

Consolidated Financial Statements of

**ONTEX RESOURCES LIMITED**

Year ended December 31, 1999



**KPMG** LLP  
**Chartered Accountants**  
Commerce Court West  
PO Box 31 Stn Commerce Court  
Suite 3300  
Toronto ON M5L 1B2

Telephone (416) 777-8500  
Telefax (416) 777-8818  
www.kpmg.ca

## **AUDITORS' REPORT TO THE SHAREHOLDERS**

We have audited the consolidated balance sheet of Ontex Resources Limited as at December 31, 1999 and the consolidated statements of earnings and deficit, deferred exploration expenditures and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we 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 our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures for 1998 were reported on by another chartered accountant who expressed an opinion without reservation dated February 15, 1999.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive style and is underlined with a single horizontal stroke.

Chartered Accountants

Toronto, Canada

April 5, 2000

# ONTEX RESOURCES LIMITED

## Consolidated Balance Sheet

December 31, 1999, with comparative figures for 1998

	1999	1998
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 3,432,488	\$ 3,346,847
Accounts receivable	105,524	77,286
Prepaid expenses	20,466	—
	<u>3,558,478</u>	<u>3,424,133</u>
Investments in other companies (note 3)	120,801	339,795
Investment in and advances to related company	457,588	—
Mineral exploration properties (note 4)	6,817,108	6,817,108
Deferred exploration expenditures	1,324,079	289,933
Deferred financing costs	49,267	38,890
Capital assets, net of depreciation of \$16,502 (1998 - nil)	43,781	20,871
	<u>\$ 12,371,102</u>	<u>\$ 10,930,730</u>

## Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 187,182	\$ 169,326
Minority interest	292	163
Shareholders' equity:		
Share capital (note 5):		
Authorized:		
Unlimited Class A shares		
Unlimited common shares		
Issued:		
39,036,506 common shares (1998 - 37,411,506)	17,960,607	16,173,107
Deficit	(5,776,979)	(5,411,866)
	<u>12,183,628</u>	<u>10,761,241</u>
	<u>\$ 12,371,102</u>	<u>\$ 10,930,730</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

\_\_\_\_\_ Director

\_\_\_\_\_ Director

# ONTEX RESOURCES LIMITED

## Consolidated Statement of Earnings and Deficit

Year ended December 31, 1999, with comparative figures for 1998

	1999	1998
Income:		
Beardmore option payment	\$ –	\$ 5,000
Interest	182,937	9,658
	<u>182,937</u>	<u>14,658</u>
Cost and expenses:		
General and administrative	648,983	427,530
Depreciation	16,502	–
	<u>665,485</u>	<u>427,530</u>
	(482,548)	(412,872)
Write-down of investments in other companies	(218,994)	(10,080)
Minority interest	(129)	1,112
Equity loss of related company	(63,488)	–
Gain on issue of shares by subsidiary	<u>400,046</u>	<u>–</u>
Loss for the year	(365,113)	(421,840)
Deficit, beginning of year	(5,411,866)	(4,990,026)
Deficit, end of year	<u>\$ (5,776,979)</u>	<u>\$ (5,411,866)</u>
Loss per share	\$ 0.01	\$ 0.02

See accompanying notes to consolidated financial statements.

# ONTEX RESOURCES LIMITED

## Consolidated Statement of Deferred Exploration Expenditures

Year ended December 31, 1999, with comparative figures for 1998

	1999	1998
Pifher Township, Ontario	\$ —	\$ 19,796
Beardmore, Ontario:		
Brookbank	465,586	9,719
Walters - Leduc	66,707	—
Cherbourg-Fox Ear	141,168	—
Cherbourg	427,120	—
Deloro Township, Ontario	(1,565)	96,219
Bauraute	2,832	4,980
	<u>1,101,848</u>	<u>130,714</u>
Balance, beginning of year	289,933	159,219
Effect on deferred exploration expenditures of change to the equity method of accounting for investment in related company	(67,702)	—
Balance, end of year	<u>\$ 1,324,079</u>	<u>\$ 289,933</u>
Summary:		
Pifher Township, Ontario	\$ —	\$ 67,702
Beardmore, Ontario:		
Brookbank	529,483	63,897
Walters - Leduc	66,707	—
Cherbourg-Fox Ear	141,168	—
Cherbourg	454,523	27,403
Deloro Township, Ontario	94,654	96,219
Bauraute	37,544	34,712
	<u>\$ 1,324,079</u>	<u>\$ 289,933</u>

See accompanying notes to consolidated financial statements.

