

CRYSTALLEX INTERNATIONAL CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2001

(Expressed in Canadian dollars)

(Unaudited – Prepared by Management)

CRYSTALLEX INTERNATIONAL CORPORATION
CONSOLIDATED BALANCE SHEETS
(Expressed in Canadian dollars)
(Unaudited – Prepared by Management)

| | September 30, 2001 | September 30, 2000 | December 31, 2000 |
|-------------------------------------------------|-----------------------|-----------------------|----------------------|
| ASSETS | | | |
| Current | | | |
| Cash and cash equivalents | \$ 4,935,368 | \$ 4,265,299 | \$ 4,418,442 |
| Accounts receivable | 3,625,434 | 3,355,913 | 2,409,709 |
| Production inventories | 11,713,694 | 11,889,357 | 10,994,368 |
| Supplies inventory and prepaid expenses | 1,632,163 | 1,026,405 | 2,957,347 |
| Marketable securities | 227,901 | 2,871,239 | 227,901 |
| Due from related parties | <u>74,927</u> | <u>35,638</u> | <u>35,618</u> |
| | 22,209,487 | 23,443,851 | 21,043,385 |
| Security deposits | 225,562 | 198,320 | 255,131 |
| Note Receivable (Note 3) | 2,311,020 | - | - |
| Long-term investment securities (Note 4) | 2,643,338 | - | 2,643,338 |
| Property, plant and equipment (Note 6) | 161,076,334 | 137,219,189 | 135,444,453 |
| Deferred financing fees (Note 7) | 909,614 | 411,967 | 101,453 |
| Deferred acquisition costs | - | 4,467,317 | 4,598,639 |
| Deferred charges | <u>681,528</u> | <u>429,512</u> | <u>-</u> |
| | \$ 190,056,883 | \$ 166,170,156 | \$ 164,086,399 |

The accompanying notes are an integral part of these consolidated financial statements.

CRYSTALLEX INTERNATIONAL CORPORATION
CONSOLIDATED BALANCE SHEETS
(Expressed in Canadian dollars)
(Unaudited – Prepared by Management)

| | September 30, 2001 | September 30, 2000 | December 31, 2000 |
|--------------------------------------------------------|-----------------------|-----------------------|-----------------------|
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current | | | |
| Accounts payable and accrued liabilities | \$ 14,532,386 | \$ 17,182,173 | \$ 16,611,935 |
| Due to related parties | 163,127 | 109,952 | 292,184 |
| Current portion of long-term debt (Note 9) | 2,289,986 | 6,071,410 | 487,338 |
| Loan payable (Note 10) | 300,000 | - | 700,000 |
| Promissory note | - | 3,683,500 | - |
| | <u>17,285,499</u> | <u>27,047,035</u> | <u>18,091,457</u> |
| Reclamation provision (Note 8) | 1,822,492 | 1,395,509 | 1,485,301 |
| Long-term debt (Note 9) | 27,551,400 | 30,757,482 | 32,656,570 |
| Deferred charges | - | - | 797,127 |
| | <u>46,659,391</u> | <u>59,200,026</u> | <u>53,030,455</u> |
| Minority Interest | <u>8,870,215</u> | <u>142,895</u> | <u>142,886</u> |
| Shareholders' equity | | | |
| Capital stock | | | |
| Authorized | | | |
| Unlimited Common shares, without par value | | | |
| Unlimited Class "A" preference shares, par value \$50 | | | |
| Unlimited Class "B" preference shares, par value \$250 | | | |
| Issued | | | |
| December 31, 2000 – 59,154,221 common shares | | | |
| September 30, 2000 – 56,822,593 common shares | | | |
| September 30, 2001 – 72,187,521 common shares | 152,891,965 | 126,957,097 | 130,732,129 |
| Capital stock subscribed | | | |
| December 31, 2000 – 1,025,000 common shares | | | |
| September 30, 2000 – 1,025,000 common shares | | | |
| September 30, 2001 – Nil common shares | - | 1,955,644 | 1,955,644 |
| Cumulative translation adjustment | 2,164,690 | (257,343) | (344,513) |
| Deficit | <u>(20,529,378)</u> | <u>(21,828,163)</u> | <u>(21,430,202)</u> |
| | <u>134,527,277</u> | <u>106,827,235</u> | <u>110,913,058</u> |
| | <u>\$ 190,056,883</u> | <u>\$ 166,170,156</u> | <u>\$ 164,086,399</u> |

Contingencies (Note 6)

Commitments (Note 17)

On behalf of the Board:

"Marc J. Oppenheimer"

Director

"Gordon Thompson"

Director

The accompanying notes are an integral part of these consolidated financial statements.

CRYSTALLEX INTERNATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Expressed in Canadian dollars)
(Unaudited – Prepared by Management)

| | Nine Month Period Ended September 30, 2001 | Nine Month Period Ended September 30, 2000 | Three Month Period Ended September 30, 2001 | Three Month Period Ended September 30, 2000 |
|--------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------|------------------------------------------------------|------------------------------------------------------|
| OPERATING REVENUE | \$ 42,231,265 | \$ 31,366,024 | \$ 13,632,900 | \$ 14,511,703 |
| OPERATING EXPENSES | | | | |
| Operations | 29,449,969 | 20,034,035 | 10,366,077 | 8,197,185 |
| Amortization and depletion | <u>6,486,082</u> | <u>4,191,301</u> | <u>2,029,715</u> | <u>2,189,047</u> |
| | <u>6,295,214</u> | <u>7,140,688</u> | <u>1,237,108</u> | <u>4,125,471</u> |
| EXPENSES | | | | |
| Amortization | 60,967 | 75,835 | 21,748 | 24,199 |
| Amortization of financing fee | - | 15,603 | - | 15,603 |
| Consulting | 93,175 | 196,163 | 5,343 | 83,343 |
| Interest on long-term debt | 1,612,205 | 879,692 | 233,712 | 355,295 |
| Investor relations | 684,511 | 464,942 | 200,746 | 120,146 |
| Office and administration | 3,039,524 | 3,460,211 | 1,141,692 | 1,274,176 |
| Professional fees | <u>422,294</u> | <u>253,559</u> | <u>15,023</u> | <u>97,803</u> |
| | <u>5,912,676</u> | <u>5,346,005</u> | <u>1,618,264</u> | <u>1,970,565</u> |
| Income (loss) before other items | <u>382,538</u> | <u>1,794,683</u> | <u>(381,156)</u> | <u>2,154,906</u> |
| OTHER ITEMS | | | | |
| Interest and other income | 326,682 | 1,763,689 | 148,250 | (318,543) |
| Foreign exchange | 103,542 | (754,633) | 155,889 | (766,563) |
| Gain on sale of marketable securities | - | 102,856 | - | - |
| Minority interest | <u>88,062</u> | <u>-</u> | <u>88,062</u> | <u>-</u> |
| | <u>518,286</u> | <u>1,111,912</u> | <u>392,201</u> | <u>(1,085,106)</u> |
| Income (loss) for the period | <u>\$ 900,824</u> | <u>\$ 2,906,595</u> | <u>\$ 11,045</u> | <u>\$ 1,069,800</u> |
| Basic earnings per share (Note 2) | \$ 0.02 | \$ 0.06 | \$ - | \$ 0.02 |
| Fully diluted earnings per share (Note 2) | \$ 0.02 | \$ 0.05 | \$ - | \$ 0.02 |

The accompanying notes are an integral part of these consolidated financial statements.

CRYSTALLEX INTERNATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian dollars)
(Unaudited – Prepared by Management)

| | Nine Month Period Ended September 30, 2001 | Nine Month Period Ended September 30, 2000 | Three Month Period Ended September 30, 2001 | Three Month Period Ended September 30, 2000 |
|------------------------------------------------------------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------|------------------------------------------------------|---------------------------------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Income (loss) for the period | \$ 900,824 | \$ 2,906,595 | \$ 11,045 | \$ 1,069,800 |
| Adjustments to reconcile income to net cash used in operating activities: | | | | |
| Amortization and depletion | 6,547,049 | 4,267,136 | 2,051,463 | 2,213,246 |
| Amortization of financing fees | - | 15,603 | - | 15,603 |
| Foreign exchange | (103,542) | 754,633 | (155,889) | 746,233 |
| Gain on sale of marketable securities | - | (102,856) | - | - |
| Gain on loan repayment | - | (161,850) | - | - |
| Interest on convertible notes | 81,084 | 93,164 | - | 72,864 |
| Management fee | 54,357 | 35,000 | 54,357 | 35,000 |
| Reclamation provision | 337,191 | 263,458 | 165,341 | 89,288 |
| Minority interest | (88,062) | - | (88,062) | - |
| Changes in other operating assets and liabilities: (Net of effects from purchase of subsidiaries) | | | | |
| (Increase) decrease in accounts receivable | (751,984) | 621,570 | 421,925 | 337,589 |
| (Increase) decrease in production inventories | (719,326) | 228,884 | (106,363) | (155,239) |
| (Increase) decrease in supplies inventory and prepaid expenses | 1,344,542 | 333,683 | (886,626) | 144,863 |
| (Increase) decrease in due from related parties | (39,309) | (301) | 6,703 | (115) |
| Increase (decrease) in accounts payable and accrued liabilities | (2,943,368) | (558,717) | 352,723 | 119,025 |
| Increase (decrease) in due to related parties | (129,057) | 38,857 | (208,499) | 82,393 |
| Net cash provided by (used in) operating activities | <u>4,490,399</u> | <u>8,734,859</u> | <u>1,618,118</u> | <u>4,770,550</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Purchase of subsidiaries (Net of cash acquired) | (9,946,780) | (7,347,538) | (8,209,409) | (7,347,538) |
| Purchase of property, plant and equipment | (1,936,016) | (1,377,036) | 1,847,178 | (743,359) |
| Deferred acquisition cost | - | (4,467,317) | - | (4,467,317) |
| Security deposits | 29,569 | (7,852) | (9,394) | (11,129) |
| Proceeds on sale of marketable securities | - | 137,143 | - | - |
| Purchase of marketable securities | - | (2,867,340) | - | (83,860) |
| Net cash used in investing activities | <u>(11,853,227)</u> | <u>(15,929,940)</u> | <u>(6,371,625)</u> | <u>(12,656,203)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Issuance of capital stock for cash | 2,214,355 | 3,388,924 | 178,200 | 797,500 |
| Capital stock subscribed | - | 1,955,644 | - | 1,955,644 |
| Debt borrowings | 7,037,690 | 9,226,713 | 4,607,400 | 670,837 |
| Debt repayments | (866,111) | (9,694,052) | (128,243) | (5,696,358) |
| Net cash provided by financing activities | <u>8,385,934</u> | <u>4,877,229</u> | <u>4,657,357</u> | <u>(2,272,377)</u> |

