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WCM CAPITAL INC  
Form 10KSB  
April 01, 2002

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-KSB

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED] OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the fiscal year ended 12/31/01  
Commission File No. 0-9416

WCM CAPITAL, INC.  
(Name of small business issuer in its charter)

Delaware  
(State or other jurisdiction of  
Incorporation or organization)

13-2878202  
(I.R.S. Employer  
Identification No.)

P.O. Box 344, Millburn, New Jersey, 07041  
(Address of principal executive offices)

Issuer's telephone number: 212-344-2828

Securities Registered under Section 12(b) of the Exchange Act: None

Securities Registered under Section 12(g) of the Exchange Act: Common

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes X No   

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

State issuer's revenues for its most recent fiscal year. \$ [ none ]

State the aggregate market value of the voting and non-voting common equity stock held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity as of a specified date within the past 60 days. \$329,691.75.

State the number of shares outstanding of each of issuers' class of common equity, as of the latest practical date. 1,318,767 as of March 28, 2002.

DOCUMENTS INCORPORATED BY REFERENCE IN PART III - SIX  
Transitional Small Business Disclosure Format (check one) Yes    No X

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### PART I

#### Item 1. Description of Business

##### General

The Company incorporated on December 1, 1976 under the laws of the State of Delaware, is engaged in the exploration, development and mining of precious and nonferrous metals, including gold, silver, lead, copper and zinc. The Company owns or has an interest in a number of precious and nonferrous metal properties. The Company's principal mining property is the Franklin Mines, located near Idaho Springs in Clear Creek County, Colorado, for which the Company acquired the exclusive right to explore, develop, mine and extract all minerals located in approximately 51 owned and/or patented mining claims (the "Franklin Mines") and a crushing and flotation mill which is located on the site of the Franklin

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Mines (the "Franklin Mill"). The Company cannot assure that a commercially mineable ore body, i.e. a reserve, exists in the properties comprising the Franklin Mines, which has been maintained in "stand by" condition since our inception. None of our properties were operational in fiscal year 2001.

### History and Development of the Company

The claims that comprise the Franklin Mines are located on a site upon which placer gold was discovered above the ground at Idaho Springs, Colorado in 1859. The Franklin Mines vein system was discovered in 1865. Thereafter, mining commenced on the site in 1865 and continued on an almost uninterrupted basis through 1915 until the outbreak of World War I caused curtailment of mining operations in the area. The principal minerals extracted during this period were gold, silver, lead, copper, and zinc. The Franklin Mines have not operated on a continuous or consistent commercial basis since 1915.

On December 26, 1976, the Company acquired Gold Developers and Producers Incorporated, a Colorado corporation that leased 28-patented mining claims from Audrey and David Hayden and Dorothy Kennec pursuant to a mining lease and option to purchase, dated November 12, 1976 (hereinafter collectively referred to as the "Hayden/Kennec Leases"). In 1981, the Company commenced a rehabilitation program to extend and rehabilitate the shafts and tunnels in place at the Franklin Mines, install the Franklin Mill and search for and delineate a body of minerals. The Company completed the Franklin Mill, which is capable of crushing, processing and concentrating approximately 150 tons of minerals per 24-hour period, in 1983.

### Operations at the Company's Mining Properties

Since its inception, the Company has spent significant monies constructing the Franklin Mill, rehabilitating the Franklin and Freighters Friend shafts and underground workings and constructing surface support facilities of the Franklin Mines. In recent years, the Company has (a) instituted a plan for quarterly ground water monitoring which includes surface water and ground water sampling plans, (b) taken steps to correct run-off problems associated with the Tailings Pond disposal areas currently located on the property, (c) reclaimed the lined tailings ponds located adjacent to the Franklin Mill, (d) set forth preliminary plans for the installation of a paste backfill system for tailings disposal and (e) applied to the Colorado Division of Minerals and Geology, the state governing authority for mining and milling (the "DMG") for expansion of the permitted area at the Franklin Mines and Franklin Mill to allow for performance of certain of the remediation work outlined above.

In addition, the Company has instituted an environmental protection plan containing emergency response plans for designated chemicals which may be used on site and appropriate measures consistent with local government agencies to prevent damage to area wildlife from chemicals,

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toxic or acid forming materials and/or acid mine drainage. The Company's plan has been approved by the DMG.

#### (1) The Franklin Mining Properties

During fiscal years 2000 and 2001, no exploration activities were conducted at the Franklin Mine. The Company continued its rehabilitation and reclamation efforts as required by current DMG regulations. Specifically, the Company continued with its water monitoring programs and commissioned additional reports and research into claims located on the mining property.

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On January 5, 2000, the Company submitted a letter to the DMG to clarify why, among other things, it has not completed all of the recommended preventive measures at the site, specifically with respect to its tailings ponds. The Company explained its difficulty in obtaining needed financing to continue its reclamation and remediation plans and to begin mining and milling operations at the Franklin Mines due to the depressed price of gold.

On February 7, 2000, the DMG responded to the Company's correspondence with a recommendation that the Company's mining permit be placed in Temporary Cessation. Temporary Cessation is a limited period of non-production, which results when an operator plans to temporarily cease production for at least 180 days upon the filing of notice thereof with the DMG. In the event that a Temporary Cessation is granted, no further reclamation work or mining work would be required for the duration of the Temporary Cessation, beyond basic maintenance and reclamation required to keep the site from further deterioration. The DMG further indicated that should the Company choose to apply for Temporary Cessation, certain of the tailings pond area would be required to be stabilized and the groundwater and the stability of the tailings ponds must be protected from further deterioration. The DMG required that any notice of Temporary Cessation submitted must specifically address an alternative interim reclamation plan for Tailings Pond No. 5 as well as outlining the temporary stabilization measures needed to comply with these requirements.

As recommended by the DMG, the Company requested for a change of status of its permit to Temporary Cessation on March 7, 2000. Following a meeting of the DMG and representatives of the Company held on February 10, 2000, the DMG set forth the measures in a letter, dated March 9, 2000, which must be taken by the Company to bring the site into compliance with groundwater regulations and to stabilize the tailings pond and site during the Temporary Cessation.

On November 5, 2001, the Company's application for Temporary Cessation of its permit was granted by the DMG. The Temporary Cessation status of the permit is deemed to commence on the day our application was submitted to the DMG which was March 7, 2000. In accordance with Section 1.13.8 and 1.13.9, our Temporary Cessation status may continue in effect for not more than five years from the beginning of such status. The Company may apply for an extension of this time provided that we submit an extension request to the DMG stating the reasons for the continuation of this status and the plans for resumption of operations. However, in no event can the Temporary Cessation exceed ten years. While the Company's permit is in Temporary Cessation, we will still be required to continue our water monitoring programs and maintain the property in its current condition.

The Company has not conducted any commercial mining operations during fiscal years 2000 and 2001 and, as a result, had not generated any revenues from operations at the Franklin Mine in those years. Therefore, the Company remains in the exploration stage. Moreover, since the Company's permit has been placed in Temporary Cessation, it is unlikely that the Company will commence exploration in the near future. The Company, however, plans to continue to work closely with the Federal and Colorado state mining regulatory agencies as required by law to maintain its properties until such time as exploration activities can recommence.

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### (2) Other Ventures

On January 18, 2000, the Company, Mr. William C. Martucci, a director of the Company and USM entered into an agreement whereby the Company would acquire USM

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in exchange for approximately 85% of the issued and outstanding shares of the Company on the closing date. The parties were unable to consummate the transaction and the contract expired on September 30, 2000. See Item 12-Certain Transactions and Related Parties.

### Employees and Technical Consultants

The Company had no full-time employees. The Company's executive officers serve as needed on a part-time basis for no compensation. The Company will engage technical personnel and other qualified consultants and experts on a contract or consulting basis as needed.

On or about June 1, 2000 the Company issued 169,750 shares of Common Stock to Richard Brannon, a Vice President of the Company and 153,690 shares of Common Stock to Joseph Laura, a consultant of the Company. The shares were issued to Laura as compensation for services rendered and to Brannon for present and future services rendered in connection with the Company's mining business. These shares were registered by the Company on Form S-8 on or about June 6, 2000.

On or about December 29, 2000, the Company entered into Agreements with each of Mr. Brannon and Mr. Laura regarding the issuance of shares to them as compensation for services. Pursuant to these Agreements, the Company rescinded its agreement to issue shares to each of Mr. Laura and Mr. Brannon but acknowledged indebtedness to Laura of \$716,500 set forth in the original Agreement and consulting fees of approximately \$175,000 which were earned by Mr. Brannon from May 2000 through December 31, 2000.

On or about September 28, 2001, the Company filed an S-8 registration statement pursuant to which the Company agreed to issue and register common stock of the Company to certain consultants as compensation for a variety of services rendered thereby. As of the date hereof, none of the stock registered in the form S-8 has been issued.

### Item 2. Properties

#### Glossary of Terms

Assay	A chemical evaluation of metal content conducted After mining ore.
Backfill	Mine waste which is disposed of underground in a formerly mined area.
Chalcopyrite	A mineral containing copper, iron and sulphur.
Exploration	Stage Company Companies engaged in the preparation of an Established commercially mineable deposit or reserve for its extract which are not in the production stage.
Dip	An angle measured in degrees from the horizon.
Fault	A fracture in the earth through which mineralizing solutions may rise and form a vein.

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Fault System	A large regional fracture.
Footwall	That portion of the vein which is located below.

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Galena	A mineral containing both lead and sulphur.
Hanging wall	That portion of the vein which is overhead.
J.L. Emerson Fault	A large fracture in the earth' s crust located in the Franklin Mine area.
Main Trunk	A highly mineralized portion of the J.L. Emerson fault located on the properties constituting the Franklin Mines.
Microcline gneiss	A type of rock found at the Franklin Mine.
Mill	The plant facility where the metals constituting the ore are removed from mined rock.
Mineralized Material or Deposit	A mineralized body which has been delineated by appropriate or Deposit drilling and/or underground sampling to support sufficient tonnage and average grade of metals under SEC standards. Such a deposit does not qualify as a reserve until a comprehensive evaluation, based upon unit cost, grade, recovers and other factors, concludes economic feasibility.
Monzonite	Intrusive rock types containing large Amounts of quartz and often the progenitor of metallic, mineralizing solutions.
Orogeny	An event causing a major upheaval or reshaping of the earth's crust, such as volcanism, mountain building or ore formation.
Paste	Backfill Procedure in which backfill is treated with certain chemicals to solidify the same to prevent seepage.
Pillars	Unmined sections of ore in a stope.
Pre-Cambrian age	A time period in history dating back approximately 600 million years ago.
Probable(Indicated) Reserves	Reserves for which quantity and grade and/or quality and computed from information similar to that used for proven reserves, but the site for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven reserves, is high enough to assume continuity between point of observation.

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Proven(Measured) Reserves	Reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade quality are computed from the results of detailed sampling and (b) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves
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are well established.

Pyrite	A mineral containing both zinc and sulphur.
Raise	A tunnel driven upward from a level.
Reserves	A reserve is that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination.
Shaft	A vertical tube-like opening whereby miners enter the mine.
Sphalerite	A mineral containing both zinc and sulphur.
Strike	In a horizontal direction.
Stope	The area of the mine where miners extract mineral deposits from the mine.
Tailings	Waste, which is produced by the Mill.
Tailings Pond	The location where mill wastes are deposited.
Telluride	A mineral containing tellurium often found with quantities of gold and/or silver and sulphur.
Tennentite	A complex mineral containing copper, antimony or silver.
Tertiary	Period A time period in history dating back approximately 40 to 70 million years ago.
Vein	A fracture in the earth's crust where minerals have been deposited.
Winze	A tunnel driven downward from a level.

### Colorado Mining Properties

The property which constitutes the Franklin Mines consists of (i) leasehold interests in the mineral rights to 28 claims comprising approximately 322 acres evidenced by the Hayden/Kennec Leases and (ii) an additional 23 claims leased and/or purchased by the Company comprising approximately 20 additional acres, for a total of 51 claims over 340 acres. The Franklin properties include all improvements made by the Company thereon, including the Franklin Mill capable of

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supporting up to a 150 ton per day operation in its present state. The Company is required to pay taxes and certain other expenses relating to the properties leased. Management believes that it currently maintains adequate insurance for all of its mining properties.

### Hayden/Kennec Leases

Under the original terms of the Hayden/Kennec Leases, which expired in November 1996, the Company was required to pay an aggregate minimum royalty payment of \$2000 or 5% of the net smelter royalties realized by the Company to Mrs. Hayden and Mrs. Kennec. The Company was also required to pay all other amounts with

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respect to maintenance and upkeep of the property including any taxes. The Hayden/Kennec Leases also contained an option to purchase the leased mineral rights for a purchase price of \$1,250,000 less all royalty payments made during the term of the lease.

As of the expiration date, the Company had paid \$480,000 in royalties, which would have set the option price at \$770,000. In November 1996, the Company was granted a one-year extension of the Hayden/Kennec Leases under the same terms and conditions.

