

# **cline mining corporation**

ANNUAL REPORT  
2001

**SCHEDULE A**

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# REPORT TO THE SHAREHOLDERS

## Dear Fellow Shareholders:

The Company is currently engaged in reviewing a number of significant mineral properties in Canada and in Madagascar, including gold, bauxite, ilmenite and zirconium.

The Company owns 100% of the **Cline Lake Gold property** which is located in Jacobson Township 50 kilometers north east of Wawa, Ontario. The **Cline Lake Gold Mine** was a small gold producer up to the early 1940's and has four shafts, the deepest going to 1165 feet, with eight development levels. The Property is in the vicinity of the former **Kremzar** and **Magino** mines and is adjacent to the **Edwards** property. Significant work has been done on the **Cline Lake Gold property**, including 50,000 feet of drilling in an exploration program by Noranda Exploration to 1990 identified four areas on the property with economic potential. Subsequently Win-Eldrich carried out an eight hole drilling program to June 1998 targeting an alteration zone, north of an extensive porphyry body previously intersected by Noranda Explorations. Win-Eldrich reported in June 1998 that each of the eight holes intersected the alteration, which has a drilled width of up to 73 feet, and that highly variable gold values intersected to date range from 0.059 ounces ton to multi ounce intercepts in quartz vein areas with visible gold. Work stopped in 1998 as the gold price and outlook did not improve and general interest in gold diminished. Due to the recent resurgence in the price of gold and widespread interest in it as a commodity, the Company is reviewing a plan to continue the exploration work. We have recently been approached by interested parties and are reviewing options.

The serious political and economic situation in Zimbabwe, where the Company focused a great deal of investment, time and effort, is well reported in the media, known in the international business and investment community and requires no further detailing by the Company. As previously reported the Company's Two Tree Hills gold mining project was invaded by insurgents in 2000. Now the Company has been advised by a geologist in the Department of Mines there that the Kanyemba uranium-vanadium Special Grant concession has been terminated due to lack of work on the mine development. The Kanyemba Special Grant was issued by the Secretary for Mines with the specific approval of the President of the country. The carrying value of the Company's investment in Zimbabwe was written down in the books to zero on the recommendation of the auditors at the end of 2000.

Kinross Gold Corporation, through its Zimbabwe subsidiary Kinross Holdings Zimbabwe (Pvt) Limited, remains in Zimbabwe and continues to maintain the 115 **Shamwari** Gold Reef Mining Claims Blocks on the Concession for the benefit of both the Company and Kinross. The Company, through its subsidiary Atlantic Mines (Pvt) Limited, has elected for the time being not to contribute to ongoing expenditures, as it may do, and now has a 24% direct interest in all of the Shamwari Gold Claims Blocks, with Kinross holding the remaining 76% interest.

The Company continues to discuss with interested parties the bauxite (aluminum ore), ilmenite (titanium ore) and zirconium mining resource properties, previously reported, which are located in Madagascar. The discussions are between the Company and the French owners of the properties as well as with interested potential large partners with background and capabilities in these mineral developments. The Company maintains a presence in Madagascar and will continue to focus attention and resources in these areas.

"Kenneth H. Bates"

Kenneth H. Bates  
President

# MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL CONDITION

The following management discussion and analysis of operating results and financial condition should be read in conjunction with the consolidated financial statements.

## **DESCRIPTION OF THE BUSINESS OF THE COMPANY**

The Company's activities to date have been focused on the exploration for precious and base metals in Canada and Africa.

## **RESULTS OF OPERATIONS AND OTHER INCOME / EXPENSE**

The Company's loss from operations for the year decreased to \$114,946 from \$228,850 principally due to the reduced costs associated with the operations in Zimbabwe.

The charge for write down of mineral properties decreased to \$nil from \$452,851. In 2000, the Company's Cline Lake Property was written down to a nominal value.

The provision for write down of marketable securities in the amount of \$397,271 (2000 - \$106,478) arises due to the reduction in the value of marketable securities from cost to market value as at November 30, 2001.

During the year, the Company wrote off the debt relating to the Zimbabwe operations resulting in a gain of \$382,701.

The loss on sale of marketable securities in the amount of \$109,324 compared to a gain in 2000 of \$5,563 arises due to the lower prices realized on the disposal of these securities.

## **LIQUIDITY OF CAPITAL RESOURCES**

The working capital deficiency as at November 30, 2001 of \$245,961 shows a reduction in working capital of \$238,168 from the 2000 level of \$7,793. This has resulted primarily due to the write down in value of marketable securities.