# ONTEX RESOURCES LIMITED

## Consolidated Statement of Cash Flows

Year ended December 31, 1999, with comparative figures for 1998

	1999	1998
Cash provided by (used in):		
Operating activities:		
Loss for the year	\$ (365,113)	\$ (421,840)
Items not involving cash:		
Depreciation	16,502	—
Write-down of investments in other companies	218,994	10,080
Minority interest	129	(1,112)
Equity loss of related company	63,488	—
Gain on issue of shares by subsidiary	(400,046)	—
<u>Change in non-cash working capital balances</u>	<u>(81,410)</u>	<u>76,501</u>
	(547,456)	(336,371)
Financing activities:		
Issue of common shares	1,787,500	3,564,000
<u>Financing costs</u>	<u>—</u>	<u>(38,890)</u>
	1,787,500	3,525,110
Investing activities:		
Exploration expenditures	(1,101,848)	(36,039)
Mineral exploration properties	—	(2,710,001)
Capital assets	(39,412)	(14,948)
<u>Advances to related company</u>	<u>(13,019)</u>	<u>—</u>
	(1,154,279)	(2,760,988)
Effect on cash of change to the equity method of accounting for investment in related company	(124)	—
Cash acquired on acquisition of Faymar (note 1)	—	2,471,715
Increase in cash and cash equivalents	85,641	2,899,466
Cash and cash equivalents, beginning of year	3,346,847	447,381
<u>Cash and cash equivalents, end of year</u>	<u>\$ 3,432,488</u>	<u>\$ 3,346,847</u>

See accompanying notes to consolidated financial statements.

# ONTEX RESOURCES LIMITED

Notes to Consolidated Financial Statements

Year ended December 31, 1999

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## 1. Corporate changes:

- (a) Ontex Resources Limited (the "Company") entered into an agreement dated October 14, 1998 with Faymar Gold Mines Limited ("Faymar"), Metalore Resources Limited ("Metalore") and Fortune Minerals Limited ("Fortune") 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; and
  - (iv) a private placement issue of shares and share purchase warrants to Fortune for \$2,000,000.
- (b) By Articles of Amalgamation dated December 16, 1998, the Company amalgamated with Faymar 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 earnings and deficit. Pursuant to the amalgamation agreement, the shares of the amalgamating companies were exchanged for common shares in amalgamated Ontex as follows:

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Property	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	9,713,050	3,399,568
			28,097,220	\$ 12,913,107

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# ONTEX RESOURCES LIMITED

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 1999

## 1. Corporate changes (continued):

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

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

## 2. Significant accounting policies:

The Company is in the business of exploring for and developing mineral properties. The recoverability of the amounts shown for mineral exploration properties and deferred exploration expenditures is dependent on the existence of economically recoverable reserves, the ability to obtain financing to complete the development of such reserves and meet its obligations under various agreements and the success of future operations or dispositions.

### (a) Basis of presentation:

The financial statements included the accounts of the Company's subsidiary, Pifher Resources Inc. ("Pifher") (100% owned) and Cherbourg Gold Inc. (85.7% owned), until February 12, 1999, at which time, the Company's interest in Pifher was reduced to below 50% as a result of the issue of shares by Pifher. From February 12, 1999, the Company commenced accounting for Pifher using the equity method and presents this as "investment in and advances to related company." At December 31, 1999, the Company's investment in Pifher was 43.3%.

# ONTEX RESOURCES LIMITED

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 1999

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## 2. Significant accounting policies (continued):

### (b) Mineral exploration properties and deferred exploration expenditures:

Interests in mineral exploration properties and related exploration expenditures are recorded at cost less associated recoveries and receipts from exploration agreements. Exploration expenditures are deferred until the project to which they relate is placed in production or abandoned. Deferred costs are amortized on the unit-of-production basis upon commencement of commercial production or written off if the mineral project is sold or abandoned.

### (c) Capital assets:

Capital assets are carried at cost less depreciation. Depreciation is charged in the year of acquisition as follows:

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Office equipment	30%
Vehicles	20%

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### (d) Measurement uncertainty:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

### (e) Cash and cash equivalents:

Cash and cash equivalents consist of short-term deposits with maturities of less than three months at the date of purchase.

### (f) Stock option plan:

The Company has a stock option plan. No compensation expense is recorded under this plan. Upon exercise, all option proceeds are included in share capital.

