

DESAI AND ASSOCIATES

Chartered Accountants

Incorporated Professionals

Suite 201 - 5990 Fraser Street, Vancouver B.C., V5W 2Z7 Tel: (604) 321-9992 Fax: (604) 321-9998

AUDITOR'S REPORT

We have audited the Consolidated Balance Sheet of Quattro Resources Ltd. as at January 31, 2000, 1999 & 1998 and the Consolidated Statement of Loss and Deficit and Changes in Financial Position for the years and period then ended. These Consolidated Financial Statements are the responsibility of the company's management. Our responsibility is to express an opinion on these Consolidated Financial Statements based on my audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the Consolidated Financial Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Consolidated 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 January 31, 2000, 1999 & 1998 and the results of its operations and changes in financial position for the years then ended in accordance with generally accepted accounting principles.

As required by the Company Act of British Columbia, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

DESAI AND ASSOCIATES

Chartered Accountants

M.R. Dasai, C.A.®

Vancouver, British Columbia

May 19, 2000

| Quattro Resources Ltd. | | | | |
|---|--------------------------|-----------------------------|---------------------|---------------------|
| Consolidated Balance Sheets | | | <i>Statement 1</i> | |
| | | January 31, 2000 | January 31, 1999 | January 31, 1998 |
| ASSETS | | | | |
| Current Assets | | | | |
| Cash | | \$ 85 | \$ 282 | \$ 230,141 |
| Accounts receivable | | 237 | 2,692 | 6,198 |
| Prepaid expense | | 2,275 | 2,275 | 32,525 |
| | | 2,597 | 5,249 | 238,864 |
| Capital Assets (Note 3) | | 1,892 | 2,671 | 3,816 |
| Resource Properties (Note 4) | | 1 | 1 | 1,876,045 |
| | | \$ 4,490 | \$ 7,921 | \$ 2,148,725 |
| LIABILITIES | | | | |
| Current Liabilities | | | | |
| Accounts payable and accrued liabilities | | \$ 286,171 | \$ 222,457 | \$ 298,367 |
| Notes payable - Others (Note 5) | | 525,124 | 472,749 | 459,410 |
| Notes payable - Tombstone Aruba A.V.V. (Note 6) | | -- | -- | 436,110 |
| | | 812,295 | 695,206 | 1,193,887 |
| SHAREHOLDERS' EQUITY (DEFICIT) | | | | |
| Share Capital (Note 7) | | | | |
| Issued | | 1,455,532 | 1,455,532 | 1,035,532 |
| Subscriptions received | | -- | -- | 420,000 |
| Deficit, Statement 2 | | (2,262,337) | (2,142,817) | (500,694) |
| | | (806,805) | (687,285) | 954,838 |
| | | \$ 4,490 | \$ 7,921 | \$ 2,148,725 |
| Continuing Operations (Note 1) | | | | |
| Approved by the Board | | | | |
| | <i>AJohn C.C. Caddy@</i> | Director | | |
| | <i>AJack L. Pearl@</i> | Director | | |

| | | | | |
|---|--|--|--|--|
| Quattro Resources Ltd. | | | | |
| See accompanying notes to Consolidated Financial Statements | | | | |
| Consolidated Statements of Loss and Deficit | | | <i>Statement 2</i> | |
| | | For the Year ended January 31, 2000 | For the Year ended January 31, 1999 | For the Year ended January 31, 1998 |
| Administrative Expenses | | | | |
| Bank charges | | \$ 274 | \$ 8,521 | \$ 442 |
| Depreciation | | 779 | 1,145 | 1,419 |
| Foreign exchange (gain) | | -- | -- | (19,667) |
| Interest | | 51,775 | 45,496 | 34,522 |
| Management fees | | 30,000 | 38,000 | 55,000 |
| Professional fees | | 17,801 | 30,179 | 33,545 |
| Regulatory and trust company fees | | 11,648 | 19,250 | 13,871 |
| Office, rent, secretarial and administrations | | (11,085) | 36,376 | 57,265 |
| Shareholder information | | 2,080 | -- | -- |
| Travel | | 16,248 | 1,602 | 11,304 |
| Wages | | -- | -- | 16,427 |
| Loss for the Year | | 119,520 | 180,569 | 204,128 |
| Write-down of Investment | | -- | 1,389,794 | -- |
| Deficit - Beginning of Year | | 2,142,817 | 572,454 | 139,537 |
| Share Issue Costs | | -- | -- | 101,254 |
| Financial Cost of Reverse Takeover | | -- | -- | 55,775 |
| Deficit - End of Year | | \$ 2,262,337 | \$ 2,142,817 | \$ 500,694 |

