

Consolidated Financial Statements

Ontex Resources Limited
[A Development Stage Enterprise]
December 31, 2003 and 2002

AUDITORS' REPORT

To the Shareholders of
Ontex Resources Limited
[a Development Stage Enterprise]

We have audited the consolidated balance sheets of **Ontex Resources Limited [A Development Stage Enterprise]** as at December 31, 2003 and 2002 and the consolidated statements of loss 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, 2003 and 2002 and the results of its operations and the changes in its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst + Young LLP

Toronto, Canada,
March 23, 2004.

Chartered Accountants

Ontex Resources Limited

[A Development Stage Enterprise]

CONSOLIDATED BALANCE SHEETS

As at December 31

	2003	2002
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	143,799	740,584
Accounts receivable	62,572	38,988
Due from Pifher Resources Inc.	104,601	95,050
Due from Echo Energy Inc.	—	6,853
Due from Echo Power Generation Inc.	1,448	—
Prepaid expenses	22,299	2,082
	334,719	883,557
Investments <i>[note 5]</i>	80,993	118,443
Mineral exploration properties <i>[note 6]</i>	9,355,304	10,728,304
Investment in Pifher Resources Inc. <i>[note 7]</i>	182,818	249,602
Investment in Echo Energy Inc. <i>[note 8]</i>	772,460	565,406
Capital assets, net <i>[note 4]</i>	26,355	24,581
	10,752,649	12,569,893
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	55,351	136,709
Due to Echo Energy Inc.	184,609	—
	239,960	136,709
Minority interest	292	292
Contingencies <i>[note 14]</i>		
Shareholders' equity		
Share capital <i>[note 9]</i>		
Authorized		
Unlimited Class A shares		
Unlimited common shares		
Issued		
Common shares	19,951,593	19,766,873
Contributed surplus <i>[note 9(b)]</i>	457,500	—
Deficit	(9,896,696)	(7,333,981)
	10,512,397	12,432,892
	10,752,649	12,569,893

See accompanying notes to consolidated financial statements

On behalf of the Board

Director
"Salvatore Fuda"

Director
"Gary Conn"

Ontex Resources Limited
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CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

Year ended December 31

	2003 \$	2002 \$
INCOME		
Interest and dividends	8,237	18,969
Gain on disposal of investment <i>[note 5]</i>	94,420	—
	102,657	18,969
EXPENSES		
General and administrative <i>[note 12]</i>	201,844	183,123
Professional fees <i>[note 12]</i>	381,588	374,379
Amortization	8,961	9,378
	592,393	566,880
Loss before the undernoted	(489,736)	(547,911)
Write-down of investments	—	(43,227)
Write-down of deferred exploration expense <i>[note 6]</i>	(1,648,695)	(107,403)
Share compensation expense <i>[note 9(b)]</i>	(457,500)	—
Dilution gain in Echo Energy Inc. <i>[note 8]</i>	—	95,944
Equity loss from Echo Energy Inc. <i>[note 8]</i>	—	(4,057)
Equity loss from Pifher Resources Inc. <i>[note 7]</i>	(66,784)	(148,280)
Future income tax recovery <i>[note 11]</i>	100,000	418,000
Net loss	(2,562,715)	(336,934)
Deficit, beginning of year	(7,333,981)	(6,997,047)
Deficit, end of year	(9,896,696)	(7,333,981)
Basic and diluted loss per share <i>[note 9(d)]</i>	(0.05)	(0.01)

See accompanying notes to consolidated financial statements

Ontex Resources Limited
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CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31

	2003	2002
	\$	\$
Cash provided by (used in)		
OPERATING ACTIVITIES		
Net loss	(2,562,715)	(336,934)
Items not involving cash		
Future income tax recovery	(100,000)	(418,000)
Amortization	8,961	9,378
Gain on disposal of investments	(94,420)	—
Write-down of investments	—	43,227
Write-down of deferred exploration expense	1,648,695	107,403
Share compensation expense	457,500	—
Gain on issuance of shares by Echo Energy Inc.	—	(95,944)
Equity loss from Pifher Resources Inc.	66,784	148,280
Equity loss from Echo Energy Inc.	—	4,057
Change in non-cash working capital balances <i>[note 13]</i>	(125,159)	52,118
	(700,354)	(486,415)
FINANCING ACTIVITIES		
Advances to Pifher Resources Inc.	(9,551)	—
Advances from Echo Energy Inc.	191,462	346,798
Advances to Echo Power Generation Inc.	(1,448)	—
Issuance of common shares	284,720	816,000
	465,183	1,162,798
INVESTING ACTIVITIES		
Mineral exploration properties	(275,695)	(651,211)
Purchase of capital assets	(10,735)	(2,762)
Proceeds from disposal of investments	131,870	—
Investment in Pifher Resources Inc.	—	(4,112)
Investment in Echo Energy Inc.	(207,054)	(195,552)
	(361,614)	(853,637)
Decrease in cash and cash equivalents	(596,785)	(177,254)
Cash and cash equivalents, beginning of year	740,584	917,838
Cash and cash equivalents, end of year	143,799	740,584