| | | | | |
|--------------------------------------------------------------|---------------------|---------------------|---------------------|---------------------|
| Increase (decrease) in cash and cash equivalents | 1,023,106 | (2,317,852) | (96,150) | (10,158,030) |
| Effect of exchange rate changes on cash and cash equivalents | <u>(506,180)</u> | <u>(69,712)</u> | <u>130,339</u> | <u>(219,489)</u> |
| Net increase in cash and cash equivalents | 516,926 | (2,387,564) | 34,189 | (10,377,519) |
| Cash and cash equivalents, beginning of period | <u>4,418,442</u> | <u>6,652,863</u> | <u>4,901,179</u> | <u>14,642,818</u> |
| Cash and cash equivalents, end of period | <u>\$ 4,935,368</u> | <u>\$ 4,265,299</u> | <u>\$ 4,935,368</u> | <u>\$ 4,265,299</u> |

The accompanying notes are an integral part of these consolidated financial statements.

CRYSTALLEX INTERNATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian dollars)
(Unaudited – Prepared by Management)

| | <u>Issued</u> | | <u>Capital Stock Subscribed</u> | | Deficit | Cumulative Translation Adjustment | Total |
|------------------------------------------------|-------------------|-----------------------|---------------------------------|---------------------|------------------------|-----------------------------------|-----------------------|
| | Number of Shares | Amount | Number of Shares | Amount | | | |
| Balance at December 31, 1999 | 45,295,569 | \$ 105,393,744 | - | \$ - | \$ (24,734,758) | \$ (1,292,830) | \$ 79,366,156 |
| Shares issued for cash | 3,181,408 | 3,704,095 | - | - | - | - | 3,704,095 |
| Shares issued for management fees | 29,536 | 69,557 | - | - | - | - | 69,557 |
| Shares issued for legal fee | 300,000 | 698,820 | - | - | - | - | 698,820 |
| Shares issued for mineral property acquisition | 5,849,153 | 13,301,958 | - | - | - | - | 13,301,958 |
| Share issued on conversion of notes | 4,498,555 | 8,417,576 | - | - | - | - | 8,417,576 |
| Share issuance costs on conversion of notes | - | (853,621) | - | - | - | - | (853,621) |
| Shares subscribed for cash | - | - | 1,025,000 | 1,955,644 | - | - | 1,955,644 |
| Translation adjustment | - | - | - | - | - | 948,317 | 948,317 |
| Income for the year | - | - | - | - | 3,304,556 | - | 3,304,556 |
| Balance at December 31, 2000 | 59,154,221 | \$ 130,732,129 | 1,025,000 | \$ 1,955,644 | \$ (21,430,202) | \$ (344,513) | \$ 110,913,058 |
| Balance at December 31, 1999 | 45,295,569 | \$ 105,393,744 | - | \$ - | \$ (24,734,758) | \$ (1,292,830) | \$ 79,366,156 |
| Shares issued for cash | 2,959,408 | 3,388,924 | - | - | - | - | 3,388,924 |
| Shares issued for management fees | 29,536 | 69,557 | - | - | - | - | 69,557 |
| Shares issued for legal fee | 200,000 | 491,020 | - | - | - | - | 491,020 |
| Shares issued for finder's fee | 59,124 | 144,854 | - | - | - | - | 144,854 |
| Shares issued for mineral property acquisition | 4,521,280 | 10,811,473 | - | - | - | - | 10,811,473 |
| Share issued on conversion of notes | 3,757,676 | 7,405,379 | - | - | - | - | 7,405,379 |
| Share issuance costs on conversion of notes | - | (747,854) | - | - | - | - | (747,854) |
| Shares subscribed for cash | - | - | 1,025,000 | 1,955,644 | - | - | 1,955,644 |
| Translation adjustment | - | - | - | - | - | 1,035,487 | 1,035,487 |
| Income for the year | - | - | - | - | 2,906,595 | - | 2,906,595 |
| Balance at September 30, 2000 | 56,822,593 | \$ 126,957,097 | 1,025,000 | \$ 1,955,644 | \$ (21,828,163) | \$ (257,343) | \$ 106,827,235 |
| Balance at December 31, 2000 | 59,154,221 | \$ 130,732,129 | 1,025,000 | \$ 1,955,644 | \$ (21,430,202) | \$ (344,513) | \$ 110,913,058 |
| Shares issued for cash | 1,483,776 | 2,214,355 | - | - | - | - | 2,214,355 |
| Shares issued for management fees | 65,466 | 104,550 | - | - | - | - | 104,550 |
| Shares issued for legal fee | 450,000 | 531,000 | - | - | - | - | 531,000 |
| Shares issued for mineral property acquisition | 4,142,029 | 5,574,487 | - | - | - | - | 5,574,487 |
| Share issued on conversion of notes | 2,723,355 | 3,376,759 | - | - | - | - | 3,376,759 |
| Share issuance costs on conversion of notes | - | (240,696) | - | - | - | - | (240,696) |
| Shares allotted for private Placement | 1,025,000 | 1,955,644 | (1,025,000) | (1,955,644) | - | - | - |
| Shares issued for loan payment | 3,076,615 | 8,554,548 | - | - | - | - | 8,554,548 |
| Shares issued for broker fee | 67,059 | 89,189 | - | - | - | - | 89,189 |
| Translation adjustment | - | - | - | - | - | 2,509,119 | 2,509,119 |
| Income for the year | - | - | - | - | 900,853 | - | 900,853 |
| Balance at September 30, 2001 | 72,187,521 | \$ 152,891,965 | - | \$ - | \$ (20,529,349) | \$ 2,164,606 | \$ 134,527,222 |

The accompanying notes are an integral part of these consolidated financial statements.

CRYSTALLEX INTERNATIONAL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2001
(Expressed in Canadian dollars)
(Unaudited – Prepared by Management)

1. NATURE OF OPERATIONS

The Company is in the business of acquiring and developing mineral properties. The recoverability of the amounts shown for mineral properties and related deferred costs is dependent upon the existence of economically recoverable reserves, the ability of the Company to complete the development of the properties and upon future profitable production.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

These consolidated financial statements include the accounts of the Company and all its subsidiaries. All significant inter-company balances and transactions have been eliminated.

Mineral properties

The Company records its interests in mineral properties and areas of geological interest at cost. All direct costs relating to the acquisition of these interests are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold or abandoned. The costs will be amortized over the proven reserves of the related property following commencement of production. Proceeds received, as a result of the sale of a mineral property, will be applied against the book value of the property. Any revenue received in excess of the property's book value will be included in income at that time.

Deferred exploration costs

The Company defers all direct exploration costs relating to mineral properties and areas of geological interest until the properties to which they relate are placed into production, sold or abandoned. These costs will be amortized over the proven reserves of the property following commencement of production. The Company's gold producing mineral properties are in Venezuela and Uruguay. As the Company's policy is to amortize deferred exploration costs over total proven reserves, the Company is currently using total gold produced as its basis for amortization of these costs.

Values

The amounts shown for mineral properties and deferred exploration costs represent costs incurred to date and are not intended to reflect present or future values.

Income taxes

Effective January 1, 2000, the Company has retroactively adopted the liability method of accounting for income taxes, following new standards adopted by the Canadian Institute of Chartered Accountants. The adoption of the new standards resulted in no adjustments to opening retained earnings. Under the new standards, future income tax assets and liabilities are determined based on the differences between the tax basis of assets and liabilities and those reported in the financial statements. The future tax assets or liabilities are calculated using the tax rates for the periods in which the differences are expected to be settled. Future tax assets are recognized to the extent that they are considered more likely than not to be realized.

CRYSTALLEX INTERNATIONAL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2001
(Expressed in Canadian dollars)
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2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.....)

Use of estimates

Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from these estimates.