In late 1997, the Company had been in discussions with Martucci to effectuate a business combination with certain of his entities. See Item 12 - Certain Relationships and Certain Transaction. During these discussions, the Company explained to Martucci the situation regarding the Hayden/Kennec leases. By this time, the extension period was set to expire and the Company was unsuccessful in its efforts to renegotiate the terms of the lease. In addition, Mrs. Hayden had entered into an agreement with Gems & Minerals Corp., a former joint venture partner of the Company, to sell her 50% interest to Gems for a cash payment. This purchase agreement was set to expire and it was unlikely that Gems would consummate the purchase by the expiration date. Additionally, the Company was in the process of severing its relationship with Gems, which would further aggravate the situation regarding the leases.

The Company explained to Martucci the importance of maintaining an interest in the mineral rights covered by the Hayden/Kennec Leases as they represent over 50% of the mineral claims available to the Company for exploration and development. Since the Company did not possess the funds to purchase the Hayden Interest and was unsuccessful in its efforts to renegotiate the Hayden/Kennec Leases, USM began negotiations with Mrs. Hayden to acquire her interest.

On November 13, 1997, just prior to the expiration of the extension period of the Hayden/Kennec leases, USM entered into an agreement with Mrs. Hayden to purchase her 50% interest (the "Hayden Interest") in the mineral rights (the "Purchase Agreement"). Mrs. Hayden had sold her portion of the surface rights to the Company in August 1982.

Pursuant to the Purchase Agreement, Mrs. Hayden agreed to sell to USM the Hayden Interest for \$75,000, which would be evidenced by a note issued to Hayden by USM at the consummation of the sale. The Purchase Agreement also contained a provision that extended the Hayden/Kennec Leases with respect to the Hayden Interest until March 13, 1998 and required USM to pay royalty payments of \$1,000 per month.

As of the date hereof, USM has not consummated the purchase of the Hayden Interests because of title issues pertaining to the ownership of the properties; however, the terms of the Purchase Agreement remain in effect. Mrs. Hayden and U.S. Mining have mutually agreed to no longer extend the Hayden/Kennec Leases. Since November 1997, USM has paid royalty payments to Mrs. Hayden of approximately \$54,000 through December 31, 2001.

Fifty percent (50%) of the rights comprising the original Hayden/Kennec Leases are owned by Mrs. Kennec (the "Kennec Interest"). Upon the expiration of extension period of the Hayden/Kennec Leases, the Company entered into an extension agreement with Mrs. Kennec to extend the Hayden/Kennec Leases as they pertain to the Kennec Interest until March 12,

1998. No further extensions have been granted by Mrs. Kennec and the Company is not in discussions with Mrs. Kennec regarding her interest in the mineral



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rights. While the Company had discussions with Mrs. Kennec in the past regarding her interests, we could not come to terms acceptable to either party. The Company has not had meaningful discussions with Mrs. Kennec in some time and it is unlikely that negotiations will resume with Mrs. Kennec any time in the near future.

Currently, the ability of the Company to exploit the mineral rights evidenced by the Hayden/Kennec Leases is unclear. In 1994, Gems received an opinion of counsel from Freeborn & Peters, stating that Colorado Law would permit the exploitation of the mineral rights that are not 100% owned by one party so long as the non-participating owner (Mrs. Kennec) is paid whatever net profits are owed to her upon commencement of operations. Since USM is in a position to purchase the Hayden Interest, we are hopeful that our inability to come to an Agreement with Mrs. Kennec with respect to the Kennec Interest will not prohibit us from exploiting these mineral rights. Our belief assumes that we maintain our relationship with USM and that USM will consummate the purchase of the Hayden Interest and allow us to exploit these claims.

It is important to note that since the legal opinion on which we are relying is several years old, the statements made may be out of date and may not apply to our current situation. In the event that the advice rendered in the opinion letter is not applicable, the fact that the Company does not own a 100% interest in the mineral rights subject to the Hayden/Kennec Leases may severely limit the ability of the Company to exploit these minerals should we decide to commence operations in the future. Currently, the matter of ownership rights of the mineral rights covered to the Hayden/Kennec leases are the subject of a legal proceeding, in District Court, Clear Creek County Colorado (Case No. 01CV76) against Audrey L. Hayden, Gold Developers and Producers, Inc., U.S. Mining, Inc., Franklin Consolidated Mining Co., Inc. and the Company as occupants and all other persons claiming an interest in certain properties and mineral rights located in Idaho Springs, Clear Creek County, Colorado. For more information concerning this proceeding, See Item 3 Litigation, Kennec v. Franklin Mining Co. et al. Moreover, if USM fails to acquire the mineral rights from Mrs. Hayden prior to the expiration of the Purchase Agreement or if USM should acquire the rights but decide not to allow the Company access to them, the Company will no longer have any access to the mineral rights covered by the Hayden/Kennec Leases.

### Location and Access

The Franklin Mines and Franklin Mill are located in Clear Creek County, Colorado, approximately 2.7 miles north of the town of Idaho Springs, which is accessible from Interstate 70 approximately 33 miles west of Denver. The mine location is accessible year round, except in the case of a major snowstorm in winter months.

### Mineralization in the Area

Most of the minerals deposition in the area where the Franklin Mine is located has been credited to the period of the Laramide Orogeny. Minerals extracted from the region included gold, silver, copper, lead, zinc, and uranium. By far the largest single metal values were in gold, with silver being a distant second. Though many of the smaller veins located in the area pinched out at moderate depth, some have shown strong mineralization at greater depths.

The minerals deposits are of four types: (i) pyritic gold minerals; (ii) galena-sphalerite minerals; (iii) composite (pyrite-galena-sphalerite) minerals and (iv) telluride minerals. Pyritic gold minerals are chiefly associated with pyrite, chalcopyrite, and tennentite. The "composite minerals" are believed to be the result of two or more periods of mineralization, with pyritic minerals first and galena-sphalerite second; mineral content varies widely with the relative

percentage of the different types of ore present. Telluride minerals are present mostly in the Northeast corner of the district, but some telluride minerals have been noted elsewhere.

#### Geology of the Franklin Mines

The rocks most commonly seen in the Franklin Mines are Pre-Cambrian age granite and microcline gneiss. Tertiary Period, monzonite, the most common of which is quartz monzonite, can be seen on the ninth level and are reported from lower levels in the Gem vein or Gem workings of the Franklin Mines. The general strike of the system is N75 degrees W with dips varying from 45(0) to 79(0).

The structure of the mines is controlled by the J.L. Emerson Fault system that runs in a west-northwest direction across the whole property and beyond. Secondary to the J.L. Emerson Fault are multitudes of small fissure veins that are parasitic to the main break. Some of these veins contribute to considerable mineralization where they intersect the J.L. Emerson Fault structure. These mineral bodies are observable in several locations in the Franklin 73 mine and the Gem mine, one measuring 22 feet wide and 60 feet in length. It has been reliably reported that some of the large stopes mined in the Gems workings measured up to 105 feet in width.

#### Estimated Mineralized Material

Mineralization of the Franklin Mine and associated Gem, the Freighter mines is that generally associated with the "Main Trunk" of the J.L. Emerson Fault. No reference is being made regarding the mineral potential of structures situated adjacent to, or off the "Main Trunk".

Sampling by the channel sample method was conducted during the period of 1975 through 1993 with assaying provided by the Franklin and other accredited assay laboratories. Assays were also obtained from the old Gem Mining Co. mine assay map, dated 1921 (the "Gems Assay Map"). The sampling process was carried out at right angles to the strike of the veins. Blocks were sampled on three or four sides and at times within by raise or winze. Those blocks, which were extensively mined, were entered where possible through open stopes with both pillars and "backfill" being sampled.

The Franklin mineral structure is generally a tabular structure in shape and consisting of several parallel to sub-parallel veins, striking in a westerly direction and dipping at 45(0) to 79(0) north. Its depth is unknown.

The J.L. Emerson Fault is a large regional structure, striking east to west and having an irregular plain that dips to the north at 45 to 79 degrees. The J.L. Emerson Fault is associated throughout with a series of parallel to sub-parallel sigmoidal shaped fractures that may focus east or west on the principal fault plain. These fracture patterns are found on nearly all levels and represent important Parallel mineralized fault fractures, the so-called "footwall" and "hanging wall" veins. Each of the principal veins has historically contributed to production in the Gem vein. A second set of true fissure veins of a later date and striking northeast and southwest interdict the J.L. Emerson Fault at several points, but does not cross. These veins are of unknown economic potential.

The mineral structures in the Franklin Mines are often large, but poorly defined. It was suggested that a core-drilling program be conducted at promising locations to determine mineralized zones therein.

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The Company has not developed a systematic exploration methodology to increase the tonnage of mineral deposits, which have been drilled and channel sampled by our geologists due to the fact that the Company is in the process of placing its mining permit in Temporary Cessation. There is no assurance that any reserves exist in the Franklin Mine system. Moreover, mining activities are not possible without the existence of a commercially viable ore body. A core-

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drilling program and a comprehensive economic evaluation will be required to determine whether a commercially viable ore body exists and whether it is economically Feasible to exploit such ore body should one exist.

### Operations

The Company ceased all reclamation and rehabilitation activities during 2000 and 2001 so as to focus its efforts on preparing its properties for Temporary Cessation. Our application was approved by the DMG on November 5, 2001.

USM has verbally pledged to continue to provide financing to the Company on an as needed basis through December 31, 2002. This financing is in addition to the advances made to the Company by USM from 1998 through December 31, 2001. Other alternatives such as private placements, loans, or public offerings may be considered for future operating capital; however, it is uncertain as to whether any of these financing options will be viable alternatives for the Company's capital needs.

As mining is a regulated business, compliance with regulatory requirements of the various agencies having jurisdiction over the Company's activities may cause delays in the schedules set by the Company for returning the status of its permit to active and performing work as may be needed from time to time. Moreover, capital outlays in excess of those anticipated may be required by regulatory bodies; thus adversely affecting the scope and timing of future plans and operations.

### Mill/Metallurgy

In the past, the Franklin Mill operated on a limited schedule while exploration and development was taking place. While the Franklin Mill has not operated with respect to the milling of minerals, limited-crushing activities took place in early 1996 for the purpose of preparing bulk mineral samples for assay. No crushing activities were conducted in fiscal year 2001 and it is unlikely that the Company will conduct any crushing activities in 2002.

### Offices of the Company

The Company maintains its executive offices in Millburn, New Jersey and maintains an office on site at the Franklin mine in Idaho Springs.

### Item 3. Legal Proceedings

The Company, from time to time, may become involved in various legal actions associated with the normal conduct of its business operations. No such actions, other than those set forth below, involve known material gain or loss contingencies not reflected in the Company's financial statements.

### Convertible Debentures

On June 1, 1994, the Company advised the Transfer Agent/Trustee that the Company

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was not in compliance with certain of the terms of the indenture (the "Indenture") relating to the Company's 12 1/4% Convertible Debentures (the "Debentures") in that it had not maintained current filings with the Securities and Exchange Commission (the "Commission") as required. Accordingly, the Transfer Agent/Trustee was instructed not to convert any of the Debentures into Common Stock of the Company until such time as the Company notified the Transfer Agent. The Company failed to make required sinking fund payments in 1994 and was unable to pay the principal balance of the Debentures due on December 31, 1994 resulting in default under the terms of the Indenture.

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In September, 1997, certain of the Company's 12 1/4% Convertible Debenture holders, including the Hopis Trust (the "Plaintiff Debentureholders") instituted an action in the Supreme Court of the State of New York against the Company for payment on approximately \$42,500 principal amount of Debentures plus accrued and unpaid interest totaling approximately \$13,000 and other costs and expenses related thereto.

Thereafter, the Plaintiff Debentureholders moved for summary judgment against the Company. The Company did not to oppose the motion and default was entered against the Company in the amount of \$42,500 plus interest, costs and disbursements (the "Default"). Moreover, the issue of attorney's fees was severed from the case and all to be set down for an inquest.

In February 1998, USM entered into an Agreement with the Plaintiff Debentureholders agreeing to pay the Judgment plus certain additional costs in the event that the Company fails to pay the Judgment and USM consummates the Transaction with the Company. In the event that USM did not consummate the Transaction by July 12, 1998, USM agreed to pay the Plaintiff Debentureholders \$5,100 for their Agreement not to enter the Judgment against the Company or pursue the inquest. Plaintiff Debentureholders agreed not to enter the Judgment against the Company until July 12, 1998 or until USM notifies them that it will not pursue the Transaction.

On or about April 6, 1998, Martucci terminated his letter of intent to consummate the Transaction with the Company. Despite such termination, Plaintiff Debenture holders agreed to extend the terms of their Agreement with USM through December 1998. As of date hereof, the Company is not aware of any further extension nor, to its knowledge has the Judgment been entered. If the proposed settlement is not consummated, there can be no assurance that the Judgment will not be entered and the Company will be required to pay the amount of the Judgment, including any costs, interest and penalties related thereto.

The continued default in the Debentures by the Company may result in Company being subject to additional legal proceedings by the Transfer Agent/Trustee under the Indenture or from other holders seeking immediate payment of the \$102,500 plus related interest and penalties. While the Company hopes to cure the default or, in the alternative, reach an acceptable settlement arrangement with the holders, there can be no assurance that the funds will be available in the future to meet all of the Company's obligations.

