

**CHAMPION RESOURCES INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(in Canadian Dollars)  
(Unaudited)

	<u>June 30, 2001</u>	<u>December 31, 2000</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 201,368	\$ 273,111
Accounts receivable	25,535	19,593
Due from related party	15,037	18,424
Prepaid expenses	-	28,751
	<u>241,940</u>	<u>339,879</u>
Loan receivable	140,000	140,000
Mineral properties and related expenditures	7,189,355	6,889,382
Capital assets	<u>42,090</u>	<u>48,817</u>
	<u>\$ 7,613,385</u>	<u>\$ 7,418,078</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 418,890	\$ 449,538
Due to related parties	<u>27,517</u>	<u>95,928</u>
	<u>446,407</u>	<u>545,466</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital		
Authorized -		
100,000,000 common shares without par value		
Issued and outstanding -		
36,753,940 (2000 - 33,633,940) common shares	16,238,801	15,614,801
Deficit	<u>(9,071,823)</u>	<u>(8,742,189)</u>
	<u>7,166,978</u>	<u>6,872,612</u>
	<u>\$ 7,613,385</u>	<u>\$ 7,418,078</u>

Approved by the Board:

"RICHARD P. CLARK"  
Director

"MICHAEL D. McINNIS"  
Director

**CHAMPION RESOURCES INC.**  
**CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT**  
(in Canadian Dollars)  
(Unaudited)

	Three months ended June 30		Six months ended June 30	
	2001	2000	2001	2000
Expenses				
Amortization	\$ 996	\$ 2,204	\$ 1,509	\$ 3,703
Capital taxes	-	76	(4,586)	1,367
Consulting	3,886	83,301	23,346	142,082
Financing advisory fees	-	-	47,512	-
Foreign exchange (gain) loss	(8,026)	330	7,589	23,188
Interest and bank charges	370	11,046	937	15,048
Management fees	60,000	-	130,000	34,456
Office and general	9,475	58,947	33,603	101,960
Professional fees	23,951	64,395	35,375	110,032
Promotion and public relations	11,398	20,243	15,474	46,434
Stock exchange and filing fees	5,770	3,886	7,384	12,616
Transfer agent and shareholder information	8,778	2,624	9,659	3,661
Travel	11,315	2,815	13,088	4,702
Wages and benefits	-	11,479	6,081	20,782
	<u>127,913</u>	<u>261,346</u>	<u>326,971</u>	<u>520,031</u>
Other (income)/expenses				
Interest income	(789)	(5,011)	(1,577)	(9,353)
Loss on disposal of capital asset	4,240	-	4,240	-
	<u>131,364</u>	<u>256,335</u>	<u>329,634</u>	<u>510,678</u>
Loss for the period	131,364	256,335	329,634	510,678
Deficit, beginning of the period	<u>8,940,459</u>	<u>5,280,780</u>	<u>8,742,189</u>	<u>5,026,437</u>
Deficit, end of the period	<u>\$ 9,071,823</u>	<u>\$ 5,537,115</u>	<u>\$ 9,071,823</u>	<u>\$ 5,537,115</u>
Loss per common share	<u>\$ 0.004</u>	<u>\$ 0.02</u>	<u>\$ 0.01</u>	<u>\$ 0.02</u>
Weighted average number of shares	<u>34,653,940</u>	<u>30,348,911</u>	<u>34,653,940</u>	<u>30,348,911</u>

