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AUSTAR RESOURCES CORPORATION

FIRST
ANNUAL
REPORT
1991

DIRECTORS

Hon. J. Austin, P.C., Q.C., Vancouver, B.C.
H.J. Bow, Vancouver, B.C.*
R.A.C. Douglas, Mayne Island, B.C.*
D.A. Hales, Vancouver, B.C.*
S.A. Sanders, New York, New York*
L.P. Starck, Calgary, Alberta

* Members of the Audit Committee

OFFICERS

Hon. J. Austin, P.C., Q.C., Chairman
L.P. Starck, President & Chief Executive Officer
M.H. Altman, Secretary

REGISTERED AND RECORDS OFFICE

#1201-900 West Hastings Street
Vancouver, B.C. V6C 1E5
(604) 669-8929

TRANSFER AGENT

Central Guaranty Trust
2nd Floor - 800 W. Pender Street
Vancouver, British Columbia, V6C 2V7

SOLICITOR

Michael H. Altman

AUDITORS

Price Waterhouse, Chartered Accountants

ANNUAL GENERAL MEETING

10:30 am - December 9, 1991
#1201-900 West Hastings Street
Vancouver, British Columbia

SHARES OUTSTANDING

Common Shares as at October 31, 1991
6,249,301

VANCOUVER STOCK EXCHANGE

Symbol: AST

AUSTAR RESOURCES CORPORATION

First Annual Report of the President
on Behalf of the Directors to the Members.

Austar Resources Corporation ("Austar/the Company") is pleased to report that since the commencement of the 1991 fiscal year the Company has acquired a 100% interest in two mineral prospects in southwestern British Columbia and working interests in several petroleum and natural gas leases in Canada and the United States. Subsequent to the fiscal year end, the Company entered into a letter of intent that provides for Hemlo Gold Mines Inc. ("Hemlo") to obtain an option on the Company's copper-gold mineral prospect.

Austar was formed on November 1, 1990 by the statutory amalgamation of Austar Resources Corporation ("Austra") and Barkerville Mining Company Limited (N.P.L.) ("Barkerville"). Pursuant to special resolutions adopted in respect to the amalgamation, Austra and Barkerville shareholders exchanged their shares for Austar shares on the basis of one common share of Austra for one common share of Austar and four common shares of Barkerville for one common share of Austar. The authorized share capital of Austar was established at 125,000,000 shares without par value consisting of 100,000,000 common shares and 25,000,000 first preferred shares. At the time of the amalgamation, Austra owned 42% of the outstanding share capital of Barkerville and therefore the amalgamation has been accounted for in the 1991 Austar audited financials as a purchase by Austra of the remaining outstanding share capital of Barkerville.

During the fiscal year and subsequent thereto, the Company acquired a 100% interest in a copper-gold prospect consisting of the Prime, Prime 1, Prime 2, Man and Man 2 mineral claims of 76 units ("the Prime Group") in the Nicola and Similkameen Mining Divisions, British Columbia and a nickel prospect, (the "Nickel Group"), in the New Westminster Mining Division, British Columbia. These prospects, which are situated in southwestern British Columbia, were acquired for a total price of \$15,000 and up to 300,000 common shares of the Company. The Prime, Prime 1, Man and Man 2 claims are subject to various net smelter interests and in the case of the Man claims contingent payments may be payable. In October, 1991 the Company entered into a letter of intent with Noranda Exploration Company, as agent for Hemlo, which provides for Hemlo to enter into an option agreement with the Company on the Prime Group whereby Hemlo would earn a 60% interest in the Group by making expenditures of \$1,000,000 on the exploration of the Group and making payments of \$275,000 to the Company over a period of four years. The Prime Group is adjacent to the Dill mineral claims of Fairfield Minerals Ltd. that are under option to Placer Dome Inc.

