AMERICAN GEM CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 1999

(Expressed in United States Dollars)

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AUDITORS' REPORT

To the Shareholders of
American Gem Corporation

We have audited the consolidated balance sheets of American Gem Corporation as at March 31, 1999 and 1998 and the consolidated statements of operations and deficit and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audits 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 March 31, 1999 and 1998 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

McGOVERN, HURLEY, CUNNINGHAM, LLP

Signed "McGovern, Hurley, Cunningham, LLP"

Chartered Accountants

TORONTO, Canada
July 16, 1999

CONSOLIDATED BALANCE SHEETS

AS AT MARCH 31

(Expressed in United States Dollars)	1999 $	1998 $
ASSETS		
CURRENT		
Cash and cash equivalents	36,993	285,601
Accounts receivable	192,461	372,995
Note receivable	-	100,000
Inventory (Note 2)	1,525,462	1,500,000
	1,754,916	2,258,596
PROPERTY		
Mining properties (Note 4)	2,555,430	2,805,774
Mining plant and equipment (Note 5)	712,113	1,724,515
	3,267,543	4,530,289
HEAT TREATMENT TECHNOLOGY (Note 3)	-	100,000
RECLAMATION BOND AND DEPOSITS	85,653	107,373
	5,108,112	6,996,258

APPROVED ON BEHALF OF THE BOARD:

Signed “VICTOR P. ALBOINI” ____________, Director

Signed “NADIR DESAI” ____________, Director

See Accompanying Notes to the Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS
AS AT MARCH 31

(Expressed in United States Dollars)	1999 $	1998 $
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	360,725	408,657
Current portion of long-term debt (Note 6)	-	306,869
	360,725	715,526
LONG-TERM DEBT (Note 6)	-	24,258
	360,725	739,784
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 7)	31,198,355	31,109,940
COMMON SHARES TO BE ISSUED (Note 12(iii))	66,282	-
DEFICIT	(26,517,250)	(24,853,466)
	4,747,387	6,256,474
	5,108,112	6,996,258

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
FOR THE YEARS ENDED MARCH 31

(Expressed in United States Dollars)	1999 $	1998 $
REVENUES	553,223	1,546,473
OPERATING EXPENSES		
Selling, general and administrative	1,029,557	1,336,459
Mine operations	218,240	393,771
Cost of goods sold	201,524	509,561
Interest (income) expense, net	(3,119)	297,271
Exploration	-	767,188
Research and development	-	180,687
Amortization and depletion	511,320	340,990
Amortization of bond issuance costs	-	104,958
	1,957,522	3,930,885
Loss before the undernoted	(1,404,299)	(2,384,412)
Loss on abandonment of mining properties	(230,544)	(2,428,536)
Gain (loss) on settlement of note receivable	50,000	(194,581)
Write-down of inventory (Note 2)	-	(4,462,834)
Loss on disposal of assets	(214,933)	(107,333)
Settlement of lawsuit	(150,000)	-
Write-down of heat treatment technology (Note 3)	(66,667)	(1,955,069)
Forgiven debt	352,659	-
Gain on conversion of debentures - debt portion	-	3,480,275
NET (LOSS) for the year	(1,663,784)	(8,052,490)
(DEFICIT), beginning of year	(24,853,466)	(17,912,630)
	(26,517,250)	(25,965,120)
Less: Gain on conversion of debentures - equity portion	-	1,111,654
(DEFICIT), end of year	(26,517,250)	(24,853,466)
(LOSS) PER SHARE - Basic	(0.015)	(0.14)

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED MARCH 31

(Expressed in United States Dollars)	1999 $	1998 $
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) for the year	(1,663,784)	(8,052,490)
Adjustments for:		
Gain on conversion of debentures - debt portion	-	(3,480,275)
Amortization and depletion	511,320	445,948
Loss on abandonment of mining properties	230,544	2,428,536
Loss on write-off of deposits	21,720	62,000
Write-down of heat treatment technology	66,667	1,955,069
Write-down of inventory	-	4,462,834
Loss on sale of assets	214,933	107,333
(Gain) loss on settlement of note receivable	(50,000)	194,581
Forgiven debt	(352,659)	-
Common shares issued for services	87,093	-
Common shares issued for debt	1,322	-
	(932,844)	(1,876,464)
Changes in non-cash working capital balances:		
Accounts receivable	180,534	(196,617)
Inventories	(25,462)	524,330
Accounts payable and accrued liabilities	304,727	(685,847)
Deferred revenue	-	(125,000)
	459,799	(483,134)
	(473,045)	(2,359,598)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds on note receivable	150,000	-
Decrease in note receivable	-	50,465
Acquisition of mining plant and equipment	(4,861)	-
Payments from reclamation bond and other deposits	-	26,394
Proceeds from sale of mining plant and equipment	219,480	803,426
	364,619	880,285
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	-	1,036,549
Principal payments on long-term debt	(206,464)	(113,360)
Proceeds from common shares to be issued	66,282	-
	(139,682)	923,189
(Decrease) in cash and cash equivalents	(248,608)	(556,124)
Cash and cash equivalents, beginning of year	285,601	841,725
Cash and cash equivalents, end of year	36,993	285,601

