

**NovaGold Resources Inc.**  
**Consolidated Financial Statements**

***Management's Responsibility for Financial Reporting***

The accompanying consolidated financial statements of the company have been prepared by management in accordance with accounting principles generally accepted in Canada, and contain estimates based on management's judgement. Management maintains an appropriate system of internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded, and proper records maintained.

The Audit Committee of the Board of Directors has met with the company's independent auditors to review the scope and

results of the annual audit and to review the consolidated financial statements and related financial reporting matters prior to submitting the consolidated financial statements to the Board for approval.

The company's independent auditors, PricewaterhouseCoopers LLP, are appointed by the shareholders to conduct an audit in accordance with generally accepted auditing standards and their report follows.

[Signed: R. Van Nieuwenhuysse]

R. Van Nieuwenhuysse  
President and Chief Executive Officer

[Signed: G.A. Holmes]

G.A. Holmes  
Secretary Treasurer

***Auditors' Report***

**To the Shareholders of NovaGold Resources Incorporated**

We have audited the consolidated balance sheets of **NovaGold Resources Inc.** as at November 30, 1999 and 1998 and the consolidated statements of operations 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 Canadian 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 November 30, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Halifax, Canada  
March 22, 2000

*PricewaterhouseCoopers LLP*

CHARTERED ACCOUNTANTS

# Consolidated Financial Statements

## *Consolidated Balance Sheets*

*As at November 30, 1999 and 1998*

	1999\$	1998\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and short-term deposits	302,644	67,524
Amounts receivable	571,753	114,258
Gold inventory	320,000	-
Inventory	138,411	-
Deposits and prepaid amounts	25,419	12,425
	<u>1,358,227</u>	<u>194,207</u>
<b>Capital assets (note 4)</b>	295,360	24,598
<b>Investments (note 5)</b>	77,317	77,317
<b>Reclamation deposit</b>	899,888	872,788
<b>Land and gravel quarries (note 6)</b>	3,788,288	-
<b>Mineral properties and related deferred costs (note 7)</b>	13,769,549	8,849,896
	<u>20,188,629</u>	<u>10,018,806</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	2,538,786	2,752,446
Bridge financing (note 8)	1,001,573	-
Loan payable (note 9)	200,000	200,000
	<u>3,740,359</u>	<u>2,952,446</u>
<b>Convertible debt instruments (note 10)</b>	2,574,500	-
<b>Amount payable to Etruscan Resources Incorporated (note 11)</b>	7,568,950	6,495,927
<b>Provision for reclamation costs (note 12)</b>	2,855,992	1,012,900
	<u>16,739,801</u>	<u>10,461,273</u>
<b>Commitments and contingencies (note 13)</b>		
<b>Shareholders' Equity</b>		
Capital stock (note 14)	68,607,416	63,292,244
Equity portion of convertible debt instruments (note 10)	900,000	-
Deficit	(66,058,588)	(63,734,711)
	<u>3,448,828</u>	<u>(442,467)</u>
	<u>20,188,629</u>	<u>10,018,806</u>

## *Signed On Behalf of the Board*

[Signed: R. Van Nieuwenhuyse]

R. Van Nieuwenhuyse, Director

[Signed: Gerald J. McConnell]

Gerald J. McConnell, Director

# Consolidated Financial Statements

## ***Consolidated Statements of Operations and Deficit*** ***For the years ended November 30, 1999 and 1998***

	1999\$	1998\$
<b><i>Revenue</i></b>		
Land sales	1,647,454	-
Gravel sales	1,048,575	-
Gold production and royalties	325,551	-
Lease and rental revenue	110,244	-
Other	105,588	18,553
	3,237,412	18,553
Cost of land sales	1,459,710	-
Property tax	193,892	-
Amortization of gravel quarries	375,000	-
Gold production costs	168,932	-
	1,039,878	18,553
<b><i>Expenses</i></b>		
General and administrative	518,030	393,463
Interest on amount payable to Etruscan Resources Incorporated	422,904	402,710
Interest on long-term debt	168,703	35,679
Loss on disposition of subsidiary company	-	474,194
Murray Brook mine site maintenance	181,601	294,093
Murray Brook reclamation provision	400,000	-
Professional fees	257,898	299,643
Property investigation	14,777	275,941
Wages and benefits	614,855	626,037
Write-down of mineral properties and related deferred costs	830,631	3,673,745
Write-down (gain on sale) of assets	(45,644)	2,027,616
Write-down of investments	-	59,999
	3,363,755	8,563,120
<b>Loss for the year</b>	<b>(2,323,877)</b>	<b>(8,544,567)</b>
<b>Deficit - Beginning of year</b>	<b>(63,734,711)</b>	<b>(55,190,144)</b>
<b>Deficit - End of year</b>	<b>(66,058,588)</b>	<b>(63,734,711)</b>
<b>Net loss per share</b>	<b>0.14</b>	<b>0.76</b>

