

Consolidated Financial Statements of

ONTEX RESOURCES LIMITED

Years ended December 31, 2000 and 1999

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Ontex Resources Limited as at December 31, 2000 and 1999 and the consolidated statements of earnings and deficit and cash flows for the years 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 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 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, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

The image shows the handwritten signature of KPMG LLP in black ink. The letters are bold and slanted, with a horizontal line underneath the signature.

Chartered Accountants

Toronto, Canada

April 20, 2001

ONTEX RESOURCES LIMITED

Consolidated Balance Sheets

December 31, 2000 and 1999

	2000	1999
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,201,758	\$ 3,432,488
Accounts receivable	60,297	105,524
Prepaid expenses	38,340	20,466
	<u>1,300,395</u>	<u>3,558,478</u>
Investments (note 2)	167,007	120,801
Investment in associated company	571,480	457,588
Mineral exploration properties (note 3)	9,471,773	8,141,187
Deferred charges	20,868	49,267
Capital assets, net of depreciation of \$30,292 (1999 - \$16,502)	40,088	43,781
	<u>\$ 11,571,611</u>	<u>\$ 12,371,102</u>

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 113,326	\$ 187,182
Minority interest	292	292
Shareholders' equity:		
Share capital (note 5):		
Authorized:		
Unlimited Class A shares		
Unlimited common shares		
Issued:		
39,036,506 common shares	17,960,607	17,960,607
Deficit	<u>(6,502,614)</u>	<u>(5,776,979)</u>
	<u>11,457,993</u>	<u>12,183,628</u>
	<u>\$ 11,571,611</u>	<u>\$ 12,371,102</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

“Salvatore Fuda” _____ Director

“Gary Conn” _____ Director

ONTEX RESOURCES LIMITED

Consolidated Statements of Earnings and Deficit

Years ended December 31, 2000 and 1999

	2000	1999
Income:		
Interest	\$ 124,965	\$ 182,937
Cost and expenses:		
General and administrative	759,930	648,983
Depreciation	13,790	16,502
	<u>773,720</u>	<u>665,485</u>
	(648,755)	(482,548)
Write-down of investments	(17,924)	(218,994)
Minority interest	—	(129)
Share of losses of associated company	(58,956)	(63,488)
Gain on issue of shares by subsidiary	—	400,046
Loss for the year	(725,635)	(365,113)
Deficit, beginning of year	(5,776,979)	(5,411,866)
Deficit, end of year	<u>\$ (6,502,614)</u>	<u>\$ (5,776,979)</u>
Loss per share	\$ 0.02	\$ 0.01

See accompanying notes to consolidated financial statements.

ONTEX RESOURCES LIMITED

Consolidated Statements of Cash Flows

Years ended December 31, 2000 and 1999

	2000	1999
Cash provided by (used in):		
Operating activities:		
Loss for the year	\$ (725,635)	\$ (365,113)
Items not involving cash:		
Depreciation	13,790	16,502
Write-down of investments	17,924	218,994
Minority interest	—	129
Share of losses of associated company	58,956	63,488
Deferred charges	49,267	—
Gain on issue of shares by subsidiary	—	(400,046)
Change in non-cash working capital balances	(46,503)	(81,410)
	(632,201)	(547,456)
Financing activities:		
Issue of common shares	—	1,787,500
Deferred charges	(15,000)	—
	(15,000)	1,787,500
Investing activities:		
Mineral exploration properties	(1,330,586)	(1,101,848)
Capital assets	(10,097)	(39,412)
Investment in associated company	(172,848)	(13,019)
Investments	(64,130)	—
Deferred charges	(5,868)	—
	(1,583,529)	(1,154,279)
Effect on cash of change to the equity method of accounting for investment in related company	—	(124)
Increase (decrease) in cash and cash equivalents	(2,230,730)	85,641
Cash and cash equivalents, beginning of year	3,432,488	3,346,847
Cash and cash equivalents, end of year	\$ 1,201,758	\$ 3,432,488

See accompanying notes to consolidated financial statements.

ONTEX RESOURCES LIMITED

Notes to Consolidated Financial Statements

Years ended December 31, 2000 and 1999

By Articles of Amalgamation dated December 16, 1998, the Company amalgamated with Faymar Gold Mines Limited and formed a continuing company under the name of Ontex Resources Limited ("Ontex" or the "Company") pursuant to subsection 174 of the Business Corporations Act (Ontario).

The Company is in the business of exploring for and developing mineral properties. The recoverability of the amounts shown for mineral exploration properties 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.

1. Significant accounting policies:

(a) Basis of presentation:

The financial statements included the accounts of the Company's subsidiaries, 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 associated company." At December 31, 2000, the Company's investment in Pifher was 43.3% (1999 - 43.3%).

The consolidated financial statements include the Company's proportionate interest in the accounts of entities that are jointly controlled.

