

Consolidated Financial Statements of

ONTEX RESOURCES LIMITED
(A DEVELOPMENT STAGE ENTERPRISE)

Years ended December 31, 2001 and 2000



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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Ontex Resources Limited (a Development Stage Enterprise) as at December 31, 2001 and 2000 and the consolidated statements of operations 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, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a long, horizontal, slightly curved line that extends to the right.

Chartered Accountants

Toronto, Canada

May 3, 2002

ONTEX RESOURCES LIMITED

(A DEVELOPMENT STAGE ENTERPRISE)

Consolidated Balance Sheets

December 31, 2001 and 2000

	2001	2000
Assets		
Current assets:		
Cash and cash equivalents (note 6(a))	\$ 917,838	\$ 1,201,758
Accounts receivable	36,371	60,297
Prepaid expenses	22,515	38,340
	<u>976,724</u>	<u>1,300,395</u>
Investments (note 2)	161,670	167,007
Mineral exploration properties (note 3)	10,184,496	9,471,773
Investment in Pifher Resources Inc. (note 4)	488,820	571,480
Investment in Echo Energy Inc. (note 5)	631,618	—
Deferred charges	—	20,868
Capital assets, net of accumulated depreciation of \$42,216 (2000 - \$30,293)	31,197	40,088
	<u>\$ 12,474,525</u>	<u>\$ 11,571,611</u>

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 102,407	\$ 113,326
Minority interest	292	292
Shareholders' equity:		
Share capital (note 6):		
Authorized:		
Unlimited Class A shares		
Unlimited common shares		
Issued:		
Common shares	19,368,873	17,960,607
Deficit	(6,997,047)	(6,502,614)
	<u>12,371,826</u>	<u>11,457,993</u>
	<u>\$ 12,474,525</u>	<u>\$ 11,571,611</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"Gary Conn" _____ Director

"Robert Montemarano" _____ Director

ONTEX RESOURCES LIMITED

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Consolidated Statements of Operations and Deficit

Years ended December 31, 2001 and 2000

	2001	2000
Income:		
Interest	\$ 32,701	\$ 124,965
Cost and expenses:		
General and administrative	839,414	759,930
Depreciation	11,923	13,790
	<u>851,337</u>	<u>773,720</u>
	(818,636)	(648,755)
Write-down of investments	(5,337)	(17,924)
Dilution gain in Echo Energy Inc.	300,349	–
Dilution loss in Pifher Resources Inc.	(35,543)	–
Equity loss from Echo Energy Inc.	(12,677)	–
Equity income (loss) from Pifher Resources Inc.	77,411	(58,956)
Loss for the year	(494,433)	(725,635)
Deficit, beginning of year	(6,502,614)	(5,776,979)
Deficit, end of year	<u>\$ (6,997,047)</u>	<u>\$ (6,502,614)</u>
Basic and diluted loss per share (note 6(d))	\$ (0.01)	\$ (0.02)

See accompanying notes to consolidated financial statements.

ONTEX RESOURCES LIMITED

(A DEVELOPMENT STAGE ENTERPRISE)

Consolidated Statements of Cash Flows

Years ended December 31, 2001 and 2000

	2001	2000
Cash provided by (used in):		
Operating activities:		
Loss for the year	\$ (494,433)	\$ (725,635)
Items not involving cash:		
Depreciation	11,923	13,790
Write-down of investments	5,337	17,924
Equity (income) loss from Pifher Resources Inc.	(77,411)	58,956
Gain on issue of shares by Echo Energy Inc.	(300,349)	-
Loss on issue of shares by Pifher Resources Inc.	35,543	-
Equity loss from Echo Energy Inc.	12,677	-
Deferred charges	15,000	49,267
Change in non-cash working capital balances	26,665	(46,503)
	(765,048)	(632,201)
Financing activities:		
Issue of common shares	1,408,266	-
Echo Energy Inc. special warrant financing	450,000	-
Deferred charges	-	(15,000)
	1,858,266	(15,000)
Investing activities:		
Mineral exploration properties	(712,723)	(1,330,586)
Capital assets	(3,032)	(10,097)
Investment in Pifher Resources Inc.	(14,780)	(172,848)
Investment in Echo Energy Inc.	(218,973)	-
Investments	-	(64,130)
Deferred charges	-	(5,868)
	(949,508)	(1,583,529)
Effect on cash of change to the equity method of accounting for investment in related company	(427,630)	-
Decrease in cash and cash equivalents	(283,920)	(2,230,730)
Cash and cash equivalents, beginning of year	1,201,758	3,432,488
Cash and cash equivalents, end of year	\$ 917,838	\$ 1,201,758

See accompanying notes to consolidated financial statements.

