

Madison Enterprises Corp.

Consolidated Financial Statements
For the year ended October 31, 1998

(expressed in Canadian dollars)

December 18, 1998

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

Chet Idziszek
President

James G. Stewart
Secretary

December 18, 1998
(except note 3(b),
which is at January 19, 1999)

Auditors' Report

To the Shareholders of
Madison Enterprises Corp.

We have audited the consolidated balance sheet of Madison Enterprises Corp. as at October 31, 1998 and the consolidated statements of loss and deficit and cash flow for the year 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 in Canada. 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 October 31, 1998 and the results of its operations and its cash flow for the year then ended in accordance with generally accepted accounting principles in Canada. As required by the British Columbia Company Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

The consolidated financial statements from August 20, 1979 (inception) through October 31, 1997 were audited by other auditors who expressed an opinion without reservation on those statements in their report dated December 15, 1997.

"PricewaterhouseCoopers LLP"

Chartered Accountants

Madison Enterprises Corp.

Consolidated Balance Sheet as at October 31, 1998

(expressed in Canadian dollars)

	1998 \$	1997 \$
Assets		
Current assets		
Cash and term deposits	8,040,565	6,339,931
Joint venturer's cash (note 3(a)(iii))	988,914	–
Accounts receivable	69,172	573,720
Prepaid expenses	24,458	66,055
	<u>9,123,109</u>	<u>6,979,706</u>
Resource properties (note 3)	22,793,682	15,058,111
Capital assets (note 4)	<u>196,636</u>	<u>57,557</u>
	<u><u>32,113,427</u></u>	<u><u>22,095,374</u></u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	901,849	725,874
Advances from joint venturer (note 3(a)(iii))	988,914	–
	<u>1,890,763</u>	<u>725,874</u>
Shareholders' equity		
Capital stock (note 5)		
Authorized – 100,000,000 common shares without par value		
Issued – 22,962,569 shares (1997 – 16,577,900 shares)	37,483,699	26,779,932
Deficit	<u>(7,261,035)</u>	<u>(5,410,432)</u>
	<u>30,222,664</u>	<u>21,369,500</u>
	<u><u>32,113,427</u></u>	<u><u>22,095,374</u></u>

Commitments (note 7)
Nature of operations (note 1)

Approved by the Board,

_____ "Chet Idziszek" _____, Director

_____ "James G. Stewart" _____, Director

See accompanying notes to the consolidated financial statements.

Madison Enterprises Corp.

Consolidated Statement of Loss and Deficit

For the year ended October 31, 1998

(expressed in Canadian dollars)

	1998 \$	1997 \$	1996 \$	Cumulative from inception to October 31, 1998 \$
Revenue				
Interest	299,514	316,246	50,425	844,808
Property revenue	142,436	7,546	–	405,065
	<u>441,950</u>	<u>323,792</u>	<u>50,425</u>	<u>1,249,873</u>
Expenses				
Accounting and audit	52,044	64,485	18,778	199,458
Administration	–	–	–	206,590
Bank charges	2,057	3,847	1,375	9,925
Capital tax	18,934	–	–	18,934
Consulting fees	66,000	63,000	12,500	202,084
Depreciation	20,476	13,928	226	261,003
Director fees	–	–	–	29,500
Filing fees	11,342	21,048	24,215	109,851
Foreign exchange (gain) loss and other	(392,474)	(394,261)	6,466	(746,623)
Insurance	64,869	71,423	–	136,292
Legal fees	62,263	151,702	105,274	517,094
Office and rent	208,301	174,857	25,979	599,957
Property examination	–	–	17,800	73,614
Public relations	1,730,646	182,382	1,870	1,914,898
Shareholder information	45,609	48,146	10,379	122,674
Transfer agent's fees	12,484	18,811	7,978	74,576
Travel	74,947	82,899	30,114	251,302
Wages	315,055	192,220	12,670	519,945
	<u>2,292,553</u>	<u>694,487</u>	<u>275,624</u>	<u>4,501,074</u>
Loss before the following:	(1,850,603)	(370,695)	(225,199)	(3,251,201)
Loss on sale of resource properties	–	–	–	(53,498)
Gain on sale of investment	–	789	–	789
Gain on forgiveness of debt	–	–	30,605	35,605
Write-down of investment	–	–	–	(19,003)
Write-down of resource properties (note 3)	–	(955,724)	–	(3,973,727)
Loss for the period	(1,850,603)	(1,325,630)	(194,594)	(7,261,035)
Deficit – beginning of period	(5,410,432)	(4,084,802)	(3,890,208)	–
Deficit – end of period	<u>(7,261,035)</u>	<u>(5,410,432)</u>	<u>(4,084,802)</u>	<u>(7,261,035)</u>
Loss per share	<u>(0.10)</u>	<u>(0.10)</u>	<u>(0.04)</u>	
Weighted average number of shares outstanding	<u>19,313,665</u>	<u>13,442,455</u>	<u>5,401,564</u>	