| | | | | | |
|---|--|--|--|--|--|
| Quattro Resources Ltd. | | | | | |
| See accompanying notes to Consolidated Financial Statements | | | | | |
| Interim Consolidated Statements of Changes in Financial Position | | | | <i>Schedule 1</i> | |
| | | | For the Year ended January 31, 2000 | For the Year ended January 31, 1999 | For the Year ended January 31, 1998 |
| CASH PROVIDED BY (USED FOR) | | | | | |
| Operating Activities | | | | | |
| Loss for the year | | | \$ (119,520) | \$ (180,569) | \$ (204,128) |
| Items not affecting cash: | | | | | |
| Depreciation | | | 779 | 1,145 | 1,419 |
| Write-down of investment | | | -- | 1,389,794 | -- |
| | | | (118,741) | 1,210,370 | (202,709) |
| Changes in non-cash working capital | | | 66,171 | (305,767) | 98,778 |
| | | | (52,570) | 904,603 | (103,931) |
| Financing Activities | | | | | |
| Share subscriptions received | | | -- | (420,000) | (409,926) |
| Share capital issued | | | -- | 420,000 | 1,035,530 |
| Notes payable | | | 52,373 | (422,771) | 152,737 |
| | | | 52,373 | (422,771) | 778,341 |
| Investing Activities | | | | | |
| Investment in resource properties | | | -- | (451,345) | (409,355) |
| Investment in subsidiary | | | -- | (260,346) | -- |
| Purchase of capital assets | | | -- | -- | (430) |
| Share issue costs | | | -- | -- | (45,305) |
| Financial cost of reverse takeover | | | -- | -- | (55,775) |
| | | | -- | (711,691) | (510,865) |
| INCREASE (DECREASE) IN CASH DURING THE YEAR | | | (197) | (229,859) | 163,545 |
| CASH - BEGINNING OF YEAR | | | 282 | 230,141 | 66,596 |
| CASH - END OF PERIOD | | | \$ 85 | \$ 282 | \$ 230,141 |

| | | | | | |
|---|--|--|--|--|--|
| Quattro Resources Ltd. | | | | | |
| See accompanying notes to Consolidated Financial Statements | | | | | |

1. Nature of Operations and Continuing Operations

Quattro Resources Ltd. (the Company), which commenced operations on October 4, 1996, is engaged in the acquisition, exploration and development of precious gem and metal properties. These consolidated financial statements are prepared on a going concern basis which assumes that the Company will be able to realize assets and discharge liabilities in the normal course of business. As at January 31, 2000, the Company had a working capital deficiency of \$ 808,698 (1999 - \$689,957; 1998 - \$955,023) and an accumulated deficit of \$2,262,337 (1999 - \$2,142,817; 1998 - \$500,694). The Company's ability to continue as a going concern depends on its ability to successfully raise additional financing. If the Company is unable to obtain additional financing the Company may be forced to realize its assets at amounts significantly lower than the current carrying value.