ONTEX RESOURCES LIMITED

(A DEVELOPMENT STAGE ENTERPRISE)

Notes to Consolidated Financial Statements

Years ended December 31, 2001 and 2000

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. Substantially all of the efforts of the Company are devoted to these business activities. To date, the Company has not earned significant revenue and is considered to be in the development stage.

1. Significant accounting policies:

(a) Basis of consolidation:

The financial statements included the accounts of the Company's subsidiary, Cherbourg Gold Inc. (85.7% owned).

Where the Company has joint control of a business, the Company's proportionate share of the business assets, liabilities, revenue and expenses is included in the Company's financial statements.

Where the Company believes it exerts significant influence over another entity, it accounts for its investment by the equity method. Under this method, the Company includes its share of the results of operations of the investee as earnings.

(b) Mineral exploration 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 abandoned, sold or considered to be impaired in value, at which time, an appropriate charge will be made.

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.

ONTEX RESOURCES LIMITED

(A DEVELOPMENT STAGE ENTERPRISE)

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2001 and 2000

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 6. No compensation expense is recorded under this plan. Upon exercise, all option proceeds are included in share capital.

(f) Income taxes:

The Company accounts for income taxes under the liability method. 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

(A DEVELOPMENT STAGE ENTERPRISE)

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2001 and 2000

1. Significant accounting policies (continued):

(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 and 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.

2. Investments:

	2001		2000	
	Quoted market value	Carrying value	Quoted market value	Carrying value
Metalore Resources Limited: 33,100 shares (2000 - 33,100)	\$ 152,260	\$ 115,850	\$ 115,850	\$ 115,850
Micromem Technologies Inc.: 19,327 shares (2000 - 19,327)	45,819	45,819	51,156	51,156
Other	—	1	—	1
	<u>\$ 198,079</u>	<u>\$ 161,670</u>	<u>\$ 167,006</u>	<u>\$ 167,007</u>

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

ONTEX RESOURCES LIMITED

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Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2001 and 2000

3. Mineral exploration properties:

	Beardmore	Deloro	Pifher	Other	Total
Balance, January 1, 2000	\$ 6,946,180	\$ 1,050,058	\$ 107,403	\$ 37,546	\$ 8,141,187
Expenditures	1,273,004	54,749	–	2,833	1,330,586
Balance, December 31, 2000	8,219,184	1,104,807	107,403	40,379	9,471,773
Expenditures	705,400	4,476	–	2,847	712,723
Balance, December 31, 2001	\$ 8,924,584	\$ 1,109,283	\$ 107,403	\$ 43,226	\$ 10,184,496

(a) Brookbank claims, Beardmore, Ontario:

In 1998, the Company paid Metalore Resources Limited ("Metalore") \$2.66 million in cash as aggregate consideration for:

- (i) 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 royalty ("NSR") on the Brookbank Property;
- (ii) 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"):
 - (a) Ontex can earn a 50% participating interest by spending \$750,000 in exploration of the property over four years from December 14, 1998; and
 - (b) 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, 2001, Ontex had spent \$1,511,052.

ONTEX RESOURCES LIMITED

(A DEVELOPMENT STAGE ENTERPRISE)

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2001 and 2000

3. Mineral exploration properties (continued):

- (iii) 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 \$240,945 had been spent at December 31, 2001; and,
- (iv) 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").

(b) Deloro Township, Ontario:

The Company holds certain claims in Deloro Township, Ontario. The claims are subject to a 1% NSR.

(c) Pifher Township:

- (i) Cherbourg Gold Inc. (an 85.7%-owned subsidiary of Ontex) has granted Pifher Resources Inc. ("Pifher") an option to earn up to 80% interest in 26 mining claims in Pifher Township subject to a 2% NSR as follows:
 - (a) up to 50% interest by expending \$500,000 in mineral exploration from October 20, 1997 to October 20, 2001; and
 - (b) 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, 2001, Pifher has spent \$1,026,735. Pifher has also acquired claims contiguous to the above properties which are subject to a 1% NSR.

