

ONTEX RESOURCES LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1998

AUDITOR'S REPORT

To the Shareholders,
Ontex Resources Limited.

I have audited the consolidated balance sheets of Ontex Resources Limited as at December 31, 1998 and 1997 and the consolidated statements of loss and deficit, deferred exploration expenditure and changes in cash position for the years then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and 1997 and the results of its operations and the changes in its cash position for the years then ended in accordance with generally accepted accounting principles.

John E. Goodwin (signed)

Toronto, Canada,
February 15, 1999.

Chartered Accountant.

ONTEX RESOURCES LIMITED

CONSOLIDATED BALANCE SHEETS

December 31,

	1998	1997
ASSETS		
Current assets		
Cash and short term deposits	\$ 3,346,847	\$ 447,381
Accounts receivable	<u>77,286</u>	<u>84,289</u>
	3,424,133	531,670
Investments in other companies (note 4)	339,795	349,875
Mineral exploration properties (note 5)	6,817,108	3,201,703
Deferred exploration expenditure	289,933	162,293
Deferred financing costs (note 6)	38,890	-
Capital assets (note 7)	<u>20,871</u>	<u>-</u>
	<u>\$ 10,930,730</u>	<u>\$ 4,245,541</u>

LIABILITIES		
Current liabilities		
Accounts payable	\$ <u>169,326</u>	\$ <u>24,753</u>
Minority interest	<u>163</u>	<u>1,275</u>

SHAREHOLDERS' EQUITY		
Share capital (note 8)		
Authorized		
Unlimited number of common shares		
Unlimited number of Class A shares		
Issued		
37,411,506 (1997 - 16,784,170) common shares	16,173,107	9,209,539
Deficit	<u>5,411,866</u>	<u>4,990,026</u>
	<u>10,761,241</u>	<u>4,219,513</u>
	<u>\$ 10,930,730</u>	<u>\$ 4,245,541</u>

Approved by the Board:

S. Fuda, Director (signed)

R.J. McGroarty, Director (signed)

ONTEX RESOURCES LIMITED

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

	Years ended December 31,	
	1998	1997
Income		
Beardmore option payment	\$ 5,000	\$ 5,000
Interest	<u>9,658</u>	<u>2,146</u>
	<u>14,658</u>	<u>7,146</u>
Costs and expenses		
Administration	427,530	318,178
Write down of investment	<u>10,080</u>	<u>-</u>
	<u>437,610</u>	<u>318,178</u>
Operating loss	422,952	311,032
Minority interest	<u>1,112</u>	<u>1,135</u>
Loss	421,840	309,897
Deficit, beginning of the year	<u>4,990,026</u>	<u>4,656,435</u>
	5,411,866	4,966,332
Financing costs	<u>-</u>	<u>23,694</u>
Deficit, end of the year	\$ <u>5,411,866</u>	\$ <u>4,990,026</u>
Loss per share	\$ <u>0.02</u>	\$ <u>0.02</u>

CONSOLIDATED STATEMENTS OF DEFERRED EXPLORATION EXPENDITURE

	Years ended December 31,	
	1998	1997
Pifher Township, Ontario	\$ 19,796	54,337
Beardmore, Ontario	9,719	-
Deloro Township, Ontario	96,219	-
Other properties	<u>4,980</u>	<u>3,976</u>
	130,714	58,313
Balance, beginning of the year	<u>159,219</u>	<u>100,906</u>
Balance, end of the year	\$ <u>289,933</u>	\$ <u>159,219</u>
Summary:		
Beardmore area, Ontario	\$ 78,949	\$ 67,084
Deloro Township, Ontario	96,219	-
Pifher Township, Ontario	80,053	60,257
Other properties	<u>34,712</u>	<u>31,878</u>
	\$ <u>289,933</u>	\$ <u>159,219</u>

ONTEX RESOURCES LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN CASH POSITION