# Consolidated Financial Statements

## *Consolidated Statements of Cash Flows* *For the Years ended November 30, 1999 and 1998*

	1999 \$	1998 \$
<b><i>Operating Activities</i></b>		
Loss for the year	(2,323,877)	(8,544,567)
Charges (credits) to operations not involving cash -		
Foreign exchange gain	(7,000)	-
Amortization	422,596	4,335
Interest on reclamation deposit	(27,100)	(26,239)
Interest on advances from Etruscan Resources Incorporated	422,904	402,710
Loss on disposition of subsidiary company	-	474,194
Provision for additional reclamation costs	400,000	-
Write-down of mineral properties and related deferred costs	830,631	3,673,745
Write-down (gain on sale) of assets	(45,644)	2,027,616
Write-down of investment	-	59,999
	<u>(327,490)</u>	<u>(1,928,207)</u>
Net change in non-cash balances related to operations		
Increase in amounts receivable, deposits and prepaid amounts	(460,776)	(41,558)
Increase in inventories	(320,000)	-
Decrease in land held for sale	1,372,852	-
Increase (decrease) in accounts payable and accrued liabilities	(294,633)	1,077,138
	<u>(30,047)</u>	<u>(892,627)</u>
<b><i>Financing Activities</i></b>		
Repayment of loans payable	-	(426,973)
Proceeds from bridge financing - net of repayments	1,001,573	-
Proceeds from convertible debenture	2,000,000	-
Advances from Etruscan Resources Incorporated	650,119	5,438,585
Proceeds from issuance of common shares	770,942	2,087,899
	<u>4,422,634</u>	<u>7,099,511</u>
<b><i>Investing Activities</i></b>		
Acquisition of Alaska Gold Company - net of cash acquired(note 3(a))	(3,253,337)	-
Proceeds on sale of capital assets	50,650	-
Acquisition of capital assets	(45,759)	(12,712)
Expenditures on mineral properties and related deferred costs	(909,021)	(5,605,538)
Decrease in non-controlling interest	-	(641,080)
	<u>(4,157,467)</u>	<u>(6,259,330)</u>
<b>Increase (decrease) in cash and short-term deposits during the year</b>	<b>235,120</b>	<b>(52,446)</b>
<b>Cash and short-term deposits - Beginning of year</b>	<b>67,524</b>	<b>119,970</b>
<b>Cash and short-term deposits - End of year</b>	<b>302,644</b>	<b>67,524</b>

## ***Notes to Consolidated Financial Statements***

***For the Years ended November 30, 1999 and 1998***

### **1. *Nature of Operations***

The company is in the process of exploring its mineral properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. The recoverability of amounts shown for mineral properties and related deferred costs is dependent upon the discovery of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the company to obtain necessary financing to continue operations and to complete the development, and upon future profitable production or proceeds from the disposition thereof. The company will periodically have to raise additional funds to complete exploration and development and, while it has been successful in doing so in the past, there can be no assurance that it will be able to do so in the future. The amounts shown as mineral properties and related deferred costs represent costs net of recoveries to date, less amounts amortized and/or written off, and do not necessarily represent present or future values.

### **2. *Accounting Policies***

#### **a) *Basis of presentation***

These consolidated financial statements are prepared on a going-concern basis and include the accounts of NovaGold Resources Inc. and its wholly-owned subsidiaries, NovaGold Resources (Bermuda) Limited, NovaGold (Bermuda) Alaska Limited, Alaska Gold Company, NovaGold Resources Alaska, Inc., Pine Cove Resources Inc., Murray Brook Resources Inc., NovaGold Resources Nevada Inc., NovaGold Finance Corporation Inc., and Nova-Venez Resources Inc.