Austar's other mineral interests in British Columbia include; a 50% interest in the Goldbridge Group (19 Crown Granted mineral claims) in the area of the former producing Bralorne/Pioneer gold camp, Lillooet Mining Division; a 100% interest in the Nickel Group (4 units) near the former producing Giant Mascot nickel mine, New Westminster Mining Division; and a 100% interest in the Barkerville Group (14 Crown Granted mineral claims) that are adjacent to the former producing Mosquito Creek gold mine, Cariboo Mining Division. All of these interests are in good standing.

In addition to its mineral interests the Company has a 6.25% before payout working interest in a producing oil well and a 3.75% working interest in five sections of petroleum and natural gas leases in the Cypress Hills area, Alberta. Also, the Company's wholly owned American subsidiary, Austar Resources (U.S.) Corporation, has a 2.5% working interest in 584 acres of petroleum and natural gas leases in Texas.

The audited financial statements including the Consolidated Balance Sheet, Statements of Operations and Deficit and Changes in Financial Position for the fiscal year ended June 30, 1991 along with comparative figures for 1990 form part of this report.

The Company continues to concentrate its activities on the exploration and production sectors of the resource industries in Canada and the United States and looks forward with confidence and anticipation to 1992 as another year of accomplishment.

Yours truly



L.P. Starck, President
October 31, 1991

Price Waterhouse



August 8, 1991

Auditors' Report

To the Shareholders of
Austar Resources Corporation

We have audited the consolidated balance sheet of Austar Resources Corporation as at June 30, 1991 and the consolidated statements of operations and deficit and changes in financial position 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. 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 June 30, 1991 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. 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.

Price Waterhouse

Chartered Accountants

AUSTAR RESOURCES CORPORATION

Consolidated Balance Sheet (Note 1)

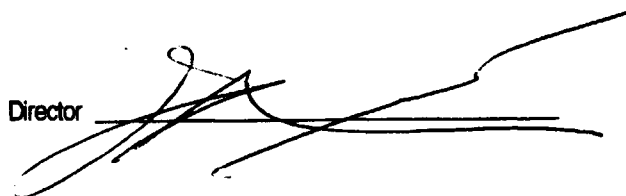
	June 30	
	1991	1990
Assets		
Current assets		
Cash and short term deposits	\$ 43,398	\$ 39,793
Accounts receivable	627	424
Prepaids	650	625
	<u>44,675</u>	<u>40,842</u>
Investment (Note 1)	-	11,573
Fixed assets, at cost (net of accumulated depreciation of \$7,161; 1990 - \$6,541)	1,449	2,069
Reclamation bond (Note 4)	1,000	-
Mineral interests, at cost (Note 5)		
Property interests	27,774	19,919
Deferred expenditures	20,562	7,960
	<u>48,336</u>	<u>27,899</u>
Petroleum and natural gas properties, at cost (Note 6)	42,216	-
	<u>\$ 137,676</u>	<u>\$ 82,383</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 14,489	\$ 9,290
Promissory note payable	-	2,000
	<u>14,489</u>	<u>11,290</u>
Shareholders' Equity		
Share capital (Note 7)	1,853,441	1,747,037
Deficit	(1,730,254)	(1,675,944)
	<u>123,187</u>	<u>71,093</u>
	<u>\$ 137,676</u>	<u>\$ 82,383</u>
Subsequent events (Note 10)		

Approved by the Board

Director



Director



AUSTAR RESOURCES CORPORATION

Consolidated Statement of Operations and Deficit (Note 1)

	Year ended June 30	
	1991	1990
Revenues		
Lease rental	\$ 2,500	\$ --
Interest and other income	3,165	1,109
	<u>5,665</u>	<u>1,109</u>
Expenses		
Legal	10,877	13,165
Audit	12,778	4,462
Transfer agent and shareholder fees	9,630	3,574
Office and general	8,333	5,575
Public relations	4,536	1,831
Property examination	2,705	--
Rent	2,400	600
Depreciation	620	887
	<u>51,879</u>	<u>30,094</u>
Net loss for the year	(46,214)	(28,985)
Deficit, beginning of year	<u>(1,675,944)</u>	<u>(1,646,959)</u>
	(1,722,158)	(1,675,944)
Amalgamation expenses	<u>(8,096)</u>	<u>--</u>
Deficit, end of year	<u>\$ (1,730,254)</u>	<u>\$ (1,675,944)</u>
Net loss per common share	<u>\$ (.01)</u>	<u>\$ (.01)</u>