Reclamation costs

The Company's policy for recording reclamation costs is to record a liability for the estimated costs to reclaim mined land by recording charges to production costs for each tonne of ore mined over the life of the mine. The amount charged is based on management's estimation of reclamation costs to be incurred. The accrued liability is reduced as reclamation expenditures are made. Certain reclamation work is performed concurrently with mining and these expenditures are charged to operations at that time.

Revenue recognition

Revenue from mining operations is recognized when gold and silver are shipped to the refineries.

Production inventories

Production inventories of gold and silver in process are stated at the lower of average production cost and net realizable value. It is possible that estimates of recoverable ore, grade and gold and silver prices could change causing the Company to write-down production inventory.

Supplies inventory

Supplies inventory is valued at the lower of average and replacement costs.

Plant and equipment

Plant and equipment are recorded at cost less accumulated amortization. Amortization of plant and equipment used directly in the mining and production of gold is included in operating costs. Amortization of plant and equipment used directly on exploration projects is included in deferred exploration costs and is charged against operations when the related property commences production. Amortization is being provided for using the straight-line method over periods ranging from 5 to 20 years.

Mine development cost is amortized over total proven reserves. The Company will use total gold produced as its basis for amortization of these costs.

Foreign exchange

The accounts of subsidiaries, which are integrated operations, are translated using the temporal method. Under this method, monetary assets and liabilities are translated at the year-end exchange rates. Non-monetary assets and liabilities are translated using historical rates of exchange. Revenues and expenses are translated at the rates of exchange prevailing on the dates such items are recognized in earnings. Exchange gains and losses are included in income for the year.

CRYSTALLEX INTERNATIONAL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2001
(Expressed in Canadian dollars)
(Unaudited – Prepared by Management)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.....)

The accounts of subsidiaries which are self-sustaining operations are translated using the current rate method. Under this method, assets and liabilities are translated at the year end exchange rates. Revenues and expenses are translated at the rates of exchange prevailing on the dates such items are recognized in earnings. Exchange gains and losses are included in a separate component of shareholders' equity under cumulative translation adjustment.

Transaction amounts denominated in foreign currencies are translated into local functional currency at exchange rates prevailing at transaction dates.

Marketable securities

Marketable securities are carried at the lower of cost and market value.

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less.

Earnings per share

Basic earnings per share is based on the weighted average number of common shares outstanding during the period. For the nine month period ended September 30, 2001 and 2000, the weighted average number of shares outstanding was 59,215,145, and 51,207,886, respectively.

Fully diluted earnings per share consider the dilutive impact of the conversion of outstanding stock options and warrants as if the events had occurred at the beginning of the year. For the nine month period ended September 30, 2001 and 2000, the number of common shares outstanding during the period used to calculate fully diluted earnings per share was 69,398,544 and 55,907,221 respectively.

Long-term investment securities

These securities are stated at cost, unless there has been an other than temporary decline in value at which time the securities are written down and the unrealised loss is recognized in determination of net income.

Gold loans

Gold loans are initially recorded at the gold price received on the draw down date and are revalued at the market price of gold prevailing at each balance sheet date. The unrealized gain or loss resulting from the mark-to-market adjustment is recorded as a deferred charge and amortized over the remaining term of the loan. Gold used to repay the loan will be recorded as revenue based on the initial draw down price.

Commodity instruments

The Company uses derivative financial instruments including forward contracts to manage its exposure to fluctuations in the market price of gold. The instruments are intended to reduce or eliminate the risk of falling prices on the Company's future gold production. Gains and losses on forward contracts, including spot deferred contracts, are recognized in gold sales revenues when the related designated production is delivered.

CRYSTALLEX INTERNATIONAL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2001
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2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.....)

Comparative figures

Certain comparative figures have been adjusted to conform with the current year's presentation.

3. NOTE RECEIVABLE

The Company, through the acquisition of El Callao Mining Corp, acquired a note receivable and the note is non-interest bearing. The note was issued in conjunction with the acquisition of the Central Property.

4. LONG-TERM INVESTMENT SECURITIES

The Company's investment in long term investment securities consists of shares in a publicly listed company. These shares have been pledged.

5. ACQUISITION

Effective July 27, 2000, the Company acquired 100% of the outstanding share capital of Bolivar Goldfields A.V.V. The company, through its subsidiaries, is involved in mining activities and the exploration and development of mineral properties.

The acquisition has been accounted for by using the purchase method, and can be summarized as follows:

| | | |
|------------------------------------------|----|--------------------------|
| Cash and cash equivalents | \$ | 266,520 |
| Accounts receivable and other assets | | 775,504 |
| Production & supplies inventories | | 1,139,000 |
| Property, plant and equipment | | 36,046,792 |
| Accounts payable and accrued liabilities | | (8,863,887) |
| Long-term debt | | (18,847,225) |
| Minority interest | | <u>(142,862)</u> |
| Consideration paid | \$ | <u><u>10,373,842</u></u> |
| Consideration paid consists of: | | |
| Cash paid | \$ | 7,745,725 |
| Common shares of the Company | | 2,345,631 |
| Acquisition costs | | <u>282,486</u> |
| | \$ | <u><u>10,373,842</u></u> |

The results of the operations of the investee have been included with those of the Company from the effective date of the acquisition.

CRYSTALLEX INTERNATIONAL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2001
(Expressed in Canadian dollars)
(Unaudited – Prepared by Management)

5. ACQUISITION (cont'd.....)

Effective February 27, 2001, the Company acquired approximately 80% of the outstanding share capital of El Callao Mining Corp (“ECM”) and, also from Bema Gold Corporation (“Bema”), assets related to ECM. The company, through its subsidiaries, is involved in mining activities and the exploration and development of mineral properties.

The acquisition has been accounted for by using the purchase method, and can be summarized as follows:

| | |
|------------------------------------------|-----------------------------|
| Cash and cash equivalents | \$ 16,681 |
| Accounts receivable and other assets | 483,099 |
| Note receivable | 2,306,630 |
| Property, plant and equipment | 22,039,717 |
| Accounts payable and accrued liabilities | (914,012) |
| Minority Interest | <u>(8,818,134)</u> |
| Consideration paid | <u><u>\$ 15,113,981</u></u> |

Consideration paid consists of:

| | |
|------------------------------|-----------------------------|
| Cash paid | \$ 9,782,009 |
| Common shares of the Company | 5,150,520 |
| Acquisition costs | <u>181,452</u> |
| | <u><u>\$ 15,113,981</u></u> |

6. PROPERTY, PLANT AND EQUIPMENT

| | September 30, 2001 | September 30 2000 | December 31, 2000 |
|----------------------------------------------|------------------------------|------------------------------|------------------------------|
| Plant and equipment | \$ 68,909,942 | \$ 61,416,932 | \$ 61,614,361 |
| Mineral properties | 107,002,365 | 80,796,468 | 81,320,110 |
| Deferred exploration costs | <u>8,841,313</u> | <u>8,727,066</u> | <u>8,763,758</u> |
| | 184,753,620 | 150,940,466 | 151,698,229 |
| Less: Accumulated amortization and depletion | <u>(23,677,286)</u> | <u>(13,721,277)</u> | <u>(16,253,776)</u> |
| | <u><u>\$ 161,076,334</u></u> | <u><u>\$ 137,219,189</u></u> | <u><u>\$ 135,444,453</u></u> |

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6. PROPERTY, PLANT AND EQUIPMENT (cont'd.....)

Mineral properties:

| | September 30, 2001 | September 30, 2000 | December 31, 2000 |
|--------------------------------------------------|--------------------------|--------------------------|----------------------|
| Albino 1 Concession | \$ 17,710,939 | \$ 17,710,939 | \$ 17,710,939 |
| Bolivar Goldfields properties | 22,670,186 | 21,173,154 | 20,959,392 |
| Cristinas 4 and 6 Concessions | 38,981,713 | 37,252,965 | 37,990,369 |
| El Callao Mining Corp properties | 22,980,117 | - | - |
| Knob Hill property | 518,283 | 518,283 | 518,283 |
| Mineiro Concession | 724,548 | 724,548 | 724,548 |
| Santa Elena, San Miguel and Carabobo Concessions | 3,416,576 | 3,416,576 | 3,416,576 |
| Other | <u>3</u> | <u>3</u> | <u>3</u> |
| | 107,002,365 | 80,796,468 | 81,320,110 |
| Less: Accumulated depletion | <u>(6,084,162)</u> | <u>(2,588,651)</u> | <u>(3,783,529)</u> |
| | <u>\$ 100,918,203</u> | <u>\$ 78,207,817</u> | <u>\$ 77,536,581</u> |

