SULLIVAN
MINING
GROUP
LTD.
1980

SULLIVAN MINING GROUP LTD.

INDEX

To the shareholders of SULLIVAN MINING GROUP LTD.

Your directors are submitting the consolidated financial statements of your company for the fiscal year ended August 31, 1980.

The net profits of your divisions and subsidiaries amount to $1,337,844 compared to $869,468 the previous year ($0.21 per share effectively in circulation versus $0.14 reported last year). This increase is mainly due to higher investment revenues and to the continuing sales of equipment, machinery and buildings during the year.

You will also note that the working capital of your company is now standing at $11,779,103 compared to $10,161,625 last year.

Brunswick Tin Mines Limited (subsidiary)

A Joint Venture, called "Mount Pleasant Joint Venture", has been formed to put into production the important tungsten-molybdenum deposit, discovered and developed by your subsidiary, Brunswick Tin Mines Limited, which is held 89% by Sullivan Mining Group Ltd. and 11% by Mount Pleasant Mines Limited.

Billiton Canada Ltd. and Brunswick Tin Mines Limited have each a half interest in the Joint Venture.

By previous agreements, Billiton Canada Ltd. has assumed the obligation to provide the required financing to put the mine into production. Consequently, Billiton is managing the construction phase of the mine-mill project and will also assume control of the mining operations.

Site clearing and levelling for surface foundations got underway in May and the service buildings are almost completed. Underground development is actively being pursued: the existing decline is being enlarged and a new service decline is being driven. The construction of residences at St. George to house the key personnel has been completed.

Billiton expects to have the project operational in the second quarter of 1982. Therefore, your company, through Brunswick, should hope to receive the first royalty payment in the year 1982-83.

Sullico Resources Ltd. (subsidiary)

All the buildings, machinery and equipment remaining at the Nigadoo property were sold during the year.

This company holds a mining licence and a block of claims located in Charlotte Township, in the Province of New Brunswick, adjoining the property of Brunswick Tin Mines. A diamond drilling programme will be executed on these claims during the year.

Outside Exploration

Your company has resumed its exploration activities with the main objective to acquire mining properties and claims having gold potential.

During the year, ten gold prospects in Northwestern Quebec were examined by our consulting engineer. Five of the properties warranted further technical and economical evaluation studies and, so far, two of them have been taken under option, on which geophysical and diamond drilling programmes are presently being carried out.

Courvan Mining Company Limited (subsidiary)

An exploration programme, carried out in the southern sector of the property, close to a peridotite plug, has now been completed.

Ten holes, totalling 6545 feet, have been drilled, along a length of 875 feet, from surface to the 500 foot-horizon. Previously this part of the property had been explored by 42,000 feet of diamond drilling, over the same length of 875 feet, from surface to the 1000 foot-horizon. In these former programmes, many intersections had given encouraging gold values.

It was difficult to establish continuous gold bearing structures from these intersections and because of this, it was assumed that there was a system of veins with various strikes and dips. The diamond drilling programme was executed to verify this and the results obtained confirmed that there really is a network of non-parallel veins.

However, geological reserves, along a length of 875 feet, from surface to the 500 foot-horizon, have been estimated at 110,900 tons, giving an average grade of 0.15 oz of gold per ton across an average true width of 7.3 feet.

Fedpen Ltée (subsidiary)

Fedpen granted to Noranda Exploration Company, Limited, (Norex) an exclusive option for a term of five years commencing on November 1, 1979 on all its Mining Concessions and Claims located in the region of Gaspé, Province of Quebec.

The property may be transferred to a joint venture to be formed if Norex maintains the option in good standing by spending a total amount of $750,000 in exploration programmes during the term of the option.

Geological, geochemical and geophysical surveys were carried out and two diamond drill holes were executed during the summer.

Norex has advised that exploration will continue next spring.

Clinton Copper Mines Ltd. (affiliated)

This property, jointly controlled with Dome Mines Limited, was re-examined during the year and a geophysical survey was done. The preliminary report does not recommend any other work for the present and the final report should be presented in the near future.

Quebec Lithium (division)

Your company follows attentively all developments in the demands for lithium products and since the completion of the lithium market survey a year ago, the markets have not improved enough to presently consider the resumption of the lithium operations. Nevertheless, the Quebec Lithium mine is kept on standby and remains an important asset for the future.

