

**FYNEGOLD EXPLORATION LIMITED**  
**FINANCIAL STATEMENTS**  
**31ST DECEMBER 1998**

Company Registration Number SC084497

**STUART & MUNRO**  
Chartered Accountants & Registered Auditors



SCT S4JF3PCY 1193  
COMPANIES HOUSE 03/04/00  
COMPANIES HOUSE 29/03/00

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**FYNEGOLD EXPLORATION LIMITED**  
**OFFICERS AND PROFESSIONAL ADVISERS**

**The Board of Directors**

FC Harvey  
J Johnstone  
SE Hayden

**Company Secretary**

Brodies WS

**Registered Office**

15 Atholl Crescent  
Edinburgh  
EH3 8AH

**Auditors**

Stuart & Munro  
Chartered Accountants  
& Registered Auditors  
27 Huntly Street  
Inverness  
IV3 5PR

**Solicitors**

Brodies WS  
15 Atholl Crescent  
Edinburgh  
EH3 8HA

# **FYNEGOLD EXPLORATION LIMITED**

## **THE DIRECTORS' REPORT**

**YEAR ENDED 31ST DECEMBER 1998**

The directors present their report and the financial statements of the company for the year ended 31st December 1998.

### **PRINCIPAL ACTIVITY**

The principal activity of the company continues to be mineral exploration and development in Scotland. The principal property of the company comprises the Cononish Gold Mine in Scotland.

### **RESULTS AND DIVIDENDS**

The trading results for the year, and the company's financial position at the end of the year are shown in the attached financial statements.

The directors have not recommended a dividend.

### **THE DIRECTORS AND THEIR INTERESTS IN SHARES OF THE COMPANY**

The directors who served the company during the year, none of whom had a beneficial interest in the share capital, were as follows:

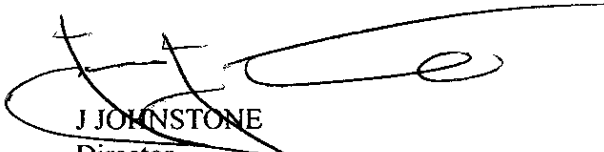
FC Harvey	
JN Kerr	(Resigned 11 March 1998)
CJS Sangster	(Resigned 4 May 1999)
J Johnstone	
SE Hayden	

### **AUDITORS**

Messrs Stuart & Munro, Chartered Accountants have been appointed as auditors and a resolution to re-appoint them as auditors for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985.

Registered office:  
15 Atholl Crescent  
Edinburgh  
EH3 8AH

Signed by order of the directors

  
J JOHNSTONE  
Director

Approved by the directors on 3 March 2000.

**FYNEGOLD EXPLORATION LIMITED**  
**STATEMENT OF DIRECTORS' RESPONSIBILITIES**  
**YEAR ENDED 31ST DECEMBER 1998**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company at the end of the year and of the profit or loss for the year then ended.

In preparing those financial statements, the directors are required to:

select suitable accounting policies, as described on pages 7 to 8, and then apply them consistently;

make judgements and estimates that are reasonable and prudent;

state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# FYNEGOLD EXPLORATION LIMITED

## AUDITORS' REPORT

to the members of Fynegold Exploration Limited

We have audited the financial statements on pages 5 to 13 which have been prepared on the basis of the accounting policies set out on pages 7 and 8.

### Respective responsibilities of directors and auditors

As described on page 3, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

### Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Fundamental uncertainty

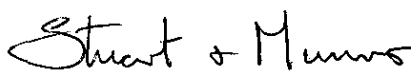
In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the realisation of the intangible and tangible fixed assets. The realisation of the intangible and tangible fixed assets of £3,551,256 and £2,618,283 is dependent on the discovery and development of economic mineral deposits, as explained in note 1. We have also considered the adequacy of the disclosures made in the financial statements concerning the possible outcome of negotiations for additional finance to fund a resumption of exploration at the company's Cononish property. The financial statements have been prepared on a going concern basis the validity of which depends upon future funding being available. The financial statements do not include any adjustments that would result from a failure to obtain funding. Details of the circumstances relating to the fundamental uncertainty are described in note 17 to the accounts. Our opinion is not qualified in these respects.

### Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

27 Huntly Street  
Inverness  
IV3 5PR

24 March 2000



STUART & MUNRO  
Chartered Accountants  
& Registered Auditors

**FYNEGOLD EXPLORATION LIMITED****PROFIT AND LOSS ACCOUNT****YEAR ENDED 31ST DECEMBER 1998**

	Note	1998 £	1997 £
<b>TURNOVER</b>		-	-
Administrative expenses		(131,223)	(151,826)
Foreign currency gains/(losses)		32,384	(120,391)
<b>OPERATING LOSS</b>	<b>2</b>	(98,839)	(272,217)
Provision against inter-group balances		-	(95,934)
		(98,839)	(368,151)
Interest receivable		496	32,906
Interest payable and similar charges	<b>5</b>	(3,149)	(904)
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		(101,492)	(336,149)
Tax on loss on ordinary activities	<b>6</b>	-	7,897
<b>LOSS FOR THE FINANCIAL YEAR</b>		(101,492)	(344,046)
Balance brought forward		(743,264)	(399,218)
Balance carried forward		(844,756)	(743,264)

The company has no recognised gains or losses other than the results for the year as set out above.

All of the activities of the company are classed as continuing.

## FYNEGOLD EXPLORATION LIMITED

## BALANCE SHEET

31ST DECEMBER 1998

	Note	1998 £	1997 £
<b>FIXED ASSETS</b>			
Intangible assets	7	3,551,256	3,413,681
Tangible assets	8	2,618,283	2,697,161
		<u>6,169,539</u>	<u>6,110,842</u>
<b>CURRENT ASSETS</b>			
Debtors	9	653	14,933
Cash at bank and in hand		1,395	52,890
		<u>2,048</u>	<u>67,823</u>
<b>CREDITORS: Amounts falling due within one year</b>	10	<u>(2,080,230)</u>	<u>(1,962,161)</u>
<b>NET CURRENT LIABILITIES</b>		<u>(2,078,182)</u>	<u>(1,894,338)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>4,091,357</u>	<u>4,216,504</u>
<b>CREDITORS: Amounts falling due after more than one year</b>	11	<u>(1,212,632)</u>	<u>(1,236,287)</u>
		<u>2,878,725</u>	<u>2,980,217</u>
<b>CAPITAL AND RESERVES</b>			
Called-up equity share capital	14	3,723,481	3,723,481
Profit and loss account	15	(844,756)	(743,264)
<b>SHAREHOLDERS' FUNDS</b>	16	<u>2,878,725</u>	<u>2,980,217</u>

These financial statements were approved by the directors on the 2 March 2000, and are signed on their behalf by:

  
J JOHNSTONE  
Director

**FYNEGOLD EXPLORATION LIMITED****NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED 31ST DECEMBER 1998****1. ACCOUNTING POLICIES****Basis of accounting**

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards. All revenues and expenditures directly related to mineral exploration are deferred or capitalised. All other costs are included in the profit and loss account.

**Cash flow statement**

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes a consolidated cash flow statement.

**Hire purchase agreements**

Assets held under hire purchase agreements are capitalised and disclosed under tangible fixed assets at their fair value. The capital element of the future payments is treated as a liability and the interest is charged to the profit and loss account.

**Foreign currencies**

Sterling is the reporting currency of the company. Assets and liabilities other than those in sterling are translated as follows:

- (i) Current assets and current liabilities at year end rates.
- (ii) All other assets, including deferred exploration costs, at historical rates.

Revenue and expenses transactions, in currencies other than pounds sterling, are translated at rates prevailing when the transactions take place, except for depreciation and amortisation, which are translated at historical rates. Gains or losses on conversion and translation are included in the profit and loss account.