See accompanying notes to the consolidated financial statements.

Madison Enterprises Corp.

Consolidated Statement of Cash Flow

For the year ended October 31, 1998

(expressed in Canadian dollars)

	1998 \$	1997 \$	1996 \$	Cumulative from inception to October 31, 1998 \$
Cash provided from (used for)				
Operating activities				
Loss for the period	(1,850,603)	(1,325,630)	(194,594)	(7,261,035)
Items not involving cash –				
Depreciation	20,476	13,928	226	261,003
Loss on sale of resource properties	–	–	–	53,498
Gain on sale of investment	–	(789)	–	(789)
Gain on forgiveness of debt	–	–	(30,605)	(35,605)
Write-down of investment	–	–	–	19,003
Write-down of resource properties	–	955,724	–	3,973,727
Change in non-cash working capital –				
Decrease (increase) in accounts receivable	504,548	(550,235)	(13,885)	(55,486)
Decrease (increase) in prepaid expenses	41,597	(66,055)	–	(24,458)
Increase (decrease) in accounts payable and accrued liabilities	764	(114,567)	191,399	(104,075)
Increase in joint venturer's cash	(988,914)	–	–	(988,914)
Increase in advances from joint venturer	988,914	–	–	988,914
	<u>(1,283,218)</u>	<u>(1,087,624)</u>	<u>(47,459)</u>	<u>(3,174,217)</u>
Financing activities				
Capital stock issued for cash	10,256,798	3,582,243	623,510	20,367,270
Special warrants issued for cash	–	–	15,839,309	15,839,309
Restricted cash (note 6(ii))	–	6,626,250	(6,626,250)	–
	<u>10,256,798</u>	<u>10,208,493</u>	<u>9,836,569</u>	<u>36,206,579</u>
Investing activities				
Resource property expenditures	(7,113,391)	(11,165,243)	(2,211,826)	(24,762,120)
Advance for exploration	–	67,725	(67,725)	–
Purchase of capital assets	(159,555)	(56,263)	(15,448)	(231,266)
Proceeds from sale of investments	–	1,589	–	1,589
	<u>(7,272,946)</u>	<u>(11,152,192)</u>	<u>(2,294,999)</u>	<u>(24,991,797)</u>
Increase (decrease) in cash and term deposits during the period	1,700,634	(2,031,323)	7,494,111	8,040,565
Cash and term deposits – beginning of period	<u>6,339,931</u>	<u>8,371,254</u>	<u>877,143</u>	<u>–</u>
Cash and term deposits – end of period	<u><u>8,040,565</u></u>	<u><u>6,339,931</u></u>	<u><u>8,371,254</u></u>	<u><u>8,040,565</u></u>

See accompanying notes to the consolidated financial statements.

Madison Enterprises Corp.

Consolidated Statement of Supplemental Disclosure of Cash Flow Information

For the year ended October 31, 1998

(expressed in Canadian dollars)

	1998 \$	1997 \$	1996 \$	Cumulative from inception to October 31, 1998 \$
Non-cash financing activities				
Capital stock issued for resource properties	446,969	–	544,742	1,233,211
Exercise of special warrants	–	15,839,309	–	15,839,309
Capital stock issued in exchange of special warrants	–	(15,839,309)	–	(15,839,309)
	<u>446,969</u>	<u>Nil</u>	<u>544,742</u>	<u>1,233,211</u>
Non-cash investing activity				
Resource property expenditures	<u>(446,969)</u>	<u>Nil</u>	<u>(544,742)</u>	<u>(1,233,211)</u>

Madison Enterprises Corp.