# AUDITORS' REPORT

## TO THE SHAREHOLDERS OF CLINE MINING CORPORATION

We have audited the consolidated balance sheets of Cline Mining Corporation as at November 30, 2001 and 2000 and the consolidated statements of operations, 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.

Except as explained in the following paragraphs, we conducted our audits in accordance with generally accepted Canadian 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.

As a result of the current political instability in Zimbabwe, we did not have access to the books and records of the Company's subsidiaries in that country. Accordingly, we were not able to determine whether any adjustments might be necessary to expenses and deficit.

In our opinion, except for the effects of adjustments, if any, which we might have determined to be necessary had we had access to the books and

records of the subsidiaries, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at November 30, 2001 and 2000 and the results of its operations and cash flows for the years then ended in accordance with generally accepted Canadian accounting principles. As required by the British Columbia Company Act, we report that, in our opinion, these principles have been applied on a consistent basis.

"KPMG LLP"

Chartered Accountants  
Sudbury, Canada  
March 28, 2002

# CONSOLIDATED BALANCE SHEETS

As at November 30, 2001 and November 30, 2000

	2001	2000
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ 2,506	\$ 4,168
Marketable securities	180,096	767,320
Receivables	278	811
	182,880	772,299
MINERAL PROPERTIES (Note 3)	2	2
CAPITAL ASSETS (Note 4)	1,566	2,236
OTHER ASSETS (Note 5)	1,017	1,017
	\$ 185,465	\$ 775,554
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 90,906	\$ 315,174
Convertible loan (Note 3)	235,770	230,340
Due to related party (Note 6)	102,167	99,814
Obligations under capital leases (Note 7)	-	134,764
	428,843	780,092
<b>SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
SHARE CAPITAL (Note 8)	2,416,035	2,416,035
CONTRIBUTED SURPLUS	1,525,800	1,525,800
DEFICIT	(4,185,213)	(3,946,373)
	(243,378)	(4,538)
	\$ 185,465	\$ 775,554

*Nature of Operations (Note 1)*

APPROVED BY THE DIRECTORS

.....  
 "Kenneth H. Bates"  
 Director                      Director

.....  
 "Allan J. Taylor"

*The accompanying notes form an integral part of these consolidated financial statements.*

For the years ended November 30, 2001 and November 30, 2000

	2001	2000
<b>EXPENSES</b>		
Management \$ 60,000	\$ 60,000	
Accounting and administration	24,000	24,000
Legal and audit	9,807	23,204

## CONSOLIDATED STATEMENTS OF OPERATIONS

Foreign exchange	7,823	14,798
Transfer agent and filing fees	6,452	8,381
Office and investor relations	5,373	13,378
Depreciation and amortization	670	958
Consultants and property maintenance costs	379	61,588
Travel and accommodation	75	21,438
Bank charges 367	1,105	
<hr/>		
LOSS FROM OPERATIONS	(114,946)	(228,850)
OTHER		
Provision for write down of marketable securities	(397,271)	(106,478)
Gain (loss) on sale of marketable securities	(109,324)	5,563
Write off of debt obligations (Note 7)	382,701	-
Write down of mineral properties (Note 3)	-	(452,821)
<hr/>		
LOSS FOR YEAR	\$ (238,840)	\$ (782,586)
<hr/>		
LOSS PER SHARE (Note 10)	\$ 0.01	\$ 0.04
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## CONSOLIDATED STATEMENTS OF DEFICIT

For the years ended November 30, 2001 and November 30, 2000

	2001	2000
<hr/>		
DEFICIT, beginning of year	\$ (3,946,373)	\$ (3,163,787)
LOSS FOR YEAR	(238,840)	(782,586)
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DEFICIT, end of year	\$ (4,185,213)	\$ (3,946,373)
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*The accompanying notes form an integral part of these consolidated financial statements.*

# CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended November 30, 2001 and November 30, 2000

	2001	2000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the year	\$ (238,840)	\$ (782,586)
Items not involving cash:		
Depreciation and amortization	670	958
Write down of mineral properties	-	452,821
(Gain) loss on sale of marketable securities	109,324	(5,563)
Unrealized foreign exchange	7,781	180
Provision for write down of marketable securities	397,271	106,478
Write-off of debt obligations	(382,701)	-
	(106,595)	(227,712)
Changes in non-cash working capital items		
Receivables	533	17,911
Accounts payables and accrued liabilities	23,669	11,292
	(82,293)	(198,509)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Marketable securities	80,631	172,633
	(1,662)	(25,876)
<b>NET DECREASE IN CASH</b>	<b>(1,662)</b>	<b>(25,876)</b>
CASH, beginning of year	4,168	30,044
	\$ 2,506	\$ 4,168
CASH, end of year	\$ 2,506	\$ 4,168

*The accompanying notes form an integral part of these consolidated financial statements.*

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2001 and November 30, 2000

## NOTE 1 NATURE OF OPERATIONS

Cline Mining Corporation and its wholly owned subsidiaries, Arlington Development Limited, Vertical Investments (Private) Limited and Atlantic Minerals (Private) Limited, are hereinafter referred to as "Cline" or "the Company". The Company is engaged in the business of locating and exploring mineral resource properties. Substantially all of the efforts of the Company are devoted to these business activities. To date, the Company has not earned significant revenues and is considered to be in the exploration stage.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a) Basis of consolidation

These consolidated financial statements for 2001 include the accounts of the Company and its wholly owned subsidiaries, Arlington, Vertical and Atlantic.

The consolidated financial statements have been prepared using accounting principles generally accepted in Canada. All amounts are posted in Canadian currency.

### b) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclose contingent assets and liabilities, and report amounts of revenue and expenses during the period. Actual results could differ from estimates. During the fiscal years presented, management has made a number of significant estimates and valuation assumptions, including estimates of the useful life of capital assets, the recoverability of investments and mining assets and the fair value of financial assets and liabilities. These estimates and valuation assumptions are based on present conditions and management's planned course of action as well as assumptions about future business and economic conditions. Should the underlying valuation assumption and estimates change, the recorded amounts could change by a material amount.

abandoned, sold or considered to be impaired in value at which time an appropriate charge will be made.

The recovery of costs of mining claims and deferred exploration is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete exploration development and future profitable production of proceeds from disposition of such properties.

### e) Capital assets

The capital assets which is comprised of office equipment are recorded at cost and amortized using the straight-line method at 20% per annum.

### f) Translation of foreign currency

The accounts of foreign subsidiaries are translated into Canadian currency as follows:

- monetary assets and liabilities at the rate of exchange prevailing at the balance sheet date
- other assets at applicable historical rates
- revenues and expenses at the rates prevailing at the relevant dates

Translation gains and losses are reflected in earnings.

### c) Marketable securities

Marketable securities are carried at the lower of cost and market value.

### d) Mineral properties

The Company considers its exploration costs to have the characteristics of property, plant and equipment. As such, the Company defers all exploration costs including acquisition costs, field exploration and field supervisory costs relating to specific properties until those properties are brought into production at which time they will be amortized on a unit-of-production basis based on proven and probable reserves or until the properties are

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**November 30, 2001 and November 30, 2000**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**g) Stock option plan**

The Company has a stock option plan which is described in note 8. No compensation expense is recognized for this plan when stock options are issued to employees, officers, directors and service providers. Any consideration paid by employees, officers, directors and service providers on the exercise of stock options is credited to share capital. If stock or stock options are repurchased from employees, officers, directors and service providers, the excess of the consideration paid over the carrying amount of the stock or stock option cancelled, is charged to retained earnings.

**NOTE 3 MINERAL PROPERTIES**

Mineral properties are represented by and located geographically as follows:

	2001	2000
Canada	\$ 1	\$ 1
Zimbabwe	1	1
	\$ 2	\$ 2

The Company annually reviews the carrying values of its portfolio of mining properties. Through this process the Company determined that the properties located in Zimbabwe had suffered an impairment in value and therefore were written down in 1999 to a nominal value. Further, during 2000, the Company determined that its Cline Lake Gold property should also be written down to a nominal value.

**Zimbabwe**

Mineral properties located in Zimbabwe comprise mining claims, exclusive prospecting orders and a special grant. The exclusive prospecting orders and the special grant are issued by the government of Zimbabwe.

**NOTE 3 MINERAL PROPERTIES - (Cont'd)**

***Exclusive Prospecting Order No. 1125***

During 1998, the Company entered into an option agreement with Kinross Holdings Zimbabwe (Private) Limited ("Kinross"). Under the terms of the agreement, Kinross may earn a 60% interest in the property by expending Zimbabwe \$2,500,000 on exploration. Thereafter, the Company is required to meet its proportionate share of expenditures on the property or revert to a 1.5% net smelter return royalty.

