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SULLIVAN MINING GROUP LTD.

1979

SULLIVAN MINING GROUP LTD.

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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, 1979.

The net profits of your divisions and subsidiaries amount to $869,468 compared to losses of $255,946 the previous year ($0.14 per share effectively in circulation versus a loss of $0.04 reported last year).

However, when reading the financial statements, you will note that the working capital of your company is now standing at $10,161,625 compared to $8,818,701 last year. The increase is resulting mainly from the sale of equipment, machinery and buildings during the course of the last term.

Brunswick Tin Mines Limited

Agreement with Billiton

A final understanding has been reached between Brunswick Tin Mines Limited, one of your subsidiaries, and Billiton Exploration Canada Limited, a canadian subsidiary of Billiton International, which is part of the Royal Dutch-Shell Group of companies.

Under this agreement, Billiton agrees to make financial arrangements to put your property into production at an estimated cost of eighty million dollars ($80,000,000). Furthermore a joint venture has been formed to operate under the name of "Mount Pleasant Joint Venture", in which each partner has a 50% interest. As you know, your company holds 89% of Brunswick Tin Mines Limited's shares and Mount Pleasant Mines Limited the other 11%.

Billiton is responsible for the construction and will manage the operations. It is expected that all construction will be completed by the end of 1981. The annual operating capacity will be 650,000 tonnes, which would produce approximately one thousand eight hundred (1,800) tonnes of tungsten oxide and six hundred (600) tonnes of molybdenum.

Your company shall be entitled to a royalty of $2.00 per short ton treated up to a maximum of one million dollars ($1,000,000) per year as long as the debts are not fully repaid. On the other hand Billiton will receive a financing fee of five million dollars ($5,000,000) to be paid at a rate of one million dollars ($1,000,000) per year. If, at any time, the cashflow is inadequate to meet in full the payments of the fees and royalty, then Billiton's fees and Brunswick Tin Mines' royalty will be paid proportionately.

Once the debts are completely reimbursed, Billiton and Brunswick Tin Mines shall share equally the cashflow from the operations.

Technical information

During a period of approximately 16 months a substantial technical research programme was carried out by Billiton in connection with your property located at Mount Pleasant, Charlotte County, Province of New Brunswick. Calculations of proven tonnages and of the grade of tungsten and molybdenum have confirmed those of your company's engineers and geologists. Metallurgical tests made on a semi-industrial scale at the Nigadoo concentrator, (now Sullico Resources Ltd.) have definitely shown the value of the new flotation process developed by the technical staff of your company.

In addition to these tests, a metallurgical research programme was undertaken by Billiton in its laboratories in The Netherlands. Environmental studies were carried out by Montreal Engineering Company Ltd. of Fredericton, N.B. The plans of the concentrator and of the hydrometallurgical plant were prepared by S.N.C. – Geco Ltd. of Toronto.

The coordination of these different consulting engineering firms was under the supervision of Strathcona Mineral Services Ltd., of Toronto. Strathcona reported upon the various reports received and submitted a positive, well presented, feasibility study to Billiton Exploration Canada Limited.

The underground development work and the 247,694 feet of diamond drilling, all executed by your company prior to 1977, (out of which 179,452 were from surface and 68,242 from underground) showed the following ore reserves:

Fire Tower Zone

The geological ore reserves are as follows:

a) proven reserves:
   9,353,000 tonnes grading 0.393% in tungsten oxide and 0.204% in molybdenite;

b) indicated by diamond drilling:
   17,250,000 tonnes grading 0.21% in tungsten oxide and 0.14% in molybdenite.

North Zone

No underground work was done and accordingly the reserves are those indicated by diamond drilling only:

11,350,000 tonnes grading 0.241% in tungsten oxide and 0.08% in molybdenite, and
2,400,000 tonnes grading 0.42% in tin, 0.077% in tungsten oxide and 0.05% in molybdenite.

Québec Lithium

During the course of the year a market study has been completed. Admitting that resumption of the operations of Québec Lithium should be delayed, we are firmly convinced that, due to the importance of this large deposit, it could, in the future be an important source of revenue for your company.

