

Report of Examination

Alyattes Enterprises Inc.

Toronto, Ontario

December 31, 1999

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Auditors' Report

To the Directors of Alyattes Enterprises Inc.:

We have audited the balance sheets of **Alyattes Enterprises Inc.** as at December 31, 1999 and 1998 and the statements of net 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 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 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, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles.

February 11, 2000

Prentice Yates & Clark (signed)

Chartered Accountants

J.F. Yates, C.A.
R.J. Clark, C.A.
D.L.S. Robertson, C.A.
C.A. Petralito, B.A., .A.
L.K. Turner, B.A., C.A.

Alyattes Enterprises Inc.

December 31

Balance Sheet - Assets	1999	1998
Current		
Cash	\$ 252	\$ 15,017
GST recoverable	387	5,243
	<u>639</u>	<u>20,260</u>

Balance Sheet - Liabilities and Deficiency

Current		
Accounts payable and accrued liabilities	55,127	65,162
Due to shareholder	<u>10,600</u>	<u>-0-</u>
Total Liabilities	<u>65,727</u>	<u>65,162</u>
Shareholders' Deficiency		
Capital stock, Note 4	87,500	87,500
Deficit	<u>(152,588)</u>	<u>(132,402)</u>
	<u>(65,088)</u>	<u>(44,902)</u>
	<u>639</u>	<u>20,260</u>

Approved by The Board*Alan L. H. Ferry (signed)*_____
Director*J. Patrick Sheridan, Jr. (signed)*_____
Director

The attached notes form an integral part of these financial statements.

Alyattes Enterprises Inc.

Year Ended December 31

Statement of Net Loss and Deficit	1999	1998
Expenses		
Exploration costs	\$ -0-	\$ 45,027
Legal fees	2,659	1,029
Audit and accounting fees	6,007	2,500
Bank charges and courier	160	200
Filing and OSC Fees	1,228	-0-
Printing	176	-0-
Penalty tax on renounced expenditures	9,409	-0-
Net Loss for the Period	(19,639)	(48,756)
Deficit, beginning	(132,402)	(43,706)
Legal and audit related to public offering	(547)	(39,940)
Deficit, Ending	(152,588)	(132,402)
Net loss per share	0.04	0.11

The attached notes form an integral part of these financial statements.

Alyattes Enterprises Inc.

Year Ended December 31

Statement of Cash Flows	1999	1998
Operating Activities		
Net loss	\$ (19,639)	\$ (48,756)
Changes in non-cash working capital components	5,420	32,223
Cash Used In Operating Activities	(14,219)	(16,533)
Financing Activities		
Issue of common shares	-0-	10,000
Legal and audit related to public offering	(546)	(39,940)
Cash Used In Financing Activities	(546)	(29,940)
Net cash decrease during the year	(14,765)	(46,473)
Cash position, beginning	15,017	61,490
Cash position, Ending	252	15,017

The attached notes form an integral part of these financial statements.

Notes to Financial Statements

Note 1 Basis of Accounting

These financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes that the company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. However, the Company had operating losses of \$19,639 in 1999 and \$48,756 in 1998. The Company does not have a revenue source that can provide it with a regular source of cash flows and is dependent on financing for future operations.

These financial statements do not give effect to any adjustments to the amount of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

Note 2 Summary of Significant Accounting Policies

Nature of Operations

Alyattes Enterprises Inc. was incorporated July 5, 1996 to engage in the acquisition and exploration of mineral properties. The Company is in the development stage and has yet to generate any revenue from operations. The Company follows accounting policies generally accepted in Canada.

Exploration and Development Costs

Exploration costs incurred prior to the acquisition of an interest in a mining property are expensed as incurred.

Exploration costs incurred subsequent to the acquisition of an interest in a mining property will be deferred until such time as commercial production begins and then amortized against related production revenues. If a property is determined not to contain economically recoverable reserves these costs will be expensed at that time.

Administrative costs are expensed as incurred.

Note 3 Tax Losses Carry Forward

As at December 31, 1999 the company had losses available for carry forward to reduce future taxable income expiring as follows:

December 31, 2004	\$28,387
December 31, 2005	11,717
December 31, 2006	27,736

Note 4 Capital Stock

Authorized

The Corporation is authorized to issue an unlimited number of common shares and an unlimited number of preference shares, issuable in series.

Issued and outstanding

	Shares	Amount
Opening balance January 1, 1999	875,001	\$ 87,500
2:1 consolidation of common shares	(437,500)	-0-
Balance December 31, 1999	<u>437,501</u>	<u>87,500</u>

During the year ended December 31, 1999 the Company consolidated its common shares on a 2:1 basis.

The Company has agreed to settle a current liability by issuing preference shares with a par value of \$12,000.

Options

On November 9, 1998, 87,500 options to purchase common shares of the Company for \$0.275 were granted to directors. None of these options have been exercised to date and they expire November 9, 2003.

Escrowed Shares

Pursuant to an escrow agreement dated November 9, 1998 and after giving effect to the one for two share consolidation during the year, 256,726 of the Company's issued common shares are in escrow. Release of 64,182 shares is automatic every November 11. Additional release is subject to regulatory approval.

Note 5 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. Although the change in date has occurred, it is not possible to be certain that all aspects of the year 2000 issue that may affect the entity, including those related to customers, suppliers or other third parties, have been fully resolved.

Note 6 Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, marketable securities, and accounts payable and accrued liabilities. 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 values of these financial instruments approximate their carrying values.