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 1999

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company are in accordance with generally accepted accounting principles and are consistent with that of the previous year. Outlined below are those policies considered particularly significant.

Organization and Nature of Business:

These consolidated financial statements include the accounts of the Company and all its subsidiaries. The Company's subsidiaries are American Gem Corporation (U.S.A.), Square One Corporation, American Gem Processing, Inc. and American Gem Limited.

The Company was engaged in the business of mining sapphire-bearing properties, acquiring sapphire rough and heat treating, cutting and marketing sapphires. Since inception, the Company has had limited operating revenues from its intended sapphire operations and it has not been determined whether the Company's mining properties contain reserves that are economically recoverable. The recoverability of capitalized costs related to inventories, mining properties and mining plant and equipment is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the mining properties, the ability of the Company to obtain the necessary financing to complete the development of the properties, and ultimate realization of profits through the production and sale of sapphires.

Subsequent to the year end, the Company has expanded its operations to become an e-commerce company focusing on the company’s sapphire e-commerce website, and the development of websites for online securities trading, online IPO’s, online mergers and acquisitions and online private placements (see note 12).

Cash and Cash Equivalents:

The Company considers all highly liquid debt instruments with an original maturity date of twelve months or less to be cash equivalents. The Company's cash and cash equivalents consist of cash held in banks in Ontario, Canada and Montana, U.S.A.

Inventory:

Historically, inventory, which is composed of sapphires, has been stated at the lower of average cost or net realizable value. The cost of sapphires includes mining, processing, heat treatment and cutting costs, including depreciation, depletion and amortization.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Mining Properties:

Expenditures related to the acquisition of mining properties, deeded property and options on mineral properties are capitalized by project area. The capitalized costs associated with each such project area are assessed periodically for impairment. Any impairment identified, as well as all costs associated with abandoned projects or project areas, are charged against income in the year they are identified or abandoned. Capitalized costs, net of residual values, are depleted on the units of production method based on the property's measured and indicated sapphire resource. Exploration and administrative expenditures are expensed as incurred. Costs incurred to maintain mineral claims are expensed as incurred as a component of exploration expense.

The Company evaluates the recoverability of proved mining properties based on the expected undiscounted future net revenues from the property's measured and indicated sapphire resource. An impairment loss will be recorded if the unamortized costs exceed the expected undiscounted future net revenues from the related property. The impairment loss recognized will equal the excess of the unamortized costs over the expected undiscounted future net revenues.

Environmental Protection and Site Restoration:

Expenditures related to environmental protection and site restoration undertaken during mining development and operations are expensed as incurred.

Mining Plant and Equipment and Equipment Under Capital Leases:

Mining plant and equipment are recorded at cost and depreciated, net of residual value, using the straight line method based on the estimated useful lives of the assets or the term of the capital lease. The estimated useful lives of the mining plant range from 5 to 10 years and for mine equipment from 3 to 7 years.

Repair and maintenance expenditures are charged to operations; major improvements and replacements which extend the useful life of an asset are capitalized and depreciated over the remaining estimated useful life of that asset. Upon the sale or retirement of mining plant and equipment, any gain or loss on disposition is reflected in the statement of operations and the related asset cost and accumulated depreciation are removed from the respective accounts.

Reclamation Bond Deposits:

Reclamation bond deposits are held in the Company's name in escrow until the related reclamation activities are completed.

Loss Per Share Calculation:

Loss per share is calculated by dividing the loss by the weighted average shares outstanding during each year. The existence of stock options and warrants may effect the calculation of loss per share on a fully diluted basis. As the effect of this dilution is to reduce the reported loss per share, fully diluted loss per share has not been disclosed.