We are now proceeding with a diamond drill programme on the property in order to examine the possibility of mining a part of your property by open pit.

Miscellaneous

During the last term, your Company has examined a number of projects in the primary and secondary sectors. Although, up to now, such projects do not meet with our requirements, your directors are opened to any new possibilities in any of these two sectors.

On behalf of the Board of Directors,

J. Jacques Beauchemin

J. Jacques Beauchemin, Q.C.
President.

Montreal, October 22, 1979.

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 & Associés, Montreal

Head Office

Suite 2500, 500 Place d'Armes, Montreal, Quebec, H2Y 2W6

SULLIVAN MINING GROUP LTD.
(Incorporated under the Laws of Quebec)

CONSOLIDATED BALANCE SHEET
August 31, 1979

STATEMENT 1

ASSETS

	1979	1978
CURRENT		
Cash and term deposits	$ 9,261,314	$ 7,322,186
Accounts receivable	150,457	84,565
Marketable securities (note 3)	525,638	758,168
Notes receivable	159,000	—
Inventories (note 4)	177,142	718,905
Prepaid expenses	24,401	178,620
	10,297,952	9,062,444
INVESTMENTS (note 5)	72,904	77,835
FIXED ASSETS (note 6)	1,680,427	2,234,815
DEFERRED EXPENDITURES (notes 7 and 13)	9,100,386	9,017,238
	$21,151,669	$20,392,332

LIABILITIES

	1979	1978
CURRENT		
Accounts payable and accrued expenses	$ 136,327	$ 176,228
Salaries payable	—	1,827
Income taxes payable (note 2)	—	65,688
	136,327	243,743
MINORITY INTEREST	149,025	151,740

SHAREHOLDERS' EQUITY

	1979	1978
Capital stock (note 8)		
Authorized: 20,000,000 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	5,030,411	4,160,943
	20,950,188	20,080,720
Shares of Sullivan Mining Group Ltd. held by subsidiaries	(83,871)	(83,871)
	20,866,317	19,996,849
	$21,151,669	$20,392,332

On behalf of the Board of Directors

J. JACQUES BEAUCHEMIN, Director
LUCIEN C. BÉLIVEAU, Director

CONSOLIDATED EARNINGS
Year ended August 31, 1979

STATEMENT 2

	1979	1978
REVENUES		
Interest and dividends	**$ 853,597**	$ 580,503
Gain on sales of fixed assets	**898,318**	25,414
Gain on sales of marketable securities	**82,073**	—
Gain on sales of investments	**3,614**	9,988
Net revenue – ore from exploration	**—**	237,201
Other revenue	**5,036**	11,714
	1,842,638	864,820
EXPENSES		
Administrative and general expenses	**440,050**	488,179
Depreciation of fixed assets	**46,893**	57,919
Outside exploration	**24,130**	37,529
Net expenses of closed and non-operating mines	**228,035**	539,362
Reduction in value of mining and milling supplies	**236,190**	—
	975,298	1,122,989
EARNINGS (LOSS) BEFORE MINORITY INTEREST	**867,340**	(258,169)
MINORITY INTEREST	**2,128**	2,223
NET EARNINGS (LOSS) FOR THE YEAR	**$ 869,468**	$ (255,946)
NET EARNINGS (LOSS) PER SHARE	**$ 0.14**	$ (0.04)

CONSOLIDATED RETAINED EARNINGS
Year ended August 31, 1979

STATEMENT 3

	1979	1978
RETAINED EARNINGS AT BEGINNING OF YEAR		
As previously reported	**$ 4,226,507**	$ 4,475,433
Prior years' adjustment (note 2)	**65,564**	55,247
As restated	**4,160,943**	4,420,186
Net earnings (loss) for the year	**869,468**	(255,946)
Minority interest	**—**	(3,297)
	869,468	(259,243)
RETAINED EARNINGS AT END OF YEAR	**$ 5,030,411**	$ 4,160,943

