# ERIN VENTURES INC.

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

June 30, 1998 and 1997

# AUDITORS' REPORT

To the Shareholders,
Erin Ventures Inc.

We have audited the consolidated balance sheets of Erin Ventures Inc. as at June 30, 1998 and 1997 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 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 June 30, 1998 and 1997 and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles.

Vancouver, Canada
November 17, 1998

"AMISANO HANSON"
Chartered Accountants

**ERIN VENTURES INC.**
CONSOLIDATED BALANCE SHEETS
June 30, 1998 and 1997

| ASSETS | 1998 | 1997 |
|---|---|---|
| Current | | |
| Cash and treasury bills | $ 107,391 | $ 548,773 |
| Accounts receivable - Note 9 | 28,705 | 26,015 |
| Share subscriptions receivable | - | 80,000 |
| Prepaid expenses | 3,874 | 5,834 |
| | 139,970 | 660,622 |
| Capital assets - Note 4 | 10,854 | 40,007 |
| Resource properties - Notes 5, 9 and 10 | 3,864,435 | 1,590,505 |
| | $ 4,015,259 | $ 2,291,134 |
| **LIABILITIES** | | |
| Current | | |
| Accounts payable - Note 9 | $ 713,761 | $ 76,485 |
| Advances payable - Note 6 | 222,305 | - |
| | 936,066 | 76,485 |
| Long-term debt - Note 7 | 308,716 | - |
| | 1,244,782 | 76,485 |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital - Notes 7, 8 and 10 | 3,274,676 | 2,761,550 |
| Shares subscribed - Notes 8 and 10 | 647,000 | - |
| Deficit | ( 1,151,199) | ( 546,901) |
| | 2,770,477 | 2,214,649 |
| | $ 4,015,259 | $ 2,291,134 |

Nature and Continuance of Operations - Note 1
Commitments - Notes 5, 6, 7, 8 and 10
Subsequent Events - Notes 5, 6 and 10

APPROVED BY THE DIRECTORS:

"Tim Daniels"
________________________________, Director

"Thomas Kreilein"
________________________________, Director

SEE ACCOMPANYING NOTES

**ERIN VENTURES INC.**
CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT
for the years ended June 30, 1998 and 1997

| | 1998 | 1997 |
|---|---|---|
| Interest Income | $ 1,921 | $ 23,018 |
| Administrative expenses | | |
| Accounting and audit | 35,185 | 19,102 |
| Amortization | 4,305 | 7,412 |
| Consulting fees - Note 9 | 1,700 | - |
| Filing fees | 3,904 | 3,650 |
| Financial consulting fees - Note 9 | 85,538 | - |
| Interest on long-term debt - Note 7 | - | 30,853 |
| Investor relations | 89,313 | 26,300 |
| Legal | 12,505 | 12,222 |
| Management fees - Note 9 | 60,000 | 70,000 |
| Market research | 38,881 | - |
| Office and miscellaneous - Note 9 | 32,925 | 23,140 |
| Printing | 2,054 | 16,830 |
| Rent - Note 9 | 12,600 | - |
| Telephone | 18,863 | 17,745 |
| Transfer agent fees | 6,555 | 4,955 |
| Travel and promotion - Note 9 | 99,540 | 88,787 |
| Web site | 22,325 | 4,170 |
| | 526,193 | 325,166 |
| Loss before other items: | 524,272 | 302,148 |
| Other items: | | |
| Mineral property investigation costs - Note 9 | 54,546 | - |
| Write-down of resource property - Note 5 | - | 76,739 |
| Loss on write-off of capital asset | 25,480 | - |
| Net loss for the year | 604,298 | 378,887 |
| Deficit, beginning of the year | 546,901 | 168,014 |
| Deficit, end of the year | $ 1,151,199 | $ 546,901 |
| Loss per share | $ 0.05 | $ 0.05 |