***Kanyemba Uranium-Vanadium Property***

During 1998, the Company sold a 50% interest in this property to Minroc Mines Inc. now known as Cassiar Magnesium Inc. ("Cassiar"). This

property was held by Licon Mines (Private) Limited ("Licon") a wholly owned subsidiary of the Company. The sale was completed by the transfer of 50% of the issued share capital of Licon to Cassiar. Cassiar issued 1,500,000 common shares to Cline as consideration for the transfer.

Pursuant to a shareholders agreement between Cline and Cassiar, Cassiar is responsible for funding the first \$3,000,000 of costs for the Kanyemba Uranium -Vanadium project after which Cline and Cassiar will share the costs equally.

In addition, Cassiar provided Cline with a US\$150,000 non-interest bearing convertible loan. This loan may be converted by Cassiar into shares of Cline at \$1.00 per share before November 30, 1999 after which date Cline may either repay the loan or issue common shares at a deemed price of \$0.75 per share in settlement of the loan. To date the debt has not been repaid and common shares have not been issued in settlement.

**NOTE 4 CAPITAL ASSETS**

Capital assets are represented by the following:

	2001	2000
Furniture, fixtures and equipment	\$ 9,548	\$ 9,548
Less: accumulated depreciation	7,982	7,312
	\$ 1,566	\$ 2,336

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2001 and November 30, 2000

## NOTE 5 OTHER ASSETS

Other assets are represented by the following:

	2001	2000
Incorporation costs	\$ 1,017	\$ 1,017

## NOTE 6 DUE TO RELATED PARTY

The amount due to related party is payable to a Company controlled by an officer and director of the Company. There are no fixed terms of repayment and interest is not currently being charged on this balance.

## NOTE 7 WRITE OFF OF DEBT OBLIGATIONS

During 1998, the Company entered through its subsidiary, Vertical Investments (Pvt) Limited, into capital leases for the purchase of mining machinery and vehicles in Zimbabwe. During 1999, the equipment acquired under these leases was returned to the leasing company.

Accounts payable and accrued liabilities as at November 30, 2000 included \$154,267 of accrued interest relating to these capital leases and \$93,670 of additional Vertical trade payables.

During 2001, due to the unstable political situation in Zimbabwe, the Company determined that it was no longer feasible to pursue the mineral property held by Vertical. Consequently, the liabilities associated with pursuing the mineral property have been taken into income.

## Outstanding common shares:

	Number of shares
Outstanding common shares, November 30, 2000 and 2001	18,924,365

## Stock options

The Company has a stock option plan for directors, officers and employees, enabling them to purchase common shares. The total number of options outstanding at any time cannot exceed 10% of the total number of outstanding common shares. Each option granted under the plan is for a maximum term of five years. The exercise price is determined by the Company's Board of Directors at the time the option is granted, subject to regulatory approval and may not be less than the most recent closing price of the common shares at the date of grant. The stock options outstanding at November 30, 2001 expire at various dates through January 19, 2006.

## NOTE 8 SHARE CAPITAL

Cline has authorized share capital of 100,000,000 common shares without par value and 2,000,000 cumulative preferred shares redeemable at par value of \$5 each and convertible into common shares.

### Share capital:

	Amount
Share capital, November 30, 2000 and 2001	\$ 2,416,035

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2008

114,237

**November 30, 2001 and November 30, 2000**

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at November 30, 2001 are presented below:

**NOTE 8 SHARE CAPITAL (Cont'd)**

A summary of the Company's outstanding stock option transactions as at November 30, 2001 and November 30, 2000 are as follows:

	No. of shares	Weighted Average Exercise Price
<b>November 30, 2001</b>		
Outstanding, beginning of year	1,400,000	\$ 0.21
Granted during year	200,000	\$ 0.21
Expired	(1,275,000)	\$ 0.21
<b>Outstanding, end of year</b>	<b>300,000</b>	<b>\$ 0.21</b>

	No. of shares	Weighted Average Exercise Price
<b>November 30, 2000</b>		
Outstanding, Beginning and end of year	1,400,000	\$ 0.21

**NOTE 9 RELATED PARTY TRANSACTIONS**

During the year, companies controlled by officers and directors of the Company provided \$60,000 (2000 -\$60,000) of management services and \$24,000 (2000 -\$24,000) of accounting and administrative services.