ONTEX RESOURCES LIMITED

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Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2001 and 2000

4. Investment in Pifher Resources Inc. ("Pifher"):

The investment in Pifher is comprised as follows:

	2001	2000
Equity investment	\$ 397,881	\$ 347,417
Advances	90,939	56,054
Advances to Echo on behalf of Pifher	—	168,009
	<u>\$ 488,820</u>	<u>\$ 571,480</u>

During 2001, Pifher issued common shares and converted stock options, resulting in a dilution of the Company's ownership from 42.45% at December 31, 2000 to 35.36% at June 30, 2001. This has resulted in the Company recording a dilution loss of \$35,543.

The investment in Pifher includes an advance to Pifher of \$90,939 (2000 - \$56,054). The loan is non-interest bearing and is payable on demand. At December 31, 2001, the Company has indicated to Pifher it does not intend to call its loan during 2002.

At December 31, 2001, the Company held 1,313,387 shares of Pifher, with a quoted market value of \$3.90 per share at December 31, 2001.

ONTEX RESOURCES LIMITED

(A DEVELOPMENT STAGE ENTERPRISE)

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2001 and 2000

5. Investment in Echo Energy Inc.:

In August 2000, the Company and Pifher formed a new corporation, Echo Energy Inc. ("Echo"), to acquire oil and gas leases in Bayham Township, Ontario from Southern Ontario Natural Gas Limited ("SONG"), a related party (note 9). Both the Company and Pifher controlled 50% of Echo at December 31, 2000 and the Company's interest in Echo was accounted for as a joint venture. The results of the Company's proportionate share in Echo included in the 2000 financial statements were as follows:

Working capital	\$ 139,659
Non-current assets	22,534
Non-current liabilities	(168,009)
Net assets	\$ (5,816)
<hr/>	
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)

In July 2001, the Company and Pifher reached an agreement (the "Agreement"), whereby Ontex agreed to sell to Pifher one-third of its interest in Echo in exchange for 13,387 common shares of Pifher. Pifher also agreed to issue additional common shares to Ontex in the event of Echo completing an initial public offering within 18 months of the Agreement. The number of additional common shares to be issued is 225,904 multiplied by the initial public offering price per share less 13,387 to a maximum of 212,517 common shares.

Echo was accounted for as a joint venture until June 2001 when the Company transferred its shares in Echo to Pifher. The effect of this transaction reduced the Company's equity interest in Echo to 33.33% and, as a result, the Company began to account for its interest in Echo under the equity method.

In October 2001, Echo issued 3,000,000 common shares pursuant to a special warrant financing for gross proceeds of \$1,830,000 diluting Ontex's interest in Echo to 14.29%. As a result, the Company recorded a dilution gain of \$300,349. The Company still believes it has significant influence on Echo and continues to equity account for its investment.

ONTEX RESOURCES LIMITED

(A DEVELOPMENT STAGE ENTERPRISE)

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2001 and 2000

5. Investment in Echo Energy Inc. (continued):

The investment in Echo is comprised as follows:

	2001	2000
Equity investment	\$ 277,967	\$ –
Advances	353,651	–
	<u>\$ 631,618</u>	<u>\$ –</u>

At December 31, 2001, the investment in Echo includes an advance to Echo of \$353,651. The loan is non-interest bearing and is payable on demand. At December 31, 2001, the Company has indicated to Echo it does not intend to call the loan during 2002.

6. Share capital:

The Company issued common shares as follows:

	Shares (in 000's)	Amount
Balance, December 31, 1999 and 2000	39,037	\$ 17,960,607
Issued for cash (a)	4,817	1,408,266
<u>Balance, December 31, 2001</u>	<u>43,854</u>	<u>\$ 19,368,873</u>

(a) Common shares:

In July 2001 the Company completed a rights offering for the subscription of 4,817,102 common shares and raised gross proceeds of \$1,445,131.

The proceeds from the sale of flow-through common shares under this offering are required to be spent on qualifying exploration expenses in 2002. As at December 31, 2001, the Company had not renounced any tax basis in connection with this financing.

