

AUDITED FINANCIAL STATEMENTS

GUYANA GOLDFIELDS INC.

October 31, 1996

CONTENTS

| | |
|--|--------|
| Auditor's Report..... | Page 2 |
| Balance Sheet | 3 |
| Statement of Operations and Deficit | 4 |
| Statement of Changes in Financial Position | 5 |
| Notes to Financial Statements | 6 - 8 |

AUDITOR'S REPORT TO THE SHAREHOLDERS

I have audited the balance sheets of Guyana Goldfields Inc. as at October 31, 1996 and 1995 and the statements of operations, deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the company's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the company as at October 31, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

January 15, 1997

“Gerald R. Hillsdon”
Chartered Accountant

GUYANA GOLDFIELDS INC.

BALANCE SHEET

| | <u>ASSETS</u> | October 31 |
|----------------|---------------|-------------------------|
| | | <u>1996</u> <u>1995</u> |
| CURRENT ASSETS | | |

| | | |
|--|-------------------|----------------|
| Cash | \$ 251,313 | 2,408 |
| Loans and advances receivable | 17,395 | - |
| Advances to other companies | 89,810 | 89,810 |
| Total Current Assets | <u>358,518</u> | <u>92,218</u> |
| OTHER ASSETS | | |
| Investment in other companies | 206,884 | 206,884 |
| Equipment at cost less accumulated depreciation of \$43,227; 1995 \$42,445 | 1,825 | 2,607 |
| Deferred mineral costs-Note 4 | 387,050 | 24,927 |
| Mining claims | <u>15,131</u> | <u>-</u> |
| | <u>\$ 969,408</u> | <u>326,636</u> |
| <u>LIABILITIES</u> | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued | \$ 2,731 | 4,087 |
| Advances from other companies | 47,148 | 47,148 |
| Loan payable | - | 61,633 |
| Total Current Liabilities | <u>49,879</u> | <u>112,868</u> |
| SHAREHOLDERS' EQUITY | | |
| Capital stock-Note 5 | 1,627,908 | 873,008 |
| Deficit | <u>708,379</u> | <u>659,240</u> |
| | <u>919,529</u> | <u>213,768</u> |
| | <u>\$ 969,408</u> | <u>326,636</u> |

Approved by the Directors:

"J. Patrick Sheridan" Director

"H.A. Pearson" Director

See notes to financial statements

GUYANA GOLDFIELDS INC.

STATEMENT OF OPERATIONS AND DEFICIT

Year ended October 31
1996 1995

REVENUE

| | | |
|----------------------------------|-------------------|----------------|
| Interest | \$ 2,493 | <u>-</u> |
| EXPENSES | | |
| Management fee | 10,000 | 10,000 |
| Office and general | 24,315 | 15,028 |
| Shareholder meetings and reports | 8,098 | 3,727 |
| Legal and audit | 2,539 | 6,554 |
| Taxes, licenses and fees | 3,531 | 1,553 |
| Share issue and transfer | 2,367 | 2,891 |
| Depreciation of equipment | 782 | 1,117 |
| Write off of royalty interest | - | 57,153 |
| | <u>51,632</u> | <u>98,023</u> |
| NET LOSS | 49,139 | 98,023 |
| Deficit at beginning of year | <u>659,240</u> | <u>561,217</u> |
| Deficit at end of year | <u>\$ 708,379</u> | <u>659,240</u> |
| Net loss per share | \$ 0.032 | 0.078 |

See notes to financial statements

GUYANA GOLDFIELDS INC.

STATEMENT OF CHANGES IN FINANCIAL POSITION

| | Year ended October 31 | |
|---|-----------------------|------------------|
| | <u>1996</u> | <u>1995</u> |
| CASH PROVIDED BY (USED FOR): | | |
| OPERATING ACTIVITIES | | |
| Net loss | \$ (49,139) | (98,023) |
| Items not affecting cash | 782 | 58,270 |
| | <u>(48,357)</u> | <u>(39,753)</u> |
| Changes in non-cash working capital components relating to operations | <u>(18,751)</u> | <u>3,499</u> |

| | | |
|---|-------------------|------------------|
| Cash provided by (used for) operating activities | <u>(67,108)</u> | <u>(36,254)</u> |
| FINANCING ACTIVITIES | | |
| Issue of shares of capital stock | 754,900 | 44,300 |
| Loan payable | <u>(61,633)</u> | <u>(6,037)</u> |
| Cash provided by financing activities | <u>693,267</u> | <u>38,263</u> |
| INVESTING ACTIVITIES | | |
| Deferred mineral costs | (362,123) | (2,256) |
| Mining claims | <u>(15,131)</u> | <u>-</u> |
| Cash used for investing activities | <u>(377,254)</u> | <u>(2,256)</u> |
| INCREASE (DECREASE) IN CASH | 248,905 | (247) |
| CASH at beginning of year | <u>2,408</u> | <u>2,655</u> |
| CASH at end of year | <u>\$ 251,313</u> | <u>2,408</u> |

See notes to financial statements

GUYANA GOLDFIELDS INC.