AUSTAR RESOURCES CORPORATION

Consolidated Statement of Changes in Financial Position (Note 1)

	Year ended June 30	
	1991	1990
Cash provided by (used in) operating activities		
Operations		
Net loss for the year	\$ (46,214)	\$ (28,985)
Items not affecting cash		
Depreciation and other	1,287	887
	<u>(44,927)</u>	<u>(28,098)</u>
Changes in non-cash working capital	<u>4,971</u>	<u>1,319</u>
	<u>(39,956)</u>	<u>(26,779)</u>
Cash provided by (used in) financing activities		
Shares issued in settlement of debt	--	56,210
Shares issued for cash	65,000	95,000
Acquisition of subsidiary:		
Shares issued	41,404	--
Prior investment	<u>10,906</u>	--
Repayment of promissory note	(2,000)	--
Amalgamation costs	(8,096)	--
Repayments to affiliates	--	(56,210)
	<u>107,214</u>	<u>95,000</u>
Cash used in investing activities		
Purchase of mineral interests	(7,855)	(17,918)
Deferred expenditures on mineral interests	(12,582)	(7,981)
Petroleum and natural gas properties	(42,216)	--
Purchase of investment	--	(11,573)
Reclamation bond	(1,000)	--
	<u>(63,653)</u>	<u>(37,472)</u>
Increase in cash and term deposits	3,605	30,749
Cash and term deposits, beginning of year	<u>39,793</u>	<u>9,044</u>
Cash and term deposits, end of year	<u>\$ 43,398</u>	<u>\$ 39,793</u>

1. Amalgamation

Austar Resources Corporation (Austar/the Company) was formed effective November 1, 1990 by a statutory amalgamation of Barkerville Mining Company Limited (N.P.L.) (Barkerville) and Austra Resources Corporation (Austra). The amalgamation has been accounted for as a purchase by Austra of the remaining 58% of the outstanding share capital of Barkerville. Austra purchased 42% of the outstanding share capital of Barkerville in the prior year. Under the amalgamation agreement, the shareholders of Austra received one share of the amalgamated company for each share previously held. Shareholders of Barkerville received one share of the amalgamated company for each four shares of Barkerville previously held. No fractional shares of Austar were issued.

The results of operations of Barkerville for the period November 1, 1990 to June 30, 1991 have been included in the consolidated statement of operations and deficit. Net assets of Barkerville acquired as at November 1, 1990 were as follows:

Cash	\$ 49,672
Other net assets	2,638
	<u>52,310</u>
Less: prior investment	10,906
	<u>\$ 41,404</u>

2. Nature of operations

The Company is in the business of exploring and developing resource properties.

The resource properties are in the exploration stage and on the basis of information to date may not have economically recoverable reserves. The recovery of costs incurred on these properties and related deferred expenditures is largely dependent on the existence of mineral and petroleum and natural gas reserves and the economic recovery of such reserves in the future.

3. Significant accounting policies

Principles of consolidation

The consolidated financial statements include the accounts of Austar and its wholly owned United States subsidiary, Austar Resources (U.S.) Corporation, a Texas corporation incorporated in 1991.

Fixed assets

Fixed assets are being depreciated on a straight-line basis over their estimated useful lives.

Mineral property interests

The cost of acquisitions of mineral properties and of related exploration expenditures are deferred. These costs would be amortized against future production following commencement of commercial production or written off if the properties are sold or abandoned. The recorded costs are not intended to reflect present or future values.

The Company may acquire or sell mineral properties pursuant to option agreements. Because options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded until such time as the option payment is made. Option payments received are applied to reduce the accumulated cost related to the mineral properties. Receipts in excess of the accumulated cost are recorded as income.