ONTEX RESOURCES LIMITED

(A DEVELOPMENT STAGE ENTERPRISE)

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2001 and 2000

6. Share capital (continued):

(b) Stock options:

Under the stock option plan, eligible directors may be granted options to acquire common shares at a price which is not less than the closing price of the Company's common shares on the Toronto Stock Exchange (the "Exchange") on the trading day immediately preceding the date of grant less any discounts permitted by the rules of the Exchange. 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, 2001 and 2000 are as follows:

	Options outstanding and exercisable	Weighted average exercise price
Balance, January 1, 2000	1,975,000	\$ 1.10
Issued	4,450,000	0.51
Expired	(2,150,000)	1.02
Balance, December 31, 2000	4,275,000	0.53
Issued	3,600,000	0.38
Expired	(100,000)	1.10
Balance, December 31, 2001	7,775,000	0.45

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

Exercise price	Number of options	Weighted average term (months)
\$ 0.38	3,600,000	15
\$ 0.51	4,175,000	12

ONTEX RESOURCES LIMITED

(A DEVELOPMENT STAGE ENTERPRISE)

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2001 and 2000

6. Share capital (continued):

(c) Escrow shares:

Pursuant to an escrow agreement dated October 6, 1997, 394,182 common shares of the Company held by Ontex were originally deposited in escrow. Under the terms of the escrow agreement, these shares are releasable upon approval from the Ontario Securities Commission based upon certain expenditures on mineral exploration properties, the achievement of a specific five-year cumulative cash flow and the attainment of commercial production.

(d) Loss per share:

Basic loss per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the year. Diluted loss per share is similar to basic loss per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued.

	2001	2000
Basic and diluted loss per share computation:		
Numerator:		
Loss for the year	\$ (494,433)	\$ (725,635)
Denominator:		
Average common shares outstanding	41,182,112	39,036,506
Escrowed shares	(394,182)	(394,182)
	40,787,930	38,642,324
	\$ (0.01)	\$ (0.02)
Basic and diluted loss per share	\$ (0.01)	\$ (0.02)

The determination of the weighted average number of shares outstanding for the calculation of diluted loss per share does not include the effect of outstanding share options and warrants since they are anti-dilutive.

ONTEX RESOURCES LIMITED

(A DEVELOPMENT STAGE ENTERPRISE)

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2001 and 2000

6. Share capital (continued):

(e) Common share purchase warrants:

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

7. 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.

8. Income taxes:

The recovery of income taxes varies from the amounts that would be computed by applying the Canadian federal and provincial statutory rate of approximately 41.25% (2000 - 43.5%) to income before taxes as follows:

	2001	2000
Expected income tax recovery using statutory income tax rates	\$ 204,000	\$ 316,000
Tax benefit of losses not currently recognized	(204,000)	(316,000)
Income tax recovery	\$ -	\$ -

ONTEX RESOURCES LIMITED

(A DEVELOPMENT STAGE ENTERPRISE)

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2001 and 2000

8. Income taxes (continued):

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

	2001	2000
Future tax assets:		
Non-capital losses	\$ 858,000	\$ 1,000,000
Investments	(66,000)	13,000
Mineral exploration properties	(33,000)	(60,000)
	759,000	953,000
Valuation allowance	(759,000)	(953,000)
Net future tax assets	\$ —	\$ —

The Company has approximately \$2.0 million of non-capital losses that expire between 2002 and 2008.

9. Related party transactions:

All related party transactions have been recorded at the exchange amount which the parties believe to be fair value.

- (a) The Company's Executive Vice-President and Treasurer is also President and Treasurer of Pifher Resources and a director and President of Echo. During the year ended December 31, 2001, the Company paid the Executive Vice-President and Treasurer \$52,000 (2000 - \$63,620) in consulting fees. In addition, \$6,000 has been included in the consolidated financial statements in respect of amounts paid by Echo prior to Echo being equity accounted. During the period Echo was equity accounted, Echo paid a further \$42,000 in respect of services.

ONTEX RESOURCES LIMITED

(A DEVELOPMENT STAGE ENTERPRISE)

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2001 and 2000

9. Related party transactions (continued):

- (b) The Company has paid geological consulting fees of \$60,000 to a director who is also a director and officer of Echo and the President and a principal shareholder in SONG. In addition, \$6,000 has been included in the consolidated financial statements in respect of amounts paid by Echo prior to Echo being equity accounted. During the period Echo was equity accounted, Echo paid a further \$42,000 in respect of services.
- (c) The Company has paid \$32,100 (2000 - \$39,500) in respect of accounting services provided by a company, the principal shareholder of which is the Chief Financial Officer of Pifher.
- (d) The Company has paid consulting fees of \$79,000 (2000 - \$78,000) to a director.
- (e) The Company has paid fees of \$173,925 (2000 - \$178,310) in respect of management and consulting fees and rent to companies controlled by a director.

10. Comparative figures:

Certain 2000 comparative figures have been reclassified to conform to the financial statement presentation adopted for 2001.