#### **b) *Use of estimates***

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from those reported.

#### **c) *Cash and short-term deposits***

In order to limit its exposure, the company deposits these funds with large financial institutions and limits maturity dates to 30 days or less.

#### **d) *Inventories***

Gold poured, in transit and at refineries, is recorded at net realizable value and included in gold inventory and gold production revenue. Other inventories are valued at the lower of average cost and net realizable value.

#### **e) *Capital assets***

Capital assets are recorded at cost. Amortization of the heavy machinery and equipment and the office furniture and equipment is calculated using the declining balance method at the annual rates of 30% and 20%, respectively.

#### **f) *Gravel quarries***

Gravel quarries are recorded at cost. Amortization of the quarries is provided at a rate of 50% in the year of acquisition and 25% in each of the next two years.

# Consolidated Financial Statements

## Notes to Consolidated Financial Statements

For the Years ended November 30, 1999 and 1998

### 2. Accounting Policies (continued)

#### g) Mineral properties and related deferred costs

Exploration and development costs relating to mineral properties are deferred until the properties are brought into production, at which time they are amortized on the units-of-production basis, or until the properties are abandoned or sold or management determines that the mineral property is not economically viable, at which time the deferred costs are written off. The units-of-production amortization is calculated based on proven and probable reserves following commencement of production. Costs applicable to properties abandoned or having no current value are charged to expense. The company has maintained title to certain properties that have been written off. Any proceeds relating to these properties will be recorded in income as received.

#### h) Income taxes

The company uses the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes. Future income tax assets are evaluated and if realization is not considered more likely than not, a valuation allowance is provided.

#### i) Financial instruments

The fair value of the company's cash and short-term deposits, amounts receivable, accounts payable and accrued liabilities approximate their carrying values.

### 3. Acquisition and Disposition of Subsidiary Companies

#### a) Alaska Gold Company

On April 26, 1999, the company acquired 100% of the issued and outstanding common shares of Alaska Gold Company (Alaska Gold) from Mueller Industries, Inc. (Mueller) of Memphis, Tennessee for a total consideration of US\$5.5 million (CDN\$8,144,774). The consideration paid comprised US\$3 million cash, US\$1.5 million in NovaGold shares and a royalty payable on future placer production capped at US\$1 million. The royalty payable is convertible to common shares at the option of the holder. The company also incurred professional fees of \$100,000 associated with the acquisition.

The acquisition was accounted for using the purchase method and operations since the date of acquisition have been consolidated in these financial statements. The net assets acquired in this transaction are as follows:

Net current assets	\$ 1,358,313
Capital assets	277,605
Land	3,823,716
	<u>5,459,634</u>
Less: Provision for reclamation costs	(1,443,092)
	<u>4,016,542</u>
Excess of purchase price over net book value, allocated to:	
Land	972,481
Anvil Creek mineral property	1,257,904
Rock Creek mineral property	1,257,904
Gravel quarries	739,943
	<u>8,244,774</u>

**Notes to Consolidated Financial Statements**

*For the Years ended November 30, 1999 and 1998*

**3. Acquisition and Disposition of Subsidiary Companies (continued)**

a) **Alaska Gold Company** (continued)

Cash expended for this acquisition, net of cash acquired amounted to \$3,253,337. The shares issued and royalty granted are non-cash transactions and have been excluded from the statement of cash flows.

b) **Secor GeoMin Mining Development Corporation Inc.**

During the year ended November 30, 1998, the company acquired 100,000 common shares of Secor GeoMin Mining Development Corporation Inc. (Secor GeoMin), which holds the Bounsankoba property, for a cash consideration of \$686,635. These shares, together with the shares acquired in prior years, represented a 65% ownership of Secor GeoMin and had an aggregate cost of \$4,213,983. Also during the year ended November 30, 1998, the company acquired an additional 250,000 common shares of Secor GeoMin held by arms' length parties in exchange for the issuance of 500,000 of its common shares. This acquisition brought the company's ownership in Secor GeoMin to 90%.