See accompanying notes to consolidated financial statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

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 process of exploring its mineral properties and has not yet determined whether these properties contain reserves that are economically recoverable and is considered to be in the development stage. The Company has incurred recurring losses that raise doubt about its ability to continue as a going concern. The recoverability of the amounts shown for mineral exploration properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development and future profitable production or proceeds from the disposition of such properties. In addition the Company will be influenced by a number of factors including environmental risks, and legal and political risks.

The consolidated financial statements have been prepared on the basis that the Company is a going concern, which contemplates the realization of its assets and the settlement of its liabilities in the normal course of operations. These consolidated financial statements do not include any adjustments related to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

[a] Basis of consolidation

The consolidated 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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[b] 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 will differ from those estimates.

[c] Cash and cash equivalents

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

[d] 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.

[e] Capital assets

Capital assets are carried at cost less depreciation. Capital assets are depreciated on the declining balance method over their estimated useful lives commencing in the year of acquisition using the following rates:

Office equipment	30%
Vehicles	20%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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[f] 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.

[g] 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.

[h] Stock option plan

The Company has a stock option plan described in note 9(a) which is used to compensate Directors, Officers, employees of the Company, and consultants to the Company. Effective January 1, 2003, the Company adopted the recommendations issued by The Canadian Institute of Chartered Accountants dealing with stock-based compensation [note 3]. The Company recognizes stock based compensation expense when stock options are issued using the fair value method. The recognized stock based compensation is credited to "Contributed Surplus". Any consideration paid upon the exercise of stock options or purchase of shares is credited to share capital.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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[i] 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.

[j] Flow-through shares

Share capital includes flow-through shares issued pursuant to certain provision of the Income Tax Act (Canada). The Act provides that, where the share issuance proceeds are used for exploration and development expenditures, the related income tax deductions may be renounced to subscribers. Accordingly, these expenditures provide no income tax deduction to the Company.

[k] Earnings (loss) per common share

Basic earnings (loss) per share is computed by dividing net income (loss) for the year by the weighted average number of common shares outstanding in each respective year. Diluted earnings (loss) per share reflects the potential dilution of securities by adding other common stock equivalents in weighted average number of common shares outstanding during the period, if dilutive, and calculated using the treasury stock method.

3. CHANGE IN ACCOUNTING POLICY

The Canadian Institute of Chartered Accountants [CICA] has amended CICA 3870, Stock-based Compensation and Other Stock-based Payments, requiring the recognition of an expense for option awards using the fair value method of accounting. The Company adopted the fair value recommendations of CICA 3870 prospectively for new awards granted on or after January 1, 2003, the effect of which is described in note 9(b).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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4. CAPITAL ASSETS

	Cost \$	2003 Accumulated amortization \$	Net book value \$
Office equipment	57,821	45,408	12,413
Vehicles	29,089	15,147	13,942
	86,910	60,555	26,355

	Cost \$	2002 Accumulated amortization \$	Net book value \$
Office equipment	56,942	40,088	16,854
Vehicles	19,233	11,506	7,727
	76,175	51,594	24,581

5. INVESTMENTS

	2003		2002	
	Quoted market value \$	Carrying value \$	Quoted market value \$	Carrying value \$
Metalore Resources Limited: 22,400 shares [2002 - 33,100]	246,400	78,400	342,585	115,850
Micromem Technologies Inc.: 19,327 shares [2002 - 19,327]	4,510	2,592	2,592	2,592
Other	$\frac{3}{4}$	1	—	1
	250,910	80,993	345,177	118,443

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

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6. MINERAL EXPLORATION PROPERTIES

	Beardmore \$	Deloro \$	Other \$	Total \$
Balance, December 31, 2002	9,286,906	1,394,298	47,100	10,728,304
Expenditures	68,398	207,297	—	275,695
Write-off of deferred exploration expense	—	(1,601,595)	(47,100)	(1,648,695)
Balance, December 31, 2003	9,355,304	—	—	9,355,304

[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.

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As at December 31, 2003, the Company exercised its option and had earned the 70% interest in the property. The Company can also earn an incremental 1% interest for each \$20,000 expended, where Metalore does not reimburse its proportional interest. In 2003, the Company has earned an additional 4% interest in the property. As at December 31, 2003, the Company holds a 74% interest in the property. Metalore retains 26%.