	Years ended December 31,	
	1998	1997
Cash provided by (used in):		
Operating activities		
Operating loss	\$(422,952)	\$(311,032)
Change in non-cash working capital balances	<u>151,576</u>	<u>(186,478)</u>
	<u>(271,376)</u>	<u>(497,510)</u>
Investing activities		
Exploration expenditure	(127,640)	(58,313)
Mineral exploration properties	(3,615,405)	-
Net proceeds from Metalore settlement	-	614,854
Investment in shares of Metalore	-	(331,905)
Write down of investment	10,080	-
Capital assets	<u>(20,871)</u>	<u>-</u>
	<u>(3,753,836)</u>	<u>224,636</u>
Financing activities		
Issue of common shares	6,963,568	705,700
Financing costs	(38,890)	(23,694)
Decrease in loans payable	<u>-</u>	<u>(28,500)</u>
	<u>6,924,678</u>	<u>653,506</u>
Increase in cash	2,899,466	380,632
Cash and short term deposits, beginning of the year	<u>447,381</u>	<u>66,749</u>
Cash and short term deposits, end of the year	<u>\$ 3,346,847</u>	<u>\$ 447,381</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1998

1. Corporate changes

- a) The Company entered into an agreement dated October 14, 1998 with Faymar Gold Mines Limited, Metalore Resources Limited and Fortune Minerals Limited which provided for:
- i) The amalgamation of the Company and Faymar.
 - ii) A private placement issue of shares of Ontex as amalgamated to Metalore for \$1,260,000.
 - iii) Acquisition by Ontex of certain mineral exploration properties held by Metalore in the Beardmore-Geraldton mining district including Metalore's interest in the Brookbank gold deposit.
 - iv) A private placement issue of shares and share purchase warrants to Fortune for \$2,000,000.
- b) By Articles of Amendment dated December 16, 1998, the Company amalgamated with Faymar Gold Mines Limited and formed a continuing company under the name of Ontex Resources Limited pursuant to subsection 174 of the Business Corporations Act (Ontario).
- c) The amalgamation was accounted for using the purchase method and the results of operations since the date of acquisition have been included in the consolidated statement of loss and deficit.

Pursuant to the amalgamation agreement, the shares of the amalgamating companies were exchanged for common shares in amalgamated Ontex as follows:

	Outstanding Shares	Share Exchange Ratio	Shares in Amalgamated Ontex	Capital
Ontex	18,384,170	1.0000	18,384,170	\$ 9,513,539
Faymar	6,799,000	1.4286	<u>9,713,050</u>	<u>3,399,568</u>
			<u>28,097,220</u>	\$ <u>12,913,107</u>

The net assets acquired from Faymar, at fair market value, were as follows:

Cash	\$ 2,471,715
Accounts receivable	<u>10,100</u>
	2,481,815
Mineral properties	905,404
Deferred exploration expenditure	91,601
Capital assets	<u>5,923</u>
	3,484,743
Accounts payable	<u>85,175</u>
Net assets	\$ <u>3,399,568</u>

ONTEX RESOURCES LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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2. Accounting policies

The financial statements include the accounts of the Company's wholly-owned subsidiary, Pifher Resources Inc. and its 85.7% owned subsidiary, Cherbourg Gold Inc. As a result of the issue of shares by Pifher Resources Inc., the shareholding by Ontex Resources Limited was reduced to 51.92% (note 9).

Interests in mineral exploration properties are stated at cost. Exploration expenditure related to properties in which an interest is retained is deferred. It is the intention that the acquisition costs and related deferred exploration expenditure would be amortized against income from future mining operations. Acquisition costs and related deferred exploration expenditure are written off against income if an entire group of mining claims has been disproven or abandoned.

3. Valuation of resource interests

The Company's interests in resource properties, directly and by way of investment in other companies, include costs related to non-producing mineral exploration properties. Recovery of these costs is dependent upon the development of economic mining operations or disposition of the properties.

4. Investments in other companies at cost less amounts written off

	Quoted Market Value December 31, 1998	Carrying Value December 31, 1998	Carrying Value December 31, 1997
Metalore Resources Ltd. 33,100 shares	\$ 148,950	\$ 331,905	\$ 331,905
AvantiCorp International Inc. 9,000 shares	62,099	4,950	4,950
Castello Casino Corp. 10,500 shares	5,040	<u>2,940</u>	<u>13,020</u>
		<u>\$ 339,795</u>	<u>\$ 349,875</u>