**CHAMPION RESOURCES INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in Canadian Dollars)  
(Unaudited)

	<b>Three months ended June 30</b>		<b>Six months ended June 30</b>	
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
Cash flows from operating activities				
Loss for the period	\$ (131,364)	\$ (256,335)	\$ (329,634)	\$ (510,678)
Items not affecting cash				
Amortization	996	2,204	1,509	3,703
Loss on disposal of capital assets	4,240	-	4,240	-
	<u>(126,128)</u>	<u>(254,131)</u>	<u>(323,885)</u>	<u>(506,975)</u>
Net changes in non-cash working capital items				
Accounts receivable and other current assets	19,927	(90,383)	26,194	(294,800)
Accounts payable and accrued liabilities	(142,480)	(309,638)	(30,648)	281,226
Due to related party	(61,459)	49	(68,411)	60
	<u>(310,140)</u>	<u>(654,103)</u>	<u>(396,750)</u>	<u>(520,489)</u>
Cash flows from investing activities				
Mineral properties and related expenditures	(197,250)	(544,580)	(299,973)	(1,360,289)
Proceeds from sale of capital assets	980	-	980	-
Capital assets purchased	-	(6,203)	-	(9,603)
Reclamation bond	-	(467)	-	(573)
	<u>(196,270)</u>	<u>(551,250)</u>	<u>(298,993)</u>	<u>(1,370,465)</u>
Cash flows from financing activities				
Common shares issued, net	624,000	232,350	624,000	1,527,650
Increase (decrease) in cash and cash equivalents	117,590	(973,003)	(71,743)	(363,304)
Cash and cash equivalents, beginning of period	83,778	1,218,044	273,111	608,345
Cash and cash equivalents, end of period	<u>\$ 201,368</u>	<u>\$ 245,041</u>	<u>\$ 201,368</u>	<u>\$ 245,041</u>
Other supplementary information				
Interest received	<u>\$ 789</u>	<u>\$ 5,011</u>	<u>\$ 1,577</u>	<u>\$ 9,353</u>
Interest paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CHAMPION RESOURCES INC.**  
**CONSOLIDATED SCHEDULES OF MINERAL PROPERTIES**  
**AND RELATED EXPENDITURES**  
(in Canadian Dollars) (Unaudited)  
**June 30, 2001**

**Farim Project, Guinea Bissau** (West Africa)

Permits and lease payment	\$ 11,107
Offshore management and contractors	192,324
Office and administration	8,647
Camp and general	3,414
Geological and geochemical	25,627
Transportation and travel	760
Incurring during the period	<u>241,878</u>
Balance - beginning of period	<u>6,289,538</u>
Balance - end of period	<u>6,531,416</u>

**Guinea Bissau Reconnaissance** (West Africa)

General reconnaissance	
Beginning and end of period	<u>561,758</u>
Diamond reconnaissance	
Assaying and sampling	6,386
Geological and geochemical	26,272
Transportation and travel	25,437
Incurring during the period	<u>58,095</u>
Balance - beginning of period	<u>38,086</u>
Balance - end of period	<u>96,181</u>

Total	<u>\$ 7,189,355</u>
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**CHAMPION RESOURCES INC.**  
**NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2001**  
**(Unaudited)**

**1. Significant Accounting Policies**

The consolidated financial statements of Champion Resources Inc. (the "Company") are prepared in accordance with accounting principles generally accepted in Canada using the same accounting policies and methods of application as those disclosed in Note 2 to the Company's consolidated financial statements for the year ended December 31, 2000 except for earnings per share. Earnings per common share amounts have been calculated and presented in accordance with the new recommendations of the Canadian Institute of Chartered Accountants whereby the treasury stock method is used to calculate diluted earnings per share. The new standard has been applied on a retroactive basis and had no impact on the amounts presented.

These interim consolidated financial statements should be read in conjunction with the consolidated financial statements included in the Company's 2000 Annual Report.

Certain comparative figures have been reclassified to conform to the presentation adopted for the current period.

**CHAMPION RESOURCES INC.**  
**NOTES AND SUPPLEMENTARY INFORMATION**  
**TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2001**  
**(In Canadian Dollars)**  
**(Unaudited)**

**1. FOR THE CURRENT FISCAL YEAR-TO-DATE**

(a) MINING PROPERTIES AND RELATED EXPENDITURES

Reference is made to the consolidated schedule of mineral properties and related expenditures of the accompanying unaudited financial statements.

(b) GENERAL OFFICE EXPENSES

Reference is made to the consolidated statements of loss and deficit of the accompanying unaudited financial statements.