NOTES TO FINANCIAL STATEMENTS

October 31, 1996

1. ORGANIZATION:

The company was incorporated under the Quebec Mining Companies' Act by Letters Patent dated January 24, 1953 and is engaged in the acquisition, exploration and development of resource properties. By supplementary letters patent dated December 12, 1994 the company's name was changed to Guyana Goldfields Inc. (Champs D'Or De Guyana Inc.).

2. SIGNIFICANT ACCOUNTING POLICIES:

Continuing financial support:

These financial statements have been prepared on the going concern basis of accounting, which assumes the realization of assets and liquidation of liabilities in the normal course of business. The continuance of operations is dependent on continued external and internal financial support by investors.

Investments:

Investments in marketable securities are recorded at the lower of cost and market. Long-term investments are recorded at cost and declines in value are recorded when determined.

Equipment:

Equipment is recorded at cost and is depreciated on the diminishing balance basis at the rate of 30% per annum.

Deferred Mineral Costs:

The costs of mining claims and exploration expenditures on mining claims are deferred and, in the event a commercial ore deposit is located, the costs would be amortized at a rate based on tonnage at the commencement of production. In the event the mining claims become of little or no value or are allowed to lapse the cost is written off. General exploration costs are charged to operations in the year incurred.

Net Loss Per Share:

Net loss per share amounts are based on the weighted average number of shares outstanding during the year.

3. NATURE OF OPERATIONS:

The company, directly and through joint ventures, is in the process of exploring its mineral properties and has not yet determined whether these properties contain ore reserves that are economically **GUYANA GOLDFIELDS INC.**

NOTES TO FINANCIAL STATEMENTS

October 31, 1996

3. NATURE OF OPERATIONS continued..

recoverable. The recoverability of amounts shown for mineral properties and related deferred costs is dependent upon the discovery of economically recoverable reserves, confirmation of the company's interest in the underlying mineral claims, the ability of the company to obtain necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

4. DEFERRED MINERAL COSTS:

The company has acquired the mineral exploration rights to the Peters Mine property, Puruni River, Guyana. The property is a former producer and consists of 8,358 acres. Expenditure have been

made as follows:

| | <u>1996</u> | <u>1995</u> |
|------------------------------|-------------------|---------------|
| Balance at beginning of year | \$ 24,927 | 22,671 |
| Expenditures during the year | <u>362,123</u> | <u>2,256</u> |
| Balance at end of year | <u>\$ 387,050</u> | <u>24,927</u> |

5. CAPITAL STOCK:

By Supplementary Letters Patent dated December 12, 1994, the company consolidated its authorized and issued share capital on the basis of four pre-consolidation shares for each post consolidation share and increased the authorized capital to 30,000,000 post consolidation common shares without par value whose total consideration shall not exceed \$30,000,000.

The changes in share capital during the year were as follows:

| | <u>No. of Shares</u> | <u>Consideration</u> |
|-------------------------------------|----------------------|----------------------|
| Balance at beginning of year | 1,351,254 | \$ 873,008 |
| Issued during the year | | |
| Exercise of employee options | | |
| at \$0.35 per share | 40,000 | 14,000 |
| at \$0.50 per share | 70,000 | 35,000 |
| at \$2.55 per share | 105,000 | 267,750 |
| at \$2.75 per share | 6,600 | 18,150 |
| Consulting fees at \$2.10 per share | 10,000 | 21,000 |
| Private placement of units | | |
| at \$2.85 per unit (a) | <u>140,000</u> | <u>399,000</u> |
| Balance at end of year | <u>1,722,854</u> | <u>\$ 1,627,908</u> |

GUYANA GOLDFIELDS INC.

NOTES TO FINANCIAL STATEMENTS

October 31, 1996

5. CAPITAL STOCK continued..

Pursuant to the corporate stock option plan adopted by shareholders on December 21, 1993, the following options have been granted, exercised and are outstanding as at October 31, 1996.

| <u>Date Granted</u> | <u>No. of Shares</u> | <u>Price</u> | <u>Exercised</u> | <u>Outstanding</u> |
|---------------------|----------------------|--------------|------------------|--------------------|
|---------------------|----------------------|--------------|------------------|--------------------|

| | | | | |
|---------------|---------|------|---------|---------|
| Dec. 21, 1993 | 100,000 | 0.15 | 80,000 | 20,000 |
| Aug. 15, 1995 | 100,000 | 0.50 | 80,000 | 20,000 |
| May 16, 1996 | 105,000 | 2.55 | 105,000 | - |
| May 23, 1996 | 58,900 | 2.75 | 6,600 | 52,300 |
| Nov. 26, 1996 | 170,000 | 3.10 | - | 170,000 |

(a) Each Unit consists of one Common Share and one Common Share purchase warrant. Each Common Share purchase warrant will entitle the holder to acquire one Common Share of the company at a price of \$3.75 up to 30 months after closing after which the warrant will become null and void.

6. INCOME TAXES:

The company has non-capital losses of approximately \$146,555 which expire as follows: 1998 \$10,167; 1999 \$8,596; 2000 \$17,579; 2001 \$22,103; 2002 \$39,753 and 2003 \$48,357.