The acquisition was accounted for using the purchase method and operations have been consolidated in these financial statements since a controlling interest in the company was acquired in 1997.

On November 30, 1998, the company sold its 90% interest in Secor GeoMin to Etruscan Resources Incorporated for proceeds of \$3,200,000 (see note 14 (b)). This is a non-cash transaction and has been excluded from the statement of cash flows.

**4. Capital Assets**

			1999	1998
	Cost\$	Accumulated amortization\$	Net\$	Net\$
Heavy machinery and equipment	767,361	523,163	<b>244,198</b>	5,562
Office furniture and equipment	142,560	91,398	<b>51,162</b>	19,036
	909,921	614,561	<b>295,360</b>	24,598

**5. Investments**

a) **Composition**

	1999	1998
	\$	\$
2,006,834 shares (5.6%) of Etruscan Resources Incorporated (Etruscan), at cost. Quoted market value - \$1,284,374 (1998 - \$2,247,654)	77,316	77,316
600,000 shares of Electra Mining Consolidated, recorded at nominal value	1	1
	<b>77,317</b>	<b>77,317</b>

# Consolidated Financial Statements

## Notes to Consolidated Financial Statements

For the Years ended November 30, 1999 and 1998

### 5. Investments (continued)

#### b) Shares pledged

The company has pledged 1,880,209 shares of Etruscan, as security for the amount due to Etruscan (see note 9). The Province of New Brunswick holds 126,625 of the company's shares of Etruscan pending the settlement of outstanding mining taxes aggregating \$320,366.

### 6. Land and Gravel Quarries

	\$
Land, Fairbanks, Alaska	1,853,883
Land, Nome, Alaska	1,569,462
Gravel quarries, net of accumulated amortization of \$375,000	364,943
	3,788,288

### 7. Mineral Properties and Related Deferred Costs

#### a) For the year ended November 30, 1999

	Balance - November 30, 1998\$	Acquisitions and Expenditures during the year\$	Recovery(1) and write-down\$(2)	Balance - November 30, 1999\$
<b>Alaska, USA</b>				
Shotgun	4,006,896	153,175	-	4,160,071
Rock Creek	-	1,410,377	132,301(1)	1,278,076
Anvil Creek	-	1,849,436	366,936(1)	1,482,500
Caribou	372,892	286,845	82,819(1)	576,918
North Donlin	80,067	3,515	-	83,582
Other Alaska properties	-	76,880	20,092(2)	56,788
<b>Yukon, Canada</b>				
German Creek	-	180,176	-	180,176
Harlan	-	691,632	13,405(1)	678,227
McQuesten	-	693,858	1,252(1)	692,606
Sprogge	-	794,111	8,062(1)	786,049
Klondike	-	90,875	-	90,875
Other Yukon properties	-	100,935	4,489(1)	96,446
<b>Eastern Canada</b>				
Pine Cove, Nfld.	1,941,257	2,382	-	1,943,639
Sewell Brook, NB	564,707	20	-	564,727
California Lake, NB	405,998	-	-	405,998
Other, NB	24,575	1,127	-	25,702
New Mexico and Nevada	658,674	8,495	-	667,169
Koala claims, Mexico	794,830	15,709	810,539(2)	-
	8,849,896	6,359,548	1,439,895	13,769,549

**Notes to Consolidated Financial Statements**

*For the Years ended November 30, 1999 and 1998*

**7. Mineral Properties and Related Deferred Costs (continued)**

**b) For the year ended November 30, 1998**

	Balance - November 30, 1997\$	Acquisitions and Expenditures during the year\$	Disposition(1) and write-down\$(2)	Balance - November 30, 1998\$
<b>Alaska, USA</b>				
Shotgun	-	4,006,896	-	4,006,896
Caribou	-	372,892	-	372,892
North Donlin	-	80,067	-	80,067
<b>Eastern Canada</b>				
Pine Cove, Nfld.	1,923,703	17,554	-	1,941,257
Murray Brook, NB	2,805,069	844,598	3,649,667(2)	-
Sewell Brook, NB	563,525	1,182	-	564,707
California Lake, NB	347,308	58,690	-	405,998
Other, NB	48,451	202	24,078(2)	24,575
New Mexico and Nevada	649,079	9,595	-	658,674
Koala claims, Mexico	-	794,830	-	794,830
Bounsankoba, Senegal, West Africa	3,373,915	534,032	3,907,947(1)	-
	<u>9,711,050</u>	<u>6,720,538</u>	<u>7,581,692</u>	<u>8,849,896</u>