Notes to Consolidated Financial Statements

For the year ended October 31, 1998

(expressed in Canadian dollars)

1. Nature of operations

The Company is in the process of exploring its resource properties and has not determined whether these properties contain ore reserves that are economically recoverable.

The recoverability of amounts shown for resource properties is dependent upon the discovery of economically recoverable ore reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain necessary financing to complete exploration and development, and upon future profitable production from the properties or proceeds from disposition. The Company will periodically have to raise additional funds to complete exploration and development, and while it has been successful in the past, there can be no assurance that it will be able to do so in the future.

2. Significant accounting policies

Generally accepted accounting principles

The consolidated financial statements are presented in accordance with generally accepted accounting principles (GAAP) applicable in Canada and have been reconciled to GAAP applicable in the United States as disclosed in note 10.

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries: Madison Enterprises (PNG) Pty. Ltd., a Papua New Guinea corporation; Madison Enterprises (BVI) Inc., a British Virgin Island corporation; Madison Enterprises (Latin American), S.A., a Panamanian corporation; and Madison Resources (New Mexico), Inc., a New Mexico corporation. All significant intercompany transactions and balances have been eliminated.

Joint venture

The Company has entered into a joint venture agreement for the purpose of exploring the Mt. Kare property in Papua New Guinea. The joint venture is accounted for on a proportionate consolidation basis and each venturer bears an agreed share of the expenses incurred. The sole asset of the joint venture is the Mt. Kare property in Papua New Guinea and the Company's share of the asset is disclosed in note 3.

Cash and term deposits

Cash and term deposits include cash and deposits maturing within 90 days from the original date of acquisition. To limit its exposure, the Company diversifies its selection of counterparties for short-term deposits. Fair value of cash balances approximates the amounts reflected on the consolidated balance sheet.

Madison Enterprises Corp.

Notes to Consolidated Financial Statements

For the year ended October 31, 1998

(expressed in Canadian dollars)

2. Significant accounting policies (cont'd)

Foreign currency translation

Foreign operations are integrated and translated using the temporal method. Under this method, monetary assets and liabilities are translated at the year-end exchange rate, non-monetary assets and liabilities are translated at rates prevailing at the respective transaction dates, and revenue and expenses, except for depreciation, are translated at the average rate of exchange during the year. Translation gains and losses are reflected in the loss for the year.

Foreign currency denominated monetary accounts of the Company are translated at the year-end exchange rate. Exchange gains and losses on translation are recognized as a gain or loss in the year they arise.

Resource properties

Acquisition costs of resource properties together with direct exploration and development expenditures thereon are deferred in the accounts. When production is attained, these costs will be charged to operations using the unit-of-production method based on estimated proven and probable recoverable reserves. Costs relating to properties abandoned are written off when the decision to abandon is made.

The Company regularly reviews the carrying values of its resource properties by referring to the project economies, including the timing of the exploration and/or development work, the work programs, and the exploration results experienced by the Company and others. The review of the carrying value of any producing property will be made by referring to the estimated future operating results and net cash flows. When the carrying value of a property exceeds its estimated net recoverable amount, a provision is made for the decline in value.

Capital assets

Capital assets are recorded at cost and depreciation is provided using the declining balance method at the following rates:

Computer equipment	– 30%
Furniture and fixtures	– 20%
Office equipment	– 20%
Leasehold improvements	– life of lease

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

Madison Enterprises Corp.

Notes to Consolidated Financial Statements

For the year ended October 31, 1998

(expressed in Canadian dollars)

2. Significant accounting policies (cont'd)

Loss per share

Loss per share is calculated based on the weighted average number of shares issued and outstanding during the year.

Financial instruments

The carrying values of cash, joint venturer's cash and term deposits, accounts receivable, and accounts payable and accrued liabilities approximate their fair values.