On November 2, 2000 American Stock Transfer and Trust Company served the Company with a summons, as Trustee under the Indenture dated January 2, 1990 to receive damages on behalf of the holders of the Company's 12-1/4% Convertible Debenture Holders in the amount of \$142,000.00 plus interest and other fees. This action is as a result of the default on the Debentures described above and are separate and apart from the September 1997 action, which involves specific debenture holders.

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On or about October 4, 2001 AST filed a motion for default judgment against the Company in Supreme Court, New York County for the entire amount of the unpaid debentures (including those holders represented separately in the Hopis Trust litigation) plus interest, attorney's fees costs and expenses. AN Order and Judgment was entered in Supreme Court, New York County on January 29, 2002 in the amount of \$142,000, plus interest compounded at the contractual rate of 12 1/4% from April 1, 1995 to the date of entry of the Judgment (January 29, 2002) in the amount of \$181,086.58 plus interest at the statutory rate of 9% per annum thereafter, plus attorneys fees in the amount of \$4653.73 plus costs and disbursements in the amount of \$ 445.00, for a total amount of \$328,185.31.

### NASDAQ Delisting

On or about October 5, 2001, the Company received a delisting notification from the NASDAQ Stock Market pursuant to which the Staff determined that the Company failed to comply with the filing, net tangible assets/shareholders' equity/market capitalization/ net income and disclosure

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requirements, as set forth in the Nasdaq Marketplace Rules 4310(c)(14), 4310(c)(02)(B) and 4310(c)(16). In addition, the Staff cited the Company for certain public interest concerns, as referenced in Marketplace rules 4300 and 4330(a)(03). On or about October 12, the Company sent a formal request for continued listing on the Nasdaq SmallCap Market, notwithstanding the Staff's determinations as set forth above. On or about October 16, 2001, the Company received confirmation that our request will be considered at an oral hearing to be held before a Panel authorized by the Board of Directors of the Nasdaq Stock Market, Inc. Board of Directors on Thursday, November 15, 2001 at 9:30 a.m. in Washington DC. The Company voluntarily withdrew its request for hearing prior to its November 15, 2001 hearing date and its securities were withdrawn on November 13,th, 2001.

Currently the Company's stock is traded on the "pink sheets" under the symbol "WCMC") and is subject to the "penny stock" trading rules. The penny stock trading rules impose additional duties and a responsibility upon broker-dealers if they recommend the purchase of a penny stock (by a purchaser that is not an accredited investor as defined by Rule 501(a) promulgated by the Commission under the Securities Act) or the sale of a penny stock. Among such duties and responsibilities, with respect to a purchaser who has not previously had an established account with the broker-dealer, the broker-dealer is required to (i) obtain information concerning the purchaser's financial situation, investment experience, and investment objectives, (ii) make a reasonable determination that transactions in the penny stock are suitable for the purchaser and the purchaser (or his independent adviser in such transactions) has sufficient knowledge and experience in financial matters and may be reasonably capable of evaluating the risks of such transactions, followed by receipt of a manually signed written statement which sets forth the basis for such determination and which informs the purchaser that it's unlawful to effectuate a transaction in the penny stock without first obtaining a written agreement to the transaction. Furthermore, until the purchaser becomes an established customer (i.e., having had an account with the dealer for at least one year or, the dealer had effected three sales or more of penny stocks on three or more different days involving three or more different issuers), the broker-dealer must obtain from the purchaser a written agreement to purchase the penny stock which sets forth the identity and number of shares of units of the security to be purchased prior to confirmation of the purchase. A dealer is obligated to provide certain information disclosures to the purchaser of penny stock, including (i) a generic risk disclosure document which is required to be delivered to the purchaser before the initial transaction in a penny stock, (ii) a transaction-related disclosure prior to

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effecting a transaction in the penny stock (i.e., confirmation of the transaction) containing bid and asked information related to the penny stock and the dealer's and salesperson's compensation (i.e., commissions, commission equivalents, markups and markdowns) connection with the transaction, and (iii) the purchaser-customer must be furnished account statements, generally on a monthly basis, which include prescribed information relating to market and price information concerning the penny stocks held in the customer's account. The penny stock trading rules do not apply to those transactions in which the broker-dealer or salesperson does not make any purchase or sale recommendation to the purchaser or seller of the penny stock.

Required compliance with the penny stock trading rules affect or will affect the ability to resell the Common Stock by a holder principally because of the additional duties and responsibilities imposed upon the broker-dealers and salespersons recommending and effecting sale and purchase transactions in such securities. In addition, many broker-dealers will not effect transactions in penny stocks, except on an unsolicited basis, in order to avoid compliance with the penny stock trading rules. The penny stock trading rules consequently may materially limit or restrict the liquidity typically associated with other publicly traded equity securities. In this connection, the holder of Common Stock may be unable to obtain on resale the quoted bid price because a dealer or group of dealers may control the market in such securities and may set prices that are not based on competitive forces.

Furthermore, at times there may be a lack of bid quotes which may mean that the market among dealers is not active, in which case a holder of Common Stock may be unable to sell such

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securities. Because market quotations in the over-the-counter markets are often subjected to negotiation among dealers and often differ from the price at which transactions in securities are effected, the bid and asked quotations of the Common Stock may not be reliable.

Management is hopeful that the Company's Common Stock will qualify for trading on the Over-The-Counter/Bulletin Board ("OTC") market in the future and the Company will continue to make every effort to include its Common Stock on the OTC.

Kennec v. Franklin Mining Co. et al.

On or about September 4, 2001, Dorothy L. Kennec commenced an action in District Court, Clear Creek County Colorado (Case No. 01CV76) against Audrey L. Hayden, Gold Developers and Producers, Inc., U.S. Mining, Inc., Franklin Consolidated Mining Co., Inc. and the Company as occupants and all other persons claiming an interest in certain properties and mineral rights located in Idaho Springs, Clear Creek County, Colorado. The suit (1) alleges breach of contract Against Gold Developers & Producers, Inc. Franklin Mining and the Company, (2) requests termination of possessory rights and eviction of Franklin Mining, US Mining and WCM Capital, (3) requests an adjudication of the rights of the parties with respect to the property, (4) alleges unlawful encumbrance of the property which slandered Plaintiff Kennec's title, (5) alleges that Defendant Franklin Mining is committing waste on the property by failing to maintain said property, failing to mine the property in accordance with current standards and operating the property in violation of Federal and State mining and zoning laws, (6) requests partition of the mining claims so as to segregate and identify one half of the property in which Plaintiff Kennec will have an undivided surface and mineral interest, (7) seeks an accounting from Defendants Hayden, Franklin Mines and US Mining as to all amounts paid as rent and/or royalties under the

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Hayden/Kennec Leases. In addition to seeking damages for breach of contract, slander of title and waste, Plaintiff Kennec is seeking orders for partition and possess, to adjudicate the rights of the parties regarding title to the Property, declaring the Hayden/Kennec Leases terminated and restoring possession of 1/2 interest to Plaintiff Kennec, releasing the liens as to Plaintiff's property and any damages related thereto,

On or about January 3, 2002, the Company, together with US Mining, filed an answer to the aforementioned complaint pursuant to which we denied all of the material allegations set forth in the complaint. We further asserted affirmative defenses that Plaintiff fails to state a claim against us upon which relief can be granted, the Complaint fails to join necessary parties, accord and satisfaction, assumption of risk, estoppel, failure of consideration, license, payment, release, waiver and failure to use reasonable means to mitigate damages. Additionally, US Mining filed a counterclaim for \$10,000 loan to Plaintiff which was never repaid. The Company intends to continue to aggressively defend this case; however, we are pursuing avenues of settlement with plaintiff.

### Item 4. Submission of Matters to a Vote of Security Holders

#### 2001 Meeting of Shareholders.

No matters were submitted to shareholders for a vote during fiscal year 2001.

#### 2000 Annual Meeting of Shareholders

On November 24, 2000, the Company held its annual meeting of shareholders, in South San Francisco, California at which time the shareholders (i) reelected Messrs Waligunda, Martucci, Wishinsky, Myhre and DeMartino to the Board of Directors and (ii) confirmed JH Cohn as independent auditors of the Company.

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Of the 1,642,207 shares entitled to vote at the meeting, 1,498,670 were present either in person or by proxy constituting a quorum for purposes of conducting the business that was brought before the meeting. The following table sets forth the matters brought before the shareholders, the number of votes cast for, against or withheld, as well as the number of abstentions and broker non-votes, if any, for each matter.

Matter -----	For ---	Against -----	Abstain -----
Election of Robert Waligunda as Director	1,478,103	14,083	6564
Election of William C. Martucci as Director	1,478,103	14,083	6564
Election of William Wishinsky as a Director	1,478,103	14,083	6564
Election of Casey Myhre as a Director	1,478,103	14,083	6564

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Election of Vincent A. DeMartino as a Director	1,478,103	14,083	6564
Confirmation of Independent Auditors	1,490,886	4062	3722

### Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Shares of the Company's Common Stock (all of which are of one class, \$.01 per share) are traded on the "pink sheets" under the symbol ("WCMC"). For information regarding the recent delisting of the Company's Common Stock from the NASDAQ SmallCap Market, See Item 3. Litigation NASDAQ Delisting.

The following table sets forth the range of high and low bid quotes of the Company's Common Stock per quarter since the beginning of fiscal year 1999 as reported by the National Quotation Bureau (which reflects inter-dealer prices without retail mark-up, mark-down or commission and may not necessarily represent actual transactions). The following stock prices have been adjusted to reflect a one-for-three reverse stock split effected on December 13, 1999 except as noted.

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Quarter Ended	High Bid Price	Low Bid Price
March 31, 1999	\$ 1.125	\$ 1.06
June 30, 1999	\$ 1.50	\$0.4375
September 30, 1999	\$ 1.00	\$0.9375
December 31, 1999	\$ 2.50	\$ 1.00*
March 31, 2000	\$ 5.50	\$ 5.50
June 30, 2000	\$ 1.75	\$1.4375
September 30, 2000	\$ 2.00	\$1.8125
December 31, 2000	\$ 0.875	\$0.6875
March 31, 2001	\$ 0.50	\$ 0.44
June 30, 2001	\$ 1.25	\$ 1.15
September 30, 2001	*\$ 0.90	\$
December 31, 2001	*\$ 0.25	\$

-----

\* Takes into account one for three reverse split effective December 20, 1999

\* There are no bid and ask on Pink Sheets

As of December 31, 2001, the approximate number of recordholders of the Company's Common Stock is 2,749 inclusive of those brokerage firms and/or clearinghouses holding the Company's Common Shares in street name for their clientele (with each such brokerage house and/or clearing house being considered as one holder).

The aggregate number of shares of Common Stock issued and outstanding is 1,318,767 as of March 28, 2002. See Item 1. Business Employees and Technical Consultants and Sales of Restricted Securities below. No dividends on Common Shares have ever been paid by the Company due to the lack of excess capital and the Company does not anticipate that dividends will be paid in the foreseeable



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future. In addition, pursuant to the terms of the Company's 12-1/4% Convertible Debentures, the Company, the Company is prohibited from paying dividends on its Common Stock unless and until it is no longer in default under the debentures. See Item 3. Litigation.

### Sales of Restricted Securities

On or about June 1, 2000 the Company issued 169,750 shares of Common Stock to Richard Brannon, a Vice President of the Company and 153,690 shares of Common Stock to Joseph Laura, a consultant of the Company. The shares were issued to Laura as compensation for services rendered and to Brannon for present and future services rendered in connection with the Company's mining business. These shares were originally issued in accordance with the exemption from registration under Section 4(2) of the Act and were subsequently registered by the Company on Form S-8 on or about June 6, 2000.

On or about December 29, 2000, the Company entered into Agreements with each of Mr. Brannon and Mr. Laura regarding the issuance of shares to them as compensation for services. Pursuant to these Agreements, the Company rescinded its agreement to issue shares to each of Mr. Laura and Mr. Brannon but acknowledged indebtedness to Laura of \$716,500.00 and Consulting fees of approximately \$175,000 which were earned by Mr. Brannon from May 2000 through December 31, 2000.

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### Item 6. Management's Discussion and Analysis or Plan of Operation

#### CAUTIONARY STATEMENT ON FORWARD LOOKING STATEMENTS

Except for the historical information contained herein, Management believes that certain of the matters discussed in this Annual Report for the year ended December 31, 2001 are "forward looking risks and uncertainties which cause actual results to differ materially from those discussed herein including, but not limited, risks relating to changing economic conditions, change in price of disclosed in this Annual Report. The Company cautions readers that any such forward-looking statements are based upon management's current expectations and beliefs but are not guaranties of future performance. Actual results could differ materially from those expressed or implied in forward-looking statements.

The Company is engaged in the business of investing and participating in the development of commercial mining and milling operations primarily involving leased properties for which the mineral rights are leased in or near Idaho Springs, Colorado.

In 2000, economic conditions and other factors led to the Company's decision to apply for a change in its permit status from active to Temporary Cessation. Temporary Cessation is a limited period of non-production, which results when an operator plans to temporarily cease production for at least 180 days upon the filing of notice thereof with the DMG. When a request for Temporary Cessation is granted, no further reclamation work or mining work would be required for the duration of the temporary cessation, beyond basic maintenance and reclamation required to keep the site from further deterioration. Our request was granted in November, 2001.