(b) Mineral exploration properties:

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. Mineral exploration properties are amortized on the unit-of-production basis over proven and probable reserves upon commencement of commercial production or written off if the mineral project is sold or abandoned.

ONTEX RESOURCES LIMITED

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2000 and 1999

1. Significant accounting policies (continued):

(c) 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. Significant areas requiring the use of management estimates relate to the determination of impairment of mineral property costs. Actual results could differ from those estimates.

(d) 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.

(e) Stock option plan:

The Company has a stock option plan described in note 5. No compensation expense is recorded under this plan. Upon exercise, all option proceeds are included in share capital.

(f) Income taxes:

The Company has adopted the new Recommendations of The Canadian Institute of Chartered Accountants for the accounting for income taxes, which requires the use of the asset and liability method. This change has been applied retroactively with no restatement to the prior year. Under this method of tax allocation, future income and mining tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using the enacted tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the year in which the change is enacted or substantially enacted. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

ONTEX RESOURCES LIMITED

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2000 and 1999

1. Significant accounting policies (continued):

Prior to the adoption of the new recommendations, income tax expense was determined using the deferral method of tax allocation. Under this method, future income and mining tax expense was based on differences in the recognition of revenue and expenses for income tax and financial reporting.

There is no impact on retained earnings at January 1, 2000 of adopting this change in accounting policy.

(g) Capital assets:

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

Office equipment	30%
Vehicles	20%

(h) Investments:

Investments in marketable securities are recorded at the lower of cost or market value. The market values of investments are determined based on the closing prices reported on recognized securities exchanges and over-the-counter markets. Such individual market values do not necessarily represent the realizable value of the total holding of any security, which may be more or less than that indicated by market quotations.

ONTEX RESOURCES LIMITED

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2000 and 1999

2. Investments:

	2000		1999	
	Quoted market value	Carrying value	Quoted market value	Carrying value
Metalore Resources Limited ("Metalore"), 2000 and 1999 - 33,100 shares	\$ 115,850	\$ 115,850	\$ 115,850	\$ 115,850
Micromem Technologies Inc. (formerly AvantiCorp International Inc.), (2000 - 19,327 shares; 1999 - 9,000 shares)	51,156	51,156	40,780	4,950
Other	—	1	—	1
	\$ 167,006	\$ 167,007	\$ 156,630	\$ 120,801

Micromem Technologies Inc. is related to the Company through common directors.

3. Mineral exploration properties:

2000	Acquisition costs	Exploration costs	Total
Beardmore	\$ 5,836,702	\$ 2,464,884	\$ 8,301,586
Deloro	955,405	149,403	1,104,808
Pifher	25,000	—	25,000
Other	1	40,378	40,379
	\$ 6,817,108	\$ 2,654,665	\$ 9,471,773

1999	Acquisition costs	Exploration costs	Total
Beardmore	\$ 5,836,702	\$ 1,191,881	\$ 7,028,583
Deloro	955,405	94,654	1,050,059
Pifher	25,000	—	25,000
Other	1	37,544	37,545
	\$ 6,817,108	\$ 1,324,079	\$ 8,141,187

ONTEX RESOURCES LIMITED

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2000 and 1999

3. Mineral exploration properties (continued):

Brookbank claims, Beardmore, Ontario:

In 1998, the Company paid Metalore Resources Limited ("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 certain 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 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.

As at December 31, 2000, Ontex had spent \$997,390.

- (c) Metalore granting to Ontex an option (the "Staked Claim Option") to earn a 70% interest in certain 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, of which \$91,080 had been spent at December 31, 2000; 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 certain claims in Deloro Township, Ontario. The claims are subject to a 1% net smelter return royalty.

ONTEX RESOURCES LIMITED

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2000 and 1999

3. Mineral exploration properties (continued):

Pifher Township:

(a) Cherbourg Gold Inc. (an 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, 2000, Pifher has expended in excess of \$500,000 and has acquired a 50% interest in the property.

4. Joint venture:

In October 2000, the Company and Pifher formed a new corporation, Echo Energy Inc. ("Echo"), which will acquire gas and oil leases situated in the Bayham Township, Ontario from Southern Ontario Natural Gas Limited ("Southern"). The leased lands lie northeast of the village of Port Burwell and southeast of Vienna. The results of the Company's 50% interest in Echo are proportionately consolidated in the Company's financial statements. The Company's share of the financial results of this joint venture is summarized as follows:

Working capital	\$ 139,659
Non-current assets	22,534
Non-current liabilities	(168,009)
Net assets	\$ (5,816)
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Expenses	\$ 6,250
Net earnings	(5,816)
Cash provided by operating activities	(6,188)
Cash used in financing activities	(68,510)
Cash used in investing activities	(22,534)

