Financial Statements of

FM RESOURCES CORP.

(FORMERLY REDELL MINING CORP.)

Years ended December 31, 1998 and 1997

AUDITORS' REPORT

To the Shareholders of

FM Resources Corp. (formerly Redell Mining Corp.)

We have audited the balance sheets of FM Resources Corp. (formerly Redell Mining Corp.) as at December 31, 1998 and 1997 and the statements of operations and deficit and changes in financial position 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 financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and 1997 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 in Canada. As required by the Company Act (British Columbia), we report that, in our opinion, these principles have been applied on a consistent basis.

"KPMG LLP"

Chartered Accountants

Abbotsford, Canada
May 6, 1999

FM RESOURCES CORP.

(FORMERLY REDELL MINING CORP.)

Balance Sheets

December 31, 1998 and 1997

	1998	1997
Assets		
Current assets:		
Cash	$ 1,269	$ 39,606
Accounts receivable	10,771	7,238
	12,040	46,844
Capital assets (Note 5)	105,046	199,795
Milling credits (Note 3)	100	524,587
Mineral properties (Note 4)	1,858,323	1,871,814
Deferred exploration and development expenditures (Note 4)	7,041,753	7,659,903
	$ 9,017,262	$ 10,302,943
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (Note 7)	$ 323,035	$ 268,543
Loan payable (Note 7)	-	825,000
Loan payable, to related parties, without interest or fixed terms of repayment	7,798	-
	330,833	1,093,543
Loan payable, without interest or fixed terms of repayment (Note 7)	825,000	-
Gold-Based Investment Contracts (Note 6)	2,140,000	2,165,000
Shareholders' equity:		
Share capital (Note 8)	13,280,998	13,020,802
Contributed surplus (Note 7)	305,000	305,000
Deficit	(7,864,569)	(6,281,402)
	5,721,429	7,044,400
Future operations (Note 1)		
Subsequent events (Note 11)		
Contingency (Note 13)		
	$ 9,017,262	$ 10,302,943

Approved by the Directors:

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See accompanying notes to financial statements.

FM RESOURCES CORP.

(FORMERLY REDELL MINING CORP.)

Statements of Operations and Deficit

Years ended December 31, 1998 and 1997

	1998	1997
Administrative expenses:		
Advertising	$ 309	$ 3,295
Computer expenses	5,806	2,615
Depreciation	6,125	37,877
Filing and transfer fees	23,284	36,818
Interest and bank charges	10,486	10,995
Investor relations and promotion	5,000	47,500
Mailing costs	13,074	20,777
Management fees	74,787	14,203
Office expenses	43,059	10,758
Printing	11,218	4,070
Professional fees	134,540	53,798
Rent	46,569	11,155
Telephone	7,170	34,212
Travel	2,023	12,320
Wages and benefits	72,114	44,572
	455,564	344,965
Loss before the undernoted items	(455,564)	(344,965)
Other expenses (income):		
Interest income	(1,182)	(4,997)
Gain on foreign exchange	(546)	(614)
Loss on disposal of capital assets	92,024	1,542
Write-off of milling credits	524,487	-
Write-off of mineral properties and related deferred costs	512,820	-
	1,127,603	(4,069)
Loss for the year	(1,583,167)	(340,896)
Deficit, beginning of year	(6,281,402)	(5,940,506)
Deficit, end of year	$ (7,864,569)	$ (6,281,402)

See accompanying notes to financial statements.

FM RESOURCES CORP.

(FORMERLY REDELL MINING CORP.)

Statements of Changes in Financial Position

Years ended December 31, 1998 and 1997

	1998	1997
Cash provided by (used in)		
Operating activities:		
Loss for the year	$ (1,583,167)	$ (340,896)
Add (deduct):		
Items not affecting working capital:		
Depreciation	6,125	37,877
Loss on disposal of capital assets	92,024	1,542
Write-off milling credit	524,487	-
Write-off resource properties	512,820	-
Increase in non-cash working capital items	50,959	(606,812)
	(396,752)	(908,289)
Investing activities:		
Proceeds on disposal of capital assets	720	19,993
Capital asset additions	(4,120)	(1,303)
Deferred exploration expenditures, net of recoveries	200,231	789,944
Resource property expenditures	(81,410)	(30,337)
Milling credits	-	(524,587)
	115,421	253,710
Financing activities:		
Share capital issued	260,196	4,085,292
Share subscriptions	-	(4,022,817)
Contributed surplus	-	305,000
Loan payable	7,798	-
Gold-Based Investment Contracts	(25,000)	-
	242,994	367,475
Decrease in cash during the year	(38,337)	(287,104)
Cash, beginning of year	39,606	326,710
Cash, end of year	$ 1,269	$ 39,606