Deferred exploration costs:

| | Albino | Santa Elena Carabobo | Mineiro | San Gregorio | September 30, 2001 | September 30, 2000 | December 31, 2000 |
|-------------------------------|---------------------|----------------------------|-------------------|-------------------|-----------------------|-----------------------|----------------------|
| Contracting | \$ 482,051 | \$ 124,119 | \$ - | \$ - | \$ 606,170 | \$ - | \$ - |
| Equipment rental and expenses | 540,448 | 74,112 | - | 1,469 | 616,029 | 616,029 | 616,029 |
| Consulting fees | 444,782 | 50,341 | - | - | 495,123 | 495,123 | 495,123 |
| Geology and engineering | 805,953 | 195,225 | 413,336 | - | 1,414,514 | 1,414,514 | 1,414,514 |
| Field expenses | 318,405 | 61,243 | 140,479 | 15,619 | 535,746 | 535,748 | 535,748 |
| Samples and geochemistry | 33,613 | 48,047 | 60,175 | - | 141,835 | 141,835 | 141,835 |
| Travel | 41,640 | 85,246 | 102,420 | - | 229,306 | 229,306 | 229,306 |
| Wages | 792,309 | 127,163 | - | 361,569 | 1,281,041 | 1,166,791 | 1,203,483 |
| Drilling | <u>3,347,696</u> | <u>-</u> | <u>173,853</u> | <u>-</u> | <u>3,521,549</u> | <u>3,521,550</u> | <u>3,521,550</u> |
| | 6,806,897 | 765,496 | 890,263 | 378,657 | 8,841,313 | 8,727,066 | 8,763,758 |
| Less: Accumulated depletion | <u>(644,232)</u> | <u>-</u> | <u>-</u> | <u>(166,665)</u> | <u>(810,897)</u> | <u>(722,863)</u> | <u>(745,883)</u> |
| | <u>\$ 6,162,665</u> | <u>\$ 765,496</u> | <u>\$ 890,263</u> | <u>\$ 211,992</u> | <u>\$ 8,030,416</u> | <u>\$ -</u> | <u>\$ -</u> |

Albino 1 Concession

By agreement with Albino Bonucci, dated December 23, 1992, the Company, through its subsidiaries, acquired a 100% interest in the Albino 1 concession in Bolivar State, Venezuela. The consideration of \$13.8 million to acquire the interest

in the concession was fully paid by December 31, 1997. A 1% Net Smelter Return Royalty is payable to the MEM from the proceeds of gold production.

6. PROPERTY, PLANT AND EQUIPMENT (cont'd.....)

Bolivar Goldfields Properties

By an agreement dated June 26, 2000, the Company acquired all the outstanding share capital of Bolivar Goldfields A.V.V. This acquisition includes the Tomi concession, Revemin mill and exploration lands in Venezuela. The exploration lands include the Dividual I and II and the Belen II concessions in the El Callao greenstone belt in Venezuela.

Cristinas 4 and 6 Concessions

In March 1997, the Company acquired rights to the Cristinas 4 and 6 concessions located in Kilometre 88, Venezuela. The Cristinas 4 and 6 concessions have been under investigation and exploration for several years by Placer Dome Inc. under a joint venture agreement with Corporacion Venezolana de Guayana (“CVG”). The Cristinas 4 concession is adjacent to the Company’s Albino 1 concession. The Company holds its interest in Cristinas 4 and 6 through Inversora Mael, C.A. (“Mael”), a Venezuelan company (See Note 17). The Supreme Court of Venezuela issued rulings in 1991, 1996 and 1997 confirming the validity of the transfer of the concessions to Mael. Following the 1997 ruling, Mael commenced a further action in the Supreme Court of Venezuela seeking a ruling requiring the MEM to recognize fully Mael’s title ownership of the Cristinas 4 and 6 concessions. On June 11, 1998 the Venezuelan Supreme Court ruled that Mael does not have status to assert ownership rights over Cristinas 4 and 6 concessions and refused to proceed with this action. In the opinion of counsel, prior contradictory decisions of the Venezuelan Supreme Court were not overruled by the June 11, 1998 decision.

In August 1999, the Company commenced two legal proceedings in Venezuela in order to enforce its rights in relation to the Cristinas 4 and 6 concessions. The first proceeding seeks to nullify the joint venture agreement previously entered into between CVG and MINCA, a Venezuelan joint venture in which Placer Dome has been a participant. In essence, this action challenges the original legal basis on which CVG purported to confer contractual rights to exploit the Cristinas 4 and 6 concessions commercially. The second proceeding seeks to nullify the effect of the settlement agreement entered into in 1991 in respect of a lawsuit between Mael, the Republic of Venezuela, CVG and Ramon Torres.

In September 1999, Venezuela published a new mining law providing that mining privileges may only be conferred by concession. MINCA has since applied to convert its contractual rights, in respect of Cristinas 4 and 6, into a concession. It is uncertain whether this application will be granted. Such application has not been published in the Official Gazette. Should it be published, the Company will be entitled to file an opposition.

In May 2000, the Supreme Court of Venezuela issued a decision in favour of an appeal filed by Mael against a previous decision issued by the Admission Chamber of the Supreme Court of Venezuela. The Supreme Court’s Admission Chamber decision refused to admit the August 1999 action seeking to nullify the 1991 settlement agreement described above. Like the Venezuela Supreme Court rulings in 1991, 1996, and 1997, which confirmed Mael’s legal standing regarding the Cristinas 4 and 6 concessions, the Supreme Court’s decision recognizes Mael’s legal standing in this matter. In its decision, the Supreme Court of Venezuela reviewed each of the arguments presented by MINCA and CVG, and ruled against each argument. By reviewing and ruling individually against each of the MINCA and CVG arguments, those parties are barred from raising and cannot again present these arguments before the Supreme Court in this lawsuit. The decision, which cannot be appealed, was approved by the majority of the justices. The only dissenting opinion was in the form of a single sentence dealing with procedural aspects of the decision, and contained nothing opposing the case filed by Mael.

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6. PROPERTY, PLANT AND EQUIPMENT (cont'd.....)

In June 2000, the Admission Court of the Political-Administrative Chamber of the Supreme Court of Justice of Venezuela issued a decision which formally admits the legal claims made by Mael. As a result of the May and June decisions, Mael's case respecting the ownership of the Cristinas 4 and 6 concessions can advance to a full and final hearing on the merits before the Political-Administrative Chamber of the Supreme Court of Justice of Venezuela.

Pending resolution of these legal proceedings and determinations to be made under the new mining law, the Company has determined not to write off its investment. The costs relating to acquiring the Cristinas 4 and 6 concessions have been capitalized as part of the cost of the acquisition of the mineral property. The total cost incurred to September 30, 2001 was \$38,981,713. In the event that the Company is unsuccessful in obtaining possession of the property, these costs, and any subsequent costs incurred, will be expensed to operations in that period.

El Callao Mining Corp. Properties

By an agreement dated September 12, 2000 and concurrently with the completion of the January 25, 2001 take-over bid, the Company acquired approximately 80% of the outstanding shares of ECM and, from Bema, assets related to ECM. As a result of the acquisition, the Company now controls the Lo Increible project in Venezuela.

Mineiro Concession

By an agreement dated March 11, 1997, the Company, through its interest in Diamond Company Ltda, acquired a 65% interest on the Mineiro concession, consisting of 9,600 hectares in Amapa State, Brazil. Pursuant to the terms of the agreement, the Company paid \$366,987 and issued 100,000 common shares of the Company at a deemed value of \$355,000.

San Gregorio Mining Concession

By an agreement dated October 2, 1998, the Company, through one of its subsidiaries, acquired a 100% interest in the San Gregorio mining concession in Uruguay. The Uruguayan government mining agency has granted the Company exploitation rights over the concession for 15 years subject to a net profit royalty.

Santa Elena, San Miguel and Carabobo Concessions

The Company entered into a joint venture agreement with ACOMISUR, a mining cooperative, regarding the Santa Elena, San Miguel and Carabobo properties, all located in Bolivar State, Venezuela. Under this agreement, the Company's Venezuelan subsidiary will own eighty percent of the joint venture and ACOMISUR will own twenty percent, with the Company's subsidiary being the operator. The proven and probable reserves of the properties have not yet been determined.

Title to mineral properties

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mining properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties is in good standing, subject to the comments contained in this note 6. The properties in which the Company has committed to earn an interest are located in Uruguay, Venezuela and Brazil, South America and the Company is therefore relying on title opinion by legal counsel who are basing such opinions on the laws of Uruguay, Venezuela and Brazil.

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7. DEFERRED FINANCING FEES

Deferred financing fees of \$909,614 (net of accumulated amortization of \$Nil) at September 30, 2001 relate to costs incurred in the issuance of the convertible notes financing and for a credit facility to restructure its existing bank debt.

8. RECLAMATION PROVISION

Costs relating to ongoing site restoration are expensed when incurred. The Company's estimate of its ultimate reclamation liability may vary from current estimates due to possible changes in laws and regulations and changes in costs estimated. The Company will accrue additional liabilities for further reclamation costs as and when evidence becomes available indicating that its reclamation liability has changed.

9. LONG-TERM DEBT

| | September 30, 2001 | September 30 2000 | December 31, 2000 |
|---------------------------------------------|-----------------------|----------------------|----------------------|
| Gold loan | \$ - | \$ 19,986,104 | \$ 18,178,673 |
| Bank loan | 23,979,255 | 13,722,010 | 13,682,938 |
| Convertible notes | <u>5,862,131</u> | <u>3,120,778</u> | <u>1,282,297</u> |
| | 29,841,386 | 36,828,892 | 33,143,908 |
| Less: Current portion of the long-term debt | <u>(2,289,986)</u> | <u>(6,071,410)</u> | <u>(487,338)</u> |
| | <u>\$ 27,551,400</u> | <u>\$ 30,757,482</u> | <u>\$ 32,656,570</u> |

Gold loan

During 1998, the Company, through a subsidiary had entered into a non-recourse five-year bank credit facility of \$24,532,800 or equivalent ounces of gold. The facility bears interest at the LIBOR for United States dollar-denominated loans or the gold base rate for gold ounce-denominated loans plus an applicable margin, negotiated between both parties. The Company has the ability to repay the loan in either United States dollars, gold, or common shares of the Company. During the period, the loan was converted into a dollar denominated loan.