3. Resource properties

	1998 \$	1997 \$
Belencillo, Panama	2,268,022	2,265,125
Mt. Kare, Papua New Guinea	<u>20,525,660</u>	<u>12,792,986</u>
	<u>22,793,682</u>	<u>15,058,111</u>

Acquisition costs and exploration expenditures incurred during the years ended October 31, 1997 and 1998 are as follows:

	Belencillo, Panama \$	Mt. Kare, Papua New Guinea \$	Copper Dick, New Mexico \$	Aro Grande, Panama \$	Total \$
Balance – November 1, 1996	2,154,950	1,811,025	602,432	36,301	4,604,708
Acquisition costs	50,000	–	21,978	–	71,978
Assays	6,214	637,950	47,505	–	691,669
Camp costs	19,477	3,479,048	13,292	–	3,511,817
Consulting fees	19,233	2,823,427	127,711	–	2,970,371
Drilling	–	3,352,631	94,880	–	3,447,511
Engineers' report and mapping	–	39,562	4,555	–	44,117
Community relations	–	203,426	–	–	203,426
Transport and travel	7,402	359,595	7,070	–	374,067
Management fees	7,849	86,322	–	–	94,171
Write-down	–	–	(919,423)	(36,301)	(955,724)
Balance – October 31, 1997 (carried forward)	2,265,125	12,792,986	–	–	15,058,111

Madison Enterprises Corp.

Notes to Consolidated Financial Statements

For the year ended October 31, 1998

(expressed in Canadian dollars)

3. Resource properties (cont'd)

	Belencillo, Panama \$	Mt. Kare, Papua New Guinea \$	Copper Dick, New Mexico \$	Aro Grande, Panama \$	Total \$
Balance – October 31, 1997 (brought forward)	2,265,125	12,792,986	–	–	15,058,111
Acquisition costs	–	446,969	–	–	446,969
Assays	–	382,194	–	–	382,194
Camp costs	2,897	1,265,760	–	–	1,268,657
Helicopter	–	1,227,673	–	–	1,227,673
Community relations	–	1,217,818	–	–	1,217,818
Contractors	–	773,575	–	–	773,575
Drilling	–	1,573,657	–	–	1,573,657
Evaluation of alluvial resource	–	32,094	–	–	32,094
Geological supplies and equipment	–	18,701	–	–	18,701
Land and legal	–	381,537	–	–	381,537
Licences	–	17,472	–	–	17,472
Port Moresby office	–	143,383	–	–	143,383
Technical reports, printing and copying	–	9,682	–	–	9,682
Travel and accommodation	–	242,159	–	–	242,159
Balance – October 31, 1998	<u>2,268,022</u>	<u>20,525,660</u>	<u>Nil</u>	<u>Nil</u>	<u>22,793,682</u>

(a) Mt. Kare, Papua New Guinea

- (i) During the year ended October 31, 1996, the Company was granted an option to earn up to a 72.22% interest in an exploration licence covering the Mt. Kare property, located in Papua New Guinea. To fully exercise its option, the Company paid U.S. \$320,000 and had to incur exploration expenditures of U.S. \$8,000,000 by August 31, 2001.

Pursuant to the option agreement, the Company had incurred exploration expenditures in excess of U.S. \$8,000,000 during the year ended October 31, 1997.

Madison Enterprises Corp.

Notes to Consolidated Financial Statements

For the year ended October 31, 1998

(expressed in Canadian dollars)

3. Resource properties (cont'd)

(a) Mt. Kare, Papua New Guinea (cont'd)

(i) (cont'd)

On March 10, 1998, the Company entered into a joint venture agreement with Matu Mining Pty. Ltd. (Matu), a company incorporated in Papua New Guinea, a wholly owned subsidiary of Carpenter Pacific Resources NL (Carpenter), a company incorporated in New South Wales, Australia, and with Kare-Puga Development Corporation Pty. Ltd. (KDC), a company incorporated in Papua New Guinea. The purpose of the joint venture is to explore the Mt. Kare property and, if deemed warranted, undertake development and production operations. The agreement was effective upon the Company incurring U.S. \$8,000,000 in exploration expenditures pursuant to the option agreement described above. The joint venture agreement was approved by the Papua New Guinea government on April 17, 1998.