The Company has not commenced commercial operations at the Franklin Mine since our inception. Therefore, the Company remains in the exploration stage and has not generated significant revenues on a sustained basis. The Company did not realize any revenues based on sales during the years 2000 and 2001.

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### Liquidity and Capital Resources

Since its inception, we have financed our activities principally through the sale of equity securities, the accumulation of debt and monies provided through our relationship with USM. Since 1998, the Company's sole source of funding has been USM. The Company has derived no income from its mining and milling investments, which as of December 31, 2001, were comprised of investments in the assets and rights related to the Franklin Mines and Mill. As of December 31, 2000, no funds were borrowed from USM. The US Mining Note had a principal balance of \$1,768,829 which was forgiven as of December 31, 2000. The forgiveness was principal only and the interest in the amount of \$328,040 still remains due as of December 31, 2000 to US Mining.

The Company had total current liabilities as of December 31, 2001 of \$2,644,034, convertible debentures with a principal amount of \$145,000 and other notes payable with a principal balance of \$297,029. See Item 3. Litigation. Convertible Debentures. In addition to the payment of its current liabilities, the Company incurred general, administrative and other costs and expenditures related to any mining and milling operations, at the rate of approximately \$25,000 per month in 2001 and expects to incur additional administrative expenses of approximately \$20,000 per month plus interest in 2002.

During 2001, USM advanced \$91,068 on behalf of the Company. The US Mining note had a principal amount of \$1,768,829 which was forgiven as of December 31, 2000. The forgiveness was principal only and the interest in the amount of \$328,040 and additional interest in the amount of \$4829.00 still remains due as of December 31, 2001 to US Mining. These monies

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were used primarily for legal and accounting fees in connection with public filings and necessary general and administrative expenses. USM has continued to fund the Company directly or indirectly since mid 1997. USM has verbally pledged to provide financing to the Company on an as needed basis through December 31, 2002. The Company believes based on prior performance that USM will fulfill its commitment to fund until December 31, 2002. It is anticipated that the funds received from USM will cover the general, administrative and other costs, which management estimates will be approximately \$20,000 per month for the year 2002. Management believes that the estimate of monthly expenses will include any incidental costs incurred in connection with the maintenance of the mining facilities in Idaho Springs and related taxes. However, certain unforeseen costs may arise during the course of the year and the Company cannot assure that USM will commit to provide the Company with additional monies should such expenses arise.

The Hayden/Kennec Leases cover mineral rights to 28 mining claims over 322 acres of the Franklin Mining properties. Currently, the Hayden/Kennec Leases are expired; however, the terms of the Purchase Agreement between USM and Hayden extend the terms of the Hayden/Kennec Leases as they relate to the Hayden interests upon the same terms and conditions of the Hayden/Kennec Leases. Therefore, USM has advanced, and is continuing to advance, \$1,000 royalty payment to Mrs. Hayden on a monthly basis as required by the Hayden/Kennec Leases. As of the date hereof, the Company has not reached any Agreement with Mrs. Kennec concerning her portion of the Leasehold. See Item 2 - Properties.

Under the terms of the Hayden/Kennec Leases, the Company would have been required to pay \$777,000 to Mrs. Hayden and Mrs. Kennec in order to exercise the purchase options set forth therein as of November 1997 when the lease expired. Although the exercise price may be less if additional moneys paid to Hayden and

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Kennec after November 1997 are credited, the Company is unable to make such payment. Notwithstanding, Management remains cautiously optimistic that it will maintain its access to the leased mineral rights covered by the Hayden/Kennec Leases since the Purchase Agreement between Mrs. Hayden and USM remains in effect and the Company has no reason to believe at this time that the sale will not be consummated prior to the expiration of the Purchase Agreement. USM has advised the Company that it is current with its payments to Mrs. Hayden and the Company, based upon the prior commitments and past payment history of USM, believes that USM will continue to make the necessary royalty payments to Mrs. Hayden until the purchase of Mrs. Hayden's leasehold interest is consummated. See Item 2 - Properties.

In the absence of liquid resources, cash flows from operations and any other commitments for debt or equity financing, Management believes that the ability of the Company to continue to maintain its properties will be dependent upon the provision of financing by USM; however, it cannot assure that USM will continue to finance the Company after December 31, 2002. Management believes that the Company will remain dependent on USM as its primary source of financing for its operations until such time, if any, as the Company can secure additional funding from other sources.

The Company conducted no exploration activities during 2001 and has no plans to do so in 2002. However, as a condition to granting the Company's request for Temporary Cessation, the DMG required that the Company address certain issues with respect to groundwater and tailings disposal ponds. Thus, the Company's efforts during the majority of 2000 and 2001 were focused on addressing these issues. The Company application for Temporary Cessation was approved on November 5, 2001.

Management estimates that the Company will incur general, administrative and other costs and expenditures, exclusive of any costs and expenditures related to its Idaho Springs Mining properties and interest, at the rate of approximately \$20,000 per month for the remainder of 2002.

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### Plan of Operations

In 2002, the Company's primary focus will be to (i) continue its rehabilitation and remediation work as is statutorily required to maintain its properties and permit's Temporary Cessation status, and (ii) work to secure additional funding for its operations. Should the Company become unable to adequately maintain its properties as required by the DMG, it may face the possibility of being cited for violations by the DMG which can lead to a cease and desist order or, result in the loss of our mining permit. The loss of our mining permit would have a serious adverse effect of the future operations of the Company as a whole.

We believe that the best way to achieve profitability in the short term would be to seek to acquire businesses, which are operational and generating revenues. The Company remains open to entertaining possible business combinations or joint ventures with operational businesses, irrespective of whether a target business is operating in our business segment.

The Company has no immediate plans to abandon our efforts at our Colorado mining properties or to sell a portion or all of our interests in these properties. However, the Company has not developed an exploration plan and does not anticipate doing so until we determine it is economically feasible to reactivate our mining permits. There can be no assurance that we will be in a position to reactivate our permit in the near future. Given the current status of our permit, we believe acquiring a business or businesses that generate revenues

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would allow the Company to attract third party investment and increase shareholder value. Moreover, profits realized by the Company may be available for reinvestment in our mining properties should the economics of mining become more favorable, thus alleviating the need to seek outside funding for future exploration plans at the Franklin Mines.

### Results of Operations:

The Company had no active mining or milling operations during the years 2001 and 2000.

The Company incurred net losses of \$374,925 and \$235,304 for the years ended December 31, 2001 and 2000, respectively.

Mine expenses and remediation costs were \$10,065 and \$47,049 for 2001 and 2000, respectively. This decrease was due to decreased mine site activities.

General and administrative expenses were \$306,806 and \$1,195,148 for 2001 and 2000, respectively. This decrease was due primarily to a decrease in professional fees.

Interest expense decreased to \$60,850 in 2001 from \$239,676 in 2000. This decrease was due to the forgiveness of the U.S. Mining note in the amount of \$1,768,829 at December 31, 2000.

The Company had forgiveness of debt income of \$1,768,829 and an impairment of mining assets of \$525,000, in 2000. For the year ended December 31, 2001, there was no forgiveness of debt income and no impairment of mining assets as the carrying costs of these assets had been reduced to zero at December 31, 2000.

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### Item 7. Financial Reports

WCM CAPITAL, INC.

FINANCIAL STATEMENTS

YEARS ENDED  
DECEMBER 31, 2001 AND 2000

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Notes to Consolidated Financial Statements

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## INDEPENDENT AUDITOR'S REPORT

To the Stockholders  
WCM CAPITAL, INC.  
New York, New York

We have audited the balance sheets of WCM Capital, Inc., (formerly Franklin Consolidated Mining Co., Inc.) as of December 31, 2001 and 2000 and the related statements of operations, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the accumulated amounts from inception through December 31, 1995, which includes an accumulated deficit of (\$10,946,145) as of December 31, 1995.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America. These standards require that we plan and perform the audit to obtain reasonable assurance as to 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. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 3, the Company changed its accounting policy for the mining and exploration costs resulting in the correction of errors for the years ended December 31, 2000, 1999, 1998, 1997 and 1996.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of WCM Capital, Inc. as of December 31, 2001 and 2000 and the results of its operations and cash flows for the years then ended, in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company's operations have generated recurring losses and cash flow deficiencies from inception and, as of December 31, 2001 and 2000, had a substantial working capital deficiency. As a result, it was in default with respect to payments on several notes and on convertible debentures and was wholly dependent on outside funding to finance current operations. Such matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans concerning these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

IWA FINANCIAL CONSULTING LLC  
Certified Public Accountants  
Livingston, New Jersey  
March 28, 2002

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WCM CAPITAL, INC.

(An Exploration Stage Company)

BALANCE SHEETS

ASSETS

	December 31,	
	2001	2000
	-----	-----
Assets - Mining Reclamation bonds	\$ 142,552	139,756
	=====	=====

LIABILITIES AND STOCKHOLDERS' DEFICIENCY

Current liabilities:		
Accounts payable and accrued expenses	\$ 2,110,937	1,824,284
Convertible debentures	145,000	145,000
Notes payable:		
Related companies and others	297,029	297,029
U.S. Mining Inc. - related company	91,068	--
	-----	-----
Total current liabilities	2,644,034	2,266,313
	-----	-----
Commitments and contingencies		
Stockholders' deficiency:		
Common stock, par value \$.01 per share; 40,000,000 shares authorized; 1,318,767 shares issued and outstanding	13,188	13,188
Additional paid-in capital	18,390,360	18,390,360
Deficit accumulated during the exploration stage	(20,905,030)	(20,530,105)
	-----	-----
Total stockholders' deficiency	(2,501,482)	(2,126,557)
	-----	-----
Total	\$ 142,552	139,756
	=====	=====

See auditors' report and notes to financial statements.

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WCM CAPITAL, INC.

(An Exploration Stage Company)

STATEMENTS OF OPERATIONS

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	Years Ended	December 31,	Cumulative
	2001	2000	December 1, 1976 (Inception) through December 31, 2001
	-----	-----	-----
<b>Revenues:</b>			
Sales	\$ --	--	876,082
Interest income	2,796	2,740	556,645
Forgiveness of debt	--	1,768,829	1,768,829
Other income	--	--	79,397
	-----	-----	-----
Total	2,796	1,771,569	3,280,953
	-----	-----	-----
<b>Expenses:</b>			
Mine expenses and environmental remediation costs	10,065	47,049	3,678,224
Write down of inventories	--	--	223,049
Loss on sale/write down of mining, milling and other property and equipment		525,000	6,638,901
Depreciation and depletion	--	--	1,910,543
General and administrative	306,806	1,195,148	7,984,160
Interest	60,850	239,676	1,586,958
Amortization of debt issuance	--	683,047	
Loss on settlement of litigation	--	--	100,000
Loss on sale of property	--	--	225,000
Equity in net loss and settlement of claims of Joint Venture		--	1,059,971
Other	--	--	96,130
	-----	-----	-----
Total	377,721	2,006,873	24,185,983
	-----	-----	-----
Net loss	\$ (374,925)	(235,304)	(20,905,030)
	=====	=====	=====
Loss per common share	\$ (0.28)	(0.18)	
	=====	=====	
Weighted average shares outstanding	1,318,767	1,318,767	
	=====	=====	

See auditors' report and notes to financial statements.

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WCM CAPITAL, INC.

(An Exploration Stage Company)

STATEMENTS OF CASH FLOWS

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	Years Ended December 31,		Cumulative
	2001	2000	December 1, 1976 (Inception) through December 31, 2001
Cash flows from operating activities:			
Net loss	\$ (374,925)	(235,304)	(20,905,030)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and depletion	--	--	1,910,543
Forgiveness of debt	--	(1,768,829)	(1,768,829)
Provision for uncollectible account	--	--	350,000
Write down of mining, milling and other property and equipment	--	525,000	6,638,901
Amortization of debt issuance expense	--	--	683,047
Loss on sale of equipment	--	--	225,000
Value of common stock issued for:			
Services and interest	--	--	1,934,894
Settlement of:			
Litigation	--	--	100,000
Claims by joint venture partner	--	--	936,000
Compensation resulting from stock options granted	--	--	311,900
Value of stock options granted for services	--	--	112,500
Equity in net loss of joint venture	--	--	123,971
Other	--	--	(7,123)
Changes in operating assets and liabilities:			
Interest accrued on mining reclamation bonds	(2,795)	(2,740)	(17,551)
Accounts payable and accrued expenses	286,652	1,135,236	2,373,153
Payroll and other taxes	--	(29,960)	(29,960)
Net cash used in operating activities	(91,068)	(376,597)	(7,028,584)
Cash flows from investing activities:			
Purchases and additions to mining, milling and other property and equipment	--	--	(5,120,354)
Purchases of mining reclamation bonds, net	--	--	(125,000)
Deferred mine development costs and other expenses	--	--	(255,319)
Net cash used in investing activities	--	--	(5,500,673)

See auditors' report and notes to financial statements.

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WCM CAPITAL, INC.