SEE ACCOMPANYING NOTES

**ERIN VENTURES INC.**
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended June 30, 1998 and 1997

| | 1998 | 1997 |
|---|---|---|
| Operating Activities | | |
| Operations | | |
| Net loss for the year | $ ( 604,298) | $ ( 378,887) |
| Charges to income not affecting cash: | | |
| Amortization | 4,305 | 7,412 |
| Write-down of resource property | - | 76,739 |
| Loss on write-off of capital asset | 25,480 | - |
| | ( 574,513) | ( 294,736) |
| Changes in non-cash working capital balances related to operations | | |
| Accounts receivable | ( 2,690) | ( 22,121) |
| Share subscriptions receivable | 80,000 | ( 80,000) |
| Prepaid expenses | 1,960 | ( 1,173) |
| Advances receivable | - | 60,569 |
| Accounts payable | 637,276 | ( 74,907) |
| Advances payable | 222,305 | - |
| | 364,338 | ( 412,368) |
| Financing Activities | | |
| Issuance of common stock | 513,126 | 2,482,050 |
| Share subscriptions | 647,000 | - |
| Increase (decrease) in long-term debt | 308,716 | ( 750,000) |
| | 1,468,842 | 1,732,050 |
| Investing Activities | | |
| Purchase of capital assets | ( 632) | ( 44,995) |
| Increase in resource properties | ( 2,273,930) | ( 1,591,441) |
| Acquisition of subsidiary company | - | ( 61,123) |
| | ( 2,274,562) | ( 1,697,559) |
| Decrease in cash during the year | ( 441,382) | ( 377,877) |
| Cash and treasury bills, beginning of the year | 548,773 | 926,650 |
| Cash and treasury bills, end of the year | $ 107,391 | $ 548,773 |

SEE ACCOMPANYING NOTES

Note 1 Nature and Continuance of Operations

The company is in the development stage and is in the process of exploring its resource properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. The recoverability of amounts shown for resource properties and related deferred exploration and development costs are dependent upon the discovery of economically recoverable reserves and confirmation of the company's interest in the underlying resource property claims, the company's ability to complete the development of the properties and upon future profitable production or proceeds from the disposition thereof.

These financial statements have been prepared on a going concern basis. The company has a working capital deficiency of $796,096 as at June 30, 1998. The company's ability to continue as a going concern is dependent upon the ability of the company to generate profitable operations in the future and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due.

Note 2 Summary of Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and are stated in Canadian dollars. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates which have been made using careful judgement.

The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

(a) Principles of Consolidation

The financial statements include the accounts of the company and Shadow Capital Corp. (formerly 497281 B.C. Ltd.), the company's 100% owned subsidiary. All inter-company transactions and balances have been eliminated.

(b) Capital Assets

Capital assets are recorded at cost. Amortization is provided for using the following rates and methods of accounting:

| | | |
|---|---|---|
| Office equipment | 20% | Declining balance |
| Computer equipment | 30% | Declining balance |
| Vehicles | 30% | Declining balance |

Additions during the year are amortized at one half rates.

Note 2 Summary of Significant Accounting Policies - (cont'd)

(c) Resource Properties

The acquisition of resource properties will be initially recorded at cost. Producing resource properties are depleted over their estimated useful lives based upon a method relating recoverable resource reserves to production. Non-producing resource properties that the company abandons interest in are written-off in the year of abandonment.

(d) Deferred Exploration and Development Expenditures

The company capitalizes and defers all exploration and development expenses that result in the acquisition and retention of resource properties or an interest therein. The accumulated deferred costs including applicable exploration and development expenses relative to non-productive resource properties that the company abandons interest in are written-off. Otherwise, the deferred exploration and development expenses are depleted over the estimated useful lives of the producing resource properties based on a method relating recoverable reserves to production.

(e) Foreign Currency Translation

Monetary assets and liabilities expressed in foreign currencies are translated at rates of exchange in effect at the end of the year. Revenue and expense items are translated at the rates in effect at the dates on which such items are recognized during the year. Exchange gains and losses arising from translation are expensed in the year.

(f) Loss Per Share

Loss per share is calculated using the weighted average number of shares outstanding during the year.

(g) Fair Market Value and Risk of Financial Instruments

The company's financial instruments consist of cash and treasury bills, accounts receivable, share subscriptions receivable, accounts payable, advance payable and long-term debt. It is management's opinion that the company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximate their carrying values.

Note 3 Business Acquisition

Pursuant to an agreement dated December 3, 1996 the company acquired 100% of the issued and outstanding shares of Shadow Capital Corp. (formerly 497281 B.C. Ltd.), ("Shadow") for consideration of $1.