(c) RELATED PARTY TRANSACTIONS

During the six months ended June 30, 2001, the Company incurred management and administrative service fees of \$90,000 to a corporation owned by a director and shareholder of the Company. In addition, the Company incurred \$40,000 for management services provided by a company related to the President of the Company.

**2. FOR THE QUARTER ENDED JUNE 30, 2001**

(a) No securities were issued.

(b) No options were granted.

**3. AT JUNE 30, 2001**

(a) The authorized share capital consists of 100,000,000 common shares without par value, of which 36,753,940 were issued and outstanding.

(b) The Company has a stock option plan in which 4,836,888 common shares have been made available for the Company to grant incentive stock options to certain directors, officers, employees and consultants of the Company. The plan contains a vesting schedule, such that 20% of an option can be exercised following regulatory approval and a further 10% every quarter thereafter. Options may be granted for periods up to 10 years at a price equal to the prevailing market price on the date the option is granted. No optionee shall be entitled to a grant of more than 5% of the company's outstanding shares.

<u>Options</u>	2001	
	<u>Number of Shares</u>	<u>Weighted-Average Exercise Price</u>
Outstanding at beginning of period	3,734,000	\$0.64
Granted/Repriced	3,240,000	\$0.25
Cancelled/Expired	<u>(3,834,000)</u>	<u>\$0.63</u>
Outstanding at end of period	<u>3,140,000</u>	<u>\$0.25</u>

The options outstanding have a weighted average exercise price of \$0.25 per share and expire between November 30, 2001 and March 5, 2006.

- (c) As at June 30, 2001, the following non-transferable share purchase warrants were outstanding:

<u>Number of Warrants</u>	<u>Common Share Entitlement</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
1,000,000	500,000	\$ 1.35	July 19, 2001
1,870,000	1,870,000	\$ 0.76	February 15, 2002
2,400,000	2,400,000	\$ 0.65	December 7, 2002
<u>1,560,000</u>	<u>1,560,000</u>	\$ 0.25	March 29, 2002
<u>6,830,000</u>	<u>6,330,000</u>		

- (d) Directors:

Adolf H. Lundin  
Richard J. Bailles  
Richard Clark  
Paul Conibear  
C. Ashley Heppenstall  
Michael D. McInnis  
James McKinney

- Officers:

Adolf H. Lundin, Chairman  
Rick Clark, President  
Paul Conibear, Vice President - Operations  
Sandy Kansky, Corporate Secretary  
Wanda Lee, Controller/Treasurer

**CHAMPION RESOURCES INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**OF FINANCIAL CONDITION AND OPERATING RESULTS**  
**(In Canadian Dollars)**  
**JUNE 30, 2001**

The following discussion and analysis of the financial condition and results of operations for Champion Resources Inc. should be read in conjunction with the consolidated financial statements for the six months ended June 30, 2001 and related notes therein.

**General**

Champion Resources Inc. (the "Company") together with its subsidiaries, is a mineral resource corporation engaged in exploring, acquiring and developing mineral properties. The Company holds a 100% interest in the Farim Phosphate Project ("Farim") located in Guinea-Bissau, West Africa.

**Results of Operations**

The Company's net loss for the second quarter and six months ended June 30, 2001 were \$124,000 and \$323,000 respectively, as compared to a net loss of \$256,000 and \$511,000 for the second quarter and six months of year 2000. This decrease in net losses for both the second quarter and six months of 2001 as compared to year 2000 is primarily due to a decrease in general and administrative expenses.

General and administrative expenses for the second quarter and six months of year 2001 were \$121,000 and \$320,000 respectively. This represented a decrease of \$140,000 and \$200,000 compared to \$261,000 and \$520,000 for the same comparable periods of year 2000. In particular, consulting and office and general expenses have decreased by \$129,000 for the second quarter and \$188,000 for the first six months of 2001 from 2000 as a result of streamlining operations including consolidation of corporate offices. Professional expenses have also decreased by \$40,000 and \$75,000 for the second quarter and first six months of 2001 from 2000. However, management fees have increased by \$60,000 and \$96,000 for the second quarter and first six months of 2001. Included in general and administrative expenses for the six months ended June 30, 2001 was \$48,000 relating to financing advisory fees and expenses payable to the CIBC Investment Banking. Interest income for the second quarter and six months of 2001 were \$1,000 and \$2,000 respectively as compared to \$5,000 and \$9,000 for year 2000. This decrease was due to the lower level of cash investments.