(Expressed in United States dollars)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Foreign Currency Translation:

The Company's mining operations are located in the United Stated and its functional and reporting currency is U.S. dollars. Monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the rate of exchange prevailing at the statement date. Capital assets are translated at the rates prevailing at the dates of acquisition. Long-term monetary assets and liabilities with a fixed or ascertainable life are translated at the statement date rate; any resulting gain or loss thereon is amortized over the life of the item. Revenue and expense items, other than amortization, are translated at the average rate of exchange for the year. An exchange gain or loss that arises on translation or settlement of a foreign currency denominated monetary item is included in the determination of net income for the period.

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 amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management believes that the estimates are reasonable.

2. **INVENTORY**

Inventory consists of the following:

	1999	1998
	$	$
Raw material	509,609	1,074,556
Work in process	-	2,156,148
Finished sapphire stones	900,576	4,549,637
Finished jewelry	115,277	157,493
Allowance for obsolete jewelry inventory	-	(25,000)
Allowance for obsolete inventory	-	(6,412,834)
	1,525,462	1,500,000

The above inventory accounts have been adjusted to reflect the respective allowance for obsolete inventory recorded in prior years.

3. **HEAT TREATMENT TECHNOLOGY**

Pursuant to an agreement dated February 26, 1998, the Company cancelled the previous purchase and consulting agreements with the vendors of the heat treatment technology. This agreement releases the vendors from the non-competition covenants and allows the vendors to commercially exploit this technology.

Management has disposed of the heat treatment capital assets and determined that the estimated future value attributable to the heat treatment technology is nil and consequently has written off the remaining balance in the year.

(Expressed in United States dollars)

4. MINING PROPERTIES

Mining properties consist of the following:

	1999 $	1998 $
Gem Mountain	4,780,625	4,780,625
Eldorado Bar	-	163,382
Dry Cottonwood Creek	-	37,162
Other	9,501	39,501
	4,790,126	5,020,670
Less: Accumulated depletion	(2,234,696)	(2,214,896)
	2,555,430	2,805,774

During the year the company substantially abandoned all remaining land holdings in the Eldorado Bar and Dry Cottonwood Creek areas of interest.

As of March 31, 1999 the Company has identified, measured and indicated sapphire resources on portions of the Gem Mountain property.

5. MINING PLANT AND EQUIPMENT

Mining plant and equipment consists of the following:

	1999 $	1998 $
Mining plant and equipment	1,299,710	2,406,951
Office equipment	63,257	190,879
	1,362,967	2,597,830
Less: Accumulated amortization	(650,854)	(873,315)
	712,113	1,724,515

(Expressed in United States dollars)

6. LONG-TERM DEBT

Long-term debt, having a carrying amount which approximates fair value, consists of the following:

	1999 $	1998 $
Note payable, collateralized by equipment. The Company returned the equipment in settlement of the amount outstanding.	-	90,300
Contract for deed, due in monthly instalments of $2,100 until October 16, 1998, one payment of $30,000 on July 16, 1998 (paid) and a final payment of principal and interest on October 16, 1998; interest at 10%.	-	116,464
Contract for deed, due in two annual instalments of $90,000 beginning July 7, 1996, collateralized by the Gem Mountain property interest purchased in July 1995.	-	90,000
Other	-	34,363
Total	-	331,127
Less: Current portion	-	(306,869)
	-	24,258

7. CAPITAL STOCK

(a) Share Capital:

Authorized:
Unlimited number of common shares
2,000,000 voting, convertible, redeemable preference shares

Issued:
105,447,977 common shares $31,198,355

Transactions during the year are as follows:

	Shares \#	Amount $
Balance, March 31, 1998	102,832,725	31,109,940
Issued on settlement of debt	13,254	1,322
Issued for services	2,601,998	87,093
Balance, March 31, 1999	105,447,977	31,198,355

(Expressed in United States dollars)

7. **CAPITAL STOCK** (Continued)

(b) **Stock Options:**

As at March 31, 1999, the Board of Directors have granted stock options to certain directors, officers and employees of the Company as follows:

Date of Grant	Date of Expiry	Options Granted	Exercise Price (CDN.)	Vesting Provision
February 12, 1998	February 12, 2003	1,575,000	$0.065	Vests immediately
February 12, 1998	March 3, 2004	20,000	$0.065	1/3 vests immediately, 1/3 December 31, 1998, 1/3 December 31, 1999.
July 15, 1998	July 15, 2008	2,000,000	$0.035	Vests immediately
December 3, 1998	December 3, 2008	3,295,000	$0.0375	Vests immediately
February 23, 1999	February 23, 2008	150,000	$0.035	Vests immediately
March 15, 1999	March 15, 2009	1,250,000	$0.035	Vests immediately

8. **INCOME TAXES**

The Company has loss carry-forwards in the U.S. of approximately $15,200,000 at March 31, 1999 which under certain circumstances may be utilized to offset future taxable income. These losses begin to expire in 2010. The Company has loss carry-forwards in Canada of approximately $985,000 which under certain circumstances may be utilized to offset future taxable income. These losses begin to expire in 2006.