ONTEX RESOURCES LIMITED

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2000 and 1999

4. Joint venture (continued):

Subsequent to the formation of Echo, a second agreement dated October 20, 2000 was signed between Pifher, Ontex, Echo and Southern which states that Echo will:

- (a) acquire an undivided 50% interest in the leases following the drilling of the first four wells on the lands affected by the leases which are required to be drilled no later than 18 months from the date of the agreement for the payment of \$33,333 cash and the transfer and issuance of 33,333 common shares of Pifher upon signing of the agreement;
- (b) have the option to acquire an additional undivided 25% interest in the leases upon completion of the drilling of an additional two wells within a period of no later than 30 months from the date of the agreement and the payment of \$33,333 and the assignment and issuance of 33,333 common shares of Pifher on or before January 3, 2001; and
- (c) have a second option to acquire the remaining undivided 25% interest in the leases upon completion of the drilling of an additional two wells within a period of no later than 30 months from the date of the agreement and the payment of \$33,334 and the assignment and issuance of 33,334 common shares of Pifher on or before January 3, 2002.

If Echo fails to meet its drilling obligations or Echo or Pifher and Ontex on behalf of Echo fail to pay the cash and transfer and/or issue the shares of Pifher to Southern, any interest in the leases earned by Echo shall revert back to Southern.

Southern will reserve a gross overriding royalty of 5% until Echo has recovered all capital costs ("Capital Costs") relating to the drilling of the eight wells on the said leases and, immediately following the earlier of the payout of the Capital Costs or five years from the date of the agreement, the royalty in favour of Southern shall be increased to 10%. The landowners (i.e. the lessors) have reserved a royalty of 5% of the net revenue from all gas and associated hydrocarbons produced from each well drilled on the lands under lease and a royalty of 12.5% of the net revenue from all oil and minerals recovered from the lands under lease.

Southern is a corporation controlled by a director of Ontex.

Subsequent to the year end, the Company entered into an agreement to reduce its share of Echo to 33.33% by selling to Pifher one third of its interest in Echo for 13,387 shares of Pifher. Additional shares of Pifher will be received if Echo completes an initial public offering within an agreed time frame. Subsequent to this transaction, which is subject to regulatory approval, the Company will account for Echo by the equity method.

ONTEX RESOURCES LIMITED

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2000 and 1999

5. Share capital:

The Company issued common shares as follows:

	Shares	Amount
Balance, December 31, 1998	37,411,506	\$ 16,173,107
Exercise of directors' options	1,625,000	1,787,500
Balance, December 31, 1999 and 2000	39,036,506	\$ 17,960,607

(a) Options:

Under the stock option plan, eligible directors, executives and employees may be granted options to acquire common shares. The options are not transferable and may be subject to any vesting the Board of Directors determines and may not exceed a term of 10 years.

Changes in stock options for the years ended December 31, 2000 and 1999 were as follows:

	Options outstanding and exercisable	Weighted average exercise price
Balance, December 31, 1998	3,500,000	\$ 1.10
Granted	100,000	1.10
Exercised	(1,625,000)	1.10
Balance, December 31, 1999	1,975,000	1.10
Issued	3,900,000	0.51
Expired	(2,150,000)	(1.02)
Balance, December 31, 2000	3,725,000	0.53

The unexercised stock options have the following weighted average terms remaining.

Exercise price	Weighted average term (months)
\$0.51	24
\$1.10	3

ONTEX RESOURCES LIMITED

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2000 and 1999

5. Share capital (continued):

(b) Common share purchase warrants:

Warrants for the purchase of 5,714,286 shares are outstanding. Each warrant entitles its holder to purchase one common share at an exercise price of \$0.75 through to December 15, 2001.

6. Financial instruments:

The carrying values of cash and cash equivalents, accounts receivable, investments, 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:

The recovery of income taxes varies from the amounts that would be computed by applying the Canadian federal and provincial statutory rates of approximately 43.5% (1999 - 44.6%) to income before taxes as follows:

	2000	1999
Expected income tax recovery using statutory income tax rates	\$ 316,000	\$ 163,000
Tax benefit of losses not currently recognized	(316,000)	(163,000)
Income tax recovery	\$ -	\$ -

The tax effects of temporary differences that give rise to significant portions of the future tax assets at December 31, 2000 are as follows:

Non-capital losses	\$ 1,000,000
Investments	13,000
Mineral exploration properties	(60,000)
Valuation allowance	(953,000)
	\$ -

The Company has approximately \$2.3 million of non-capital losses that expire between 2001 and 2007.

ONTEX RESOURCES LIMITED

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2000 and 1999

8. Related party transactions:

During the year ended December 31, 2000, \$513,785 (1999 - \$353,847) was paid to directors, officers and companies in which they have an interest for professional and technical services rendered, which is the exchange amount as agreed between the parties.

9. Comparative figures:

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