Conclusion

The fact, that the property of Brunswick Tin Mines Limited is being put into production, represents a very important stage in the affairs of your company. Consequently, within a few years, revenues from mining operations will reappear in the annual earnings.

On behalf of the Board of Directors,

J. Jacques Beauchemin

J. Jacques Beauchemin, Q.C.
President.

Montreal, October 24, 1980.

SULLIVAN MINING GROUP LTD.

(Incorporated under the Québec Companies Act)

CONSOLIDATED BALANCE SHEET

August 31, 1980

ASSETS

	1980	1979
CURRENT ASSETS		
Cash and term deposits	**$11 005 359**	$ 9 261 314
Accounts receivable	**38 306**	150 457
Marketable securities (note 2)	**784 214**	525 638
Notes receivable	**2 500**	159 000
Inventories valued at amount of realization	**84 939**	177 142
Prepaid expenses	**12 833**	24 401
	11 928 151	10 297 952
INVESTMENTS (note 3)	**59 499**	72 904
FIXED ASSETS (notes 4 and 12)	**914 697**	1 141 174
MINING ASSETS (notes 5 and 12)	**9 707 081**	9 639 639
	$22 609 428	$21 151 669

LIABILITIES

	1980	1979
CURRENT LIABILITIES		
Accounts payable and accrued expenses	**$ 149 048**	$ 136 327
MINORITY INTEREST	**172 348**	149 025

SHAREHOLDERS' EQUITY

	1980	1979
Capital stock (note 6)		
Authorized – 10 000 000 shares without par value		
Issued and paid – 8 400 000 shares	**11 242 600**	11 242 600
Contributed surplus	**4 677 177**	4 677 177
Retained earnings	**6 368 255**	5 030 411
	22 288 032	20 950 188
Shares of Sullivan Mining Group Ltd. held by subsidiaries	**—**	(83 871)
	22 288 032	20 866 317
	$22 609 428	$21 151 669

ON BEHALF OF THE BOARD OF DIRECTORS

J. JACQUES BEAUCHEMIN

LUCIEN C. BÉLIVEAU

Directors

CONSOLIDATED EARNINGS

Year ended August 31, 1980

	1980	1979
REVENUES		
Interest and dividends	$ 1 403 016	$ 853 597
Gain on sales of fixed assets	506 215	898 318
Gain on sales of marketable securities	—	82 073
Gain on sales of supplies	27 644	—
Other revenue	3 300	5 036
	1 940 175	1 839 024
EXPENSES		
Administrative and general expenses	409 570	440 050
Depreciation of fixed assets	6 031	46 893
Outside exploration	232 419	24 130
Net expenses of closed and non-operating mines	185 055	228 035
Reduction in value of mining and milling supplies	—	236 190
	833 075	975 298
EARNINGS BEFORE INCOME TAXES, MINORITY INTEREST AND EXTRAORDINARY ITEMS	1 107 100	863 726
Current income taxes	545 000	357 000
EARNINGS BEFORE MINORITY INTEREST AND EXTRAORDINARY ITEMS	562 100	506 726
Minority interest	50 731	2 128
EARNINGS BEFORE EXTRAORDINARY ITEMS	612 831	508 854
EXTRAODINARY ITEMS (note 7)	725 013	360 614
NET EARNINGS	$ 1 337 844	$ 869 468
EARNINGS PER SHARE (note 6)		
Earnings before extraordinary items	$,09	$,08
Net earnings	$,21	$,14

CONSOLIDATED RETAINED EARNINGS

Year ended August 31, 1980

	1980	1979
BALANCE AT BEGINNING		
As previously reported	$ 5 030 411	$ 4 226 507
Prior years' adjustment	—	65 564
As restated	5 030 411	4 160 943
NET EARNINGS	1 337 844	869 468
BALANCE AT END	$ 6 368 255	$ 5 030 411

CONSOLIDATED CHANGES IN FINANCIAL POSITION

Year ended August 31, 1980

	1980	1979
SOURCE OF FUNDS		
Earnings before extraordinary items	$ 612 831	$ —
Items requiring no outlay of funds		
Minority interest	(50 731)	—
Depreciation of fixed assets	6 031	—
Gain on sales of fixed assets	(506 215)	—
Funds from operations	61 916	—
Reduction of income taxes on application of prior years' loss	545 000	357 000
Sales of fixed assets	745 750	1 409 713
Reimbursements of advances	—	405
Instalments on mortgages	13 405	3 351
Sales of shares	337 936	4 203
	1 704 007	1 774 672
APPLICATION OF FUNDS		
Earnings before extraordinary items	—	(508 854)
Items requiring no outlay of funds		
Minority interest	—	2 128
Depreciation of fixed assets	—	(46 893)
Gain on sales of fixed assets	—	898 318
	—	344 699
Pre-milling and deferred mine development expenditures	67 442	83 148
Leasehold improvements	—	3 901
Additions to fixed assets	19 087	—
	86 529	431 748
INCREASE IN WORKING CAPITAL	1 617 478	1 342 924
Working capital at beginning	10 161 625	8 818 701
Working capital at end	$11 779 103	$10 161 625