The initial percentage interests of the Company and Matu in the Mt. Kare property are 72.22% and 27.78% respectively, subject to 10% held in trust for the landowners at Mt. Kare through KDC. This interest is to be transferred to KDC upon compliance by KDC with certain conditions. KDC was established to administer the terms of the Mt. Kare Landowners Community Trust Deed.

The venturers acknowledge that their respective percentage interests, including those options held in trust for KDC, are subject to a back-in right of 30% by the government of Papua New Guinea.

The exploration licence described above expired August 29, 1998 and is subject to renewal for a further two years. An application has been made to extend the term of the license for a further two-year period; however, approval by the government of Papua New Guinea for the extension has not yet been received. Holders of exploration licences retain their title until such determination is made.

(ii) As at October 31, 1998, the Company has incurred exploration expenditures of \$19,479,922.

(iii) During the year ended October 31, 1998, the Company was advanced monies from Matu to continue exploration of the Mt. Kare property. The Company has billed back to Matu its joint venture share of the exploration expenses incurred during the year, such that \$988,914 representing the net amounts advanced by Matu remains outstanding at year end.

Madison Enterprises Corp.

Notes to Consolidated Financial Statements

For the year ended October 31, 1998

(expressed in Canadian dollars)

3. Resource properties (cont'd)

(b) Belencillo, Panama

- (i) The Company had an option, granted by a company currently related by directors in common, to acquire a 50% interest in the Belencillo exploration concession located in the Republic of Panama. To earn this interest, the Company paid \$250,000, issued 200,000 shares at a value of \$459,500, and was to incur exploration and development expenditures of \$2,500,000 by August 31, 1998.

In addition, the Company must issue an additional 100,000 shares on the commencement of commercial production.

As at October 31, 1998, the Company was in default of the option agreement, having only incurred \$1,558,522 of exploration expenditures.

- (ii) On January 18, 1999, the Company amended the above mentioned option agreement such that the Company was deemed to have relinquished its right to acquire a 50% interest in the property and, instead, to have acquired a 31.12% interest in the property by virtue of the payments, share issuances, and incurrence of expenditures made to date.

(c) Copper Dick, New Mexico

During the year ended October 31, 1996, the Company acquired through staking certain claims located in New Mexico. As at October 31, 1996, the Company has incurred staking and exploration expenditures of \$434,432.

In addition, the Company issued 60,000 shares at a deemed value of \$168,000 as a finder's fee on this property.

During the year ended October 31, 1997, the Company incurred staking and exploration expenditures of \$316,991 prior to allowing the claims to lapse.

(d) Aro Grande, Panama

The Company and a company related by directors in common had each staked a 50% interest in the Aro Grande concessions in the Republic of Panama. As at October 31, 1996, the Company had incurred staking and exploration expenditures of \$36,301 prior to abandoning the property.

Madison Enterprises Corp.

Notes to Consolidated Financial Statements

For the year ended October 31, 1998

(expressed in Canadian dollars)

4. Capital assets

	1998		
	Cost	Accumulated depreciation	Net
	\$	\$	\$
Computer equipment	99,273	28,291	70,982
Furniture and fixtures	34,885	3,363	31,522
Office equipment	25,026	2,976	22,050
Leasehold improvements	72,082	—	72,082
	<u>231,266</u>	<u>34,630</u>	<u>196,636</u>

	1997		
	Cost	Accumulated depreciation	Net
	\$	\$	\$
Computer equipment	58,648	11,546	47,102
Furniture and fixtures	7,237	1,231	6,006
Office equipment	5,826	1,377	4,449
	<u>71,711</u>	<u>14,154</u>	<u>57,557</u>

Madison Enterprises Corp.