# FYNEGOLD EXPLORATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31ST DECEMBER 1998

### 1. ACCOUNTING POLICIES *(continued)*

#### **Intangible fixed assets**

Exploration expenditures are capitalised until the results of the related projects are known. If a project is successful, the related expenditures will be amortised over the life of the estimated ore reserves on the unit of production basis. Provision for loss is made where a project is abandoned or considered to be of no further interest to the company.

#### **Tangible fixed assets**

##### (i) Mining and mineral development properties:

Expenditure on the acquisition and development of properties are capitalised until production commences and are amortised over the life of the estimated ore reserves on a unit of production basis. Provision for loss is made where a project is abandoned or considered to be of no further interest to the company

##### (ii) Other tangible assets:

Other tangible fixed assets are recorded at cost and are depreciated in equal instalments over five years. Depreciation is not charged on freehold land.

### 2. OPERATING LOSS

Operating loss is stated after charging/(crediting):

	1998 £	1997 £
Depreciation	74,128	8,115
Auditors' remuneration		
- as auditors	1,750	4,500
Net (profit)/loss on foreign currency translation	<u>(32,384)</u>	<u>120,391</u>

# FYNEGOLD EXPLORATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31ST DECEMBER 1998

### 3. PARTICULARS OF EMPLOYEES

The average number of staff employed by the company during the financial year amounted to:

	1998 No.	1997 No.
Number of administrative staff	1	1
Number of development staff	2	3
	<u>3</u>	<u>4</u>

The aggregate payroll costs of the above were:

	1998 £	1997 £
Wages and salaries	88,372	105,235
Social security costs	7,898	10,393
Other pension costs	5,825	2,200
	<u>102,095</u>	<u>117,828</u>

### 4. DIRECTORS' EMOLUMENTS

The directors' aggregate emoluments in respect of qualifying services were:

	1998 £	1997 £
Emoluments receivable	58,848	61,819
Value of company pension contributions to money purchase schemes	5,252	2,200
	<u>64,100</u>	<u>64,019</u>

The number of directors who are accruing benefits under company pension schemes were as follows:

	1998 No.	1997 No.
Money purchase schemes	<u>1</u>	<u>1</u>

# FYNEGOLD EXPLORATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31ST DECEMBER 1998

### 5. INTEREST PAYABLE

	1998 £	1997 £
Interest payable on bank borrowing	-	27
Finance charges	1,307	877
Interest paid to group undertakings	1,842	-
	<u>3,149</u>	<u>904</u>

### 6. TAX ON LOSS ON ORDINARY ACTIVITIES

	1998 £	1997 £
Corporation tax based on the results for the year at 21% (1997 - 21.75%)	-	7,897
	<u>-</u>	<u>7,897</u>

### 7. INTANGIBLE FIXED ASSETS

	Mineral Exploration Costs £
<b>COST</b>	
At 1st January 1998	3,413,681
Additions	137,575
At 31st December 1998	<u>3,551,256</u>
<b>AMORTISATION</b>	<u>-</u>
<b>NET BOOK VALUE</b>	
At 31st December 1998	<u>3,551,256</u>
At 31st December 1997	<u>3,413,681</u>

## FYNEGOLD EXPLORATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

## YEAR ENDED 31ST DECEMBER 1998

## 8. TANGIBLE FIXED ASSETS

	Mining Property £	Furniture & Fittings £	Motor Vehicles £	Total £
<b>COST</b>				
At 1st January 1998	2,653,956	27,719	27,250	2,708,925
Additions	250	-	-	250
Disposals	(5,000)	-	-	(5,000)
<b>At 31st December 1998</b>	<u>2,649,206</u>	<u>27,719</u>	<u>27,250</u>	<u>2,704,175</u>
<b>DEPRECIATION</b>				
At 1st January 1998	-	7,809	3,955	11,764
Charge for the year	63,152	4,160	6,816	74,128
<b>At 31st December 1998</b>	<u>63,152</u>	<u>11,969</u>	<u>10,771</u>	<u>85,892</u>
<b>NET BOOK VALUE</b>				
<b>At 31st December 1998</b>	<u>2,586,054</u>	<u>15,750</u>	<u>16,479</u>	<u>2,618,283</u>
At 31st December 1997	<u>2,653,956</u>	<u>19,910</u>	<u>23,295</u>	<u>2,697,161</u>