(An Exploration Stage Company)

STATEMENTS OF CASH FLOWS



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	Years Ended December 31,		Cumulative
	2001	2000	December 1, 1976 (inception) through December 31, 2001
	-----	-----	-----
Cash flows from financing activities:			
Issuance of:			
Common stock	\$ --	--	8,758,257
Underwriter's stock warrants	--	--	100
Commissions on sales of common stock	--	--	(381,860)
Purchases of treasury stock	--	--	(12,500)
Payments:			--
Deferred underwriting costs	--	--	(63,814)
Debt issuance expenses	--	--	(164,233)
Repayments:			--
Other notes and loan payables	--	--	(120,000)
Loans from affiliate	--	--	(48,661)
Proceeds:			--
Exercise of stock options	--	--	306,300
Advances from joint venture partner	--	--	526,288
Other notes and loans payable	91,068	376,597	2,349,443
Loans from affiliate	--	--	55,954
Issuance of convertible debentures and notes	--	--	1,505,000
Advances to joint venture partner	--	--	(181,017)
	-----	-----	-----
Net cash provided by financing activities	91,068	376,597	12,529,257
	-----	-----	-----
Increase (decrease) in cash	--	--	--
Cash Beginning	--	--	--
	-----	-----	-----
Cash Ending	\$ --	--	--
	=====	=====	=====
Supplemental disclosure of cash flow data -			
Interest paid	\$ --	--	299,868
	=====	=====	=====

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WCM CAPITAL, INC.

(An Exploration Stage Company)

STATEMENTS OF STOCKHOLDERS' EQUITY

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	Shares	Common Stock	Additional Paid-in Capital	Deficit Accumulated During the Exploration Stage	Trea St
	-----	-----	-----	-----	-----
Issuance of common stock:					
Cash	8,268	\$ 83	43,017	--	
Non-cash:					
Related parties	49,332	493	8,757	--	
In exchange for shares of Gold Developers and Producers, Inc.	58,400	584	16,850	--	
Net loss	--	--	--	(45,584)	
Balance, December 31, 1977	116,000	1,160	68,624	(45,584)	
Issuance of common stock:					
Pursuant to public offering, net of underwriting expenses of \$11,026	31,368	314	283,681	--	
Cash	12,000	120	242,757	--	
Non-cash	268	2	4,998	--	
Net loss	--	--	--	(66,495)	
Balance, December 31, 1978	159,636	1,596	600,060	(112,079)	
Issuance of common stock:					
Cash	12,368	124	441,126	--	
Non-cash:					
Related parties	2,132	21	59,979	--	
Other	356	4	13,346	--	
Net loss	--	--	--	(128,242)	
Balance December 31, 1979	174,492	1,745	1,114,511	(240,321)	
Issuance of common stock:					
Cash	15,452	154	839,846	--	
Non-cash	3,176	32	118,968	--	
Net loss	--	--	--	(219,021)	
Balance December 31, 1980	193,120	1,931	2,073,325	(459,342)	
Issuance of common stock:					
Cash	11,206	112	820,388	--	
Non-cash	1,387	14	103,986	--	
Commission on sale of common stock	--	--	(57,300)	--	
Net loss	--	--	--	(288,105)	
Balance December 31, 1981	205,713	\$ 2,057	2,940,399	(747,447)	

See auditors' report and notes to financial statements.

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WCM CAPITAL, INC.

(An Exploration Stage Company)

STATEMENTS OF STOCKHOLDERS' EQUITY

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	Shares	Common Stock	Deficit Accumulated Additional Paid-in Capital	During the Exploration Stage
	-----	-----	-----	-----
Balance December 31, 1981 (forwarded)	205,713	\$ 2,057	2,940,399	(747,447)
Issuance of common stock:				
Cash	11,480	\$ 115	764,011	--
Non-cash	2,160	22	161,978	--
Commission on sale of common stock	--	--	(56,075)	--
Net loss	--	--	--	(287,291)
	-----	-----	-----	-----
Balance December 31, 1982	219,353	2,194	3,810,313	(1,034,738)
Issuance of common stock:				
Cash	16,975	170	1,189,380	--
Non-cash	944	9	70,825	--
Exercise of stock options:				
Related parties	3,567	35	267,465	--
Others	52	1	3,999	--
Commission on sale of common stock	--	--	(124,830)	--
Net loss	--	--	--	(749,166)
	-----	-----	-----	-----
Balance, December 31, 1983	240,891	2,409	5,217,152	(1,783,904)
Issuance of common stock:				
Cash	16,023	160	1,151,540	--
Non-cash	367	3	27,497	--
Exercise of stock options by related parties	2,667	27	199,973	--
Commission on sale of common stock	--	--	(90,950)	--
Net loss	--	--	--	(301,894)
	-----	-----	-----	-----
Balance December 31, 1984	259,948	2,599	6,505,212	(2,085,798)
Issuance of common stock:				
Cash	5,618	56	300,023	--
Non-Cash	133	2	7,498	--
Exercise of stock options:				
Related parties	2,667	27	149,973	--
Others	12	--	750	--
Commission on sale of common stock	--	--	(3,462)	--
Net loss	--	--	--	(133,929)
	-----	-----	-----	-----
Balance December 31, 1985	268,378	\$ 2,684	6,959,994	(2,219,727)

See auditors' report and notes to financial statements.

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WCM CAPITAL, INC.

(An Exploration Stage Company)

STATEMENTS OF STOCKHOLDERS' EQUITY

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	Shares	Common Stock	Deficit Accumulated Additional Paid-in Capital	During the Exploration Stage
	-----	-----	-----	-----
Balance December 31, 1985 (forwarded)	268,378	\$ 2,684	6,959,994	(2,219,727)
Issuance of common stock:				
Cash	7,587	\$ 76	300,424	--
Non-cash:				
Related parties	2,133	21	79,979	--
Others	1,800	18	53,982	--
Net loss	--	--	--	(227,788)
Balance, December 31, 1986	279,898	2,799	7,394,379	(2,447,515)
Issuance of common stock:				
Cash	34,725	347	1,286,954	--
Non-cash:				
Related parties	2,695	27	70,873	--
Other	500	5	37,245	--
Commission on sale of common stock	--	--	(110,243)	--
Net loss	--	--	--	(730,116)
Balance, December 31, 1987	317,818	3,178	8,679,208	(3,177,631)
Issuance of common stock:				
Non-cash - related parties	2,666	27	49,973	--
Purchase of 666 shares of treasury stock - at cost	--	--	--	--
Net loss	--	--	--	(386,704)
Balance December 31, 1988	320,484	3,205	8,729,181	(3,564,335)
Issuance of common stock:				
Cash	9,040	90	110,410	--
Non-cash:				
Related parties	2,800	38	33,828	--
Other	3,782	28	31,472	--
Private placement:				
Cash	30,333	303	22,447	--
Debt issuance expense	--	--	455,000	--
Conversion of debentures	14,000	140	104,860	--
Exercise of stock options	4,000	40	44,960	--
Compensation resulting from stock options granted	--	--	39,000	--
Commission on sale of common stock	--	--	(1,500)	--
Net loss	--	--	--	(1,279,804)
Balance December 31, 1989	384,439	\$ 3,844	9,569,658	(4,844,139)

See auditors' report and notes to financial statements.

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WCM CAPITAL, INC.

(An Exploration Stage Company)

## STATEMENTS OF STOCKHOLDERS' EQUITY

	Shares	Common Stock	Additional Paid-in Capital	Deficit Accumulated During the Exploration Stage
	-----	-----	-----	-----
Balance December 31, 1989 (forwarded)	384,439	\$ 3,844	9,569,658	(4,844,139)
Sale of underwriter's stock warrants	--	\$ --	100	--
Issuance of common stock:				
Cash	4,467	45	45,180	--
Non-cash - others	531	5	5,973	--
Conversion of debentures	2,133	22	31,978	--
Net loss	--	--	--	(1,171,962)
	-----	-----	-----	-----
Balance, December 31, 1990	391,570	3,916	9,652,889	(6,016,101)
Issuance of common stock:				
Cash	23,995	240	96,691	--
Cash - related parties	24,000	240	89,760	--
Non-cash - others	15,783	158	59,029	--
Conversion of debentures	49,747	498	625,502	--
Exercise of stock options	3,333	33	12,467	--
Conversion of notes payable	3,333	33	14,967	--
Net loss	--	--	--	(764,926)
	-----	-----	-----	-----
Balance, December 31, 1991	511,761	5,118	10,551,305	(6,781,027)
Issuance of common stock:				
Cash	26,959	269	169,339	--
Cash - related parties	8,400	84	48,916	--
Non-cash:				
Others	23,062	231	365,827	--
Related parties	161	2	604	--
Exercise of options by related parties	27,333	273	102,227	--
Conversion of debentures	7,200	72	161,928	--
Commission on sale of stock - related parties	--	--	(7,123)	--
Net loss	--	--	--	(1,343,959)
	-----	-----	-----	-----
Balance December 31, 1992	604,876	6,049	11,393,023	(8,124,986)
Issuance of common stock:				
Cash	11,645	116	133,848	--
Cash - related parties	10,360	104	77,596	--
Non-cash:				
Others	2,000	20	14,980	--
Settlement of litigation	13,333	133	99,867	--
Exercise of options by related parties	2,667	27	9,973	--
Conversion of debentures	1,867	19	34,981	--
Conversion of loan	1,333	13	9,987	--
Net loss	--	--	--	(797,619)
	-----	-----	-----	-----
Balance December 31, 1993	648,081	\$ 6,481	11,774,255	(8,922,605)

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WCM CAPITAL, INC.

(An Exploration Stage Company)

STATEMENTS OF STOCKHOLDERS' EQUITY

	Shares	Common Stock	Additional Paid-in Capital	Deficit Accumulated During Exploration Stage
	-----	-----	-----	-----
Balance December 31, 1993 (forwarded)	648,081	\$ 6,481	11,774,255	(8,922)
Retirement of treasury stock	(666)	\$ (7)	(12,493)	
Net loss	--	--	--	(381)
	-----	-----	-----	-----
Balance, December 31, 1994	647,415	6,474	11,761,762	(9,304)
Issuance of common stock:				
Settlement of claims by joint venture partner	80,000	800	935,200	
Repayments:				
Loan from joint venture partner	42,667	427	498,773	
Long-term loans from related parties and accrued interest	115,730	1,157	675,868	
Exchange of shares for profit participation interests	36,000	360	(360)	
Net loss	--	--	--	(1,641)
	-----	-----	-----	-----
Balance, December 31, 1995	921,812	9,218	13,871,243	(10,946)
Issuance of common stock:				
Cash	23,379	234	297,366	
Services and interest	49,547	495	561,942	
Conversion of convertible notes	57,263	573	557,747	
Repayments:				
Loan from joint venture partner	30,880	309	361,566	
Long-term loans from related party	124,892	1,249	1,462,332	
Net loss	--	--	--	(5,125)
	-----	-----	-----	-----
Balance December 31, 1996	1,207,773	12,078	17,112,196	(16,071)
Issuance of common stock:				
Extension of lease rights	1,386	14	12,986	
Conversions:				
Note payable	102,941	1,029	598,971	
Debt	6,667	67	50,433	
Acquisition of joint venture	--	--	615,774	
Net loss	--	--	--	(2,567)
	-----	-----	-----	-----
Balance December 31, 1997	1,318,767	13,188	18,390,360	(18,638)

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Net loss	--	--	--	(1,344)
Balance December 31, 1998	1,318,767	13,188	18,390,360	(19,983)
Net loss	--	--	--	(311)
Balance December 31, 1999	1,318,767	13,188	18,390,360	(20,294)
Net loss	--	--	--	(235)
Balance December 31, 2000	1,318,767	\$ 13,188	18,390,360	(20,530)
Net loss	--	--	--	(374)
Balance December 31, 2001	1,318,767	\$ 13,188	18,390,360	(20,905)

See auditors' report and notes to financial statements.

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WCM CAPITAL, INC.

(An Exploration Stage Company)  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2001 AND 2000

NOTE 1 - BASIS OF PRESENTATION/GOING CONCERN UNCERTAINTY:

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. However, the Company has had recurring losses and cash flow deficiencies since inception. As of December 31, 2001 and 2000, the Company had no cash balance, an accumulated deficit of \$20,905,030 and \$20,530,105 respectively, and a working capital deficiency of \$2,644,034 and \$2,266,313 respectively. The Company was in default on the payment of the principal balances and accrued interest on certain notes and debentures (Notes 5, 6 and 7). In addition to the payable of its current liabilities, management estimates that the Company will incur general, administrative, and other costs and expenditures, exclusive of any costs and expenditures related to any mining and milling operations or environmental matters (Note 8B), at a rate of approximately \$25,000 per month during the year 2002 as based upon the year 2001 actual costs. Such matters raise substantial doubt as to the Company's ability to continue as a going concern.

U.S. Mining Co. (USM), has verbally pledged to provide financing to the Company on an as needed basis through December 31, 2002. The funds will cover general, administrative and other costs. Additional funds will be needed to support the extraction and milling processes once underway as well as to upgrade the processing facilities to allow for an increase in ore processing capacity.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization:

WCM Capital, Inc. (formerly Franklin Consolidated Mining Co., Inc.)  
 (Company), incorporated on December 1, 1976 under the laws of the State of

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Delaware, was formed to engage in the exploration, development and mining of precious and non-ferrous metals, including gold, silver, lead, copper and zinc. The Company owns or has an interest in a number of precious and non-ferrous metal properties. The Company's principal mining properties are (i) the Franklin Mines, located near Idaho Springs in Clear Creek County, Colorado, for which the Company acquired the exclusive right to explore, develop, mine, and extract all minerals located in approximately 51 mining claims of which 28 are patented (Franklin Mines) and (ii) the Franklin Mill, a crushing and flotation mill which is located on the site of the Franklin Mines (Franklin Mill). The Company is an exploration stage enterprise, as it did not generate any significant revenues through December 31, 2001.