Of the above amounts \$70,000 is included in accounts payable and accrued liabilities at November 30, 2001 (2000 - \$29,750).

**NOTE 10 LOSS PER SHARE**

The loss per share is calculated by dividing the loss for the year by the weighted average outstanding shares during 2001 and 2000 (18,924,365 shares).

**NOTE 11 INCOME TAXES**

At November 30, 2001 the Company has non-capital losses available for carry forward of \$484,788 and Canadian exploration and development expenditures of \$1,275,656 available to be applied against taxable income in future years. No benefit from these amounts has been recorded by the Company in these financial statements.

	2001	2000
<b>Future tax assets:</b>		
Net operating loss carry forwards	\$ 202,000	\$ 160,000
Resource deductions	659,000	665,000
	861,000	825,000
Less: valuation allowance	(861,000)	\$(825,000)
	\$ Nil	\$ Nil

Income tax differs from the amount that would be computed by applying the Federal and Provincial statutory income tax rates of 41.74% (2000 - 42.12%). The reasons for the differences are as follows:

	2001	2000
<b>Computed tax recovery</b>		
Net operating loss carry forwards	\$(100,000)	\$(330,000)
<b>Decrease resulting from:</b>		
Non deductible costs and temporary differences	52,000	330,000
Losses not tax benefited	48,000	-
	\$ Nil	\$ Nil

**NOTE 11 INCOME TAXES (Cont'd)**

The non-capital losses expire in the following years:

Year	Amount
2002	70,260
2003	35,388
2004	90,679
2005	56,552
2006	80,767
2007	36,905

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2001 and November 30, 2000

## NOTE 12 SEGMENTED INFORMATION

The Company operates in one industry - the exploration and development of mineral properties which are located in Canada and Zimbabwe.

Identifiable assets:

November 30, 2001	Canada	Zimbabwe	2001 Total
Mineral interests	\$ 1	\$ 1	\$ 2
Corporate and other assets	185,463	-	185,463
	\$ 185,464	\$ 1	\$ 185,465

November 30, 2000	Canada	Zimbabwe	2000 Total
Mineral interests	\$ 1	\$ 1	\$ 2
Corporate and other assets	775,552	-	775,552
	\$ 775,553	\$ 1	\$ 775,554

## NOTE 13 FINANCIAL INSTRUMENTS

The carrying value of cash, receivables, accounts payable and accrued liabilities and due to related party approximates their fair value due to the relatively short-term maturities of these instruments.

# CORPORATE INFORMATION

## HEAD OFFICE

530 Lasalle Boulevard  
Sudbury, Ontario  
P3A 1W9  
Tel: (705) 560-8100  
Fax: (705) 560-8521

## SUBSIDIARY COMPANIES

Arlington Development Limited  
Vertical Investments (Private) Limited  
Atlantic Minerals (Private) Limited

## AFFILIATED COMPANIES

Licon Mines (Pvt.) Limited  
Cassiar Magnesium Inc.

Philippe Montenay  
*Paris, France*

Allan J. Taylor  
*Sudbury, Ontario, Canada*

## OFFICERS

Kenneth H. Bates  
*President and CEO*

Bernard Furth-Bourquin  
*Chairman of the Board*

Allan J. Taylor  
*Secretary-Treasurer*  
*Chief Financial Officer*

1177 West Hastings Street  
Mall Level  
Vancouver, British Columbia  
V6E 2K3

## LISTING & TRADING

Canadian Venture Exchange  
Symbol - CMK

## SHARES ISSUED

18,924,365 common shares

## ANNUAL GENERAL MEETING

Cline's Annual General Meeting of Shareholders will be held at 10:00 a.m. on Friday May 24, 2001 in the Boardroom of Lang Michener, 1500 - 1055 West Georgia Street, Vancouver, British Columbia.

CLINE MINING CORPORATION

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## AUDITORS

KPMG LLP  
144 Pine Street, 4th Floor  
Box 700  
Sudbury, Ontario  
P3E 4R6

## LAWYERS

Lang Michener  
1500 - 1055 West Georgia Street  
Vancouver, British Columbia  
V6E 4N7

## DIRECTORS

Kenneth H. Bates  
*Toronto, Ontario, Canada*

Bernard Furth-Bourquin  
*Geneva, Switzerland*

## TRANSFER AGENT

CIBC Mellon Trust Company  
Corporate Trust Services