See accompanying notes to financial statements.

1. Future operations:

The Company is incorporated under the laws of British Columbia, Canada and its principal business activities include the exploration and development of mineral properties.

These financial statements are prepared on the basis that the Company will continue to operate as a going concern. The Company has incurred operating losses and significant development costs relating to its mineral property interests which have been deferred, and has a working capital deficiency of $318,793 at December 31, 1998. The continued operations of the Company and the ability of the Company to recover amounts shown for mineral properties and deferred exploration and development expenditures and discharge its liabilities in the normal course of business are dependent upon the continued financial support of the Company's creditors, obtaining adequate financing and the existence of economically viable reserves in its mineral properties.

2. Summary of significant accounting policies:

(a) Capital assets:

Capital assets are recorded at cost and are being depreciated on the declining balance basis at 20% per annum, commencing in the first year of use.

(b) Mineral properties and deferred exploration and development expenditures:

The Company records its interests in mineral properties at cost and has capitalized development costs specifically identifiable to the properties. When commercial production is achieved for a specific property, the costs capitalized will be amortized against revenue realized on production from the property. In the event of the abandonment of a property, the costs capitalized for that property are written off to operations. The amounts shown for mineral properties represent costs for the acquisition and development of the properties incurred to date and do not necessarily reflect present or future values.

(c) Use of estimates:

These financial statements have been prepared in accordance with generally accepted accounting principles in Canada which require management to make estimates and assumptions that affect the reported amount 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. Milling credits:

During the year ended December 31, 1997 the Company sold mill equipment totalling $524,587 to a proposed co-venturer in the Company's La Forma property (Note 4), in exchange for milling credits. These credits were to be used in the future to offset the Company's proportionate share of milling costs of ore mined. The proposed co-venturer has appointed a receiver and it is unlikely that the milling credits can be utilized therefore they have been charged to operations.

4. Mineral properties and deferred exploration and development expenditures:

	1998	1997
Resource property acquisitions:		
La Forma	$ 1,276,688	$ 1,270,678
Goldstar	398,000	398,000
Antoniuk	75,000	75,000
Ant	103,835	103,835
Seymour Creek	4,800	4,800
Whalesback	-	19,501
	$ 1,858,323	$ 1,871,814
Deferred exploration and development expenditures:		
Balance, beginning of year	$ 7,659,903	$ 8,449,847
Incurred during the year:		
Consulting fees	10,825	107,834
Core analysis and shipping	-	62
Field assessment work	2,400	41,932
Field overhead	(2,957)	7,923
Permits and fees	-	25
Travel	477	2,858
	10,745	160,634
Recovery of costs on sale of milling equipment and third party pay-down of Company trade payables (Notes 3 and 4(a))	-	(950,578)
Recovery of costs on sale of milling buildings and equipment	(210,976)	-
Write-off deferred costs	(417,919)	-
Balance, end of year	$ 7,041,753	$ 7,659,903

4. Mineral properties and deferred exploration and development expenditures (continued):

The Company owns or holds under option four contiguous claim groups in the vicinity of Mount Freegold, Yukon Territory, as follows:

(a) La Forma property:

The Company owns a 100% interest in the La Forma property. During the year ended December 31, 1997 it was the Company's intention to contribute the La Forma property to a proposed joint venture. Another of the proposed co-venturers paid off approximately $402,000 of the Company's trade payables. No agreement was reached regarding the proposed joint venture.

(b) Goldstar property:

The Company owns a 100% interest in the Goldstar property. During the year ended December 31, 1996 the Company completed its 100% acquisition of the Goldstar property with a payment of $50,000 in cash and the issuance of 300,000 shares.

