton" Mineral Property

The Company entered into an option agreement dated September 22, 1999 to acquire the Afton Mineral Claims Group, in the Kamloops Mining Division of B.C. Consideration is the issuance of 2,000,000 common shares of the Company in stages, being 1,000,000 shares on effective date of the shareholders' approval of the agreement, and 200,000 shares annually for the next five years beginning in year 2, a work commitment of \$6,500,000 over nine years and a 10% net profit royalty. The Company can purchase back the 10% net profit royalty interest, on or before December 1, 2010, for \$2,000,000. Minimum work commitments vary from \$400,000 to \$1,000,000 each year and are \$1,000,000 in year 2002 and \$1,000,000 in year 2003.

On July 19, 2000, 1,000,000 common shares of the Company were issued in accordance with the agreement. During the first quarter ending March 31, 2002, the Company issued 200,000 common shares in accordance with the agreement for year 2 and in the final quarter ending December 31, 2002 the Company issued 200,000 common shares in accordance with the agreement for year 3. During the final quarter ending December 31, 2003, the Company issued 200,000 common shares in accordance with the agreement for year 4. The value as per the terms of the agreement was \$0.30 per share for a total cost to the Company of \$60,000. Claim work completed has extended the claims in good standing until March 8, 2011.

The President of the Company has a one-half interest in the option agreement above as one of the optionors. (See Notes 10 and 14)

- Kamloops, B.C., Mineral Property

The Company owns a 100% interest in the Ajax - Python Claim Group, subject to a 2% net smelter royalty, consisting of 62 mineral claims and 5 crown grants in the Kamloops Mining Division of B.C. The cost of the claims acquired was 100,000 common shares of the Company at a market value of \$0.50 per share. Claim work completed has extended the claims in good standing until September 26, 2004 - 2007.

- Alberta Mineral Property

The Company acquired, on October 23, 2000, twelve metallic and industrial mineral permits located in Northern Alberta. These permits lapsed on April 12, 2003.

- Timmins, Ontario, Mineral Property

The Company has a 100% interest in 11 units (440 acres) located in the Porcupine Mining Division of Ontario. The mineral claims are in good standing until October 14, 2006.

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5. INVESTMENT PROPERTY

The Company owns a 25% interest in approximately 358 acres of land located in Texas, U.S.A., which land provide its oil and gas property royalty interests. The market value of the property approximates the value of the property reported in the consolidated financial statements.

6. EQUIPMENT

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	
			<u>2003</u>	<u>2002</u>
Transportation vehicles	\$ 29,690	\$ 11,876	\$ 17,814	\$ 23,752
Office and computer equipment	32,990	21,805	11,185	17,783
	<u>\$ 62,680</u>	<u>\$ 33,681</u>	<u>\$ 28,999</u>	<u>\$ 41,535</u>

7. INCOME TAXES

a) Profit (loss) before income taxes are as follows:

	<u>2003</u>	<u>2002</u>
Canada	\$ (415,736)	\$ (368,353)
U.S.A.	34	(198)
TOTAL	<u>\$ (415,702)</u>	<u>\$ (368,551)</u>

b) The provision for income taxes consist of the following:

	<u>2003</u>	<u>2002</u>
Large Corporations tax		
Canada	\$ 40,500	\$ -
U.S.A.	-	-
Future		
Canada	762,169	(182,644)
U.S.A.	-	-
TOTAL INCOME TAX EXPENSE (RECOVERY)	<u>\$ 802,669</u>	<u>\$ (182,644)</u>

c) Temporary differences that give rise to future income taxes are as follows:

	<u>2003</u>	<u>2002</u>
Long-term future tax liability		
Mineral Claim Interests	\$ 886,423	\$ 126,838
Equipment	(10,488)	(13,071)
TOTAL LONG-TERM FUTURE INCOME TAX LIABILITY	<u>\$ 875,935</u>	<u>\$ 113,767</u>

DRC RESOURCES CORPORATION
(An Exploration Stage Company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2003

7. INCOME TAXES (CONT'D)

d) Temporary differences that could give rise to future income tax assets:

	2003	2002
Long-Term Future Income Tax Assets		
Loss carry forwards	\$ 646,062	\$ 363,267
Share issue costs	612,791	142,505
Total Long-Term Future Income Tax Assets	1,258,853	505,772
Less valuation allowance	1,258,853	505,772
NET LONG-TERM FUTURE INCOME TAX ASSETS	\$ -	\$ -

e) Subject to confirmation by the income tax authorities, the Company has the following undeducted tax pools:

	2003	2002
Canadian Exploration Expenses	\$ 539,559	\$ 438,721
Canadian Development Expenses	\$ 591,480	\$ 531,480
Undepreciated Capital Costs	\$ 56,879	\$ 70,455
Share Issue Costs	\$ 1,546,671	\$ 359,679
Non-Capital Losses, expiring at various dates to 2010	\$ 1,717,336	\$ 868,799

8. SHARE CAPITAL

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

	2003		2002	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
	<u>Of Shares</u>		<u>Of Shares</u>	
Balance, beginning of year	9,131,766	\$ 8,086,803	8,283,766	\$ 7,133,578
Issued for cash:				
Exercise of options	50,000	150,000	-	-
Exercise of broker warrants	70,000	210,000	-	-
Private placement	3,450,000	22,500,250	-	-
Private placement flow-through shares	-	-	700,000	1,935,515
Repurchase for cancellation	-	-	(252,000)	(726,083)
Tax effect of flow-through shares/special warrants	-	(608,692)	-	(376,207)
Issued for mineral claim interests	200,000	60,000	400,000	120,000
Balance, end of year	12,901,766	\$ 30,398,361	9,131,766	\$ 8,086,803

DRC RESOURCES CORPORATION
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8. SHARE CAPITAL (CONT'D)

b) Issued (Cont'd)

• Year 2003

On November 6, 2003 the Company completed a private placement financing with a syndicate of underwriters. The Company realized gross proceeds of \$24,150,000 (net - \$22,500,250) on the issuance of 3,450,000 common shares, which included 450,000 underwriter options exercised, all at a price of \$7.00 per share. The Company paid a commission of \$1,569,750 and incurred fees of \$80,000.

During the year the Company issued 50,000 shares upon the exercise of stock options at \$3.00 per share. Cash proceeds of \$150,000 were received by the Company

During the year the Company issued 70,000 shares upon the exercise of broker warrants at \$3.00 per share. Cash proceeds of \$210,000 were received by the Company.

During the last quarter ending December 31, 2003, 200,000 shares were issued at a price of \$0.30 per share for the 2003 year option payments in accordance with the Afton mineral claim option agreement.

• Year 2002

On July 24, 2002 the Company, by a brokered private placement, issued 700,000 flow through common shares at a price of \$3.00 per share with the net proceeds of \$1,935,515 credited to the treasury.

During the year, the Company repurchased a total of 252,000 shares for cancellation at a cost of \$726,083. The Company is authorized to repurchase up to a total of 440,000 shares. This right expired on February 19, 2003.

During the first quarter ending March 31, 2002, 200,000 shares were issued at a price of \$0.30 per share for the 2001 year option payment. On December 1, 2002, 200,000 shares were issued at a price of \$0.30 per share for the 2002 year option payment. Both payments were in accordance with the Afton mineral claim option agreement.

c) Stock Options

The Company presently has 840,000 stock options outstanding. These stock options were granted prior to the implementation of the new stock option plan approved by the regulatory authorities in the year 2003. The new plan allows the Company to grant up to a total of 1,000,000 stock options. The existing stock options outstanding do not form part of the new plan and will cease upon being exercised or upon expiry. All future stock options granted must be under the new stock option plan. The term of the stock options granted are fixed by the board of directors and are not to exceed ten years. The exercise prices of the stock options are determined by the board of directors but shall not be less than the closing price of the Company's common shares on the day preceding the day on which the directors grant

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8. SHARE CAPITAL (CONT'D)

c) Stock Options (Cont'd)

the stock option, less any discount permitted by the TSX. The stock options vest immediately on the date of grant unless otherwise required by the exchange, however, a four month hold period applies to all shares issued under each stock option, commencing on the date of grant.

Other terms and conditions are as follows: all stock options are non-transferable; no more than 5% of the issued shares may be granted to any one individual in any 12 month period; disinterested shareholder approval must be obtained for (i) any reduction in the exercise price of an outstanding option, if the holder is an insider, (ii) any grant of stock options to insiders, within a 12 month period, exceeding 5% of the Company's issued shares; and stock options will be reclassified in the event of any consolidation, subdivision, conversion or exchange of the Company's common shares.