- (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. As at December 31, 2003, the Company exercised its option and had earned the 70% interest in the property. The Company can also earn an incremental 1% interest for each \$20,000 expended, where Metalore does not reimburse its proportional interest. In 2003, the Company has earned an additional 4% interest in the property. As at December 31, 2003, the Company holds a 74% interest in the property. Metalore retains 26%; and,
- (iv) Metalore granting to Ontex a right of first refusal with respect to the mineral rights to six leased claims in Waiters 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.

During the year ended December 31, 2003, the Company decided not to pursue further mineral exploration on its Deloro Township claim. Accordingly, capitalized expenditures to date have been expensed on the Company's consolidated statements of loss and deficit.

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[c] Pifher Township

Cherbourg Gold Inc. (an 85.7% -owned subsidiary of Ontex) has granted Pifher Resources Inc. ("Pifher") an option to earn up to an 80% interest in 26 mining claims in Pifher Township subject to a 2% NSR 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).

During the year ended December 31, 2002, Pifher decided not to pursue further mineral exploration on its Pifher Township claim.

7. INVESTMENT IN PIFHER RESOURCES INC. ("PIFHER")

The Company's investment in Pifher is comprised as follows:

	2003	2002
	\$	\$
Balance, beginning of the year	249,602	397,882
Equity loss	(66,784)	(148,280)
Equity investment, end of year	182,818	249,602

At December 31, 2003, the Company held 17.24% or 1,113,387 [2002 – 18.80% or 1,113,387] of the outstanding common shares [2002 - 1,113,387] of Pifher.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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8. INVESTMENT IN ECHO ENERGY INC. ("ECHO")

In August 2000, the Company and Pifher formed a new corporation, Echo, to acquire oil and gas leases in Bayham Township, Ontario from Southern Ontario Natural Gas Limited ("SONG"), a related party [note 12]. Both the Company and Pifher controlled 50% of Echo at December 31, 2001 and the Company's interest in Echo was accounted for as a joint venture.

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.

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 2,999,996 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.

At the end of the first quarter in 2002, Echo special warrant-holders converted 1,000,000 special warrants to 1,000,000 common shares and 1,000,000 purchase warrants. Each purchase warrant entitled the warrant holder to purchase one additional common share at a price of \$1.00 per share. The purchase warrants were converted to 1,000,000 common shares resulting in gross proceeds to Echo of \$1,000,000. As a result of the special warrant and purchase warrant conversions, Echo issued 2,000,000 common shares, thereby diluting Ontex's interest in Echo from 14.29% to 10.34%. As a result, Ontex recorded a dilution gain of \$95,944 and, as of the beginning of the second quarter of 2002, no longer includes Echo's net operating results on an equity basis.

During 2003, the Company exercised warrants to acquire 115,030 common shares for \$207,054. As at December 31, 2003 the Company held 9.57% or 980,060 of the outstanding common shares of Echo.

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The Company's investment in Echo is comprised as follows:

	2003	2002
	\$	\$
Balance, beginning of the year	565,406	277,967
Common shares acquired for cash	207,054	195,552
Dilution gain	$\frac{3}{4}$	95,944
Equity loss	$\frac{3}{4}$	(4,057)
Equity investment, end of year	772,460	565,406

9. SHARE CAPITAL

The Company issued common shares as follows:

	Shares	Amount
	#	\$
Balance, December 31, 2001	43,853,566	19,368,873
Future tax impact of renunciation of development costs expended	$\frac{3}{4}$	(418,000)
Issued for cash	3,022,221	816,000
Balance, December 31, 2002	46,875,787	19,766,873
Future tax impact of renunciation of development costs expended	$\frac{3}{4}$	(100,000)
Issued for cash	949,066	284,720
Balance, December 31, 2003	47,824,853	19,951,593

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[a] Stock options

Under the stock option plan, eligible directors, officers, employees and consultants 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, 2003 and 2002 are as follows:

	Options outstanding and exercisable #	Weighted average exercise price \$
Balance, December 31, 2001	7,775,000	0.45
Issued	$\frac{3}{4}$	$\frac{3}{4}$
Expired	3,625,000	0.51
Balance, December 31, 2002	4,150,000	0.38
Issued	3,350,000	0.33
Expired	(4,450,000)	(0.38)
Balance, December 31, 2003	3,050,000	0.33

The unexercised stock options have the following terms remaining:

Expiry Date	Exercise price	Number of options	Weighted average term (months)
May 15, 2005	\$ 0.325	2,750,000	17
October 19, 2005	\$ 0.36	300,000	22

