

GFM RESOURCES LIMITED

Financial Statements

December 31, 2001 and 2000

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ELLIS FOSTER

CHARTERED ACCOUNTANTS

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AUDITORS' REPORT

To the Shareholders of

GFM RESOURCES LIMITED

We have audited the balance sheets of GFM Resources Limited as at December 31, 2001 and 2000 and the 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 financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the Company Act of British Columbia, we report that, in our opinion, these principles have been applied on a consistent basis.

Vancouver, Canada
March 5, 2002

"ELLIS FOSTER"
Chartered Accountants



A partnership of incorporated professionals

*An independently owned and operated member of Moore Stephens North America Inc., a member of Moore Stephens International Limited
- members in principal cities throughout the world*

GFM RESOURCES LIMITED

Balance Sheet
December 31, 2001 and 2000

	2001	2000
ASSETS		
Current		
Cash and cash equivalents	\$ 7,008	\$ 276
GST recoverable	793	974
Prepaid expenses	804	1,850
	8,605	3,100
Capital assets (note 3)	2,822	3,693
	\$ 11,427	\$ 6,793
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 8,362	\$ 20,152
Due to related party (note 4)	140,995	63,344
	149,357	83,496
SHARE CAPITAL AND DEFICIT		
Share capital (note 5)	1,433,332	1,429,126
Contributed surplus	101,031	101,031
Deficit	(1,672,293)	(1,606,860)
	(137,930)	(76,703)
	\$ 11,427	\$ 6,793

Nature of operations and going concern (note 1)

Subsequent event (note 10)

Approved by the Directors: _____
"Fernando Rivero"
Fernando Rivero

"Lizardo Galvan"
Lizardo Galvan

GFM RESOURCES LIMITED

Statement of Operations and Deficit Years Ended December 31, 2001 and 2000

	2001	2000
Revenue		
Interest income	\$ 59	\$ 212
Expenses		
Administration and accounting	25,339	21,730
Amortization	870	1,159
Audit and legal	13,705	32,518
Consulting fees	1,500	-
Filing fees and transfer agent fees	6,949	8,587
Foreign exchange loss	5,426	63
General prospecting	-	4,500
Office and sundry	10,760	10,584
Promotion	526	1,578
Travel	417	1,441
	65,492	82,160
Loss for the year	(65,433)	(81,948)
Deficit, beginning of year	(1,606,860)	(1,524,912)
Deficit, end of year	\$ (1,672,293)	\$ (1,606,860)
Loss per share	\$ (0.01)	\$ (0.02)
Weighted average number of common shares outstanding	5,177,236	4,808,606

GFM RESOURCES LIMITED

Statement of Cash Flows Years Ended December 31, 2001 and 2000

	2001	2000
Cash flows from (used in) operating activities		
Loss for the year	\$ (65,433)	\$ (81,948)
Adjustments for items not involving cash:		
- amortization	870	1,159
	(64,563)	(80,789)
Changes in non-cash working capital items:		
- decrease (increase) in GST recoverable	181	(160)
- decrease in prepaid expenses	1,046	876
- increase (decrease) in accounts payable and accrued liabilities	(11,790)	5,756
	(75,126)	(74,317)
Cash flows from (used in) financing activities		
Increase in amount due to related parties	81,964	63,344
Share issuance costs	(106)	-
	81,858	63,344
Net increase (decrease) in cash and cash equivalents	6,732	(10,973)
Cash and cash equivalents, beginning of year	276	11,249
Cash and cash equivalents, end of year	\$ 7,008	\$ 276

GFM RESOURCES LIMITED

Notes to Financial Statements
December 31, 2001 and 2000

1. Nature of Operations and Going Concern

The Company was incorporated under the laws of British Columbia, Canada. During the year ended December 31, 2000, the Company continued its operation into Yukon under the Business Corporation Act of Yukon and registered as an extra-provincial company in British Columbia under the laws of British Columbia.

The Company is in the business of acquisition, exploration and development of mineral properties.

On November 15, 2000, the Company was designated as inactive in accordance with the Canadian Venture Exchange Policy 2.6. On November 8, 2001, the Company submitted a reactivation business plan to the Canadian Venture Exchange pursuant to the exchanges Policy 2.6. The Company may be suspended from trading its shares in the Canadian Venture Exchange if the Company does not attain the *Tier Maintenance Requirements*, as outlined in the Canadian Venture Exchange Policy 2.5, prior to May 16, 2002.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a forced liquidation. Continued operations of the Company are dependent on the Company's ability to file a satisfactory comprehensive reactivation plan to the Canadian Venture Exchange and meet the *Tier Maintenance Requirements* within the required time, obtain public equity financing, receive continued financial support from its controlling shareholder, Grupo Ferrominero S.A. de C.V. ("Grupo"), or generate profitable operations in the future.

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

2. Significant Accounting Policies

(a) Use of Estimates

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

GFM RESOURCES LIMITED

Notes to Financial Statements
December 31, 2001 and 2000

2. Significant Accounting Policies (continued)

(b) Foreign Currency Translations

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at the balance sheet date for monetary items and at exchange rates prevailing at the transaction dates for non-monetary items. Revenues and expenses are translated at the average exchange rates prevailing during the year. Gain and losses on translations are included in income for the year.

(c) Capital Assets

Capital assets are recorded at historical cost. Amortization is provided on a declining balance basis at the following annual rates:

Furniture and equipment	20%
Computer equipment	30%
Computer software	100%

One one-half year of amortization is recorded in the year of acquisition.