The loan agreement contains certain financial and other covenants that must be maintained during the term of the loan. Assets of certain of the subsidiary companies have been pledged as collateral.

Bank loan

During 1998, Minera San Gregorio S.A. entered into a four-year loan agreement. The loan bears interest at the London Inter-Bank Offered Rate (LIBOR) plus an applicable margin, negotiated between both parties. Certain equipment is secured against the loan.

During 2000, Mineras Bonanza C.A. entered into a two-year bank loan facility of \$12,779,750. The facility bears interest at the LIBOR plus an applicable margin. The bank loan is secured by first mortgages over all the land, buildings and chattel of Mineras Bonanza, C.A. and Revemin II, C.A.

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9. LONG-TERM DEBT (cont'd.....)

During 2000, the Company made arrangements for a two part non-recourse credit facility totalling US\$60 million to restructure its existing bank debt and fund the continued growth of the Company. The credit facility is subject to the execution of definitive loan agreements, syndication by the lender, and technical and legal due diligence. The arrangement includes, a US\$35 million term loan that refinances existing debt incurred in the acquisition of Minera San Gregorio in Uruguay and the assets of Bolivar Goldfields, A.V.V. in Venezuela. The term loan matures in 2008. The loan agreement contains certain financial and other covenants that must be maintained during the term of the loan. Assets of certain of the subsidiary companies have been pledged as collateral.

Convertible notes

The notes mature on April 26, 2003 and are convertible into common shares of the Company at a discount to the market price at the time of conversion. Interests are payable quarterly at a rate of 7% and annually at 10%. As at September 30, 2001, \$5,862,131 (September 30, 2000 - \$3,120,778) remains outstanding.

10. LOAN PAYABLE

The loan is repayable upon demand. Interest is payable monthly at a rate of prime plus 1%. The long-term investment securities (Note 4) are pledged as security against the loan.

11. OPTIONS AND WARRANTS

At September 30, 2001, warrants were outstanding enabling the holders to acquire the following number of common shares:

| Number of Shares | Price | Range of Expiry Dates |
|---------------------|----------|--------------------------|
| 120,000 | US\$1.65 | 02-11-2002 |
| 1,000,000 | US\$2.00 | 03-05-2002 |
| 111,940 | US\$1.63 | 03-06-2002 |
| 333,333 | US\$1.35 | 03-31-2002 to 03-31-2003 |
| 77,220 | US\$2.47 | 04-04-2002 |
| 1,685,647 | US\$2.84 | 04-26-2002 |
| 41,122 | US\$2.84 | 04-26-2002 |
| 1,038,750 | \$2.75 | 09-08-2002 |
| 218,056 | US\$1.01 | 03-06-2003 |
| 190,000 | US\$1.09 | 03-20-2003 |
| 377,213 | US\$1.02 | 03-29-2003 |
| 1,002,277 | US\$2.19 | 08-01-2003 |
| 150,000 | US\$1.25 | 08-02-2004 |

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11. OPTIONS AND WARRANTS (cont'd.....)

The Company follows the policies of the TSE under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 5% of the issued and outstanding common stock of the Company. Under the plan, the exercise price of each option equals the closing price of the Company's stock on the trading day immediately preceding the date of the grant.

The following is a summary of the status of stock options outstanding at September 30, 2001:

| Range of Exercise Prices | Outstanding Options | | | Exercisable Options | |
|--------------------------|---------------------|-----------------------------------------------------|---------------------------------|---------------------|---------------------------------|
| | Number of Shares | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price | Number Of Shares | Weighted Average Exercise Price |
| \$0.85 to \$1.00 | 2,018,500 | 4.96 | \$ 0.98 | 2,018,500 | \$ 0.98 |
| \$1.41 to \$1.75 | 2,411,000 | 5.48 | \$ 1.52 | 2,411,000 | \$ 1.52 |
| \$2.00 to \$2.65 | 2,127,500 | 7.48 | \$ 2.21 | 2,127,500 | \$ 2.21 |

12. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

These financial statements have been prepared in accordance with generally accepted accounting principles in Canada. Except as set out below, these financial statements also comply, in all material respects, with accounting principles generally accepted in the United States and the rules and regulations of the Securities and Exchange Commission.

(1) Stock Based Compensation

The United States Financial Accounting Standards Board ("FASB") has issued Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock Based Compensation", which became effective for fiscal years beginning after December 15, 1995. This statement requires the Company to establish a fair market value based method of accounting for stock based compensation plans. In 1996, for United States reporting purposes, the Company adopted SFAS No. 123 in accounting for its stock option plan. Canadian generally accepted accounting principles do not require the reporting of any stock based compensation expense in the Company's financial statements.

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12. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (cont'd.....)

The Company uses the Black Scholes Option Pricing Model to determine the fair value of employee stock options at the issuance date. In determining the fair value of these employee stock options, the following assumptions were used:

| | 2001 | 2000 |
|-------------------------|--------|---------|
| Risk free interest rate | 4.01 % | 6.46 % |
| Expected life | 2 year | 2 years |
| Expected volatility | 80 % | 104 % |
| Expected dividends | - | - |

The application of SFAS 123 resulted in the reporting of compensation expenses in the amount of \$534,638 and \$1,875,903 for the nine month ended September 30, 2001 and 2000 respectively.

Following is a summary of the stock based compensation plan during the nine month period ended September 30, 2001 and 2000:

| | <u>September 30, 2001</u> | | <u>September 30, 2000</u> | |
|---------------------------------------------------------------|---------------------------|------------------------------------------|---------------------------|------------------------------------------|
| | Number Of shares | Weighted Average Exercise Price | Number of shares | Weighted Average Exercise Price |
| Outstanding and exercisable, beginning of period | 6,315,292 | \$ 1.52 | 6,585,000 | \$ 1.15 |
| Granted | 515,000 | 2.11 | 1,410,000 | 2.29 |
| Exercised | (190,000) | 1.31 | (2,182,208) | 1.03 |
| Cancelled | <u>(83,292)</u> | 1.40 | <u>(75,000)</u> | - |
| Outstanding and exercisable, end of the period | <u>6,557,000</u> | <u>\$ 1.58</u> | <u>5,737,792</u> | <u>\$ 1.49</u> |
| Weighted average fair value options granted during the period | \$ 1.04 | | \$ 2.86 | |

(2) Earnings (loss) Per Share

Under both Canadian and United States generally accepted accounting principles, basic earnings (loss) per share is computed by dividing the earnings (loss) to common shareholders by the weighted average number of shares outstanding during the year. For Canadian reporting purposes fully diluted earnings per share is calculated under the assumption that all convertible notes were converted at the date issued and stock options and warrants exercised at the date of grant. For United States reporting purposes, in February 1997, the FASB issued SFAS No. 128 "Earnings per share". Under SFAS 128, diluted earnings per share takes into consideration the weighted average

number of shares outstanding during the year and potentially dilutive common shares.

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12. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (cont'd.....)

The weighted average number of common shares outstanding for calculating basic earnings (loss) per share under United States generally accepted accounting principles for the nine month period ended September 30, 2001 and 2000 were 59,215,145 and 51,207,886 respectively. The calculation of diluted earnings per share for the nine month period ended September 30, 2001 and 2000 proved to be anti-dilutive.

(3) Mineral Properties and Deferred Exploration Costs

Under Canadian generally accepted accounting principles, the mineral properties, including prospecting and acquisition costs, are carried at cost and written down if the properties are abandoned, sold or if management decides not to pursue the properties. Under United States generally accepted accounting principles, exploration and prospecting costs are charged to expense as incurred, as are development costs for projects not yet determined by management to be commercially feasible. Expenditures for mine development are capitalized when the properties are determined to have economically recoverable proven reserves but are not yet producing at a commercial level. Prior to commencing commercial production, revenue relating to development ore, net of mining costs associated with its production, is offset against mine development costs. Mine development costs incurred to access reserves on producing mines are also capitalized. Capitalization of all exploration, development, and acquisition costs, commences once the Company identifies proven and probable reserves that relate to specific properties.

Mining projects and properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. If estimated future cash flows expected to result from the use of the mining project or property and its eventual disposition are less than the carrying amount of the mining project or property, an impairment is recognized based upon the estimated fair value of the mining project or property. Fair value generally is based on the present value of estimated future net cash flows for each mining project or property, calculated using estimates of proven and probable mineable reserves, future prices, operating costs, capital requirements and reclamation costs.

(4) Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of

For United States reporting purposes, the Company has adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of". In the event that facts and circumstances indicate that the carrying amount of an asset may not be recoverable and an estimate of future undiscounted cash flows is less than the carrying amount of the asset, an impairment loss will be recognized. Management's estimates of gold prices, recoverable proven and probable reserves, operating capital, and reclamation costs are subject to certain risks and uncertainties which may affect the recoverability of the Company's investment in property, plant, and equipment. Although management has made its best estimate of these factors based on current conditions, it is possible that changes could occur which could adversely affect management's estimate of the net cash flow expected to be generated from its operations.