Petroleum and natural gas properties

The Company follows the full cost method of accounting for its petroleum and natural gas properties whereby all costs related to the exploration for and development of petroleum and natural gas reserves are capitalized to cost centres on a country-by-country basis. Such costs include land acquisition costs, geological and geophysical expenditures, carrying costs on undeveloped properties, costs of drilling both productive and non-productive wells.

Depletion would be calculated by the unit-of-production method based on the estimated proved reserves of petroleum and natural gas. In addition, the capitalized costs would be subject to a "ceiling test", which limits such costs to an amount equal to the estimated value of future net revenues from recoverable reserves plus the net cost of major development projects and unproved properties, less future general and administrative costs, financing costs and income taxes.

Foreign currency translation

The subsidiary accounts are translated using the temporal method. Under this method, monetary assets and liabilities are translated at the prevailing period end exchange rate. Revenues and expenses are translated at the average rate of exchange for the period. All other accounts are translated at rates prevailing when the transactions occurred.

4. Reclamation bond

The reclamation bond is posted with the province of British Columbia, pursuant to the Mines Act, and consists of a term deposit maturing June 21, 1992.

5. Mineral interests

	June 30	
	1991	1990
Property interests		
Cariboo Mining Division, British Columbia (mineral claims)	\$ 529	\$ 1
Lillooet Mining Division, British Columbia (mineral claims)	19,235	\$ 17,918
New Westminster Mining Division, British Columbia (mineral claims)	1	--
Similkameen and Nicola Mining Division, British Columbia (mineral claims)	7,684	2,000
Other	325	--
	<u>\$ 27,774</u>	<u>\$ 19,919</u>

Cariboo Mining Division, British Columbia

As a result of the amalgamation the Company holds a 100% interest in the 14 Crown Granted Barkerville mineral claims. The exploration and mining lease on these claims to Mosquito Consolidated Gold Mines Ltd. lapsed on January 1, 1991.

Lillooet Mining Division, British Columbia

On March 28, 1990, the Company entered into an agreement with Silver Butte Resources Ltd. (Silver Butte) (Note 9) to sell an interest in the 19 Crown Granted Gold Bridge mineral claims. Under the agreement the Company sold a 50% interest in the claims in consideration of \$20,000. Silver Butte may earn up to an additional 25% interest in the claims with the expenditure of \$50,000 on exploration, if such funds are expended by March 29, 1993. Each \$10,000 in expenditures will earn Silver Butte a 5% interest. To date, Silver Butte has expended \$ 7,570 on these claims.

New Westminster, Similkameen and Nicola Mining Divisions, British Columbia

On July 9, 1990, the Company entered into an option agreement with Giant Pacific Petroleum Inc. (Giant Pacific) with respect to the Prime mineral claims located in the Similkameen and Nicola Mining Divisions. Pursuant to the terms of this Agreement, the Company obtained the right to earn a 50% interest in these claims by expending \$125,000 by December 31, 1995. On March 14, 1991 the Company and Giant Pacific entered into a new option agreement whereby the Company obtained the right to acquire all of Giant Pacific's interest in the Prime mineral claims and the Nickel Syndicate mineral claims (located in the New Westminster Mining Division). The Company paid Giant Pacific \$5,000 in consideration for the granting of this option. In order to exercise this option the Company must issue 100,000 common shares to Giant Pacific. In addition, the Company granted Giant Pacific a 0.75% net smelter return on production from the Prime mineral claims. Upon the exercise of the option agreement, all third party interests in these mineral claims will be extinguished. (Note 10)

Deferred expenditures

	June 30 1990	Additions	June 30 1991
Similkameen and Nicola Mining Division claims	\$ 7,980	\$ 11,688	\$ 19,668
Lillooet Mining Division claims	--	525	525
New Westminster Mining Division claims	--	257	257
Cariboo Mining Division claims	--	112	112
	<u>\$ 7,980</u>	<u>\$ 12,582</u>	<u>\$ 20,562</u>