**c) Carrying value of mineral properties**

The company's recorded amount of its mineral properties is accumulated based upon costs incurred to date. This approach to recording mineral properties is consistent with industry standards and the company believes that this represents its best estimate of the appropriate carrying amount for each property. The economic feasibility of each property is assessed regularly by management based upon current geological exploration and results thereof, independent geological reports, surrounding exploration and development activities, ongoing assessment of the political environment in the countries where properties are held, and the availability of funding. When a property is deemed economically unfeasible, the cost thereof is written off.

**d) Shotgun, Alaska**

During 1998, the company acquired a 49% interest in the Shotgun group of claims located in South-west Alaska at a cost of US\$900,000. On July 2, 1998 the company and the owner of the 51% interest, Cominco American Limited (Cominco), entered into a letter of agreement setting out the preliminary terms and conditions for the establishment of a joint venture for the exploration and development of the Shotgun group of claims. The agreement provided for Cominco to contribute to the joint venture its 100% owned peripheral claims. The initial ownership interests of the venture were established at 47.5% for the company and 52.5% for Cominco. The company has the right to earn an additional 22.5% interest in the venture by incurring a total of US\$4,000,000 in exploration expenditures over a five-year period. In the event that the company earns this additional interest, it may earn up to an additional 20% interest at the rate of one percentage point increase for every US\$200,000 of exploration and development expenditures.

## ***Notes to Consolidated Financial Statements***

***For the Years ended November 30, 1999 and 1998***

### **7. Mineral Properties and Related Deferred Costs (continued)**

**d) Shotgun, Alaska (continued)**

At any time after the company has earned a 70% interest, but prior to it earning a 90% interest, Cominco has a back-in right to reacquire a 51% interest in the venture over a maximum period of ten years by incurring exploration and development expenditures or making cash payments to the company at the rate of US\$500,000 for each single percentage point increase. If Cominco does not expend or pay to the company within ten years the total amount required to regain a 51% interest in the venture, its ownership interest remains unchanged.

**e) Rock Creek and Anvil Creek, Alaska**

As part of its acquisition of Alaska Gold Company, the company acquired 14,000 acres of mineral claims surrounding the city of Nome, Alaska. On July 13, 1999, the company increased its land position by an additional 15,000 acres of mineral claims by entering into a five year sublease from the Bering Straits Native Corporation, Golden Glacier Inc. The agreement calls for annual property payments ranging from US\$15,000 to US\$25,000 and annual work commitments ranging from US\$50,000 to US\$150,000. This 29,000 acre land package contains two known areas of interest - Rock Creek and Anvil Creek

**f) Caribou and North Donlin, Alaska**

Pursuant to Exploration and Development Option agreements dated December 1, 1998 with Placer Dome US Inc. (PDUS), the company can earn a 100% interest in the North Donlin and certain of the Caribou properties by expending total exploration and development costs of US\$200,000 on each property prior to December 1, 2003. Upon earning its 100% interest in either of the properties, the company shall grant to PDUS a 5% net profits interest in the property.

The company is then required to incur within 10 years an additional US\$5,000,000 in exploration and development costs on each property to maintain its 100% interest. In the event that the company incurs the additional expenditures of US\$5,000,000, PDUS shall have a period of 90 days to elect to convert its 5% net profits interest to a 51% ownership interest by paying to the company an amount equal to the property expenditures incurred by the company in excess of the initial US\$200,000.

**g) Yukon properties**

On April 26, 1999 the company acquired from Viceroy Resource Corporation (Viceroy) title to 20 Yukon mineral properties and assumed Viceroy's position on the option agreement on the McQuesten property and the option/joint venture agreement on the Sprogge property in exchange for the issuance of 3.4 million common shares. The value attributed to these common shares, based on the market value at the date of issue, is \$2.2 million. This purchase price has been allocated to the four primary properties acquired, being German Creek, Harlan, McQuesten and Sprogge.