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WCM CAPITAL, INC.

(An Exploration Stage Company)  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001 AND 2000

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

During October 1998, the Company's shareholders approved an amendment to its certificate of incorporation changing the name of the Company to WCM Capital, Inc.

The Company had an accounting policy of capitalizing milling and mining exploration costs because they are a development stage company and operations had not commenced.

Subsequent to the year ended December 31, 2000, the Securities and Exchange Commission deemed the financial statements for the years ended December 31, 1996, 1997, 1998 and 1999 as unaudited because the accounting firm for each year did not secure the consent of the prior firm to use their report in the financial statements they reported thereon.

The SEC also stated that since this was a development stage company for approximately 20 years, the Company should write off as an impairment loss, all the capitalized milling and mining exploration costs as these costs were materially in excess of the present value of projected net profits to be realized from future operations. The Company agreed with the SEC findings.

Therefore, for the year beginning January 1, 1996, the Company expensed all prior capitalized milling and mining exploration costs, as an impairment loss. This change of accounting policy and correction of an error had a significant impact on the financial statement for the year ended December 31, 1996 and all subsequent years. Therefore the reports on the financial statements for the prior years from December 31, 1998 through December 31, 2000 have been noted and reissued as of December 31, 2001.

#### Accounting Estimates:

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. While actual results could differ from those estimates, management does not



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expect such variances, if any, to have a material effect on the financial statements.

Fair value of Financial Instruments:

The carrying amount of the Company's borrowings approximate fair value.

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WCM CAPITAL, INC.

(An Exploration Stage Company)  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001 AND 2000

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Mining, Milling and Other Property and Equipment:

Recorded at costs incurred to acquire, improve and develop mining and milling properties capitalized and amortized in relation to the production of estimated reserves. General exploration costs and costs to maintain the mineral rights and leases are expensed as incurred. Management periodically reviews the recoverability of the capitalized mineral properties and mining equipment. Management takes into consideration various information including, but not limited to, historical production records taken from previous mine operations, results of exploration activities conducted to date, estimated future prices and reports and opinions of outside geologists, mine engineers, and consultants. When it is determined that a project or property will be abandoned or its carrying value has been impaired, a provision is made for any expected loss on the project or property.

Post-closure reclamation and site restoration costs are estimated based upon environmental and regulatory requirements and accrued over the life of the mine using the units-of-production method. Current expenditures relating to ongoing environmental and reclamation programs are expenses as incurred.

Depreciation of equipment is computed using the straight-line method over the estimated useful lives of the related assets.

As stated under "Organization of This Note", all prior capitalized milling and mining exploration costs were written off as impairments losses as of December 31, 2000.

Impairment of Long-Lived Assets:

The company has adopted the provisions of FASB Statement of Financial Accounting Standards No. 121, "Accounting of the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" (SFAS 121). Under SFAS 121, impairment losses on long-lived assets are recognized when events or changes in circumstances indicate that the undiscounted cash flows estimated to be generated by such assets are less than their carrying value and, accordingly, all or a portion of such carrying value may not be recoverable. Impairment losses then are measured by comparing the fair value of assets to their carrying amounts. The Company, due to certain restrictions associated with milling operations, sold the Gold Hill Mill Properties on June 5, 1998 in exchange for property and equipment with a market value of

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\$725,000 and a 14% note receivable of \$350,000. As of December 31, 1998, this note was voided and a \$200,000 impairment loss was taken against the \$725,000 of equipment acquired. As of December 31, 2000, the Company determined that the recoverability of the carrying amount of the equipment was uncertain; therefore, the remaining cost of the equipment was impaired in the amount of \$525,000. All other property and equipment were considered impaired as of December 31, 1997, for a total impairment loss of \$5,913,901.

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WCM CAPITAL, INC.

(An Exploration Stage Company)  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001 AND 2000

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

#### Revenue Recognition:

Revenues, if any, from the possible sales of mineral concentrates will be recognized by the Company only upon receipt of final settlement funds from the smelter.

#### Environmental Remediation Costs:

Accrued based on estimates of known environmental remediation exposures. Ongoing environmental compliance costs, including maintenance and monitoring costs are expensed as incurred.

#### Income Taxes:

Deferred income taxes are to be provided on transactions, which are reported in the financial statements in different periods than for income tax purposes. The Company utilized Financial Accounting Board Statement No. 109, "Accounting for Income Taxes," ("SFAS 109"). SFAS 109 requires recognition of deferred tax liabilities and assets for expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the difference is expected to reverse. Under SFAS 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established when it is necessary to reduce deferred tax assets to the amounts expected to be realized (Note 9).

#### Loss Per Common Share:

The Company has adopted SFAS 128 "Earnings Per Share" ("SFAS 128"), which requires the presentation of "basic" and "diluted" earnings per share on the face of the income statement. Income or loss per common share is computed by dividing the net income or loss by the weighted average number of common shares outstanding during each period. Common stock equivalents have been excluded from the computations since the results would be anti-dilutive. Losses per share have been restated for prior periods to give effect to the reverse stock splits during 1999 and 1998 (Note 10).

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WCM CAPITAL, INC.

(An Exploration Stage Company)  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2001 AND 2000

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Statement of Comprehensive Income:

SFAS 130 "Reporting Comprehensive Income" prescribes standards for reporting comprehensive income and its components. Since the Company currently does not have any items of comprehensive income, a statement of comprehensive income is not required.

NOTE 3 - ACQUISITIONS OF MINING AND MILLING PROPERTIES:

On December 26, 1976, the Company acquired Gold Developers and Producers Incorporated, a Colorado corporation, which prior to the acquisition, leased 28 patented mining claims from Audrey and David Hayden and Dorothy Kennec pursuant to a mining lease and option to purchase, dated November 12, 1976 (hereinafter referred to as "Hayden" and "Kennec"). In 1981, the Company commenced a rehabilitation program to extend and rehabilitate the shafts and tunnels in place at the Franklin Mines, install the Franklin Mill, and search for and delineate a commercial ore body. In 1983, the Company completed the Franklin Mill.

On July 3, 1996, the Company acquired the Gold Hill Mill from a wholly owned subsidiary of Gems, in exchange for an 8% mortgage note with an initial principal balance of \$2,500,000. The Gold Hill Mill was a fully permitted milling facility located in Boulder, Colorado. All the Gold Hill Mill assets were sold during 1998 (See Note 2).

NOTE 4 - NOTES PAYABLE - RELATED PARTY AND OTHERS:

Due to related party and others consisting of the following at December 31:

	2001	2000
	-----	-----
12% unsecured demand notes due to the Company's former President and his affiliated entity	\$142,719	142,719
Secured promissory note (a)	60,000	60,000
Unsecured promissory notes (b)	94,310	94,310
	-----	-----
	\$297,029	297,029
	=====	=====

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WCM CAPITAL, INC.

(An Exploration Stage Company)  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2001 AND 2000

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### NOTE 4 - NOTES PAYABLE - RELATED PARTY AND OTHERS (continued):

- (a) The outstanding principal balance of the note, payable on July 18, 1996 was defaulted; collateralized by a subordinated security interest in the Company's mining reclamation bond. Interest is payable based on the rate of interest applicable to the mining reclamation bond (8% at December 31, 2001).
- (b) This principal amount represents four unsecured promissory notes. The Company assumed these obligations on November 25, 1997, as part of the acquisition from USM. These notes were in default when assumed by the Company, and remain in default as of December 31, 2001; interest accrued at 17%.

Accrued interest on the above notes at December 31, 2001 aggregated approximately \$61,776.

### NOTE 5 - CONVERTIBLE DEBENTURES AND OTHER CONVERTIBLE DEBT:

As of December 31, 2001, consists of a 12.25% convertible debenture in the amount of \$145,000 that matured on December 31, 1994.

As of December 31, 2001, the Company was in default with respect to the principal balance of the debenture and accrued interest of approximately \$115,000. As a result of its default, the Company may be subject to legal proceedings by the Transfer Agent/Trustee under the Indenture Agreement or from debenture holders seeking immediate repayment of principal plus interest and other costs. Management cannot assure that funds will be available for the required payments or the effect will be of any actions brought by or on behalf of the debenture holders (Note 7c).

In September 1996, the Company acquired a 20% interest in Newminco by issuing a 9.5% note of \$600,000 payable to Gems, convertible to common stock at the Company's option on or after January 1, 1997. On February 10, 1997, the Company notified the assignees that it elected to convert the principal balance into 102,564 shares of common stock, as adjusted, based on the conversion rate of \$5.85, per share as adjusted. As a result of problems concerning permitting and various other issues related to the Mogul Mines, the purchase price was reduced to \$150,000 on December 31, 1996 and to zero on December 31, 1997. The \$450,000 (1996) and \$150,000 (1997) reductions in the purchase price were effectuated through an equivalent reduction in the principal balance of an 8% mortgage notes payable to an affiliate of Gems by the Company.

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WCM CAPITAL, INC.

(An Exploration Stage Company)  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001 AND 2000

### NOTE 6 - NOTE PAYABLE - RELATED PARTY:

The Company had an 8% promissory note with a balance of \$955,756, at December 31, 1997, representing advances to the Company by an affiliated entity, POS Financial, Inc. (POS), a New Jersey corporation, and obligations assumed in connection with the contributions of Joint Venture interest (Note 3). The note was payable on May 4, 1998, and is secured by all the Company's mining claims and mining properties. The note is subject

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to successive 30-day extensions throughout 1998 and 1999 upon the mutual agreement of the maker and lender for no additional consideration. On March 5, 1998, POS assigned this note to USM. Both POS and USM are considered related parties as they are owned by a director of WCM and can exert significant influence over the Company. The principal balance due of \$1,768,829 was forgiven by USM as of December 31, 2000. Accrued interest of \$332,869 remains a liability of the Company.

Additional amounts were loaned to the Company through December 31, 2001 and remain unpaid as of that date.

### NOTE 7 - COMMITMENTS AND CONTINGENCIES:

On November 13, 1997, Hayden entered into an agreement to sell the Hayden interests to USM for a purchase price of \$75,000 (the "Hayden-USM Purchase Agreement"). The purchase price was evidenced by a promissory note, due February 2, 1998. Payment on the note has been waived until USM receives a report of clear title.

Upon the execution of the Hayden-USM Purchase Agreement, USM agreed to give Hayden mineral rights to some land parcels and will receive royalties which will be expenses as incurred. As of December 31, 2001, USM had not received clear title but continued to make Purchase Agreement extension payments.

Kennec receives a 50% share on land and mineral rights on certain parcels of acreage.

All royalty payments made under the Hayden and Kennec agreements were expensed as incurred as mine expenses and environmental remediation costs in the accompanying Statement of Operations.

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WCM CAPITAL, INC.

(An Exploration Stage Company)  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001 AND 2000

### NOTE 7 - COMMITMENTS AND CONTINGENCIES (continued):

The Company pays a monthly rental of \$3,500 (on a month to month basis) for the office space, secretarial and other services provided to the Company pursuant to an oral agreement with a non-affiliate. Rent expense was \$39,700 in 2000. As of February 28, 2001, the Company ceased its tenancy.

#### (b) Environmental Matters:

During 1999, inspections of the Franklin Mining properties revealed that certain drainage problems and substandard linings at the tailings disposal areas created potential hazards and that protection measures are required.

The Company received a letter dated March 9, 2000 from the Colorado Division of Minerals and Geology (the "DMG") which set forth measures that must be taken to bring the site into compliance with groundwater regulations and to stabilize the tailings pond and site. In the event the Company completes all of the required actions by May 30, 2001, a Temporary Cessation order will be granted by DMG. In the event a Temporary Cessation is granted, no further reclamation work or mining work would be required for the duration of the Temporary Cessation, beyond basic maintenance and

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reclamation required to keep the site from further deterioration.

(c) Litigation:

The Company is involved in various litigations:

- (i) The Company and others were defendants in an action related to a dispute over fees for engineering consulting services. The parties settled this matter in September 1999 and litigation was discontinued.
- (ii) In September 1997, certain of the Company's 12.25% Convertible Debenture holders (see Note 6) instituted an action against the Company for payment of approximately \$42,500 principal amount of its 12.25% Convertible Debentures plus accrued and unpaid interest totaling approximately \$13,000 and other costs and expenses related thereto. The Company answered the aforesaid complaint. A default judgment was entered against the Company in the amount of \$42,500 plus interest, costs and disbursements. The Company and USM have been negotiating with the debenture holders without arriving at a settlement. The continued default could result in the Company being subject to additional legal proceedings. In addition, there is no assurance that funds will be available to cure the default or reach a settlement.

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WCM CAPITAL, INC.

(An Exploration Stage Company)  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001 AND 2000

NOTE 7 - COMMITMENTS AND CONTINGENCIES (continued):

- (iii) On or about May 14, 1998, Redstone Securities Inc. ("Redstone") commenced an action against the Company in connection with an Investment Banking Agreement dated August 28, 1996, between Redstone and the Company. On or about July 31, 1998, the Company answered the complaint and filed a cross complaint against Redstone. In September 1999, the matter was settled whereby the Company agreed to lift the stop transfer order on the shares held by Redstone allowing them the ability to sell those shares to an unqualified third party.