2. Significant Accounting Policies

(a) Principles of Consolidation

These consolidated statements include the accounts of the Company, which is the accounting subsidiary, and its accounting parent, Can-Dore Diamond Mining Corporation (Can-Dore). These consolidated financial statements also include Can-Dore's other wholly-owned subsidiaries as follows:

Roraima Mining Corporation (Roraima - British Virgin Islands incorporation)

Highland Minas de Venezuela (Venezuela incorporation)

Frontier Inc. (Guyana incorporation)

Bayman Investments A.V.V. (Bayman - Aruba incorporation)

Corporacion 181818 CA (Venezuela incorporation)

Inversiones Lileja CA (Venezuela incorporation)

Can-Dore wrote-off its investment in Roraima during the year ended January 31, 1999. In addition, during the year ended January 31, 2000, the Company relinquished its interest in Bayman (see Note 6.)

(b) Resource Properties

The Company capitalizes all acquisition, exploration and development costs by property. The carrying value of pre-production and exploration properties is reviewed periodically and either written-off when it is determined that the expenditures will not result in the discovery of economically recoverable ore reserves or transferred to producing mining property, plant and equipment when commercial development commences.

The recoverability of amounts shown for pre-production and exploration properties 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 finance the development of the properties and on the future profitable production or proceeds from the disposition thereof.

(c) Capital Assets

Quattro Resources Ltd.

Notes to the Consolidated Financial Statements

Capital assets are recorded at cost. Depreciation is computed using the declining balance method at an annual rate of 30%. The Company's capital assets consist of office and computer equipment.

2. Significant Accounting Policies (Continued)

(d) Deferred Financing Charges

The Company periodically raises equity to continue its business plans. Cost associated with raising equity are deferred until the funds are raised or there is a high probability that the funds will not be raised.

(e) Foreign Exchange

The Company uses the temporal method of translation foreign currency transactions to Canadian dollars. Under this method, monetary assets and liabilities are translated at the rate in effect at the balance sheet date. Other balance sheet items, revenues and expenses are translated at the rate prevailing on the respective transaction dates. Exchange gains and losses related to current monetary items are included in income. Exchange gains and losses related to non-current monetary items are deferred and amortized over the remaining lives of the monetary items to which they relate.

(f) Use of Estimates

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Capital Assets

| Details are as follows: | Cost | Accumulated Depreciation | Net Book Value |
|-------------------------------|-----------------|--------------------------|-----------------|
| <hr/> | | | |
| January 31, 2000 | | | |
| Furniture and fixtures | \$ 4,641 | \$ 3,227 | \$ 1,282 |
| Computer equipment | 1,860 | 1,282 | 578 |
| <hr/> | | | |
| | \$ 6,501 | \$ 4,509 | \$ 1,892 |
| <hr/> | | | |
| January 31, 1999 | | | |
| Furniture and fixtures | \$ 4,641 | \$ 2,803 | \$ 1,838 |
| Computer equipment | 1,860 | 1,027 | 833 |
| <hr/> | | | |

Quattro Resources Ltd.

Notes to the Consolidated Financial Statements

| Details are as follows: | Cost | Accumulated Depreciation | Net Book Value |
|-------------------------|----------|-----------------------------|----------------|
| | \$ 6,501 | \$ 3,850 | \$ 2,671 |
| <hr/> | | | |
| <u>January 31, 1998</u> | | | |
| Furniture and fixtures | \$ 4,641 | \$ 2,016 | \$ 2,625 |
| Computer equipment | 1,860 | 669 | 1,191 |
| <hr/> | | | |
| | \$ 6,501 | \$ 2,685 | \$ 3,816 |
| <hr/> | | | |