1 – Significant Accounting Policies

The Company and its subsidiaries terminated mining operations during 1977 and are now in the process of disposing their fixed assets of the division Cupra-D'Estrie; the disposition of the assets of the Nigadoo Mine is completed.

a) *Basis of consolidation*

The accompanying financial statements include, on a consolidated basis, the accounts of Sullivan Mining Group Ltd. and all of its subsidiaries including those that are at the exploration stage. These financial statements are presented with the exclusion of Brunswick Tin Mines Limited share of the assets and liabilities of the Joint Venture (Mount Pleasant Project) since it does not participate in the joint control.

Sullivan's interest in its parent Company, East Sullivan Mines Limited is accounted for on the equity basis due to the significant influence that it exercices on the parent Company.

b) *Valuation of inventories*

Mining and milling supplies are valued at amount of realization.

c) *Valuation of investments*

Investments other than in the Parent Company are carried at cost.

d) *Valuation of fixed assets*

(i) Land is valued at cost.

(ii) Buildings, machinery and equipment of closed and non operating mines are valued at the amount that the Company and its subsidiaries anticipate will be recoverable.

(iii) Proceeds arising from sales of fixed assets of closed mines amounting to $745 750 were used to reduce realizable value as at August 31, 1979. The excess of these proceeds over the realizable value at August 31, 1979 amounts to $506 215 and was credited to income.

(iv) Fixed assets of Québec Lithium, a non operating division of the Company, are carried at the estimated amount of realization.

e) *Mining assets, deferred expenditures*

(i) The Company regrouped under mining assets, which were turned over to the Joint Venture by Brunswick Tin Mines Limited, the cost of buildings and equipment and its own expenditures of the preproduction period including capitalized cost of mining leases and surface rights. The Joint Venture will develop the mine with a view to operate it.

(ii) The mining properties, claims and concessions are valued at cost for the Québec Lithium division and at nominal value for the others. The company does not have any mine in operation.

f) *Depreciation*

(i) Fixed assets used for the office are depreciated on the basis of straight-line method. The following rates have been used for the current year:

Office equipment 10%
Automotive equipment 15%

(ii) Depreciation is not calculated on fixed assets of closed and non-operating mines.

(iii) The possibility of recovering the cost of the mining assets transferred to the Joint Venture will only be known once the orebody is brought into commercial production, at which time the amortization policy will be enunciated by Management.

2 – Marketable Securities, at cost	**1980**	1979
Bonds (market value 1980 – $107 288; 1979 – $124 156)	**$ 132 952**	$ 132 952
Shares (market value 1980 – $567 683; 1979 – $335 783)	**651 262**	392 686
	$ 784 214	$ 525 638

3 – Investments, at cost

The cost of the investment of the Company in the shares of East Sullivan Mines Limited, its parent Company, amounts to $1 519 738 and is accounted for on the equity method (note 1). Accounting for this investment on the equity method has resulted in the cost of the investment being charged to retained earnings.

	1980	1979
Shares (market value 1980 – $36 033; 1979 – $23 000)	$ 23 000	$ 23 000
Advances to a company	20 000	20 000
Mortgages receivable from employees and a director	16 499	29 904
	$ 59 499	$ 72 904

4 – Fixed Assets

	Cost	Accumulated depreciation	Undepreciated cost 1980	1979
Land	$ 111 175	$ —	$ 111 175	$ 111 175
Buildings, machinery and equipment	73 949	50 632	23 317	208 893
	$ 185 124	$ 50 632	134 492	320 068
Buildings and equipment at estimated realizable value			780 205	821 106
			$ 914 697	$ 1 141 174

5 – Mining Assets, Deferred Expenditures

	1980	1979
Mount Pleasant Project, at cost	$ 9 552 074	$ 9 484 632
Mining properties, claims and concessions at cost and at nominal value	155 007	155 007
	$ 9 707 081	$ 9 639 639

6 – Capital Stock

At the annual and special general meeting held on December 14, 1979, the shareholders unanimously ratified By-Law 65, which provided for the reclassification and reduction of all class A and class B shares into 10 000 000 common shares without par value. On January 3, 1980, Supplementary Letters Patent ratifying this By-Law were issued by le Ministre des Consommateurs, Coopératives et Institutions financières.