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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[b] Compensation expense

The fair value of the options granted in 2003 was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 5.00%, expected dividend yield of 0%, expected volatility of 80% and expected option life of two years. The weighted-average fair value of the options granted (numbering 3,350,000) less options that were forfeited (numbering 300,000) during the year is \$0.15 as follows:

Net Number of Options Granted	Fair Value Per Share	Fair Value Total
3,050,000	\$0.15	\$457,500

The Black-Scholes model, used by the Company to calculate option values, as well as other accepted option valuation models, were developed to estimate fair value of freely tradeable, fully transferable options without vesting restrictions. These models also require four highly subjective assumptions, including future stock price volatility and expected time until exercise, which greatly affect the calculated values. Accordingly, management believes that these models do not necessarily provide a reliable single measure of the fair value of the Company's stock option awards.

[c] Escrow shares

Pursuant to an escrow agreement dated October 6, 1997, 394,182 common shares of the Company 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.

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[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.

	2003	2002
	\$	\$
Basic and diluted loss per share computation		
Numerator		
Net loss	(2,562,715)	(336,934)
Denominator		
Weighted average common shares outstanding	47,029,590	44,706,564
Escrowed shares	(394,182)	(394,182)
	46,635,408	43,921,420
Basic and diluted loss per share	(0.05)	(0.01)

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.

10. JOINT VENTURE WITH METALORE

During the year, Ontex formed a Joint Venture with Metalore Resources Limited by virtue of completing its earn in option on the Cherbourg-Foxear property. Ontex now retains a 74% interest in the Cherbourg-Foxear properties and Metalore retains 26% .

Ontex also formed a joint venture with Metalore on the Walters-Leduc properties by completing its earn in option. Ontex retains a 74% interest in the Walters-Leduc properties and Metalore retains 26% .

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11. 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 40% [2002 – 37.12%] to income before taxes as follows:

	2003	2002
	\$	\$
Expected income tax recovery using statutory income tax rates	(1,090,900)	(280,200)
Resource allowance	61,000	56,900
Income not subject to income tax	(18,900)	11,100
Non deductible expenses	183,500	—
Tax benefit of losses not previously recognized	—	(205,800)
Tax benefit of losses not currently recognized	765,300	—
Income tax recovery	(100,000)	(418,000)

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

	2003	2002
	\$	\$
Future tax assets		
Non-capital losses	1,048,000	869,000
Investments	(34,000)	(33,500)
Mineral exploration properties	129,000	(430,000)
	1,143,000	405,500
Valuation allowance	(1,143,000)	(405,500)
Net future tax assets	—	—

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December 31, 2003

The Company has approximately \$2,900,000 of non-capital losses that expire between 2004 and 2010 as follows:

	\$
2004	290,000
2005	378,000
2006	355,000
2007	475,000
2008	567,000
2009	394,000
2010	441,000
	2,900,000

12. 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, 2003, the Company paid the Executive Vice-President and Treasurer \$69,667 [2002 - \$52,000] in consulting fees.
- [b] The Company has paid geological consulting fees of \$17,500 to a director who was also a director and officer of Echo for a portion of the year and is the President and a principal shareholder in SONG.
- [c] The Company has paid \$32,750 [2002 - \$36,000] in respect of accounting services provided by a company, the principal shareholder of which is also the Chief Financial Officer of Pifher and Echo.
- [d] The Company has paid consulting fees of \$60,000 [2002 - \$60,000] to a director.
- [e] The Company has paid fees of \$142,190 [2002 - \$164,352] in respect of management and consulting fees and rent to companies controlled by a director.

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13. STATEMENT OF CASH FLOWS

[a] Changes in non-cash working capital consist of the following:

	2003	2002
	\$	\$
Accounts receivable	(23,584)	(2,617)
Prepaid expenses	(20,217)	20,433
Accounts payable and accrued liabilities	(81,358)	34,302
	(125,159)	52,118

[b] Supplemental cash flow information

	2003	2002
	\$	\$
Income taxes paid	22,185	—
Income taxes received	3,454	—
Interest received	6,889	16,484

14. CONTINGENCIES

Ontex has entered a claim for outstanding lease payments from Bioforest Pacific Inc. and Mr. Ross McGroarty in the amount of approximately \$16,250. Subsequently Mr. McGroarty has filed a counterclaim against Ontex for unpaid Officers and Directors fees from 1993 to 1999 and for severance fees payable subsequent to 1999 in the amount of \$1,016,497. Ontex believes this counterclaim to be without merit and will oppose it vigorously. Consequently, the Company has not accounted for this contingency in the consolidated financial statements.

15. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to reflect the presentation adopted in the current year.