## ***Notes to Consolidated Financial Statements***

***For the Years ended November 30, 1999 and 1998***

### **7. *Mineral Properties and Related Deferred Costs (continued)***

#### **g) Yukon properties (continued)**

##### **McQuesten, Yukon**

The company acquired Viceroy's 70% option in the McQuesten property as outlined in an option agreement with Eagle Plains Resources Ltd. This agreement allows the company to earn a 70% interest in the property by expending \$250,000 by October 2000 and an additional \$500,000 by October 2001. The company must also make annual property payments of \$50,000 in March 2000, \$60,000 in 2001 and \$80,000 in 2002. A 2% net smelter royalty has been granted on future production from the property. The company must make minimum annual royalty payments in the amount of \$20,000 commencing in 2003.

##### **Sprogge, Yukon**

The company has assumed Viceroy's interest in a option/joint venture agreement with Battle Mountain Canada Ltd. This agreement provides the company with a 60% interest in the property and the right to earn 100% of the Justin claims, which make up a part of Sprogge property. The company must make annual cash payments of \$20,000 in February 2000, and \$40,000 in December 2000 and \$60,000 in December 2001. A 1.5% net smelter royalty has been granted on future production from the property. The company must make minimum annual royalty payments in the amount of \$20,000 commencing December 2002.

#### **h) Pine Cove, Newfoundland**

The company, through its wholly-owned subsidiary Pine Cove Resources Inc., holds a 70% interest in this property. New Island Resources Inc., holds the remaining 30% interest.

### **8. *Bridge Financing***

On March 24, 1999, the company arranged \$4 million of debt financing for purposes of completing the acquisition of Alaska Gold. The financing was provided by Viceroy and comprised a \$2 million convertible debenture (see note 10) and a \$2 million bridge facility. The bridge facility has a term of one year and bears interest at the Royal Bank of Canada prime rate. During the period ended November 30, 1999, \$998,427 of the bridge financing has been repaid (see note 17). The shares of Alaska Gold and a first charge against certain of its assets have been pledged as security for the bridge financing.

### **9. *Loan Payable***

The loan is payable to the Province of New Brunswick and bears interest at a rate of 10.7% per annum. The loan was made to Murray Brook Resources Inc. and guaranteed by the company. The loan was repayable in 1993, however no payments have been made on this loan and the company is attempting to arrange new repayment terms with the Province.

# Consolidated Financial Statements

## Notes to Consolidated Financial Statements

For the Years ended November 30, 1999 and 1998

### 10. Convertible Debt Instruments

#### a) Composition

	Convertible Debenture \$	Convertible Royalty \$	Total \$
Convertible debt instruments	2,000,000	1,474,500	3,474,500
Equity portion of convertible debt instruments	350,000	550,000	900,000
Debt portion of convertible debt instruments	1,650,000	924,500	2,574,500

#### b) Convertible Debenture

The convertible debenture has a term of 2 years and is convertible into shares of the company at a price of \$0.66 per share and bears interest as the Royal Banks of Canada prime rate. The shares of Alaska Gold and a first charge against certain of its assets have been pledged as security for the convertible debenture.

#### c) Convertible Royalty

As part of the purchase agreement to acquire Alaska Gold from Mueller, the company granted a 10% net smelter royalty on all placer gold production to a maximum of US\$1 million. The company also agreed to make minimum advance royalty payments of US\$333,333 on the second, third and fourth anniversaries of the acquisition. Mueller has the right to convert the total unpaid balance of the net smelter royalty to free trading common shares at any time based upon the ten day average trading price immediately preceding the date that notice is given.

### 11. Amount Payable to Etruscan Resources Incorporated

The principal portion of the amount payable to Etruscan bears interest at the Royal Bank of Canada prime lending rate plus 1%. The company has pledged 1,880,209 common shares of its holdings in Etruscan as security for the total amount due (see note 5).