This transaction has been accounted for by the purchase method and the results of the acquired company are included from the date of acquisition. The net identifiable assets acquired from this transaction are as follows:

| | | |
|---|---|---|
| Identifiable assets | $ | 225,324 |
| Identifiable liabilities assumed | | 225,323 |
| Net identifiable assets acquired | $ | 1 |

Shadow's principal asset is an option to earn a 60% interest in the Cop 1, Cop 2, Cop 3 and Cop 4 mineral claims located in the Atlin Mining Division of British Columbia.

Note 4 Capital Assets

| | Cost | Accumulated Amortization | Net Book Value 1998 | Net Book Value 1997 |
|---|---|---|---|---|
| Office equipment | $ 1,926 | $ 426 | $ 1,500 | $ 1,165 |
| Computer equipment | 13,724 | 5,558 | 8,166 | 11,665 |
| Vehicles | 2,424 | 1,236 | 1,188 | 27,177 |
| | $ 18,074 | $ 7,220 | $ 10,854 | $ 40,007 |

Note 5 Resource Properties - Notes 9 and 10

| Resource properties consist of: | 1998 | 1997 |
|---|---|---|
| Cop mineral claims, British Columbia | | |
| Acquisition costs - cash | $ 50,000 | $ 40,000 |
| Deferred exploration and development expenditures | | |
| Equipment | 19,904 | 19,904 |
| General and administration | 4,455 | 2,955 |
| Geological consulting | 12,480 | 11,638 |
| Licenses | 2,567 | 2,567 |
| Transportation and freight | 39,795 | 39,795 |
| Travel and accommodation | 17,736 | 17,736 |
| Wages | 67,284 | 67,284 |
| | 164,221 | 161,879 |
| Reclamation bond | 11,492 | 11,269 |
| | 225,713 | 213,148 |
| Piskanja deposit, Republic of Serbia | | |
| Acquisition costs - cash | 14,000 | 14,000 |
| - common shares (finder's fee) | 920,000 | 920,000 |
| | 934,000 | 934,000 |
| Deferred exploration and development expenditures | | |
| Consulting fees | 84,783 | 56,483 |
| Drilling and testing | 1,989,533 | - |
| General and administration | 145,867 | 115,847 |
| Geological consulting | 248,002 | 105,659 |
| Legal fees | 21,840 | 21,840 |
| Travel and accommodation | 214,696 | 143,527 |
| | 2,704,721 | 443,356 |
| | 3,638,721 | 1,377,356 |
| Square Lake mineral claims, New Brunswick | | |
| Acquisition costs - cash | 76,740 | 76,740 |
| Less: write-down | ( 76,739) | ( 76,739) |
| | 1 | 1 |
| | $ 3,864,435 | $ 1,590,505 |

Note 5 Resource Properties - Notes 9 and 10 - (cont'd)

Cop Mineral Claims

The Cop mineral claims are comprised of 72 mineral claims located in the Atlin Mining District of British Columbia. Pursuant to an option agreement dated February 14, 1996 and amending agreements dated December 2, 1997 and July 15, 1998, the company's 100% owned subsidiary Shadow Capital Corp. (formerly 497281 B.C. Ltd.) has the option to earn a 60% interest in the claims by making cash payments totalling $60,000, and issuing a total of 200,000 common shares and incurring exploration expenditures totalling $750,000 as follows:

i) payment of $20,000 prior to June 19, 1996 (paid);

ii) payment of $10,000 prior to February 28, 1998 (paid);

iii) issuance of 50,000 common shares upon completion of an initial public offering, no later than September 15, 1998 (issued subsequently);

iv) payment of $10,000, issuance of 50,000 common shares and incurring exploration expenditures of $250,000 prior to December 1, 1998;

v) payment of $10,000, issuance of 50,000 common shares and incurring exploration expenditures of $250,000 prior to December 1, 1999; and

vi) payment of $10,000, issuance of 50,000 common shares and incurring exploration expenditures of $250,000 prior to December 1, 2000.