5. Mineral exploration properties

	December 31, 1998	December 31, 1997
Acquisition costs		
Beardmore area, Ontario	\$ 5,836,702	\$ 3,176,702
Deloro Township, Ontario	955,405	
Pifher Township, Ontario	25,000	25,000
Other properties	<u>1</u>	<u>1</u>
	<u>\$ 6,817,108</u>	<u>\$ 3,201,703</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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5. Mineral exploration properties, continued

Brookbank claims, Beardmore area, Ontario

The Company paid to Metalore Resources Limited (Metalore) \$2.66 million in cash as aggregate consideration for:

- a) Metalore has relinquished its right pursuant to the agreement (the "1981 Agreement") dated July 1, 1981 between Metalore and Brookbank-Sturgeon (a predecessor of Ontex) to acquire a 60% undivided leasehold interest in the 18 leased claims in Irwin Township, Ontario. The claims contain the Brookbank gold deposit (the "Brookbank Property"). Metalore will receive a 1% Net Smelter Return on the Brookbank Property.
- b) Metalore has granted to Ontex an option (the "Cherbourg-Fox Ear Option") to earn a 50% or 60% participating interest in certain properties owned by Metalore in Irwin and Sandra Townships (the "Cherbourg-Fox Ear Property"):
 - i) Ontex can earn a 50% participating interest by spending \$750,000 in exploration of the property over four years from December 14, 1998;
 - ii) Ontex can earn an additional 10% participating interest (for an aggregate 60%) by spending an additional \$250,000 (for an aggregate \$1.0 million) in exploration of the property over the four years.
- c) Metalore has granted to Ontex an option (the "Staked Claim Option") to earn a 70% interest in the 444 staked claims owned by Metalore in Leduc and Walters Townships by expending \$500,000 in exploration of the property over the four years.
- d) Metalore has granted to Ontex a right of first refusal with respect to the mineral rights to six leased claims in Walters Township owned by Metalore (the "Paint Lake Leased Claims").

Deloro area, Ontario

The Company holds 26 patented claims in Deloro Township, Ontario. The claims are subject to a 1% net smelter return royalty.

6. Deferred financing costs

Legal and consulting fees related to the Company's wholly-owned subsidiary's prospectus have been deferred until the financing is completed, at which time, the costs will be charged to deficit.

7. Capital assets

Capital assets consist of office equipment and computers acquired in December. Amortization will commence in 1999.

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8. Share capital

The Company issued common shares as follows:	Shares	Capital
Balance, December 31, 1996	13,255,670	\$ 8,503,839
Rights offering	2,673,500	534,700
Exercise of directors' options	<u>855,000</u>	<u>171,000</u>
Balance, December 31, 1997	16,784,170	9,209,539
Exercise of directors' options	<u>1,600,000</u>	<u>304,000</u>
Balance, October 31, 1998	18,384,170	9,513,539
Amalgamation with Faymar Gold Mines Limited	9,713,050	3,399,568
Share issue to Metalore Resources Limited	3,600,000	1,260,000
Share issue to Fortune Minerals Limited	<u>5,714,286</u>	<u>2,000,000</u>
Balance, December 31, 1998	<u>37,411,506</u>	<u>\$ 16,173,107</u>

Common share purchase warrants

Warrants for the purchase of 5,714,286 shares, issued as part of the private placement to Fortune Minerals Limited are outstanding. Each warrant entitles its holder to purchase one common share for a period of three years from closing at an exercise price of \$0.38 for the first eight months after closing, \$0.65 for the next sixteen months and \$0.75 for the final twelve months.

Options

Options are outstanding to directors on a total of 3,500,000 shares at \$1.10 per share exercisable over a period extending to December 24, 2000.

9. Subsequent event

On February 12, 1999, Pifher Resources Inc. issued 400,000 common share units for \$200,200 and 850,000 flow-through shares for \$464,100 (total \$664,300) pursuant to its Prospectus dated October 14, 1998. Each common share unit comprises one common share and one common share warrant.

10. Financial instruments

The carrying value of cash and short term deposits, accounts receivable and accounts payable reflected in the balance sheet approximate their respective fair values. The fair values of investments in other companies are assumed to approximate quoted market values, as disclosed in note 4.

11. Income tax information

At December 31, 1998, the Company estimates that a total of \$7,138,000 of various classes of resource deductions are available for carry forward to apply against taxable income of subsequent taxation years. Non-capital losses of \$2,299,000 expire over the years to 2005.