6. Petroleum and natural gas properties

	June 30	
	1991	1990
Canada	\$ 27,973	\$ --
United States	14,243	--
	<u>\$ 42,216</u>	<u>\$ --</u>

7. Share Capital

Authorized

100,000,000 common shares of no par value
 25,000,000 first preferred shares of no par value

Issued and outstanding

	<u>Number of Shares</u>	<u>Amount</u>
Balance, June 30, 1989	4,609,871	\$ 1,595,827
Issued pursuant to:		
Private placement	633,333	95,000
Settlement of advances from affiliates	374,736	56,210
Balance, June 30, 1990	5,617,940	1,747,037
Issued to Barkerville shareholders upon amalgamation	143,861	41,404
Issued pursuant to:		
Exercise of share options	250,000	37,500
Exercise of share purchase warrants in respect of a private placement	137,500	27,500
Balance, June 30, 1991	<u>6,149,301</u>	<u>\$ 1,853,441</u>

Stock options

	<u>Number of Shares</u>	<u>Option price per Share</u>
Options outstanding June 30, 1989	--	\$ --
Granted	335,000	\$ 0.15
Options outstanding June 30, 1990	335,000	\$ 0.15
Granted	75,000	\$ 0.15
Exercised	(250,000)	\$ 0.15
Options outstanding June 30, 1991	<u>160,000</u>	<u>\$ 0.15</u>

Outstanding options expire on dates between October 11, 1992 and May 3, 1994.

8. Income taxes

The Company has accumulated certain resource-related deductions amounting to approximately \$197,000 and operating losses of approximately \$136,000 which are available to reduce taxable income in future years. The operating losses expire in varying amounts from 1995 to 1998.

The future tax benefits of the operating losses have not been recognized in these consolidated financial statements.

9. Related party transactions

For the year ended June 30, 1991, the Company was charged \$15,127 (1990 \$10,121) for administrative fees, office and field expenses by a private company controlled by the President and a director. As at June 30, 1991, \$296 (1990 \$4,760) included in accounts payable is owed to this company.

During the year, the Company paid \$16,473 (1990 \$11,608) in legal fees to a law firm where an officer of the Company is the partner.

Pursuant to an agreement dated the 31st day of May, 1989, the Company was obligated to pay some \$12,000 to Silver Butte in connection with the Prime mineral claims. Subsequently, this agreement was satisfied by the payment of \$2,000, evidenced by a promissory note due September 30, 1990 and the agreement that Silver Butte would receive 10% of any interest that the Company would earn in the Prime mineral claims.

The Company is related to Silver Butte (Note 5) through common directors and officers.

10. Subsequent event

Acquisition of Man mineral claims

The Company has acquired a 100% interest in the Man and Man 2 mineral claims located in the Similkameen and Nicola Mining Divisions, British Columbia under an agreement with International Brican Resources Ltd. (Brican) dated May 23, 1991 and approved by the regulatory authorities on July 8, 1991. Pursuant to the terms of the agreement the Company issued 100,000 common shares to Brican for registerable transfers to these claims. The Company's ownership of these claims is subject to a \$10,000 minimum annual advanced royalty to Mr. David Mehner, the original owner of these claims, against a 3% net smelter return which may be purchased by the Company for \$1,500,000. In addition the agreement provides for certain contingent payments to Brican and a 1.5% net smelter return to Brican on the production from the Man claims which may be purchased by the Company for \$1,000,000.

Exercise of option on New Westminster, Similkameen and Nicola mineral claims

In July 1991, the Company issued 100,000 common shares to Giant Pacific upon exercise of its option on the mineral claims located in the New Westminster, Similkameen and Nicola Mining Divisions. (Note 5)

11. Comparative figures

The 1990 comparative figures are based on financial statements which were reported on by other auditors.

Certain of the 1990 comparative figures have been reclassified to conform to the presentation adopted in 1991.