Notes to Consolidated Financial Statements

For the year ended October 31, 1998

(expressed in Canadian dollars)

5. Capital stock

(a) Changes in issued capital stock during the years ended October 31 were as follows:

	<u>1998</u>		<u>1997</u>		<u>1996</u>	
	<u>Number of shares</u>	<u>Amount \$</u>	<u>Number of shares</u>	<u>Amount \$</u>	<u>Number of shares</u>	<u>Amount \$</u>
Issued – beginning of year	16,577,900	26,779,932	6,209,925	7,358,380	5,034,767	6,190,128
Issued on the exercise of special warrants (note 6)	–	–	7,975,000	15,839,309	–	–
Issued for cash pursuant to a private placement (b)	5,264,037	9,338,078	–	–	706,000	536,560
Issued for cash on the exercise of stock options	330,000	660,000	340,475	210,623	185,000	86,950
Issued for cash on the exercise of warrants	294,000	258,720	2,052,500	3,371,620	–	–
Issued for resource property	–	–	–	–	100,000	265,000
Issued for finder's fees on resource properties (d)	496,632	446,969	–	–	184,158	279,742
Issued – end of year	<u>22,962,569</u>	<u>37,483,699</u>	<u>16,577,900</u>	<u>26,779,932</u>	<u>6,209,925</u>	<u>7,358,380</u>

(b) During the year ended October 31, 1998, the Company issued 5,264,037 units at a price of \$1.90 per unit, generating proceeds of \$9,338,078 (net of \$663,592 in commissions and issuance costs). Each unit consists of one common share and one transferable share purchase warrant. Each warrant entitles the purchase of one additional share of the Company at a price of \$2.30 until March 2, 1999. After March 2, 1999, if the warrants have not been exercised, they will still entitle the purchase of an additional share of the Company at a price of \$2.30 for a further nine-month period; however, two warrants will be required to purchase one additional share. In addition, the Company granted underwriter warrants entitling the underwriter to acquire an additional 526,400 common shares at \$3.00 per share until June 2, 1999. At October 31, 1998, all of the share purchase warrants and underwriter warrants were outstanding.

(c) During the year ended October 31, 1998, the shareholders approved an incentive share option plan for eligible persons. Under the plan, 3,315,580 shares have been reserved for issuance pursuant to options granted. Total shares reserved for issuance under the plan may be increased from time to time subject to approval by the shareholders.

Madison Enterprises Corp.

Notes to Consolidated Financial Statements

For the year ended October 31, 1998

(expressed in Canadian dollars)

5. Capital stock (cont'd)

(d) During the year ended October 31, 1998, pursuant to an agreement related to obtaining an option on the Mt. Kare property, the Company issued 496,632 common shares at a deemed value of \$0.90 per share to a director of the company pursuant to the assignment of a finder's fee.

(e) As at October 31, 1998, outstanding director and employee stock options were as follows:

Number of shares	Exercise price \$	Expiry date
186,601	2.00	July 23, 2001
377,500	2.00	August 23, 2001
445,000	2.00	January 2, 2002
100,000	2.00	April 28, 2002
40,000	2.00	May 15, 2002
618,399	2.00	December 18, 2002
50,000	2.00	December 19, 2002
1,000,000	1.90	October 21, 2003

(f) During the year ended October 31, 1996, the Company issued 706,000 shares for cash of \$536,560 pursuant to a private placement. In addition, the investors received non-transferable warrants to purchase 706,000 shares at \$0.76 per share until May 9, 1997 and at \$0.88 per share from May 10, 1997 to May 9, 1998. During the year ended October 31, 1997, 412,000 warrants were exercised, with the balance of 294,000 warrants being exercised during the year ended October 31, 1998.

(g) During the year ended October 31, 1998, the shareholders adopted a shareholder rights plan (the Plan), creating the potential for substantial dilution of an acquirer's position except with respect to a "permitted bid." The rights issuable to shareholders under the Plan entitle their holders to purchase an additional share, upon the occurrence of certain triggering events, such as the acquisition of 20% or more of the common shares of the Company by an individual or several persons acting in concert in a transaction not approved by the board of directors, to purchase common shares of the Company, other than the acquiring person, at \$20 per share (subject to adjustment from time to time as provided by the Plan) The Plan has a 10-year term and expires on March 5, 2008.