The Santa Elena, San Miguel and Carabobo, Cristinas 4 and 6 and Knob Hill properties, which have a total capitalized cost of \$43,682,071 for Canadian reporting purposes, have been written down for US reporting purposes, as they have no determinable proven or probable reserves. As a result of a study of gold reserves of its mineral properties, the Company has recorded a \$991,344 (September 30, 2000 - \$11,906,366) write-down of its investment in mineral properties for United States reporting purposes. Since the fair value of the Company's other properties exceed their capitalized cost, there has been no adjustment to the cost of these properties. The estimated fair value of the properties would vary if future conditions do not occur in accordance with assumptions.

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12. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (cont'd.....)

(5) Marketable Securities

In May 1993, the FASB issued SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", which became effective for years beginning after December 31, 1993. The statement requires that certain investments be classified into available-for-sale or trading securities stated at fair market values. Any unrealized holding gains or losses are to be reported as a separate component of shareholders' equity until realized for available-for-sale securities, and included in earnings for trading securities. Under SFAS 115, the Company's investment in marketable securities in the amount of \$227,901 would be classified as trading securities and its investment in long-term investment securities in the amount of \$2,643,338 would be classified as available for sale securities.

(6) Accounting for Derivative Instruments and Hedging Activities

In June 1998, the FASB issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" which establishes accounting and reporting standards for derivative instruments and for hedging activities. SFAS 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. In June 1999, the FASB issued SFAS 137 to defer the effective date of SFAS 133 to fiscal quarters of fiscal years beginning after June 15, 1999. In June 2000, the FASB issued SFAS No. 138, which is a significant amendment to SFAS 133. The Company does not anticipate that the adoption of these statements will have a significant impact on its financial statements.

(7) Comprehensive income

In June 1997, the FASB issued SFAS No. 130 "Reporting Comprehensive Income". SFAS No. 130 establishes standards for the reporting and display of comprehensive income and its components (revenue, expenses, gains and losses). The purpose of reporting comprehensive income is to present a measure of all changes in shareholders' equity that result from recognized transactions and other economic events of the year, other than transactions with owners in their capacity as owners. SFAS No. 130 is effective for financial statements issued for periods beginning after December 15, 1997.

The Company adopted SFAS No. 130 for the year ended December 31, 1998. Total comprehensive loss for the nine month period ended September 30, 2001 and 2000 was \$3,134,277 and \$11,911,161, respectively. The only items included in other comprehensive income are foreign currency translation adjustments in the amounts of \$2,509,119 and \$1,035,487 for the nine month period ended September 30, 2001 and 2000, respectively.

(8) Concentration of Credit Risk

The Company is exposed to credit losses in the event of non-performance by the counterparties to the financial instruments, but does not expect any counterparties to fail to meet their obligations. The Company generally does not obtain collateral or other security to support financial instruments subject to credit risk but monitors the credit standing of counterparties.

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12. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (cont'd.....)

The impact of the above differences between Canadian and United States generally accepted accounting principles on the consolidated balance sheet items as reported, is as follows:

| | September 30, 2001 | | September 30, 2000 | | December 31, 2000 | |
|------------------------------------------------|-----------------------|-----------------------------------------------------|-----------------------|-----------------------------------------------------|-----------------------|-----------------------------------------------------|
| | Balance as Reported | Balance as per United States Reporting Requirements | Balance as Reported | Balance as per United States Reporting Requirements | Balance as Reported | Balance as per United States Reporting Requirements |
| Current assets | \$ 22,209,487 | \$ 22,209,487 | \$ 23,443,851 | \$ 23,443,851 | \$ 21,043,385 | \$ 21,043,385 |
| Security deposits | 222,562 | 222,562 | 198,320 | 198,320 | 255,131 | 255,131 |
| Note receivable | 2,311,020 | 2,311,020 | - | - | - | - |
| Long-term investment Securities | 2,643,338 | 2,643,338 | - | - | 2,643,338 | 1,304,000 |
| Property, plant and equipment | 161,076,334 | 160,310,838 | 137,219,189 | 136,453,691 | 135,444,453 | 134,678,955 |
| Deferred financing fee | 909,614 | 909,614 | 411,967 | 411,967 | 101,453 | 101,453 |
| Deferred acquisition cost | - | - | 4,467,317 | 4,467,317 | 4,598,639 | 4,598,639 |
| Deferred charges | 681,528 | 681,528 | 429,512 | 429,512 | - | - |
| Allowance for write-down of Mineral properties | - | (42,916,575) | - | (41,187,827) | - | (41,925,231) |
| | <u>\$ 190,056,883</u> | <u>\$ 146,374,812</u> | <u>\$ 166,170,156</u> | <u>\$ 124,216,831</u> | <u>\$ 164,086,399</u> | <u>\$ 120,056,332</u> |
| Current liabilities | \$ 17,285,499 | \$ 17,285,499 | \$ 27,047,035 | \$ 27,047,035 | \$ 18,091,457 | \$ 18,091,457 |
| Reclamation provision | 1,822,492 | 1,822,492 | 1,395,509 | 1,395,509 | 1,485,301 | 1,485,301 |
| Long-term debts | 27,551,400 | 27,551,400 | 30,757,482 | 30,757,482 | 32,656,570 | 32,656,570 |
| Minority interest | 8,870,215 | 8,870,215 | 142,895 | 142,895 | 142,886 | 142,886 |
| Shareholders' equity | <u>134,527,277</u> | <u>90,845,206</u> | <u>106,827,235</u> | <u>64,873,910</u> | <u>110,913,058</u> | <u>66,882,991</u> |
| | <u>\$ 190,056,883</u> | <u>\$ 146,374,812</u> | <u>\$ 166,170,156</u> | <u>\$ 124,216,831</u> | <u>\$ 164,086,399</u> | <u>\$ 120,056,332</u> |

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(Unaudited – Prepared by Management)

12. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (cont'd.....)

The impact of the differences between Canadian and United States generally accepted accounting principles on mineral properties and deferred exploration costs of those properties with unproven and those with proven and probable reserves is as follows:

| | September 30, 2001 | | September 30, 2000 | | December 31, 2000 | |
|---------------------------------------------------------------------|---------------------|-----------------------------------------------------|---------------------|-----------------------------------------------------|---------------------|-----------------------------------------------------|
| | Balance as Reported | Balance as per United States Reporting Requirements | Balance as Reported | Balance as per United States Reporting Requirements | Balance as Reported | Balance as per United States Reporting Requirements |
| Mineral Properties with Unproven Reserves | | | | | | |
| Santa Elena/Carabobo | \$ 3,416,576 | \$ 3,416,576 | \$ 3,416,576 | \$ 3,416,576 | \$ 3,416,576 | \$ 3,416,576 |
| Las Cristinas 4 and 6 | 38,981,713 | 38,981,713 | 37,252,965 | 37,252,965 | 37,990,369 | 37,990,369 |
| Knob Hill | 518,283 | 518,283 | 518,283 | 518,283 | 518,283 | 518,283 |
| Other | 3 | 3 | 3 | 3 | 3 | 3 |
| | 42,916,575 | 42,916,575 | 41,187,827 | 41,187,827 | 41,925,231 | 41,925,231 |
| Less: allowance for write-down of mineral properties | - | (42,916,575) | - | (41,187,827) | - | (41,925,231) |
| | 42,916,575 | - | 41,187,827 | - | 41,925,231 | - |
| Mineral Properties with Proven and Probable Reserves | | | | | | |
| Albino 1 | 17,710,939 | 17,710,939 | 17,710,939 | 17,710,939 | 17,710,939 | 17,710,939 |
| Bolivar Goldfields | 22,670,186 | 22,670,186 | 21,173,154 | 21,173,154 | 20,959,392 | 20,959,392 |
| El Callao Mining Corp. Mineiro | 22,980,117 | 22,980,117 | - | - | - | - |
| | 724,548 | 724,548 | 724,548 | 724,548 | 724,548 | 724,548 |
| | 64,085,790 | 64,085,790 | 39,608,641 | 39,608,641 | 39,394,879 | 39,394,879 |
| Accumulated depletion | (6,084,162) | (6,084,162) | (2,588,651) | (2,588,651) | (3,783,529) | (3,783,529) |
| | 58,001,628 | 58,001,628 | 37,019,990 | 37,019,990 | 35,611,350 | 35,611,350 |
| Total capitalized cost | \$ 100,918,203 | \$ 58,001,628 | \$ 78,207,817 | \$ 37,019,990 | \$ 77,536,581 | \$ 35,611,350 |
| Deferred Exploration Costs With Unproven Reserves | | | | | | |
| Santa Elena/Carabobo | \$ 765,496 | \$ - | \$ 765,498 | \$ - | \$ 765,498 | \$ - |
| Deferred Exploration Costs With Proven and Probable Reserves | | | | | | |
| Albino 1 | 6,806,897 | 6,806,897 | 6,806,897 | 6,806,897 | 6,806,898 | 6,806,898 |
| Mineiro | 890,263 | 890,263 | 890,263 | 890,263 | 890,263 | 890,263 |
| San Gregorio | 378,657 | 378,657 | 264,408 | 264,408 | 301,099 | 301,099 |
| | 8,075,817 | 8,075,817 | 7,961,568 | 7,961,568 | 7,998,260 | 7,998,260 |
| Accumulated depletion | (810,897) | (810,897) | (722,863) | (722,863) | (745,883) | (745,883) |
| | 7,264,920 | 7,264,920 | 7,238,705 | 7,238,705 | 7,252,377 | 7,252,377 |
| Total capitalized cost | \$ 8,030,416 | \$ 7,264,920 | \$ 8,004,203 | \$ 7,238,705 | \$ 8,017,875 | \$ 7,252,377 |

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12. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (cont'd.....)