(d) NASDAQ Notification:

During 1998 and 1999, the Company received notification letters from NASDAQ informing them that the Company's common stock was not in compliance with the NASDAQ small-cap market price requirement of \$1.00, which became effective on February 23, 1998.

In order to mitigate the minimum bid price requirement, the Company effectuated reverse stock splits during 1998 and 1999 (Note 10). After each reverse split, the Company's stock price remained above the \$1.00 minimum bid price requirement for the necessary ten-day period.

The Company currently is not in compliance with the minimum bid price requirement; additionally, there can be no assurance that the company's common stock will be able to meet such compliance in the future.

NOTE 8 - INCOME TAXES:

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As of December 31, 2001, the Company had federal net operating loss carryforwards of approximately \$12,210,000 available to reduce future federal taxable income, which, if not used, will expire at various dates through December 31, 2020. Changes in the ownership of the Company may subject these loss carryforwards to substantial limitations.

The Company has offset the carrying value of the deferred tax attributable to the potential benefits from such net operating loss carryforwards by an equivalent valuation allowance due to the uncertainties related to the extent and timing of its future taxable income. There are no other material temporary differences.

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### WCM CAPITAL, INC.

(An Exploration Stage Company)  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001 AND 2000

#### NOTE 9 - STOCKHOLDERS' EQUITY:

(a) Reverse Stock Splits:

On May 26, 1998, the Company effectuated a twenty-five-for-one reverse stock split, and a three-for-one reverse stock split on December 20, 1999. The accompanying financials give retroactive effect to these reverse stock splits.

(b) Common Stock Reserved for Issuance:

At December 31, 2001, there were 3,867 shares of common stock reserved for issuance upon the exercise of the 12.25% \$145,000 convertible debentures (see Note 6).

(c) Issuance of Common Stock

From December 1, 1976 (inception) through December 31, 2001, the Company issued common stock for:

	Shares	Amount
Cash, including net proceeds of \$283,995 from		
Public offering	355,648	\$ 8,758,256
Exercise of stock options	46,298	792,250
Commissions on sales of common stock	--	(451,483)
Purchase and retirement of treasury stock	(666)	(12,500)
 Non-cash, other than related parties:		
Services and property	165,582	1,673,394
Conversion of debentures and notes payable	246,107	2,648,820
Stock options and stock warrants granted	--	39,100
Settlement of litigation and other	13,710	100,000
 Non-cash, related parties:		
Services and property	97,919	918,030
Settlement of claims by related parties	80,000	936,000
Repayment of related party loans	314,169	3,001,681

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1,318,767    \$18,403,548  
=====    =====

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ITEM 8. Changes In And Disagreements With Accountants On Accounting And Financial Disclosure

On March 16, 2000, the Company notified Lazar Levine & Felix ("LLF") that it would no longer serve as its independent auditors. The decision to dismiss LLF was approved by the Board of Directors of the Company.

During the two most recent fiscal years of the Company, none of the reports of LLF on the financial statements of the Company contained an adverse opinion or a disclaimer of opinion or was qualified or modified as to audit scope, or accounting principles; however, LLF has qualified or modified its reports on the financial statements of the Company as a going concern. During the two most recent fiscal years and any subsequent interim period preceding the dismissal of LLF, there were no disagreements between the Company and LLF concerning accounting principles or practices, financial statement disclosure, or auditing scope or procedure which would have caused LLF to make a reference to the subject matter thereof in its report had such disagreement not been resolved to the satisfaction of LLF.

The Company retained Ehrenkrantz Sterling & Co. Certified Public Accountants as its independent auditors for fiscal year 1999.

On October 19, 2000, the Company notified Ehrenkrantz, Sterling & Co. Certified Public Accountants ("ESC") that it would no longer serve as its independent auditors. The decision to dismiss ESC was approved by the Board of Directors of the Company.

During the two most recent fiscal years of the Company, none of the reports of ESC on the financial statements of the Company contained an adverse opinion or a disclaimer of opinion or was qualified or modified as to audit scope, or accounting principles; however, ESC has qualified or modified its reports on the financial statements of the Company as a going concern. During the two most recent fiscal years and any subsequent interim period preceding the dismissal of ESC, there were no disagreements between the Company and ESC concerning accounting principles or practices, financial statement disclosure, or auditing scope or procedure which would have caused ESC to make a reference to the subject matter thereof in its report had such disagreement not been resolved to the satisfaction of ESC.

The Company retained JH Cohn LLP as its independent auditors for fiscal year 2000. JH Cohn was the independent auditor for the Company through fiscal year 1997

On April 9, 2000, the Company notified JH Cohn LLP. Certified Public Accountants that it would no longer serve as its independent auditors. The decision to dismiss JH Cohn LLP was approved by the Board of Directors of the Company. JH Cohn was dismissed prior to issuing any reports on behalf of the Company. The Company retained Polakoff, Weismann, Leen, LLC as its independent auditors for fiscal year 2000.



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On August 23, 2001, the Company was notified that the managing member of our account left the firm of Polakoff, Weismann, Leen, LLC to form a new accounting firm, IWA Financial Consulting, LLC. The Company elected to continue its relationship with this member and has moved its account to IWA Financial Consulting, LLC. Therefore, IWA will act as independent auditors for the Company for fiscal year 2001.

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### PART III

Item 9. Directors, Executive Officers, Promoters and Control Person; Compliance with Section 16(a) of the Exchange Act

Name	Age	Position
Robert Waligunda	56	Current President and Treasurer
Richard Brannon	53	Vice-President-Secretary
George E. Otten	76	Vice President
William C. Martucci	59	Director(1)
William Wishinsky	37	Director
Casey Myhre	36	Director
Vincent A. DeMartino	38	Director

ROBERT L. WALIGUNDA. Mr. Waligunda has served as President and Treasurer of the Company since October 1998. Mr. Waligunda has served as a director of the Company from 1985 and as Secretary of the Company from August 1995 to October 1998. From 1965 to the present, Mr. Waligunda has served as founder, President, and principal stockholder of Sky Promotions, Inc., a Pittstown, New Jersey marketing and management company involved in sales, advertising and marketing of hot air balloons and inflatable products. He is the founder and director of International Professional Balloon Pilots Racing Association, a member of the advisory board of Aerostar International, Inc., the world's oldest and largest balloon manufacturing company, and a member of the National Aeronautic Association, the Experimental Aircraft Association, and the Airplane Owner and Pilots Association. Mr. Waligunda received a Masters of Science degree in guidance and psychological services from Springfield College in 1968.

RICHARD BRANNON Mr. Brannon has served as the Vice President since February 1996 and Secretary of the Company since October 1998. Mr. Brannon is a California licensed real estate broker and 100% owner of A Reel Mortgage, Inc., a mortgage and loan servicing company organized in 1991. Mr. Brannon is a founding director of the California Trustee Mortgage Broker Association, a not-for-profit corporation.

GEORGE E. OTTEN Mr. Otten has served as Vice President of the Company since October 1998. Mr. Otten was the first president of the Company from 1976 through 1985 and is the owner and operator of the Bates Hunter Mine under the name "Central City Consolidated Mining Company" since 1985. Since 1997, Mr. Otten is the president, director, and General Operating officer of all operations of Hunter Gold Mining, Inc. Central City Colorado. Mr. Otten holds a degree in

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Business Administration from Adams State College, Alamosa, Colorado.

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WILLIAM C. MARTUCCI From 1974 to the present, Mr. Martucci has served as president and chairman of United Grocers Clearing House, Inc., a privately held company he founded to serve the coupon redemption, fulfillment and promotional needs of manufacturers and retailers. In 1997 Mr. Martucci founded and is the sole director, officer and shareholder of Shoppers On Line that portal and web page for business-to-business and business to consumer products and services. Additionally, Mr. Martucci is the sole shareholder; director and president of U.S. Mining, Inc. ("USM") Mr. Martucci received a Bachelor of Science in Philosophy from Florida International University in 1973.

WILLIAM H. WISHINSKY Mr. Wishinsky has been a Director of the Company and a member of the Audit Committee of the Board of Directors since October 4, 1999. Since 1990, Mr. Wishinsky has been the principal of William H. Wishinsky, CPA, P.C., an accounting firm. From 1988 until 1990, he was an accountant at Friedman, Alpren & Green, CPA's in New York City. Mr. Wishinsky graduated from Pace University in New York and received a B.B.A. in Accounting in June 1986. He became a certified public accountant in 1990.

CASEY MYHRE Mr. Myhre has been a Director of the Company and a member of the Audit Committee of the Board of Directors since October 4, 1999. Since early 1999, Mr. Myhre has been manager of Kimball International, a furniture manufacturing company. For the four years prior to his being promoted to management he worked for Kimball International as a salesman. Mr. Myhre attended Minnesota School of Business and graduated in 1987.

VINCENT A. DEMARTINO. Mr. DeMartino has been a Director of the Company since March 23, 2000. Since 1996, Mr. DeMartino has been Professional Sales Representative and District Trainer for TAP Pharmaceuticals Inc. Prior to 1996 Mr. DeMartino was account executive for Boston Group in New York and maintained brokerage accounts for customers with growth objectives and managed over one million dollars in assets. Mr. DeMartino attended Seton Hall University and received a Bachelors of Arts Degree in May 1989 and majored in criminal justice. He is also accredited with a Series 7 in 1963.

To the Company's knowledge and based solely on a review of such materials as are required by the Securities and Exchange Commission, no officer, director or beneficial holder of more than ten percent of the Company's issued and outstanding shares of Common Stock ("Beneficial Owner") has filed any forms and reports required to be filed pursuant to Section 16(a) of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), during the fiscal year ended December 31, 2000; and no officer, director or Beneficial Holder has not submitted any representation letter to the Company stating that they are not subject to the filing requirements under Section 16 of the Exchange Act for fiscal year 2000.

### Item 10. Executive Compensation

Except with respect to Mr. Brannon, no compensation has been awarded to, earned by, or paid to any of the named executives or directors of the Company during the fiscal year ended 2000. On or about June 1, 2000, the Company issued 169,750 shares of Common Stock to Richard Brannon. The shares were issued to Mr. Brannon for present and future services rendered in connection with the Company's mining business. These shares were originally issued in accordance with the exemption from registration under Section 4(2) of the Act and were subsequently registered by the Company on Form S-8 on or about June 6, 2000.

On or about December 29, 2000, the Company entered into an Agreement with Mr. Brannon regarding the issuance of shares to him as compensation for services. Pursuant to the Agreement, the Company rescinded its agreement to issue shares in lieu of cash compensation to Mr. Brannon but acknowledged consulting fees of approximately \$175,000 earned by Mr. Brannon from May 2000 through December 31, 2000.

Item 11. Security Ownership of Certain Beneficial Owners and Management

(a) Certain Beneficial Owners of Common Stock  
None

(b) Security Ownership of Management of Common Stock

The following table sets forth the beneficial ownership of shares of the Company's common stock as of March 15, 2002 for each (a) director, (b) executive officer, and (c) person who is known to be the beneficial owner of five percent or more of the outstanding shares of Common Stock and all directors and executive officers as a group.

Name and Address of Beneficial Owner (1) (6)	Amount and Nature of Beneficial Ownership	Percentage of Class
Robert L. Waligunda(3)	856(4)	.06
George E. Otten(2)	-0-	-0-
Richard Brannon (3) (5)	-0-	-0-
William C. Martucci(3)	-0-	-0-
William H. Wishinsky(3)	-0-	-0-
Casey Myhre(3)	-0-	-0-
Vincent A. DeMartino(3)	-0-	-0-
	-----	-----
All Directors and Executive Officers as a Group	856	.06%

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\* Less than 1%

- (1) Except as otherwise noted all shares are beneficially owned and the sole voting and investment power is held by persons indicated.
- (2) Former officer and/or director of the Company
- (3) Executive officer and/or director of the Company
- (4) Includes 400 shares pledged as collateral to a non-affiliate individual
- (5) Does not reflect 169,750 shares of Common Stock issued to Brannon in May, 2000 but rescinded in December, 2000.
- (6) Does not include 153,690 shares of Common Stock issued to Joseph Laura in May, 2000 but rescinded in December, 2000.

Item 12. Certain Relationships and Related Transactions

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In early 1997, a former officer of the Company introduced Gems to William C. Martucci ("Martucci") at which time Gems began negotiations with Martucci to effectuate a business combination with Martucci's businesses and Gems business ventures. At that time, Gems controlled an 82.5% interest in the Zeus No. 1 Investments, a California General Partnership formed by the Company and Gems to facilitate the rehabilitation, reclamation and reopening of the Company's mining ventures (the "Zeus Joint Venture").

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However, during mid 1997, it had become apparent to the Company that Gems did not possess the technical and financial resources required to bring the Franklin Mines into operation as contemplated by the Zeus Joint Venture. It was also during this time that the Company began discussions directly with Martucci with respect to a possible business combination between his entities and the Company.