A permitted bid, which is in effect a takeover bid made to all shareholders by way of a takeover bid circular, must remain outstanding for 60 days and is supported by more than 50% of shareholders independent of the bidder. At any time before the rights become exercisable, the board of directors may redeem them at a price of \$0.0001 per right.

(h) During the year ended October 31, 1998, the board of directors voted to reduce to \$2.00 per share the exercise price on 1,312,500 stock options with prices ranging from \$3.01 to \$6.04 per share.

Madison Enterprises Corp.

Notes to Consolidated Financial Statements

For the year ended October 31, 1998

(expressed in Canadian dollars)

6. Special warrants

	<u>1998</u>		<u>1997</u>	
	<u>Number of warrants</u>	<u>Amount \$</u>	<u>Number of warrants</u>	<u>Amount \$</u>
Issued – beginning of year	–	–	7,975,000	15,839,309
Exchanged for units	–	–	<u>(7,975,000)</u>	<u>(15,839,309)</u>
Issued – end of year	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>

- (i) During the year ended October 31, 1996, the Company issued 3,000,000 special warrants for net proceeds of \$2,651,533 (net of issue costs of \$48,467). Each special warrant was exchangeable at no additional cost into one unit, each unit consisting of one common share and one-half of a non-transferable share purchase warrant. Each whole share purchase warrant entitled the holder to purchase one additional common share at a price of \$1.80 on or before August 15, 1997 with respect to the purchase of 1,440,000 shares, or before August 21, 1997 with respect to the purchase of 60,000 shares.

During the year ended October 31, 1997, all of the special warrants were converted into units and 1,480,000 share purchase warrants were exercised, with 20,000 share purchase warrants expiring unexercised.

In addition, the agent received a commission of 225,000 special warrants with the same terms as those described above and a warrant expiry date of August 15, 1997. During the year ended October 31, 1997, the agent exchanged the units and 112,500 share purchase warrants were exercised. The remaining units expired unexercised.

- (ii) During the year ended October 31, 1996, the Company issued 4,750,000 special warrants for proceeds of \$13,187,776, of which \$6,626,250 (net of commissions of \$498,750), representing the issuance of 2,375,000 special warrants, was held in escrow. The balance, or proceeds of \$6,561,526 (net of commissions and issue costs of \$563,474), representing the issuance of 2,375,000 special warrants, was released to the Company. During the year ended October 31, 1997, the funds held in escrow were released to the Company.

Each special warrant was exchangeable at no additional cost into one unit, each unit consisting of one common share and one-half of a non-transferable share purchase warrant. Each whole warrant entitled the holder to purchase one additional common share at a price of \$4.00 on or before April 28, 1998.

Madison Enterprises Corp.

Notes to Consolidated Financial Statements

For the year ended October 31, 1998

(expressed in Canadian dollars)

6. Special warrants (cont'd)

(ii) (cont'd)

During the year ended October 31, 1997, all of the special warrants were converted into units and 48,000 share purchase warrants were exercised. The balance of 2,327,000 share purchase warrants expired unexercised during the year ended October 31, 1998.

7. Commitments

The Company has lease commitments for the rental of office space as follows:

	\$
1999	101,456
2000	33,819

8. Related party transactions

(a) The Company incurred the following expenses with directors and a company related by directors in common:

	1998 \$	1997 \$	1996 \$
Consulting fees	66,000	63,000	-
Exploration management and other fees	125,145	70,342	47,242
Legal fees	39,746	51,835	24,677
Administration and accounting fees	-	8,863	7,125
Office and rent	13,450	34,140	600
Debt forgiven	-	-	3,229

(b) As at October 31, 1998, accounts payable include \$24,830 (1997 – \$17,500) due to officers of the Company.

(c) As at October 31, 1998, accounts receivable include \$5,914 (1997 – \$14,825) due from companies related by way of directors in common.

(d) As at October 31, 1998, the Company was reimbursed \$20,500 for rental of office space from companies related by way of directors in common.

(e) Other related party transactions are disclosed elsewhere in these consolidated financial statements.

Madison Enterprises Corp.

Notes to Consolidated Financial Statements

For the year ended October 31, 1998

(expressed in Canadian dollars)

9. Income taxes

The Company has Canadian non-capital losses of approximately \$3,260,000. These losses expire between 1999 and 2005. The tax effect of the loss carryforwards has not been recorded in these consolidated financial statements.