(c) Ant claims:

The Company owns a 100% interest in the Ant property. The property is subject to a 3% net smelter returns royalty, of which 2% may be purchased by the Company for $1,000,000 for each 1%.

(d) Antoniuk claims:

The Company owns a 100% interest in the Antoniuk property. The two former owners of the property will be entitled to a return on their capital investment in the property, totalling $3,000,000 from the proceeds of commercial production. In addition, the property is subject to a 2% net smelter returns royalty which may be purchased by the Company for $500,000 for each 1%.

(e) Whalesback property:

During the year ended December 31, 1997, the Company acquired an option to earn a 50% interest in the Whalesback and Shoal Arm properties located in the Springdale Peninsula, Newfoundland. Total consideration to be paid to earn the 50% interest will be $25,000 cash of which $15,000 is unpaid, the issuance of 100,000 common shares at a deemed value of $0.60 per share and an agreement that the Company pay for exploration expenditures totalling $1,000,000 over 4 years. During the year ended December 31, 1998 the Company decided not to exercise its option on this property and accordingly the Company wrote off $94,901 in mineral property and deferred exploration and development costs.

5. Capital assets:

	1998	1997
Office furniture and equipment	$ 29,011	$ 208,708
Coin moulds	91,023	91,023
	120,034	299,731
Accumulated depreciation office furniture and equipment	14,988	99,936
	$ 105,046	$ 199,795

Depreciation has not been recorded for the coin moulds, as the Company has yet to utilize them as at December 31, 1998.

6. Gold-Based Investment Contracts:

	1998	1997
Gold purchase contracts	$ 262,500	$ 262,500
Gold-based investment contract units	1,877,500	1,902,500
	$ 2,140,000	$ 2,165,000

Units:

Each Gold-Based Investment Contract Unit (GBIC Unit) is comprised of one Gold-Based Investment Contract (GBIC) with a face denomination of $1,250 and one warrant for the purchase of 50 common shares of the Company at a price of $1.25 per share in the first year and $1.50 in the second year, commencing on the date that written subscription agreements were executed.

Each GBIC entitles the purchaser to receive 110 grams of gold if, as and when produced from the Company's Mount Freegold Properties (Note 4). Should the Company fail to deliver gold pursuant to the terms of the GBIC, the purchaser has the right to convert the purchase price of the GBIC into common shares of the Company at prices of $1.75 per share in the 1998 fiscal year, $2.00 per share in the 1998 fiscal year, $2.25 per share in the 1999 fiscal year and $2.50 per share in the 2000 fiscal year. In the event that gold has not been delivered pursuant to a GBIC by December 31, 2000, the purchaser shall be deemed to have exercised his conversion right thereunder.

6. Gold-Based Investment Contracts (continued):

Contracts:

Each Gold Purchase Contract (GPC) has a face denomination of $3,750, and entitles the holder thereof to receive gold produced from the Company's Mount Freegold properties (see Note 4). If delivery is elected from the 1998 year, the holder shall have purchased 15 ounces of gold. If the Company is unable to deliver gold pursuant to a GPC at the end of the 1998 year, the holder has the option to convert each GPC into 5,000 common shares of the Company. For so long as this option is not exercised, the Company may deliver gold pursuant to the GPC up to the end of the year 2000. If the gold has not been delivered pursuant to a GPC by the end of the year 2000, the holder will be issued 5,000 common shares for each GPC in respect of which no gold was delivered.

7. Share subscriptions:

During the year ended December 31, 1996 the Company received share subscriptions totalling $4,847,817. The Vancouver Stock Exchange (the "Exchange") did not approve the issuance of shares pursuant to the original subscription agreements. Also during the year ended December 31, 1997, $825,000 of these share subscriptions was converted into a loan payable. The subscriptions were later approved subsequent to the Company being reinstated to the Exchange. Shares in the amount of $3,605,784 were issued to satisfy the subscriptions. However, two subscribers chose not to purchase shares pursuant to the amended subscription agreement and have requested repayment of their respective subscription payments. This balance payable totalling $87,033 (1997 - $112,033) has been included in accounts payable and accrued liabilities.