The issued capital stock of the Company is summarized below:

	1980 (number of shares)	1979 (number of shares)
Common shares without par value	8 400 000	—
Class A without par value	—	8 348 076
Class B without par value	—	51 924
	8 400 000	8 400 000
Less: The Company's interest in its shares held by subsidiaries	—	31 207
	8 400 000	8 368 793
Sullivan Mining Group Ltd. and one of its subsidiaries hold together 1 940 471 shares of East Sullivan Mines Limited. The issued capital stock of East Sullivan Mines Limited is 4 675 000 shares and East holds as an investment, 4 675 000 shares of Sullivan Mining Group Ltd.		
As a result of the intercompany shareholding, the shares held by Sullivan Mining Group Ltd. in East Sullivan Mines Limited being 1 940 471 are equal to an equivalent number of shares of East Sullivan Mines Limited in Sullivan Mining Group Ltd., these shares are deducted from the capital stock of Sullivan Mining Group Ltd.	1 940 471	1 940 471
	6 459 529	6 428 322

7 – Extraordinary Items

	1980	1979
Gain on sale of shares less income taxes of $47 000	$ 133 013	$ 3 614
Reduction of income taxes on application of prior years' loss	592 000	357 000
	$ 725 013	$ 360 614

8 – Losses Carried Forward for Income Tax Purposes

The potential tax benefit resulting from the carry over of losses is not accounted for in the financial statement. These losses, which may be applied in future years to reduce taxable income and accordingly to decrease income taxes, amount to $28 594 000 and are applicable as follows:

1981	$ 1 047 000	
1983	247 000	$ 1 294 000
Amount of timing differences to be deferred over an undetermined period		
Undepreciated capital cost	4 800 000	
Pre-production expenses	22 500 000	27 300 000
		$28 594 000

9 – Commitments

By virtue of an operating lease expiring on April 30, 1982, the company has agreed to pay an aggregate amount of $30 604 during the period ending on this date. An aggregate amount of $18 363 is required in the next year and an aggregate amount of $12 241 for the last eight months of the lease.

10 – Contingency

(i) Legal proceedings have been instituted against the Company whereby the plaintiffs are claiming 4/5 of the 340 000 escrowed shares of Sullipek Mines Inc. to be issued and allotted to Sullivan Mining Group Ltd. and alternatively failing delivery of the claimed shares, the plaintiffs have claimed the sum of $1 000 000 of damages against Sullivan Mining Group Ltd. This litigation has arisen from an option granted by the Company to Terra Nova Explorations Ltd. on certain claims situated in the Gaspé area of the Province of Québec. These proceedings have been contested and in the opinion of the Company's counsel they are ill-founded in facts and in law.

(ii) Legal proceedings have been instituted against the Company and its Agents by the Owners of a vessel for an accident which occurred during the shipment of concentrates. This claim is being contested by the Company.

The amount of the possible liability cannot be determined at this time because the Company and its Agent have exercised a recourse seeking indemnity from a third party.

However, the Company has issued a guarantee in the amount of $200 000 U.S. as security for the payment of any judgement that might be rendered in favour of the Owners of the vessel.

A sum of $98 000 has been provided for in the books in previous years. Should any judgement be rendered against the Company and if the amount exceeds the sum provided for in the books, the excess will be accounted for as an adjustment of prior years.

(iii) On October 15, 1976 an action for $162 585 in damages and interests was instituted against the Company. These damages appear to be the result of an accident which occurred on October 19, 1975.

The insurers of Sullivan Mining Group Ltd. who cover the Company in regard to third party liability have instructed their counselors to defend the action in the name of Sullivan Mining Group Ltd. and Québec Lithium; on the date of the balance sheet the case is pending.

11 – Remuneration of Directors and Officers

The Aggregate remuneration received by directors and officers of the Company amounts to $213 495 for the year ($242 950 for 1979). The directors received $10 100 (1979, nil) for their services as directors during the year.