### 12. Provision for Reclamation Costs

#### a) Composition

	1999 \$	1998 \$
Murray Brook site	1,412,900	1,012,900
Alaska Gold Company	1,443,092	-
	<u>2,855,992</u>	<u>1,012,900</u>

#### b) Murray Brook site

A provision in the amount of \$1,412,900 (1998 - \$1,012,900) has been made for future site restoration and reclamation at the Murray Brook mine site. A study prepared by independent consulting engineers in 1993 estimated that the total reclamation costs would be approximately \$900,000. However, \$1,012,900 was provided in the accounts, based on the reclamation deposit required by the Province of New Brunswick.

***Notes to Consolidated Financial Statements***  
***For the Years ended November 30, 1999 and 1998***

**12. *Provision for Reclamation Costs (continued)***

**b) Murray Brook site (continued)**

During 1999, the company commissioned an independent consultant to prepare an updated reclamation plan. This plan has estimated the cost to reclaim the Murray Brook site at approximately \$1,400,000. Management has accrued an additional \$400,000 to fund the reclamation which it plans to commence in 2000.

The company has provided reclamation deposits totalling \$899,888 (1998 - \$872,788) to the Province of New Brunswick. It is management's estimation that the future liability for reclamation costs has been fully provided for.

**c) Alaska Gold Company**

A provision in the amount \$1,443,092 has been recorded for the future reclamation of the company's land holdings in the Nome and Fairbanks areas of Alaska. This amount was recorded in the accounts of Alaska Gold prior to the company's acquisition of Alaska Gold. The provision was determined by internal cost estimates of the prior owners of Alaska Gold. It is management's estimation that any future liability for reclamation has been fully provided for with this provision.

**d) Reclamation costs for other mineral properties**

In recent years, the company's activities have primarily focused on exploration directed toward the discovery of mineral resources and the evaluation phase relating to assessing the technical feasibility and commercial viability of discovered mineral resources. When it is determined that a future reclamation cost is likely, and the amount can be reasonably estimated, the costs thereof will be accrued.

**13. *Commitments and Contingencies***

**a) Legal action**

During 1992, the Limited Partners of the Murray Brook Processing Limited Partnership commenced a legal action against the company and Murray Brook Resources Inc. seeking \$881,627 plus interest and general damages. The company is of the opinion that this claim is without merit and a defence and a counterclaim for damages has been filed.

**b) Royalty agreements**

The company has royalty agreements on certain mineral properties entitling the vendor of the property to a net smelter return royalty or net profits royalty, ranging from 3% to 7% commencing when the properties enter commercial production.

**c) Finders fee**

The company is committed to pay up to \$250,000 in a finders fee to an arms-length party relating to the Summit property in New Mexico, out of proceeds from commercial production. To date, commercial production has not commenced.

# Consolidated Financial Statements

## Notes to Consolidated Financial Statements

For the Years ended November 30, 1999 and 1998

### 13. Commitments and Contingencies (continued)

#### d) License agreement

The company has issued an exclusive license to Etruscan to sell, lease and use the indoor vat leaching technology in Africa and is entitled to a 1% net smelter royalty on Etruscan's share of the value of metal extracted using the technology.

#### e) Executive employment arrangements

The company has an employment arrangement with the President and Chief Executive Officer of the company which provides that in the event of a sale of substantially all the assets of the company or a change of control of the company by virtue of a takeover bid, as that term is defined in the Securities Act (Ontario), or in the event management's nominees to the Board of Directors are not elected, then such officer may elect to terminate his employment with the company in which event the company is required to pay to such officer a lump sum payment equal to three times his annual salary.

### 14. Capital Stock

#### a) Authorized

During 1997, the company increased its authorized capital by the creation of 900,000,000 common shares without nominal or par value. On December 17, 1998 the company completed a share consolidation of its common shares on the basis of one common share for every 10 outstanding common shares. The authorized capital of the company is -

100,000,000 common shares without nominal or par value

10,000,000 preferred shares issuable in one or more series

#### b) Issuance of common stock

	Number of shares	Ascribed value\$
<b>Balance at November 30, 1997 (as consolidated)</b>	9,355,698	60,089,345
Issued in 1998 -		
For cash	2,077,213	2,087,899
In settlement of commitments	800,000	1,115,000
<b>Balance at November 30, 1998</b>	12,232,911	63,292,244
Issued in 1999 -		
For cash	1,435,480	784,006
For acquisition of mineral properties	3,599,938	2,318,342
For acquisition of Alaska Gold Company	4,064,433	2,212,824
<b>Balance at November 30, 1999</b>	21,332,762	68,607,416

#### c) Shares held by a subsidiary company

A wholly-owned subsidiary company holds 224,396 (1998-274,334) common shares of the company. During 1999, 49,938 of the shares were transferred for the acquisition of mineral properties for an attributed amount of \$36,455. The balance of these shares is eliminated on consolidation.