Piskanja Deposit

The Piskanja deposit is located in the Ibar region of the Republic of Serbia. The company has entered into a joint venture agreement dated October 4, 1996 whereby the company can earn a 50% interest in the deposit through the expenditure of $2,670,000 to conduct a research and reserves study leading to the preparation of a feasibility study. Upon determination that the feasibility study will be undertaken, the company and its joint venture partner will each own 50% of the joint venture and each contribute 50% to all further expenditures.

Square Lake Mineral Claims

The Square Lake mineral claims consist of 2 groups of mineral claims totalling 82 claims located in New Brunswick. The company purchased a 50% interest in these claims for $76,740 cash pursuant to an option agreement dated September 10, 1996. During the year ended June 30, 1997 management has abandoned these claims, consequently the claims have been written-down by $76,739 to $1.

Note 6 Advances Payable

Advances payable as at June 30, 1998 of $222,305 ( 1997: $Nil) are unsecured, non-interest bearing and have no specific terms for repayment. Subsequent to June 30, 1998 the advances payable were converted to a note payable bearing interest at the rate of 12% per annum, effective September 30, 1998. The note is unsecured and has no specific terms for repayment.

Note 7 Long-Term Debt

Long-term debt of $308,716 (US$210,326) at June 30, 1998, is unsecured and consists of standby fees and interest owing to a drilling contractor which is due July 1, 1999. The standby fees accrue at the rate of US$1,000 per day and the interest accrues at the rate of 1% per month on the outstanding balance, plus $431,871 (US$294,230) included in accounts payable at June 30, 1998.

During the year ended June 30, 1997, a convertible debenture in the amount of $750,000 was converted to 5,000,000 common shares of the company at $0.15 per share and the interest expense of $30,853 was paid in cash.

Note 8 Share Capital - Notes 7 and 10

i) Authorized:

Unlimited voting common shares without nominal or par value
Unlimited preferred shares without nominal or par value

ii) Issued common shares:

| | | # | $ |
|---|---|---|---|
| Balance, June 30, 1996 | | 4,828,333 | 279,500 |
| For cash | | | |
| - Pursuant to private placements | - at $0.75 | 800,000 | 600,000 |
| (less: cash commission paid) | | | (60,000) |
| | - at $2.04 | 70,000 | 142,800 |
| | - at $2.75 | 15,000 | 41,250 |
| - Pursuant to the exercise of share purchase options | | | |
| | - at $0.16 | 50,000 | 8,000 |
| - Pursuant to the exercise of share purchase warrants | | | |
| | - at $0.16 | 500,000 | 80,000 |
| For conversion of long-term debt | - at $0.15 | 5,000,000 | 750,000 |
| For resource property finder's fee | - at $2.30 | 400,000 | 920,000 |
| Balance, June 30, 1997 | | 11,663,333 | 2,761,550 |
| For cash | | | |
| - Pursuant to private placements | - at $0.80 | 212,675 | 170,140 |
| (less: cash commission paid) | | - | (17,014) |
| - Pursuant to the exercise of share purchase warrants | | | |
| | - at $0.16 | 2,250,000 | 360,000 |
| Balance, June 30, 1998 | | 14,126,008 | 3,274,676 |

Note 8 Share Capital - Notes 7 and 10 - (cont'd)

iv) Escrow:

At June 30, 1998, 2,583,333 common shares are held in escrow by the company's transfer agent. The release of these shares from escrow is subject to the consent of the regulatory authorities.

v) Commitments:

Share Purchase Options

At June 30, 1998 the following directors' and employee's common share purchase options were outstanding:

| Number | Exercise Price | Expiry Date |
|---|---|---|
| 50,000 | $2.75 | October 1, 1998 |
| 100,000 | $1.05 | December 31, 1998 |
| 422,000 | $0.16 | March 21, 2001 |
| 572,000 | | |

Share Purchase Warrants

At June 30, 1998 the following common share purchase warrants were outstanding to purchase one common share for each warrant held:

| Number | Exercise Price | Expiry Date |
|---|---|---|
| 800,000 | $0.75 | September 3, 1998 |
| 70,000 | $2.75 | October 3, 1998 |
| 15,000 | $3.50 | October 24, 1998 |
| 177,675 | $1.00 | March 16, 1999 |
| | or at $1.25 | March 16, 2000 |
| 35,000 | $1.00 | May 19, 1999 |
| | or at $1.25 | May 19, 2000 |
| 1,097,675 | | |

Shares Subscribed

Shares subscribed of $647,000 as at June 30, 1998 consists of $360,000 received for the exercise of 2,250,000 share purchase warrants at $0.16 per warrant; $280,000 less commission of $28,000 received pursuant to a private placement of 350,000 units at $0.80 per unit; and $35,000 received pursuant to a private placement of 77,775 units at $0.45 per unit.