(d) Earnings (Loss) Per Share

Earnings (loss) per share is computed using the weighted average number of common shares outstanding during the year. Fully-diluted earnings (loss) per share has not been presented as the effect of common shares issuable upon the exercise of options would be anti-dilutive.

(e) Income Taxes

Income taxes are accounted for using the asset and liability method pursuant to Section 3465, Income Taxes, of *The Handbook of the Canadian Institute of Chartered Accountants*. Future taxes are recognized for the tax consequences of "temporary differences" by applying enacted or substantively enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and tax basis of existing assets and liabilities. The effect on deferred taxes for a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. In addition, Section 3465 requires the recognition of future tax benefits to the extent that realization of such benefits is more likely than not.

GFM RESOURCES LIMITED

Notes to Financial Statements
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2. Significant Accounting Policies (continued)

In the year 2000, the Company changed its policy for accounting for income taxes by adopting the provision of CICA Handbook Section 3465, Income Taxes. Under this standard, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized.

The adoption of Section 3465 did not impact amounts reported in the prior periods.

(f) Stock Options

No compensation expense is recognized when stock options are issued to employees and directors of the Company. Any consideration paid on exercise of stock options or purchase of stock is credited to share capital.

(g) Cash Equivalents

Cash equivalents usually consist of highly liquid investments which are readily convertible into cash with maturities of three months or less when purchased. As at December 31, 2001 and 2000 there were no cash equivalents.

3. Capital Assets

Capital assets consist of the following:

	2001		
	Cost	Accumulated Amortization	Net book value
Furniture and equipment	\$ 4,860	\$ 2,963	\$ 1,897
Computer equipment and software	4,496	3,571	925
	\$ 9,356	\$ 6,534	\$ 2,822

	2000		
	Cost	Accumulated amortization	Net book value
Furniture and equipment	\$ 4,860	\$ 2,489	\$ 2,371
Computer equipment and software	4,496	3,174	1,322
	\$ 9,356	\$ 5,663	\$ 3,693

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Notes to Financial Statements
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4. Due to Related Party

The amount due to its controlling shareholder, Grupo, is non-interest bearing and unsecured. Subsequent to year-end, this amount was repaid in full (see note 10).

5. Share Capital

(a) Authorized: unlimited number of common shares without par value.

(b) Issued and outstanding:

	Shares	Amount
Balance, December 31, 2000 and 1999	4,808,606	\$1,429,126
Cancellation of escrow shares	(318,750)	(3,188)
Issuance of escrow shares at \$0.01 per share, net of \$106 share issuance costs	750,000	7,394
Balance, December 31, 2001	5,239,856	\$1,433,332

(c) Escrow Shares

750,000 of the common shares issued are held in escrow, the release of which is subject to the direction of the regulatory authorities.

(d) Stock Options

The Company has reserved 1,033,425 common shares for issuance in accordance with a Stock Option and Share Bonus Plan.

At December 31, 2001, the following stock options are outstanding:

<u>Number of Shares</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
<u>420,000</u>	\$0.25	June 25, 2005

These stock options cannot be exercised as the Company is designated inactive in accordance to the Canadian Venture Exchange Policy 2.6 (see note 1).

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6. Related Party Transactions

During the year ended December 31, 2001, the Company:

- (a) incurred administration and accounting fees of \$nil (2000 - \$8,030) with a company owned by a director of the Company;
- (b) incurred legal fees of \$nil (2000 - \$786) with a law firm in which a director was a partner; and
- (c) incurred office rental expenses of \$nil (2000 - \$3,050) with a company owned by a director of the Company.

7. Income Taxes

- (a) During the fiscal year 2000, the Company changed its policy for accounting for income taxes from the deferral method to the liability method of tax allocation pursuant to Section 3465, Income Taxes of *The Handbook of the Canadian Institute of Chartered Accountants* (see Note 2e). This change has not had a material impact on the prior year's financial statements. The change has been applied prospectively.
- (b) A reconciliation of the statutory tax rate to the effective rate for the Company is as follows:

	2001	2000
Statutory income tax rate	43.62%	45.62%
Tax losses not benefited	(43.62%)	(45.62%)
Effective tax rate	0.00%	0.00%

The tax effect of temporary differences that give rise to the Company's future income tax assets (liabilities) are as follows:

	2001	2000
Non-capital loss carryforward	\$ 232,000	\$ 266,000
Cumulative exploration and depletion expenses	164,500	162,500
Capital assets	3,000	2,000
Less: Valuation allowance	(399,500)	(430,500)
Total	\$ -	\$ -

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8. Financial Instruments

The carrying value of cash and cash equivalents, GST recoverable, accounts payable and accrued liabilities and amount due to a related party approximate their fair value due to the short nature of those instruments. The Company is not subject to significant interest, currency and credit risks arising from these instruments.

9. Non-cash Financing Activities

During the year, the Company cancelled 318,750 escrow common shares at \$0.01 per share and issued 750,000 escrow common shares at \$0.01 per share to its controlling shareholder, Grupo, as partial settlement of the outstanding debt to Grupo (see note 4).

10. Subsequent Event

Subsequent to the year ended December 31, 2001, the Company signed a shares for debt agreement with its controlling shareholder, Grupo, to settle an outstanding debt of \$141,774 by issuing 945,161 shares at a deemed price of \$0.15 per share.