## *Notes to Consolidated Financial Statements*

*For the Years ended November 30, 1999 and 1998*

### **14. Capital Stock (continued)**

**d) Warrants**

As at November 30, 1999, the company had 2,681,241 (1998 - 2,052,213) common share purchase warrants outstanding which expire on various dates from January 5, 2000 to March 29, 2001 entitling the holder to purchase one common share at various prices ranging from \$0.90 to \$1.75.

**e) Stock options**

At November 30, 1999, the company had 2,640,000 (1998 - 2,247,500) incentive stock options outstanding which expire on various dates to September 1, 2009 allowing certain directors and employees to purchase one share per option at various prices ranging from \$0.35 to \$2.70 per share.

### **15. Related Party Transactions**

**a) Charges from a related party**

During the year, the company incurred interest expense of \$422,904 (1998 - \$402,710) on the amount payable to Etruscan.

**b) Loan to an Officer**

Included in amounts receivable is a loan to an officer in the amount of \$279,061 which is non-interest bearing and recoverable at the rate of \$12,685 per year for the refinancing of a house loan.

**c) Disposition of investment in Secor GeoMin**

On November 30, 1998, the company sold its 90% interest in Secor GeoMin to Etruscan. Certain directors of the company are also directors of Etruscan and, accordingly, Independent Committees of the Boards of Directors were established to negotiate the terms of the binding agreement. An independent valuator reviewed the price, and the notice of the transaction was accepted by The Toronto Stock Exchange.

### **16. Future Income Taxes**

The company has accumulated losses for tax purposes of approximately \$12,500,000 which may be carried forward and used to reduce taxable income in future years. These losses may be claimed no later than:

	\$
Year ending November 30, 2000	1,870,000
2001	1,885,000
2002	1,585,000
2003	1,610,000
2004	2,000,000
2005	2,000,000
2006	1,550,000

In addition, the company has incurred resource expenditures of approximately \$16,000,000 which may be carried forward indefinitely and used to reduce taxable income in future years. The potential tax benefits of these items have not been recognized as realization is not considered more likely than not.

# Consolidated Financial Statements

## Notes to Consolidated Financial Statements

For the Years ended November 30, 1999 and 1998

### 17. Subsequent Events

#### Sale of Fairbanks Landholdings

On March 9, 2000, the company sold the vast majority of its land holding in Fairbanks, Alaska to a local land development company for US\$1.33 million. At this date, the bridge financing payable to Viceroy was also repaid.

### 18. Segmented Information

- a) The company's operating segments are gold exploration and land and gravel sales. For 1998, the only operating segment was gold exploration.

	Gold exploration \$	Land and gravel sales \$	Total \$
Revenue	541,383	2,696,029	3,237,412
Expenses	1,550,297	2,028,602	3,578,899
Segment earnings (loss)	<u>(1,008,914)</u>	<u>667,427</u>	<u>(341,487)</u>
Unallocated expenses			<u>1,982,390</u>
Loss for the year			<u>(2,323,877)</u>
Segment assets	<u>15,448,627</u>	<u>3,788,288</u>	19,236,915
Unallocated assets			<u>951,714</u>
Total assets			<u>20,188,629</u>
Capital expenditures	6,405,307	5,536,140	11,941,447

- b) The company's geographic segments are as follows:

	1999		1998	
	Revenues \$	Land and gravel quarries and mineral properties \$	Revenues \$	Land and gravel quarries and mineral properties \$
United States	3,223,656	11,426,223	-	4,459,855
Canada	13,756	5,464,445	18,553	2,936,537
Other	-	667,169	-	1,453,504
	<u>3,237,412</u>	<u>17,557,837</u>	<u>18,553</u>	<u>8,849,896</u>