The impact of the above differences between Canadian and United States generally accepted accounting principles on the income (loss) for the period would be as follows:

| | Nine Month Period Ended September 30, 2001 | Nine Month Period Ended September 30, 2000 | Three Month Period Ended September 30, 2001 | Three Month Period Ended September 30, 2000 |
|-------------------------------------------------------------------------------------------------------|--------------------------------------------------------|-----------------------------------------------------|---------------------------------------------------------|------------------------------------------------------|
| Income for the period, as reported | \$ 900,824 | \$ 2,906,595 | \$ 11,045 | \$ 1,069,800 |
| Less: Compensation expense on granting of stock options | (534,638) | (1,875,903) | (461,277) | (1,666,391) |
| Amounts written-down for mineral property acquisitions | <u>(991,344)</u> | <u>(11,906,366)</u> | <u>(307,444)</u> | <u>(1,081,070)</u> |
| Income (Loss) for the year in accordance with United States generally accepted accounting Principles | \$ (625,158) | \$ (10,875,674) | \$ (757,676) | \$ (1,677,661) |
| Earnings (Loss) per share in accordance with United States generally accepted accounting principles | (0.01) | \$ (0.21) | \$ (0.01) | \$ (0.02) |
| Dilutive earnings per share in accordance with United States generally accepted accounting Principles | (0.01) | \$ (0.21) | \$ (0.01) | \$ (0.02) |

13. RELATED PARTY TRANSACTIONS

During the year, the Company entered into the following transactions with related parties:

- Paid or accrued consulting and management fees of \$402,335 (September 30, 2000 - \$308,003) to directors of the Company and companies related to directors and an officer of the Company.
- Paid or accrued legal fees of \$437,165 (September 30, 2000 - \$271,318) to a company related to a director of the Company.

14. INCOME TAXES

The Company has non-capital losses, which may be carried forward and applied against taxable income in future years. These losses expire during the following years:

| | |
|------|----------------------|
| 2001 | \$ 12,035,472 |
| 2002 | 13,355,097 |
| 2003 | 25,496,643 |
| 2004 | 5,221,043 |
| 2005 | 3,816,819 |
| 2006 | 926,839 |
| 2007 | <u>6,296</u> |
| | <u>\$ 60,858,209</u> |

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15. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

| | Nine Month Period Ended September 30, 2001 | Nine Month Period Ended September 30, 2000 | Three Month Period Ended September 30, 2001 | Three Month Period Ended September 30, 2000 |
|----------------------------------------------|-----------------------------------------------------|-----------------------------------------------------|------------------------------------------------------|------------------------------------------------------|
| Cash paid during the period for interest | \$ 1,531,121 | \$ 879,692 | \$ 233,712 | \$ 405,789 |
| Cash paid during the period for income taxes | \$ - | \$ - | \$ - | \$ - |

Significant non-cash transactions for the nine month period ended September 30, 2001 included:

- i) The Company issued 65,466 common shares, with a deemed value of \$104,550, for management fees.
- ii) The Company issued 450,000 common shares, with a deemed value of \$531,000, for legal fees.
- iii) The Company issued 4,142,029 common shares, with a deemed value of \$5,574,487 to acquire El Callao Mining Corp.
- iv) The Company issued 2,723,355 common shares upon conversion of convertible notes and accrued interest in the amount of \$3,376,759.
- v) The Company applied \$240,696 of the deferred financing fees against share capital upon conversion of notes to common stock.
- vi) The Company issued 1,025,000 common shares for private placement in the amount of \$1,955,644.
- vii) The Company issued 3,076,615 common shares, with a deemed value of \$8,554,548, for loan payments.
- viii) The Company issued 67,059 common shares, with a deemed value of \$89,189, for broker fees.

Significant non-cash transactions for the nine month period ended September 30, 2000 included:

- i) The Company issued 29,536 common shares, with a deemed value of \$69,557, for management fees.
- ii) The Company issued 200,000 common shares, with a deemed value of \$491,020, for legal fees.
- iii) The Company issued 59,124 common shares, with a deemed value of \$144,854, for finder's fees.
- iv) The Company issued 4,521,280 common shares, with a deemed value of \$10,811,473 for the Cristinas 4 and 6 property payment.
- v) The Company issued 3,757,676 common shares upon conversion of convertible notes and accrued interest in the amount of \$7,405,379.
- vi) The Company applied \$747,854 of the deferred financing fees against share capital upon conversion of notes to common stock.

16. SEGMENTED INFORMATION

The Company operates principally in four geographic areas: Brazil, Canada, Uruguay and Venezuela. The following is a summary of the information by area for the nine month period ended September 30, 2001 and 2000:

Industry segments

Substantially all of the Company's operations are within the mining sector. The Company's major product is gold produced from operations located in Venezuela and Uruguay.

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16. SEGMENTED INFORMATION (cont'd.....)

Geographic segments

| | Nine Month Period Ended September 30, 2001 | Nine Month Period Ended September 30, 2000 | Three Month Period Ended September 30, 2001 | Three Month Period Ended September 30, 2000 |
|-----------------------------------|-----------------------------------------------------|-----------------------------------------------------|------------------------------------------------------|------------------------------------------------------|
| Operating revenue: | | | | |
| Brazil | \$ - | \$ - | \$ - | \$ - |
| Canada | - | - | - | - |
| Uruguay | 29,175,755 | 27,563,301 | 8,649,449 | 10,708,980 |
| Venezuela | <u>13,055,510</u> | <u>3,802,723</u> | <u>4,983,451</u> | <u>3,802,723</u> |
| | <u>\$ 42,231,265</u> | <u>\$ 31,366,024</u> | <u>\$ 13,632,900</u> | <u>\$ 14,511,703</u> |
| Income (loss) before other items: | | | | |
| Brazil | \$ (506) | \$ (603) | \$ (186) | \$ (195) |
| Canada | (3,278,506) | (2,688,251) | (1,030,232) | (1,098,214) |
| Uruguay | 3,625,557 | 4,493,959 | (821,620) | 2,953,258 |
| Venezuela | <u>35,993</u> | <u>(10,421)</u> | <u>1,470,882</u> | <u>300,058</u> |
| | <u>\$ 382,538</u> | <u>\$ 1,794,684</u> | <u>\$ (381,156)</u> | <u>\$ 2,154,907</u> |

Income (loss) before other items is comprised of operating revenue less operating expenses including amortization and depletion, write-down of assets, general and administrative expenses and exploration expenses.

| | September 30, 2001 | September 30, 2000 | December 31, 2000 |
|----------------------|-----------------------|-----------------------|-----------------------|
| Identifiable assets: | | | |
| Brazil | \$ 1,616,583 | \$ 1,617,273 | \$ 1,617,099 |
| Canada | 5,888,456 | 5,143,973 | 5,027,547 |
| Uruguay | 45,471,734 | 47,783,508 | 46,474,263 |
| Venezuela | <u>137,080,110</u> | <u>111,625,402</u> | <u>110,967,490</u> |
| | <u>\$ 190,056,883</u> | <u>\$ 166,170,156</u> | <u>\$ 164,086,399</u> |

Major customers

The Company is not economically dependent on a limited number of customers for the sale of its products because gold commodity markets are well established worldwide. During the nine month period ended September 30, 2001 and 2000 open market gold sales accounted for \$29,175,755 and \$31,366,024 or 69% and 100%, respectively of the total sales. The Government of Venezuela accounted for the balance.

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17. COMMITMENTS

Agreement

The Company entered into an agreement ("Call Agreement") whereby it acquired an exclusive call right to acquire all of the common shares of Ventures (Barbados) Ltd. ("Ventures"). Ventures indirectly owns, as its sole material asset, the outstanding shares of Inversora Mael, C.A. ("Mael"). The directors of Ventures have granted the Company an exclusive right to acquire all of the shares of Ventures at their cost at any time. Therefore, the accounting for this transaction when it does take place will be at the cost to the Company which is equal to the directors cost, resulting in no capital distribution by the Company to the directors.

The directors' cost of acquiring the shares of Mael was US\$30 million, of which US\$6.5 million was paid as of December 31, 1998. Effective April 30, 1999, Ventures and Red Glove Corp. A.V.V. agreed to reduce the remaining portion of the purchase price from US\$23.5 million to US\$10 million plus 5 million warrants to purchase common shares of the Company at a price of US\$2 per share. As at September 30, 2000, the US\$10 million was fully paid through the issuance of common shares of the Company and US\$250,000 in cash.

The call right is irrevocable and unconditional, unless prior to its exercise a person together with any parties acting jointly or in concert with it acquires 20% or more of the outstanding voting shares of the Company without the approval of the Board of Directors. In such event, the call right will be terminated and Ventures and its shareholders will be required to dispose of the investment in Mael in a commercially reasonable manner with a view to maximizing the proceeds of such disposition. The net proceeds of disposition, whether represented by cash or securities, would be distributed after payment of liabilities to those persons who were shareholders of the Company immediately prior to the 20% ownership threshold being surpassed. Under the Call Agreement, the Company has the right to vote the shares of Ventures (See Note 6, Cristinas 4 and 6 concessions).