4. Resource Properties

| Details are as follows: | January 31, 2000 | January 31, 1999 | January 31, 1998 |
|---|---------------------|---------------------|---------------------|
| <hr/> | | | |
| <u>Isabel and Pamina</u> | | | |
| Acquisition costs | \$ -- | \$ 756,314 | \$ 756,314 |
| Deferred exploration | | | |
| Legal, acquisition and permit approvals | -- | 188,868 | 172,808 |
| Office expense | -- | 40,806 | 33,366 |
| Travel | -- | 74,227 | 55,024 |
| Housing | -- | 14,251 | 13,910 |
| Wages | -- | 376,631 | 353,384 |
| Project support | -- | 80,858 | 20,616 |
| Camp support | -- | 120,942 | 82,990 |
| Mine support | -- | 76,741 | 43,008 |
| Equipment rental and maintenance | -- | 522,406 | 269,279 |
| Foreign exchange loss | -- | 58,845 | 58,845 |
| | -- | | |
| <hr/> | | | |
| <u>Cannister Block</u> | | | |
| Acquisition | -- | 2,310,889 | 1,859,544 |
| | 1 | 16,501 | 16,501 |
| <hr/> | | | |
| Costs written-off | 1 | 2,327,390 | 1,876,045 |
| | -- | (2,327,389) | -- |
| <hr/> | | | |
| | \$ 1 | \$ | \$ 1,876,045 |

Quattro Resources Ltd.

Notes to the Consolidated Financial Statements

| Details are as follows: | January 31, 2000 | January 31, 1999 | January 31, 1998 |
|-------------------------|---------------------|---------------------|---------------------|
| | | 1 | |
| <hr/> | | | |

During the period ended March 31, 1997, the Company acquired 100% of the issued and outstanding shares of Roraima, a British Virgin Islands incorporated company. The Company wrote-off its investment in Roraima during the year ended January 31, 1999.

(a) Isabel and Pamina

In December 1995, the Company entered into a share purchase agreement with Tombstone Aruba A.V.V. (ATombstone@) wherein it acquired all the outstanding shares of Bayman Investment A.V.V. (ABayman@). Bayman holds all the mining rights to the Isabel and Pamina concessions located in Bolivar State, Venezuela. The company acquired these concessions for US \$550,000 and a 5% royalty on the average appraised value of all diamonds and a 5% royalty on the net value of all other products mined from the concessions. This royalty was subject to termination by the payment of US \$500,000 prior to November 1, 1998. At the time of acquisition, Bayman had expended US \$327,000 on exploration on the properties. The US\$500,000 payment was not made and all acquisition and deferred exploration costs incurred on the Isabel and Pamina mining concessions were written-off during the year ended January 31, 1999. During the year ended January 31, 2000, 100% control of Bayman reverted back to Tombstone (see Note 6).

4. Resource Properties (Continued)

(b) Cannister Block

The Company, through its wholly-owned subsidiary, Frontier Inc. (Guyana) prospected the Cannister Block in the Parish Hill Mining District in Guyana. This block consists of 25,000 acres. Staking costs of US \$12,000 (Cdn \$16,501) were written-down to Cdn\$1 during the year ended January 31, 1999.

5. Notes Payable - Other

The amounts loaned to the Company, by way of demand notes, bear interest in a range of the Royal Bank of Canada prime rate plus 2% to 12%. Of the total of \$525,124, \$179,861 (US\$127,245) is denominated to be repaid in US dollars. At January 31, 1999, of the total of \$472,749, \$164,260 (US\$124,555) was denominated to be repaid in US dollars. At January 31, 1998, of the total of \$459,410, \$262,222 (US\$180,383) was denominated to be repaid in US dollars.

6. Notes Payable - Tombstone Aruba A.V.V.

As part of the acquisition of the resource properties described in Note 4, Roraima signed a note payable to Tombstone for US \$500,000 for the purchase of all the outstanding shares of Bayman. Two of the Company's directors guaranteed the note. A total of US\$200,000 was paid. The remaining US\$300,000, originally due on August 31, 1997, was delayed to February 1, 1998 by an additional payment of US\$50,000, which payment was added to the acquisition costs of the properties. The Company did not make the

Quattro Resources Ltd.