**Hire purchase agreements**

Included within the net book value of £2,618,283 is £15,857 (1997 - £22,420) relating to assets held under hire purchase agreements. The depreciation charged to the accounts in the year in respect of such assets amounted to £6,564 (1997 - £3,829).

The depreciation charge of £63,152 on Mining Property represents a permanent diminution in value of certain items included therein.

## 9. DEBTORS

	1998 £	1997 £
Other debtors	<u>653</u>	<u>14,933</u>

## 10. CREDITORS: Amounts falling due within one year

	1998 £	1997 £
Trade creditors	13,886	38,788
Amounts owed to group undertakings	2,000,406	1,851,727
Other creditors including taxation and social security:		
Corporation tax	7,897	7,897
Hire purchase agreements	7,750	7,750
Other creditors	<u>50,291</u>	<u>55,999</u>
	65,938	71,646
	<u>2,080,230</u>	<u>1,962,161</u>

## FYNEGOLD EXPLORATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

## YEAR ENDED 31ST DECEMBER 1998

## 11. CREDITORS: Amounts falling due after more than one year

	1998 £	1997 £
Amounts owed to group undertakings	1,209,403	1,225,308
Other creditors:		
Hire purchase agreements	3,229	10,979
	<u>1,212,632</u>	<u>1,236,287</u>

## 12. COMMITMENTS UNDER HIRE PURCHASE AGREEMENTS

Future commitments under hire purchase agreements are as follows:

	1998 £	1997 £
Amounts payable within 1 year	9,057	9,057
Amounts payable between 2 to 5 years	3,773	12,865
	<u>12,830</u>	<u>21,922</u>
Less interest and finance charges relating to future periods	(1,851)	(3,193)
	<u>10,979</u>	<u>18,729</u>

## 13. RELATED PARTY TRANSACTIONS

At 31 December 1998, the company had balances with related parties as follows:

	1998 £	1997 £
Amounts owed to group undertakings	<u>3,209,809</u>	<u>3,077,035</u>

## 14. SHARE CAPITAL

## Authorised share capital:

	1998 £	1997 £
25,000,000 Ordinary shares of £1 each	<u>25,000,000</u>	<u>25,000,000</u>

## Allotted, called up and fully paid:

	1998 £	1997 £
Ordinary share capital	<u>3,723,481</u>	<u>3,723,481</u>

**FYNEGOLD EXPLORATION LIMITED****NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED 31ST DECEMBER 1998****15. PROFIT AND LOSS ACCOUNT**

	1998 £	1997 £
Balance brought forward	(743,264)	(399,218)
Retained loss for the financial year	(101,492)	(344,046)
Balance carried forward	<u>(844,756)</u>	<u>(743,264)</u>

**16. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	1998 £	1997 £
Loss for the financial year	(101,492)	(344,046)
Opening shareholders' equity funds	2,980,217	3,324,263
Closing shareholders' equity funds	<u>2,878,725</u>	<u>2,980,217</u>

**17. ULTIMATE PARENT COMPANY**

The share capital of Fynegold Exploration Limited is 100% owned by Filon Sur S.A., a private Spanish company, however the directors regard Caledonia Mining Corporation, a company incorporated in Canada, as the company's ultimate parent company.

Caledonia Mining Corporation is the parent undertaking of the smallest and the largest group of which the company is a member, and for which group accounts are drawn up.

**18. FINANCE**

The Cononish gold mine was placed on a care and maintenance basis in April, 1999. A resumption of exploration will require an injection of additional finance. The directors are engaged in ongoing discussions aimed at securing partners to fund this work but, to date, no agreement has been concluded.