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)
Balance, December 31, 2001	518,000		0.00
Granted	100,000	\$3.05	
Granted	320,000	\$3.00	
Granted	50,000	\$3.50	
Expired	(33,000)	\$3.00	
Cancelled	(65,000)	\$3.00	
Balance, December 31, 2002	890,000	\$3.04	1.95
Exercised	(50,000)	\$3.00	
Balance, December 31, 2003	840,000	\$3.03	0.90

The expiry dates of the options are:

February 1, 2004	295,000	options @ \$3.00
September 13, 2004	395,000	options @ \$3.00
September 18, 2004	100,000	options @ \$3.05
December 5, 2004	50,000	options @ \$3.50

On September 18, 2002, 100,000 options @ \$3.05 per share were granted for ongoing financial consulting services to a related person of the President. The options expire on September 18, 2004.

d) Underwriter Compensation Options

As at December 31, 2003, there are 345,000 non-assignable compensation options outstanding and exercisable entitling the syndicate of underwriters to purchase 345,000 shares of the Company at an exercise price of \$7.50 per share expiring on November 6, 2005. (See Note 8(b))

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9. BROKER WARRANTS

On July 24, 2002 the Company by a private placement, issued 70,000 broker warrants exchangeable on or before July 24, 2003 into common shares at a purchase price of \$3.00 per warrant. These warrants were exercised during the year 2003 for cash proceeds of \$210,000.

10. RELATED PARTY TRANSACTIONS

	<u>2003</u>	<u>2002</u>
For consulting, administration and exploration costs charged by a private company controlled by the President/Director of the Company	\$ 146,375	\$ 112,845
For shares issued in payment on "Afton" mineral claim interest option agreement to the President/Director of the Company. 100,000 shares were issued during the year (cumulative total is 800,000 shares to date)	\$ 30,000	\$ 60,000
For consulting services charged by a related person of the President of the Company	\$ 63,875	\$ 11,250
For secretarial and administrative services charged by a private company which a director has a 50% interest in addition to a director's fee paid of \$1,000	\$ 59,362	\$ 41,405

11. SUPPLEMENTARY CASH FLOW INFORMATION

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

For the years ended 2003 and 2002, the Company conducted non-cash activities as follows:

	<u>2003</u>	<u>2002</u>
Financing Activities		
Common shares issued for mineral claim interests	<u>\$ 60,000</u>	<u>\$ 120,000</u>

12. SEGMENTED INFORMATION

The Company's operations consist of two business segments - oil and gas, which is in the United States and mineral exploration which is in Canada. The other principal assets which are held in Canada consist primarily of cash, term deposits, and corporate notes.

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12. SEGMENTED INFORMATION (CONT'D)

	<u>2003</u>	<u>2002</u>
CANADA		
Current Assets	\$ 24,833,006	\$ 4,035,551
Mineral Claim Interests	3,487,296	2,293,327
Equipment	28,999	41,535
	28,349,301	6,370,413
 U.S.A.		
Current Assets	10,228	11,545
Investment Property	110,867	110,867
	121,095	122,412
TOTAL ASSETS	\$ 28,470,396	\$ 6,492,825

13. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, term deposits, corporate notes, amounts receivable and accounts payable. 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 values of cash, term deposits, corporate notes, amounts receivable and accounts payable approximate their carrying values due to the relatively short period to maturity of these instruments.

14. COMMITMENTS

The Company entered into an executive services contract with the President of the Company on April 23, 2003 to provide services as chief executive officer of the Company for a five year term on a per diem fee basis at \$500 per day during 2003. The per diem fee will be increased annually, by board approval as deemed appropriate for executive services performed.

The Company, under the terms of the option agreement to acquire the "Afton" Mineral Property, is required to issue an additional 400,000 shares in 200,000 share instalments over the next two years and, to perform a work commitment of \$6,500,000 over nine years. To date \$4,969,993 has been expended.

1,185,000 common shares are reserved for issuance for stock options and underwriter compensation options. (See Notes 8(c) and 8(d))

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15. ENVIRONMENTAL RISKS

Existing and possible future environmental legislation, regulations and action could give rise to additional expense, capital expenditures, restrictions and delays in the activities of the Company, the extent of which cannot be predicted. Regulatory requirements and environmental standards are subject to constant evaluation and may be significantly increased, which could materially and adversely affect the business of the Company or its ability to develop its mineral properties on an economic basis. Before production can commence on any property, the Company must obtain regulatory and environmental approvals. There is no assurance that such approvals will be obtained on a timely basis or at all. The cost of compliance with changes in government regulations has the potential to reduce the profitability of operations or preclude entirely the economic development of property.

16. SUBSEQUENT EVENTS

- a) Subsequent to December 31, 2003, the Company issued 295,000 common shares for cash proceeds of \$885,000 upon the exercise of 295,000 stock options at \$3.00 per share.
- b) See Note 2(c).

17. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform with the presentation adopted in the current year.