Hedging

The Company has entered into contractual agreements with major financial institutions to deliver gold. Realization under these agreements is dependent upon the ability of those financial institutions to perform in accordance with the terms of these agreements. As at September 30, 2001, the Company's consolidated hedging program consists of fixed forward sales contracts totalling 299,138 ounces of gold over the next four years at prices in excess of US\$300 per ounce.

The fair value of all the Company's hedge position at September 30, 2001 is \$4,962,533 (September 30, 2000 - \$4,449,174) above the carrying value of \$Nil.

18. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, marketable securities, security deposits, long-term investment securities, accounts payable and accrued liabilities, amounts due to/from related parties and long-term debt. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

At September 30, 2001 and 2000, the fair values of cash and cash equivalents, accounts receivable, marketable securities, security deposits, accounts payable, and amounts due to/from related parties approximated carrying values because of the short-term nature of these instruments, except for the fair values of the hedging contracts disclosed in Note 17.

**CRYSTALLEX INTERNATIONAL CORPORATION
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2001**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULT OF OPERATIONS**

During the period, the Company completed assay results from a diamond drill program, carried out in the fall of 2000 at its 100% owned Tomi property in Bolivar State, Venezuela, utilizing standard fire assay techniques with AA finish. The Tomi property, which the Company acquired along with the Revemin mill in August 2000 consists of four ore bodies known as Mackenzie, Charlie Richards, Milagrito and Fosforito. The gold deposits are associated with folded segments of gabbroic sills intruded within epiclastic successions of the El Callao Greenstone belt. Structurally controlled gold mineralization consists of quartz-veined, silicified, carbonatized and pyritized zones occurring along the hinges and limbs of antiforms plunging 45° to the east. The Company's geologic staff designed the year 2000 drill program to investigate the continuity of mineralization below the open pit along a projected down plunge extension of 230 m between section 720 E and 870 E. In addition, several short in-fill holes were drilled within the Main Pit (Sections 600 E – 720 E) and in the satellite West Pit and extension (Sections 420 E – 560 E). The results indicated the presence of continuous high grade mineralization below the Charlie Richards Pit between sections 720 E and 850 E.

In February of this year, the Company completed the take-over bid of all of the common shares of El Callao Mining Corp. ("ECM). The shares of ECM deposited to the offer totaled 36,575,832, representing approximately 80% of the outstanding shares of ECM. The Company paid for the ECM shares by issuing an aggregate of 2,438,352 common shares of the Company. Concurrently with the completion of the take-over bid, the Company closed its previously announced acquisition from Bema Gold Corporation ("Bema") of assets related to ECM. The principal asset purchased from Bema, previously ECM's largest shareholder, was its shareholder loan to ECM. In total, ECM's loan from the Company now totals approximately US\$15.7 million. The loan was due March 31, 2001 and is fully secured against the assets of ECM.

During the period, the Company started mining and milling ore from its La Victoria open pit, which is one of six gold deposits in the Company's recently acquired Lo Increible project in the El Callao district of Venezuela. Production is based on a mine plan that was developed by Crystallex Technical Services shortly after the Company completed its take-over bid for ECM. The Victoria ore supplements the feed from the Company's nearby Tomi mine that is also being processed through the Revemin mill, increasing the tonnes processed per day from the 1,150 tpd average in the first quarter of 2001 to 1,500 tpd. The large scale of the Victoria reserves and resource will justify the expansion of the Revemin mill to increase its throughput capacity from 1,500 tpd to 3,000 tpd. The Company is to commence a 10,000 metre diamond drill program focused on converting the inferred resources at the Victoria open pit into mineable reserves. This program, combined with the extensive drilling performed by Auriferous El Callao under the auspices of Bema, and the prefeasibility study conducted by Bema., will provide the basis for expansion of the Revemin mill.

In November, 2001, the Company concluded a positive feasibility study on the Albino and Charlie Richards underground deposits in Venezuela, prepared by Mine Development Associates ("MDA"), Reno, Nevada. Charlie Richards is one of the four deposits occurring on the Tomi concession. According to MDA's study, the combined mineable reserves of the portion of the Albino and Charlie Richards deposits that were included in the study, calculated at a gold price of US\$270 (Albino) and US\$265 (Charlie Richards), total 435,700 tonnes grading 12.67 Au. Included in the reserves are 341,630 tonnes of underground ore with a diluted grade of 14.62 g/t Au. The two underground deposits can each be mined at a rate of 350 tonnes/day, at a cash operating cost of US\$137 per ounce including mining, milling and transportation. According to MDA, the potential for increasing the high-grade underground reserves at Charlie Richards is very good. The study says "*in addition to the high probability of defining additional resources in the near vicinity of the existing mineralization, there is the potential to add significant resources down plunge along the crest of the anticline.*" The Company has reviewed the studies and subject to Board approval, will commence development of the two mines in the first quarter of 2002.

RESULTS OF OPERATIONS

For the nine month period ended September 30, 2001, the Company reported net income of \$0.9 million, or \$0.02 per share, compared to net income of \$2.9 million, or \$0.06 per share in 2000. The operating cash flow was \$4.5 million, or \$0.08 per share compared to cash flow of \$8.7 million, or \$0.17 per share, in 2000.

Revenue from gold sales of \$42.2 million in 2001 was up from \$31.4 million in 2000. The Company currently operates the San Gregorio open pit mine in Uruguay and the Tomi and the La Victoria open pit mines in Venezuela. The higher revenue in 2001 reflects the additional production associated with the acquisition of Bolivar Goldfields A.V.V. ("Bolivar"), which the Company completed during the third quarter of 2000 and the acquisition of the El Callao Mining Corp, completed in the first quarter of 2001. The Company produced 81,317 ounces of gold compared to 65,264 ounces in 2000. Of the 81,240 ounces of gold in 2001, 48,890 ounces (approximately 60%) is from the Uruguay mine and 32,350 ounces (approximately 40%) is from the Venezuela mines. During the period, open market gold sales accounted for \$29,175,755 (approximately 69%) of the total sale and the Government of Venezuela accounted for the balance. During the period, the Company realized average revenue of \$519 per ounce as compared to \$481 per ounce, for the same period in 2000.

The Company's operating costs were \$6.3 million in 2001 compared with \$7.1 million in 2000. On a per ounce basis, costs of operations were at \$362 and \$306 for 2001 and 2000 respectively. During the first quarter, the Company commenced preparation for open pit operations at La Victoria, one of six open pit deposits within the Lo Increible project, performed maintenance and upgrades to the Revemin mill and processed lower grade material at the Company's San Gregorio operation, which all contributed to the increased costs.

Expenses in 2001 were relatively constant at \$5.9 million when compared with \$5.3 million in 2000. Interest on long-term debt increased to \$1.6 million from \$0.9 million in 2000, due to the increased loan associated with the acquisition of Bolivar.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

The cash provided by operating activities was \$4.5 million in 2001 compared with \$8.7 million in 2000. The 2001 cash flow from operating activities was used to finance capital expenditures and service existing debt.

The increase in the deferred financing fees relates to the increase in the convertible notes. These notes mature on April 26, 2003 and are convertible into common shares of the Company. The reduction in current portion of long-term debt from \$6,071,410 at September 30, 2000 to \$2,289,986 at September 30, 2001 was an arrangement agreed upon between the bank and the Company during the 4th quarter of 2000 in a term loan that refinanced existing debt incurred in the acquisition of Minera San Gregorio in Uruguay and the asset of Bolivar Goldfields, A.V.V. in Venezuela. The Company is compliance with all debt covenants.

Investing Activities

During the period, the Company completed the take-over bid of ECM, acquiring approximately 80% of the outstanding common shares of ECM and, from Bema, assets related to ECM. As a result of the acquisition, the Company now controls the Lo Increible project in Venezuela. Also, as a result, the September 30, 2000 \$4.5 million deferred acquisition costs, which related to an amount paid to Bema were applied as part of the acquisition. The total consideration paid was \$15,113,981, of which \$9,963,452 was in cash and a deemed value of \$5,150,520 in common shares of the Company.

In February 1999, ECM released the results of a pre-feasibility study completed by Bema and independently audited by Mineral Resource Development Inc. ("MRDI"). A geological resource of 24.1 million tonnes grading 3.3 g/t gold, containing 2.6 million ounces of gold at a 1.0 g/t cut-off was outlined from the 302 holes (49,377 metres of drilling) incorporated into the report. From this resource, the study identified a mineable open pit reserve of 11.4 million tonnes of ore grading 3.3 g/t, containing 1.2 million ounces of gold at an average waste to ore stripping ratio

of 6.7 to 1. An additional 1.34 million tonnes at 6.8 g/t (305,000 ounces using a 5 g/t cut-off) were identified as extensions to the two largest and closest deposits, La Victoria and La Cruz, which may have the potential to be mined in the future on an underground basis.

Financing Activities

Financing activities generated \$8.4 million in 2001, representing the proceeds from debt draw downs as well as warrants and stock options exercised during the period.

Consolidated cash and cash equivalents were \$4.9 million as of September 30, 2001 as compared to \$4.4 million on December 31, 2000. Depending upon the Company's acquisition, capital expenditure, and corporate development plans, the Company may raise additional funds through the use of non-recourse project finance loans, lines of credit, or the sale of the Company's securities.