The annual operating losses are a reflection of the Company's status as non-revenue producing mineral company. As the Company has no main sources of income, losses are expected to continue.

**Liquidity and Capital Resources**

During the second quarter of 2001, the Company received \$624,000 from a private placement of 3,120,000 shares at \$0.20 per share. At June 30, 2001, the Company had a working capital deficiency of \$197,000.

Expenditures incurred on the Farim project during the six months ended June 30, 2001 were \$242,000. These expenditures were mainly related to care and maintenance costs in South Africa and Guinea-Bissau. In addition, the Company incurred \$58,000 relating to its diamond exploration program in Guinea-Bissau.

The Company has limited capital resources and has to rely upon the sale of equity and debt securities for cash required for exploration and development purposes, for acquisitions and to fund the administration of the Company. Since the Company does not expect to generate any revenues in the near future, it will have to continue to rely upon the sales of its equity and debt securities to raise capital. It follows that there can be no assurance that financing, whether debt or equity, will always be available to the Company in the amount required at any particular time or for any period or, if available, that it can be obtained on terms satisfactory to the Company.

**CHAMPION RESOURCES INC.**  
**SECOND QUARTER REPORT TO SHAREHOLDERS**  
**For the year period ended June 30, 2001**

The Company is pleased to present this report to shareholders on the activities of the Company during the second quarter period ended June 30, 2001.

**Farim Phosphate Deposit**

During the quarter, the Company initiated a structured tendering process to identify serious industry partners for the development of the Farim phosphate deposit in Guinea Bissau. Notice of this tender has been delivered to select parties worldwide and the response received has been encouraging. Interested respondents have been invited to commence a technical review at the Farim dataroom established at the Company's Vancouver headquarters. The review process is expected to continue over the next few months.

The President of the Company, Mr. Richard P. Clark, recently met with top government officials in Guinea Bissau to review the status of the Farim Project. The Company has always enjoyed strong government support for the project and both the Company and the government of Guinea Bissau look forward to working together as development of Farim progresses.

Farim is a world class phosphate deposit offering abundant reserves, high quality product and attractive economics. Work with Bateman Minerals and MRDI Canada confirm an overall resource of 166 million tonnes of phosphate ore grading 29.1%  $P_2O_5$ . Mine plan studies schedule 37 million tonnes of phosphate ore over an initial mine life of 15 years, producing an annual output of approximately 2.1 million tonnes of phosphate concentrate at a grade of 32.3%  $P_2O_5$ .

**Diamond Exploration**

The Company has embarked on a diamond exploration program in Guinea Bissau. Over 130 heavy mineral concentrate samples have been collected over a 1,000 square kilometre area in eastern Guinea Bissau. The area includes at least 60 salt pans whose circular shape may reflect underlying differentially weathered kimberlite pipes or dykes. This program follows up on positive results from a baseline sampling program conducted in the fall of 2000. The samples are being shipped to CF Mineral Research Labs in Kelowna, B.C. for analysis. Results are expected to be available in the next couple of months.

West and Central Africa has a long history of diamond production, originating for the most part from fluvial placers, with some production coming from altered kimberlites. The main producers in the region include Ghana, Guinea, Liberia, Central African Republic, Sierra Leone and the Ivory Coast, collectively producing significant quantities of high quality stones annually, yet the region remains underexplored. One of the more important diamond mines in the region is the Aredor Diamond Mine, located in southeastern Guinea (Conakry) which has produced some of the world's most valuable diamonds.

**Corporate Activities**

Investor relations activities are carried out by Company personnel and include the design and maintenance of investor information material, web site and corporate presentations.

On Behalf of the Board,

(signed) Richard P. Clark  
President

August 21, 2001