As a result of these discussions, on September 25, 1997, the Company entered into a letter of intent with Martucci to acquire all of the outstanding shares of certain entities owned by him, including US Mining, Inc. ("USM") in exchange for 85% of the outstanding shares of stock of the Company. USM is a New Jersey corporation engaged in the business of acquiring and holding mining properties and related acquisition was consummated.

Management believed that the financial support to be supplied by Mr. Martucci pursuant to the Martucci letter of intent would be sufficient to fund the Company prior to the consummation of the Transaction.

On November 13, 1997 USM entered into an agreement with Audrey Hayden to acquire her interest in the 28-patented claims comprising the Hayden/Kennec Leases. See Item 2 - Property - Hayden/Kennec Leases.

On November 25, 1997 USM acquired an aggregate of 82.5% interest in the Zeus Joint Venture in exchange for the assumption of approximately \$100,000 in liabilities of Gems (the "Gems Liabilities"). USM thereafter simultaneously assigned the acquired interest to the Company in exchange for the assumption of the Gem's liabilities. The assignment effectively terminated the Zeus Joint Venture giving the Company 100% control over its mining ventures.

On April 6, 1998, Martucci terminated the Letter of intent but continued to fund the Company (the "Advances"). On March 9, 1998, the Company executed a Loan Agreement and Promissory Note (the "USM Note") evidencing the terms upon which the Company would repay the USM advances and upon which USM would advance additional funds to the Company on an "as needed" basis. The USM Note in the principal amount of \$955,756 at December 31, 1997 bore interest at a rate of 8% per annum and was due and payable on May 4, 1998, but could be extended on a month-to-month basis. The USM Note is secured by a first priority lien on substantially all of the assets of the Company.

On or about August 3, 1998, the Company entered into agreements with each of USM (the "USM Agreement") and Martucci (the "POS Agreement"). Pursuant to the USM Agreement, USM agreed to forgive the indebtedness of the Company evidenced by the USM Note; release the security interests in the collateral of the Company securing the USM Note and assign its rights to the Hayden-USM Purchase Agreement in exchange for 42.5% of the issued and outstanding shares of the Company. Under the terms of the POS Agreement, Martucci agreed to sell to the Company 100% of the outstanding shares of POS and 100% of the assets in exchange for approximately 42.5% of the issued and outstanding shares of the Company. The Company intended to seek stockholders' approval of these transactions at its Annual Meeting of Stockholders held in October 1998.

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In August 1998, the Company filed a preliminary proxy statement with the Securities and Exchange Commission (the "Commission") for its annual meeting of stockholders, which included proposals to approve each of the USM Agreement and the POS Agreement. Shortly after the filing of the preliminary proxy materials, the Commission informed the Company that the staff of the Commission (the "Staff") would be conducting a review of the proxy materials and the proposals.

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The Company informed USM and Martucci of the Staff's inquiry and was thereafter notified that both parties wished to terminate the agreements under the premise that the Company could not secure stockholder approval of the transactions in a timely manner.

On September 21, 1998, the Company received a letter from USM concerning the monies loaned to the Company by USM, which included the monies owed to USM by the Company pursuant to the terms of the USM Note and an additional \$144,280 loaned to the Company subsequent to the date of the USM Note. At a meeting of the Board of Directors of the Company on October 8, 1998, a negotiated settlement agreement was approved by the Board, whereby USM agreed to convert the Company's indebtedness to USM into shares of common stock of the Company at a conversion price equal to 50% of the closing bid price as of the close of business October 7, 1998. The price of the Company's common stock at the close of business on October 7, 1998 was \$1.98, as adjusted per share. Therefore, the conversion rate under the settlement agreement would be one share of common stock of the Company for each \$1.00, as adjusted of indebtedness of the Company to USM.

It was further agreed that the settlement plan would be implemented in a two-step transaction. Approximately \$306,160 of loans would be paid by converting that portion into 309,252, as adjusted shares of common stock of the Company resulting in USM holding approximately 19% of the total issued and outstanding shares of common stock of the Company. The conversion of the remaining indebtedness would be predicated upon either (i) stockholder approval of the issuance of more than 20% of the Company's common stock in the aggregate to USM at a discount to market price as required by the rules of corporate governance promulgated by the NASDAQ Small Cap Market ("NASDAQ"), or (ii) the issuance of a waiver by the NASDAQ excepting the Company for compliance with this rule. USM also agreed that it would continue to provide the Company with financing going forward as further inducement to consummate the settlement agreement set forth above.

Due to the fact that the Company had already expended significant monies to conduct a proxy solicitation for its annual meeting scheduled on October 12, 1998, the Company made application to NASDAQ for a waiver of the meeting requirement described above.

On October 19, 1998, the Company made a formal application to NASDAQ in accordance with Rule 4310(C)(25)(H)(ii) of the NASDAQ Stock Market for a waiver of the requirement that the Company call a meeting of its stockholders to approve the issuance of over 20% in the aggregate of its stock to USM at a price below market price. The rule allows for a waiver of this requirement when, among other things, a delay in securing stockholder approval would seriously jeopardize the financial viability of the Company. On or about October 24, 1998, the NASDAQ Stock Market contacted the Company and indicated that it was inclined to deny the Company's application unless additional information was submitted for review. The Company thereafter withdrew its application and re-opened negotiations with USM. The Company sought to continue discussions with Martucci

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in hopes of preventing a foreclosure on the USM Note. The Company was successful in convincing Martucci to continue funding the Company in hopes that the Company could begin operations and generate revenues to repay the USM Note.

Mr. Martucci was elected to the Board of Directors of the Company in October, 1998.

On or about June 21, 1999, the Company entered into a letter of intent with USM to purchase substantially all of its assets in exchange for shares of common stock of the Company equal to 69% of the issued and outstanding shares of common stock. The letter of intent further contemplated the forgiveness of the USM Note and release of the security therefore upon the closing of the transaction. On or about October 5, 1999 USM notified WCM Capital, Inc. that it was withdrawing its letter of intent.

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On January 18, 2000, the Company, Martucci and USM entered into an agreement whereby the Company agreed to acquire USM in exchange for 7,473,013 shares of the Common Stock which is approximately 85% of the Company's common stock (the "Transaction"). The terms of this agreement were negotiated between Mr. Martucci and Mr. Waligunda and were approved by the Board of Directors of the Company. The agreement may be terminated by unanimous consent of the parties, in the event of a breach of the terms of the contract by any of the parties, in the event of an injunction preventing the closing or if the closing has not occurred on or before July 16, 2000. As a condition to closing, the Company must seek shareholder approval of the Transaction. In addition, the Company has agreed to grant Martucci piggyback and demand registration rights with respect to the shares he is to receive in the Transaction. The Company filed a proxy statement with respect to the Transaction shortly after the execution of the purchase agreement.

In March 2000, the Company announced that it has reached an agreement in principal with Martucci to acquire Shoppers Online, Inc. and Freebees, Inc., two related Internet companies 100% owned by him. Shoppers Online was in the process of launching an on line shopping portal ([www.shoppersonline.com](http://www.shoppersonline.com)) and incubator for the development of business-to-business e-commerce. Freebees is developing a give-away, fulfillment and refund web site to be linked to Shoppers Online which will allow Internet consumers to participate in promotional and redemption programs offered by various companies operating in both e-commerce and brick and mortar retail businesses. To memorialize our agreement, the Company and Martucci executed a letter of intent on April 17, 2000. It was anticipated that the Company and Martucci would amend the USM Stock Purchase Agreement to include these Internet businesses as part of the stock for stock transaction contemplated thereby.

After completing our investigation of Shoppers Online and Freebees, it became evident that both Shoppers Online and Freebees were both in the developmental stages and were not generating any revenues. Moreover, we believed that these companies would require additional investments of capital before full-scale operations could begin. At this point, the Company determined that the acquisition of these companies would not add any value to our Company as neither company could provide us with much needed revenues. Therefore, we terminated our letter of intent and decided not to proceed with this transaction.

By June, 2000, it became clear that the proxy materials would not be cleared by the Commission prior to the July 16, 2000 expiration date of the purchase agreement. USM agreed to extend the contract through September 30, 2000. The Company was unable to obtain shareholder approval of the Transaction prior to September 30, 2000 and USM was not willing to grant any further extensions. As a

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result the purchase agreement expired.

Since the expiration of the purchase agreement, there have been no further negotiations between the Company and USM with respect to a possible business combination or other transaction. The Company has not made any payments to USM in satisfaction of its indebtedness, rather, USM has agreed and is continuing to fund the Company on a month-to-month basis. Additionally, USM has forgiven all monies owed by the Company, not including accrued interest, as of December 31, 2000. The balance forgiven was \$1,768,829 and is included in revenues for the year ended December 31, 2000. In fiscal year 2001, USM advanced \$91,068 to the Company and is owed interest in the aggregate amount of \$332,869. See Item 6 Managements Discussion and Analysis of Operations.

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### PART IV

Item 13. Exhibits, Financial Statement Schedules and Reports on Form 8-K

#### Exhibits

The following documents are filed as exhibits herewith, unless otherwise specified by an asterisk, and are incorporated herein by this reference:

#### Exhibit

Number	Description of Exhibit
3.1	Amended and Restated Certificate of Incorporation filed with the Delaware Secretary of State on December 4, 1995. (Incorporated by reference, Annual Report on Form 10KSB for year ended December 31, 1995)
3.2	Amended and Restated By-Laws of the Company (Incorporated by reference, Annual Report on Form 10-K for Year Ended December 31, 1994, Exhibit 3.2.)
3.3	Amendment to the Certificate of Incorporation filed with the Secretary of State of Delaware on May 21, 1998. (Incorporated by reference, Annual Report on Form 10-KSB for Year Ended December 31, 1998).
3.4	Amendment to the Certificate of Incorporation filed with the Secretary of State of Delaware on October 16, 1998. (Incorporated by reference, Annual Report on Form 10-KSB for Year Ended December 31, 1998)
3.5	Amendment to the Certificate of Incorporation filed with the Secretary of State of Delaware on December 17, 1999. (Incorporated by reference, Annual Report on Form 10-KSB for Year Ended December 31, 1999)
4.1	Form of Indenture dated January 2, 1990 (Incorporated by reference, Registration Statement on Form S-1, File No. 33-31418, Exhibit 4.1.)
10.1	Mining Lease and Option to Purchase, dated November 12, 1976, among Davis I. And Audrey I. Hayden, husband and wife, and Dorothy L. Kenec, a single woman and trustee for her children, and Gold Developers and Producers Incorporated (Incorporated by reference, Registration Statement on Form S-1, File No. 33-31418, Exhibit 10.1.)
10.2	Indenture, dated August 2, 1982, by and between the Company and David I. and Dorothy I. Hayden. (Incorporated by reference, Registration

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Statement on Form S-1, File No. 33-31418, Exhibit 10.2.)

- 10.3 Agreement dated August 2, 1982, by and between the Company and David I. and Audrey I. Hayden. (Incorporated by reference, Registration Statement on Form S-1, File No. 33-31418, Exhibit 10.3)
- 10.26 Promissory Note dated July 6, 1996 by the Company in favor of Anderson Chemical Co. in the aggregate principal amount of \$20,000.  
  
(Incorporated by reference, Annual Report on Form 10-KSB for year ended December 31, 1996, File No. 0-9416, Exhibit 10.26).

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- 10.32 Amendment dated November 19, 1996, mining lease and Option to Purchase, dated November 12, 1996, between the Company and Mrs. Dorothy Kennec. (Incorporated by reference, Annual Report on Form 10-KSB for year ended December 31, 1996, File No. 0-9416, Exhibit 10.31).
- 10.34 Lease Extension Agreement dated November 21, 1997 between Dorothy L. Kennec, individually and Dorothy L. Kennec, Trustee and the Company.
- 10.35 Assumption of Debt dated December 1, 1997 between the Company and Gems & Minerals Corp.
- 10.36 Promissory Note dated March 5, 1998 between the Company and POS Financial, Inc.
- 10.37 Termination Letter dated March 6, 1998 between William Martucci, POS Financial, Inc. and US Mining, Inc. and the Company.
- 10.38 Letter of intent dated September 25, 1997, by and between the Company and William C. Martucci (Incorporated by reference on Form 8-K dated October 20, 1997, File No. 0-9416, Exhibit A).
- 10.39 Letter of intent dated June 21, 1999, by and between the Company and U.S. Mining, Inc. (Incorporated by reference on Form 8-K dated June 24, 1999, File No. 0-9416).
- 10.40 Agreement dated January 2000, by and between the Company and US Mining, Inc. (Incorporated by reference in Preliminary Proxy dated February 22, 2000).
- 13 Proxy Statement to Stockholders of the Company for the fiscal year ended December 31, 1994. Except for those portions of such Proxy Statement to Stockholders, expressly incorporated by reference into this Report, such Annual Report to Stockholders is solely for the information of the Securities and Exchange Commission and shall not be deemed a "filed" document. (Incorporated by reference, Annual Report on Form 10-KSB for Year Ended December 31, 1995).
- 24.1 Consent of Gifford A. Dieterle, dated June 3, 1994, as an Expert with respect to the geological reports dated December 7, 1993, and May 16, 1994 filed as supplemental information with the Company's Annual Report on Form 10-K for the year ended December 31, 1994.  
  
(Incorporated by reference, Annual Report on Form 10-K for Year Ended