The losses will expire as follows:

	\$
1999	29,000
2000	137,000
2001	127,000
2002	70,000
2003	468,000
2004	599,000
2005	1,830,000

10. The effect of applying accounting principles generally accepted in the United States

The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles (GAAP) in Canada. Significant differences between GAAP in Canada and in the United States that would have an effect on these consolidated financial statements are as follows:

	1998 \$	1997 \$	1996 \$
Loss for the year following Canadian GAAP	(1,850,603)	(1,325,630)	(194,594)
Adjustment for compensation expense (a)	<u>—</u>	<u>274,223</u>	<u>(744,967)</u>
Loss for the year following United States GAAP	<u>(1,850,603)</u>	<u>(1,051,407)</u>	<u>(939,561)</u>
Primary loss per common share following United States GAAP (b)	<u>(0.10)</u>	<u>(0.08)</u>	<u>(0.17)</u>

Madison Enterprises Corp.

Notes to Consolidated Financial Statements

For the year ended October 31, 1998

(expressed in Canadian dollars)

10. The effect of applying principles generally accepted in the United States (cont'd)

	1998 \$	1997 \$
Shareholders' equity		
Deficit – Canadian GAAP	(7,261,035)	(5,410,432)
Compensation expense (a)	<u>(875,979)</u>	<u>(875,979)</u>
	(8,137,014)	(6,286,411)
Paid-in capital (a)	<u>875,979</u>	<u>875,979</u>
Total stockholders' equity U.S. GAAP	<u><u>(7,261,035)</u></u>	<u><u>(5,410,432)</u></u>

- (a) Under U.S. GAAP, shares issued pursuant to an escrow agreement are presumed to be compensatory in nature. Compensation is provided for in accordance with FIN 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans," whereby the Company records compensation expense for the amount of equity instruments granted to officers and employees. If an equity award is forfeited, the Company adjusts compensation expense recorded in previous periods in the period of forfeiture. Under Canadian GAAP, such escrow shares are not considered compensatory and no provision is required.
- (b) The adoption of Statement of Financial Accounting Standards (SFAS) No. 128 by the Company has not materially changed the amounts disclosed as basic loss per share. The exercise of options and share purchase warrants would be anti-dilutive.
- (c) For financial statement disclosure purposes, the Company follows the recommendation of Accounting Principles Board Opinion (APB) 25 in accounting for stock options.
- (d) In June 1997, the Financial Accounting Standards Board issued SFAS No. 130, "Reporting Comprehensive Income," which requires that an enterprise report, by major components and as a single total, the change in its net assets during the period from non-owner sources, and SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information," which establishes annual and interim reporting standards for an enterprise's business segments and related disclosures about its products, services, geographic areas, and major customers. Adoption of these statements will not have a significant impact on the Company's consolidated financial position, results of operations or cash flows.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which standardizes the accounting for derivative instruments. SFAS No. 133 is effective for all fiscal quarters of all fiscal years beginning after June 15, 1999. The Company is currently assessing the impact of SFAS No. 133 on its consolidated financial statements and has not yet determined what, if any, changes will be necessary.

Madison Enterprises Corp.

Notes to Consolidated Financial Statements

For the year ended October 31, 1998

(expressed in Canadian dollars)

11. Segmented information

The Company's business is the exploration and development of mineral properties. Details of geographic segments are as follows:

	1998 \$	1997 \$	1996 \$
Loss for the year –			
Canada	1,850,603	369,906	194,594
Latin America	–	36,301	–
Papua New Guinea	–	–	–
British Virgin Islands	–	–	–
USA	–	919,423	–
	<u>1,850,603</u>	<u>1,325,630</u>	<u>194,594</u>
Assets –			
Canada	15,181,694	19,368,386	
Latin America	2,268,022	2,265,125	
Papua New Guinea	8,378,750	461,863	
British Virgin Islands	6,284,961	–	
USA	–	–	
	<u>32,113,427</u>	<u>22,095,374</u>	

12. 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 Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.