Note 9 Related Party Transactions

During the year the company incurred the following fees and expenses charged by directors, former directors and companies controlled by directors of the company:

| | 1998 | 1997 |
|---|---|---|
| Deferred exploration and development expenditures | | |
| - wages | $ - | $ 23,842 |
| - geological consulting | 12,847 | 25,000 |
| Consulting | 1,700 | - |
| Financial consulting | 26,835 | - |
| Management fees | 60,000 | 70,000 |
| Mineral property investigation costs | 6,918 | - |
| Office and miscellaneous | 5,100 | 4,000 |
| Rent | 12,600 | - |
| Travel and promotion | 6,300 | - |
| | $ 132,300 | $ 122,842 |

Accounts receivable as at June 30, 1997 includes $8,459 receivable from a director of the company. Accounts payable as at June 30, 1998 include $20,253 (1997: $Nil) due to directors of the company.

Note 10 Subsequent Events - Note 6

Subsequent to June 30, 1998:

i) The company issued 2,250,000 common shares pursuant to the exercise of share purchase warrants at $0.16 per warrant for proceeds of $360,000, included in shares subscribed at June 30, 1998.

ii) The company issued 350,000 units at $0.80 per unit for proceeds of $280,000 less a cash commission of $28,000, included in shares subscribed at June 30, 1998. Each unit consists of one common share and one common share purchase warrant to purchase one common share at $1.00 per share, exerciseable until February 26, 2000.

iii) The company issued 77,775 units at $0.45 per unit for proceeds of $35,000, included in shares subscribed at June 30, 1998. Each unit consists of one common share and one common share purchase warrant to purchase one common share at $0.55 per share, exerciseable until July 10, 1999, or at $0.75 per share, exerciseable until July 10, 2000. The company paid a cash commission of $3,500.

iv) The company issued 222,000 units at $0.45 per unit for proceeds of $99,900. Each unit consists of one common share and one common share purchase warrant to purchase one common share at $0.75 per share, exerciseable until August 5, 1999, or at $1.00 per share, exerciseable until August 5, 2000. The company paid a cash commission of $9,990.

Note 10 Subsequent Events - Note 6 - (cont'd)

v) The company granted employee's share purchase options to purchase up to 100,000 common shares at $0.50 per share, expiring October 1, 2000. This option agreement is subject to regulatory approval.

vi) The company's wholly-owned subsidiary Shadow Capital Corp. (formerly 497281 B.C. Ltd.) issued 50,000 common shares at a deemed price of $0.25 per share in respect to the Cop mineral claims option agreement.

Note 11 Corporation Income Tax Losses

At June 30, 1998, the company has accumulated non-capital losses totalling $1,109,319 which are available to reduce taxable income in future taxation years. These losses expire as follows:

| | |
|---|---|
| 2001 | $ 5,153 |
| 2002 | 15,203 |
| 2003 | 146,503 |
| 2004 | 367,947 |
| 2005 | 574,513 |
| | $ 1,109,319 |

The company also has accumulated exploration and development expenditures totalling approximately $3,800,000. These expenses can be used to offset taxable income of future years at various rates per year and are available indefinitely.

The potential benefit of these losses and expenditures, if any, has not been recorded in the financial statements.

Note 12 Segmented Information

The company has operations in Canada and the Republic of Serbia. The reportable geographic segments are:

| | 1998 | 1997 |
|---|---|---|
| Identifiable assets | | |
| Canada | $ 372,663 | $ 884,197 |
| Republic of Serbia | 3,642,596 | 1,406,937 |
| | $ 4,015,259 | $ 2,291,134 |

Note 13 Uncertainty Due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using the year 2000 date is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000 and if not addressed, the impact on operations and financial reporting may range from minor errors to significant system failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers or other third parties, will be fully resolved.