9. COMMITMENTS AND CONTINGENCIES

(a) Pursuant to an agreement dated as of November 26, 1993, the Company sold a royalty interest for $262,500. The net proceeds of $223,673 (after payment of legal and other fees of $41,827) were reflected as a reduction in the carrying value of mining properties held as of November 26, 1993. The royalty is applicable to (a) sales of all minerals that are produced from any properties held at the date of the agreement by the Company or its affiliates, (b) sales of minerals that are produced from properties acquired after the date of the agreement by the Company or its affiliates, where sapphires are the primary mineral that is, has been or will be mined from the particular property, and (c) sales of all other sapphires by the Company or its affiliates. The royalty is at a rate of 3% of the aggregate of all such sales, until such time as the cumulative royalty paid equals $262,500, at which time the rate is reduced to 1.5%.

(b) A former employee of the Company has filed a claim for damages with respect to the cancellation of 500,000 common stock options and 50,000 common stock options to purchase common shares of the Company at CDN $0.07 and CDN $0.065, respectively. The former employee was terminated for cause and management will vigorously defend the claim which they believe is without merit.

10. FINANCIAL INSTRUMENTS

The carrying amounts for cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities on the balance sheet approximate fair value because of the limited term of these instruments.

Fair value estimates are made at the balance sheet date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgement, and therefore, cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

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

(Expressed in United States dollars)

12. **SUBSEQUENT EVENTS**

(i) Pursuant to an agreement dated April 12, 1999 which closed June 4, 1999, the Company acquired Northern Securities Inc. (Northern) for cash proceeds of CDN $1,500,000 and the issuance of 6,000,000 common share purchase warrants with an exercise price of CDN $0.65 per share and 2,000,000 common share purchase warrants with an exercise price of CDN $1.00 per share. The warrants are valued at CDN $10,000. Each warrant gives the holder the right to purchase one common share of the Company. The warrants expire two years after the closing date. One of the selling shareholders who was the beneficial owner of 33.33% of Northern was a former director and is a shareholder of the Company.

The Company will record this acquisition using the purchase method of accounting with the Company identified as the acquirer.

The estimated fair value of the assets to be acquired are as follows:

	CDN$
Working Capital	290,000
Capital Assets	90,000
Restricted Cash	330,000
Net Assets	710,000
Total Consideration	1,510,000
Excess of purchase price over fair value of net assets acquired allocated to goodwill (to be amortized over an appropriate period to be determined by management)	800,000

(ii) Pursuant to an agreement dated April 23, 1999 which closed on July 8, 1999, the Company acquired all of the common shares of Digital Fluid Ltd., an e-commerce and technology company, in exchange for an issuance, on closing, of 10,681,818 common shares valued at CDN $3,738,636. An additional 9,318,162 common shares will be issued to the vendors if such issuance is approved by the shareholders of the Company at the next annual meeting. These shares represent contingent purchase consideration and will not be valued until the outcome of the contingency is known. The 9,318,162 common shares will be held in private escrow and released over 40 months if issued. The acquisition will be accounted for under the purchase method of accounting with the Company identified as the acquirer. The contingent consideration paid in the future will be added to goodwill and amortized. Substantially all of the purchase price will be allocated to goodwill and will be amortized over an appropriate period to be determined by management.

12. **SUBSEQUENT EVENTS** (Continued)

(iii) Subsequent to the year end, the Company completed various private placements and issued a total of 18,063,888 common shares at prices ranging from CDN $0.0225 to CDN $0.85 for aggregate proceeds of CDN $7,527,250. The agents for the private placements received commissions and the reimbursement of expenses totalling approximately CDN $450,000 and 250,000 common share purchase warrants exercisable at CDN $0.85 on or before May 12, 2001. A standby fee in the amount of $138,771 will be paid by the issuance of 220,270 common shares of the Company. If shareholder or regulatory approval is not received for the share issue, the fee will be paid in cash. A former director and a current director will each receive $59,385 of this fee.

(iv) Subsequent to the year end, 8,115,000 stock options were exercised for total proceeds of CDN $339,363.