# ONTEX RESOURCES LIMITED

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 1999

### 3. Investments in other companies at cost less amounts written off:

	1999		1998
	Quoted market value	Carrying value	Carrying value
Metalore Resources Limited, 33,100 shares	\$ 115,850	\$ 115,850	\$ 331,905
Micromem Technologies Inc. (formerly AvantiCorp International Inc.), 9,000 shares	40,780	4,950	4,950
Other	–	1	2,940
	\$ 156,630	\$ 120,801	\$ 339,795

Micromem Technologies Inc. is related to the Company through a common director.

### 4. Mineral exploration properties:

	1999	1998
Acquisition costs:		
Beardmore, Ontario	\$ 5,836,702	\$ 5,836,702
Deloro Township, Ontario	955,405	955,405
Pifher Township, Ontario	25,000	25,000
Other properties	1	1
	\$ 6,817,108	\$ 6,817,108

Brookbank claims, Beardmore, Ontario:

In 1998, the Company paid Metalore \$2.66 million in cash as aggregate consideration for:

- (a) Metalore relinquishing 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;

# ONTEX RESOURCES LIMITED

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 1999

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## 4. Mineral exploration properties (continued):

- (b) Metalore granting 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; and
  - (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 year period;
- (c) Metalore granting 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 four years commencing December 15, 1998; and,
- (d) Metalore granting 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 Township, Ontario:

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

Pifher Township:

- (a) Cherbourg Gold Inc. (a 85.7%-owned subsidiary of Ontex) has granted Pifher an option to earn up to 80% interest in 26 mining claims in Pifher Township subject to a 2% net smelter return as follows:
  - (i) up to 50% interest by expending \$500,000 in mineral exploration from October 20, 1997 to October 20, 2001; and
  - (ii) an additional 30% by incurring an additional \$500,000 in exploration expenditures during the first five years following the date of the agreement (October 20, 1997).

As at December 31, 1999, Pifher has expended in excess of \$500,000 and has acquired a 50% interest in the property.

# ONTEX RESOURCES LIMITED

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 1999

## 5. Share capital:

The Company issued common shares as follows:

	Shares	Capital
Balance, January 1, 1998	16,784,170	\$ 9,209,539
Exercise of directors' options	1,600,000	304,000
Amalgamation with Faymar (note 1)	9,713,050	3,399,568
Share issue to Metalore (note 1)	3,600,000	1,260,000
Share issue to Fortune (note 1)	5,714,286	2,000,000
Balance, December 31, 1998	37,411,506	16,173,107
Exercise of directors' options	1,625,000	1,787,500
Balance, December 31, 1999	39,036,506	\$ 17,960,607

### (a) Common share purchase warrants:

Warrants for the purchase of 5,714,286 shares, issued as part of the private placement to Fortune are outstanding. Each warrant entitles its holder to purchase one common share for a period of three years from the closing date of December 15, 1998 at an exercise price of \$0.38 for the first eight months after closing, \$0.65 for the next 16 months and \$0.75 for the final 12 months.

### (b) Options:

Under the stock option plan, eligible directors, executives and employees may be granted options to acquire common shares at a price which is not less than the weighted average price of board lots traded in the five trading days preceding the date of grant. The options are not transferable and become exercisable on the date granted.

# ONTEX RESOURCES LIMITED

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 1999

## 5. Share capital (continued):

Changes in stock options for the years ended December 31, 1999 and 1998 were as follows:

	Options outstanding	Weighted average exercise price	Available for grant
Balance, January 1, 1998	–	\$ –	–
Options approved by shareholders Granted	– 3,500,000	– 1.10	3,700,000 (3,500,000)
Balance, December 31, 1998	3,500,000	1.10	200,000
Granted	100,000	1.10	(100,000)
Exercised	(1,625,000)	1.10	–
Balance, December 31, 1999	1,975,000	1.10	100,000

The unexercised stock options are exercisable over the period from January 1, 2000 to December 24, 2000.

## 6. Financial instruments:

The carrying values of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities reflected in the balance sheet approximate their respective fair values due to the short-term nature of these investments.

## 7. Income taxes:

At December 31, 1999, the Company estimates that a total of \$8,061,000 of various classes of resource deductions are available for carryforward to apply against taxable income of subsequent taxation years. Non-capital losses of \$2,326,000 expire over the years to 2005.

# ONTEX RESOURCES LIMITED

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 1999

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**8. Related party transactions:**

During the year ended December 31, 1999, \$353,847 (1998 - \$144,000) was paid to directors, officers and companies in which they have an interest for professional and technical services rendered.

**9. Comparative figures:**

Certain figures presented for comparative purposes have been reclassified to conform with the current year's financial statement presentation.