12 – Additional Information

a) *Brunswick Tin Mines Limited*

The subsidiary entered in a Joint Venture to develop and to bring the Mount Pleasant Project to the operating stage.

By virtue of the terms of the Joint Venture Agreement the subsidiary has transferred all its rights, titles and interest in and to the property to be held by Billiton Canada Ltd. for the joint account of Brunswick and Billiton Canada Ltd. in accordance with their respective interests therein.

By arranging the financing needed to bring the property into production, Billiton acquired an undivided 50% interest in the property, Brunswick retained 50%.

The Loan agreement, the Sales agreement, the Assignment of sales proceeds, the Operating agreement and the Lien agreement were also signed which provide essentially for the following:

(i) With the exception of the leasing arrangements, 50% of the expenses incurred for the Joint Venture up to the date of commercial production will be considered to be advanced as loans by Billiton to Brunswick and these loans will bear interest at a rate equal to one (1) percentage point above the prime rate of a designated bank, from time to time.

Repayment of these loans, by the company to Billiton, together with interest thereon shall be made out of the net cash flow to Brunswick from the property.

(ii) Brunswick's portion of the concentrates produced will be purchased by Billiton Metals for a period of eight years and thereafter Billiton Metals will have a right of first refusal.

(iii) Billiton Canada Ltd. became the sole Operator of the project and will provide exclusively all administrative and technical services.

(iv) An assignment of sales proceeds and a first lien on all present and future assets of Brunswick in favour of Billiton.

(v) Brunswick shall be entitled to receive, from the date of commencement of commercial production and under certain conditions, a royalty of $2 canadian per ton of ore treated, up to a maximum of $1 000 000 per year, while the required financing with interest is being fully retired.

Billiton will be entitled to receive a financing fee of a maximum of one million dollars per year for a five year period under the same conditions as the royalty payment to Brunswick.

Should in any one year the net cash flow be inadequate to meet both the financing fee and the royalty payable to the company then the financing fee and the royalty payment will rank pari passu and be proportionately paid to the two companies. If this situation should arise the maximum of five million dollars to be paid as financing fee would be paid over a period longer than five years.

(vi) The cash flow shall be shared equally between Billiton and Brunswick once the required financing is fully retired.

As at balance sheet date information supplied by Billiton indicates that expenses incurred for the account of the Joint Venture and considered as being advanced as loans to Brunswick amount to $3 398 000 and the amount of accrued interest is $58 400.

b) *Fedpen Ltée*

The subsidiary granted to Noranda Exploration Company, Limited (No Personal Liability), (Norex) an exclusive option for a term of five (5) years commencing on November 1, 1979 on all its Mining Concessions and Claims located in Lemieux Township, County of Gaspé, Province of Québec. Norex may spend an amount of $750 000 during this period.

c) *Comparative figures*

Certain of the preceding year figures have been reclassified to conform with the current year financial statements presentation.

AUDITORS' REPORT

To the shareholders of
Sullivan Mining Group Ltd.

We have examined the consolidated balance sheet of Sullivan Mining Group Ltd. as at August 31, 1980 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended and we have obtained all the informaton and explanations we have required. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, according to the best of our information and explanations given to us and as shown by the books of the company, these consolidated financial statements present fairly the financial position of the company as at August 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

MAHEU, NOISEUX, ROY & ASSOCIÉS
Chartered Accountants

Montreal, October 9, 1980

Officers

Marc H. Dhavernas, *Honorary Chairman of the Board*
J. Jacques Beauchemin, Q.C., *President and Chairman of the Board*
Lucien C. Béliveau, Eng., *Executive Vice-President*
Réal J. Lafleur, *Secretary-Treasurer*
Thérèse Ouellette, *Assistant Secretary*

Directors

François J. Bastien, C.A.
Claude Beauchemin, Attorney*
J. Jacques Beauchemin, Q.C.*
Claude Beaudoin
Lucien C. Béliveau, Eng.*
Wilbrod Bhérer, Q.C.
Albert Doyon, Economist
Brigadier General J. Guy Gauvreau, D.S.O., E.D., C.D.*
Réal J. Lafleur
Alexandre J. Montminy
Léo Scharry, Eng.

**Executive Committee*

Registrar and Transfer Agent

Guaranty Trust Company of Canada, Montreal - Toronto

Shares Listed

Montreal Stock Exchange / Toronto Stock Exchange

Bank

National Bank of Canada

Auditors

Maheu, Noiseux, Roy & Associés, Montreal

Head Office

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