A further $305,000 of the original share subscriptions required neither the issuance of shares pursuant to the amended subscription agreement, nor the repayment of the funds. This balance is recorded in the accounts as contributed surplus.

8. Share capital:

Authorized: 100,000,000 Common shares without par value.

Issued:

	Number of shares	Amount
Balance, December 31, 1996	13,262,723	$ 8,935,510
Shares issued during 1997:		
For cash	16,373,183	3,773,216
For settlement of debt	1,091,197	312,076
Balance, December 31, 1997	30,727,103	13,020,802
Reduction of stated share capital	(29,190,748)	-
Shares issued during 1998:		
For cash	687,044	175,196
For acquisition of property	100,000	60,000
Conversion of gold-based investment contract	625	25,000
Balance, December 31, 1998	2,324,024	$ 13,280,998

(a) Share purchase warrants:

The following share purchase warrants were outstanding as at December 31, 1998:

Number of Shares	Price	Expiry Date
36,092	$ 5.20	May 14, 1999
1,111	5.20	October 29, 1999
545,866	0.30	May 29, 2000

(b) Stock options:

The following stock options were outstanding at December 31, 1998:

Number of Shares	Price	Expiry Date
62,500	$ 6.00	October 8, 2002
30,500	3.00	November 14, 2002

8. Share capital (continued):

(c) Share consolidation**:**

At an extraordinary general meeting held March 25, 1998, the shareholders of the Company approved a resolution consolidating the number of common shares issued and outstanding authorized on a 20 to 1 basis. Subsequent to the consolidation of the common shares, the authorized share capital was increased to 100,000,000 common shares.

(d) Restricted shares:

As at December 31, 1998, 18,747 issued shares are held subject to an escrow agreement. Approval by the regulatory authorities is required for the transfer or release of these shares subsequent to December 31, 1998, 17,624 of these shares were cancelled.

9. Income taxes:

(a) Non-capital losses:

The Company has non-capital losses totalling $12,450,000 from the current and prior years available for application against future years' taxable incomes. These losses expire as follows:

1999	$ 11,000
2001	542,000
2002	1,152,000
2003	1,616,000
2004	8,266,000
2005	863,000
	$ 12,450,000

(b) Capital losses:

The Company has capital losses totalling $817,000 available for application against future capital gains with no expiry date.

(c) Canadian exploration and development expenses:

The Company has available Canadian exploration and development expenses as follows:

	Expenses for financial purposes	Permanent/timing differences	Expenses for taxation purposes
Mineral properties	$ 1,858,323	$ (787,399)	$ 1,070,924
Deferred exploration and development expenditures	7,041,753	(7,031,008)	10,745
	$ 8,900,076	$ (7,818,407)	$ 1,081,669

10. Directors' remuneration and related party transactions:

The following fees were paid or accrued to directors and officers of the Company:

	Year ended December 31 1998	1997
Management fees to two companies each controlled by a director	$ 74,787	$ 23,302
Legal fees paid to an officer	$ 54,531	$ 31,542

11. Subsequent events:

(a) Private placement:

In January 1999, the Company completed a private placement for 33,334 common shares and 33,334 share purchase warrants with a one year purchase price of $0.15 per common share and a second year price of $0.20 per common share for $5,000.

(b) Loan and debt repayment:

Subsequent to year-end, the Company arranged a loan agreement for $102,931. The proceeds of the loan went to pay off certain creditors with the balance to be used in the day-to-day operations of the Company. The loan is to be repaid on demand and is subject to annual interest charges at 18%.

12. Fair value of financial instruments:

For certain of the Company's financial instruments including accounts receivable, accounts payable and accrued liabilities, the carrying amounts approximate fair value due to the immediate or short-term maturity of these financial instruments.

The fair value of the gold-based investment contracts and the loans payable is not practicable to determine.

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 year 2000 dates 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 systems 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.

14. Name change:

At a special meeting of shareholders held on March 25, 1998, the shareholders of the Company approved the change of the name of the Company from Redell Mining Corp. to FM Resources Corp.