Notes to the Consolidated Financial Statements

payment of US\$300,000 to Tombstone Aruba A.V.V. on February 1, 1998 as per the prior agreement and the payment remained outstanding as of January 31, 1999. The parties had agreed to delay the payment from February 28, 1998 by incurring a penalty of 5% for a delay of 45 days and additional 5% of the principal amount each 30 days thereafter to June 15, 1998. As mentioned in Note 1, the Company wrote-off its investment in Roraima effective April 30, 1998. This write-off included all the assets and liabilities, including the debt to Tombstone, of Roraima.

On June 17, 1999, Tombstone formally acknowledged Roraima's default of the share purchase agreement and assumed 100% control of Bayman and its assets, including the Isabel and Pamina concessions and the Cannister Block. Subsequently, on June 30, 1999, Tombstone formally released the Company, its directors, officers and shareholder from any and all claims which Tombstone might have had in the past or will have in the future against the Company and or any of its subsidiary companies.

7. Share Capital

(a) *Authorized Share Capital:* 500,000,000 (1999 - 500,000,000) common share with no par value.

7. Share Capital (Continued)

(b) *Issued share capital*

| <u>Quattro Resources Ltd.</u> | 2000 Shares | 2000 Amount | 1999 Shares | 1999 Amount |
|-------------------------------|------------------------|------------------------|----------------|----------------|
| Opening balance | 17,914,851 | \$ 1,455,530 | 16,289,851 | \$ 1,035,530 |
| Special warrants | -- | -- | 2,000,000 | 420,000 |
| Escrow shares cancelled | -- | -- | (375,000) | -- |
| | 17,914,851 | \$ 1,455,530 | 17,914,851 | \$ 1,455,530 |

(c) *Options and Warrants Outstanding*

As at January 31, 2000 there were Nil (1999 - Nil) share purchase options outstanding. As at January 31, 2000 there were 2,000,000 (1999 - 2,000,000) share purchase warrants outstanding exercisable at a price of \$0.49 per share until February 9, 2000. Subsequent to the yearend these warrants have expired

Quattro Resources Ltd.

Notes to the Consolidated Financial Statements

8. Income Taxes

The Company has non-capital losses for income taxes totalling approximately \$601,000 which, under certain terms and conditions, may be carried forward and applied to reduce future taxable income. The potential benefit associated with these losses is not reflected in these consolidated financial statements.

9. Related Party Transactions

Related party transactions not disclosed elsewhere in these consolidated financial statements consist of:

- (a) management fees of \$30,000 (January 31, 1999 - \$38,000: January 31, 1998 - \$50,000) to a company controlled by an officer of the Company and \$Nil (January 31, 1999 - \$Nil: January 31, 1997- \$5,000) to a past director,
- (b) notes payable of \$102,400 (January 31, 1999 - \$93,490: January 31, 1998 - \$141,581) with companies with directors in common and \$149,167 (January 31, 1999 - \$135,317: January 31, 1998 - \$123,467) with a director of the Company,
- (c) deferred exploration expenses charged as consulting fees of \$Nil (January 31, 1999 - \$Nil: January 31, 1998 - \$50,516) were paid or credited to companies with directors in common,
- (d) interest charges of \$7,902 (January 31, 1999 - \$9,699: January 31, 1998 - \$13,637) were paid or credited to companies with directors in common and \$11,850 (January 31, 1999 - \$11,850: January 31, 1998 - \$4,967) were paid or credited to a director of the Company,
- (e) accounts payable of \$110,786 (January 31, 1999 - \$59,353: January 31, 1998 - \$19,380) are due to directors and officers of the company.

Quattro Resources Ltd.

Notes to the Consolidated Financial Statements

10. Financial Instruments

(a) Fair values

The Company's financial instruments include cash, accounts receivable, accounts payable and accrued liabilities. The fair value of these financial instruments approximates carrying values due to the short-term to maturity of the financial instruments and similarity to current market prices.

The Company estimates the fair value of its notes payable using discounted cash flows assuming a borrowing rate equal to prime rate plus 6%. The fair value is not significantly different from the fair value.

(b) Financial risk

The financial risk to the Company is the risk that arises from fluctuations in interest rates and foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign exchange risk.