CONSOLIDATED CHANGES IN FINANCIAL POSITION
Year ended August 31, 1979

STATEMENT 4

	1979	1978
SOURCE OF FUNDS		
Funds from operations		
Net earnings (loss) for the year	$ 869,468	$ (255,946)
Minority interest	(2,128)	(2,223)
	867,340	(258,169)
Items not requiring an outlay of funds		
Depreciation of fixed assets	46,893	57,919
Gain on sales of fixed assets	(898,318)	(25,414)
Gain on sales of investments	(3,614)	(9,988)
	12,301	(235,652)
Other items affecting working capital		
Sales of fixed assets	1,409,713	645,668
Reimbursements of advances	405	4,595
Instalments on mortgages receivable	3,351	3,117
Sales of investments	4,203	8,358
	1,429,973	426,086
USE OF FUNDS		
Items affecting working capital		
Pre-milling and deferred mine development expenditures	83,148	85,350
Leasehold improvements	3,901	—
	87,049	85,350
INCREASE IN WORKING CAPITAL	1,342,924	340,736
Working capital at beginning of year	8,818,701	8,477,965
Working capital at end of year	$10,161,625	$ 8,818,701

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 1979

1 – Accounting Policies

The Company and its subsidiaries terminated mining operations during 1977 and are now in the process of disposing of their assets.

a) *Basis of consolidation*

The accompanying financial statements include, on a consolidated basis, the accounts of Sullivan Mining Group Ltd. (the Company) and all of its subsidiaries including those that are at the exploration stage.

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 exercises on the parent Company.

Certain subsidiary companies own shares in the Company. The carrying value of such shares has been deducted from the Company's shareholders equity. Similarly the Company's earnings per share has been calculated based on the number of its shares outstanding after reduction for such intercompany holdings.

b) *Valuation of inventories*

Mining and milling supplies are valued at possible amount of realization.

c) *Valuation of investments*

Investments 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 $1,409,713 were used to reduce realizable value determined as at August 31, 1978. The excess of these proceeds over the realizable value determined on August 31, 1978 amounts to $898,318 and was credited to income. Proceeds arising from future sales of this type will be credited to income.

(iv) Fixed assets of Québec Lithium, a non operating division of the Company is carried at undepreciated capital cost amounting to $770,466 which is the value that management estimates to be recoverable.

e) *Deferred expenditures*

(i) Pre-production and deferred mine development expenditures amount to $8,945,379 for the mine at the exploration stage (Brunswick Tin Mines Limited) and will only be recovered if the ore body is brought to the commercial production stage and providing that proceeds less costs to produce and sell are sufficient to amortize the precited amount of expenses.

(ii) The value at which the mining properties, the mining rights and concessions are recorded in the books does not purport to represent their present or future value.

f) *Depreciation*

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

Buildings, machinery and equipment	10%
Automotive equipment	15%

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

(iii) Depreciation is not calculated on buildings, machinery and equipment of the subsidiary at the exploration stage. The cost of these fixed assets amounts to $539,253 (1978 – $539,253).

2 – Prior Years' Adjustment

As a result of income taxes and mining duties reassessments applicable to the years 1972 to 1976, the balance of retained earnings as at August 31, 1978, previously reported in the financial statements as $4,226,507, has been restated to show a retroactive change of $65,564 representing the cumulative amount of $65,688 by which income taxes and mining duties as at August 31, 1978 have been increased after reduction of the minority interest's share amounting to $124. The balance of "Income taxes payable" and that of the "Minority interest" as at that date have been adjusted by the same amounts. The $65,688 increase in taxes after reduction of the minority interest's share of $124 is applicable to years prior to September 1, 1977 and has been charged to retained earnings at that date, previously reported as $4,475,433.

3 – Marketable Securities – at cost

	1979	1978
Bonds (market value 1979 – $124,156; 1978 – $134,069)	$ 132,952	$ 132,952
Shares (market value 1979 – $335,783; 1978 – $675,977)	392,686	625,216
	$ 525,638	$ 758,168

4 – Inventories

These consist of:

Mining and milling supplies valued at possible amount of realization	$ 177,142	$ 631,312
Concentrates at smelters	—	87,593
	$ 177,142	$ 178,905

5 – 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 and to affect retained earnings by the earnings less dividends (note 8).

Shares (market value 1979 – $23,000; 1978 – $9,666)	$ 23,000	$ 24,176
Advances to a Company	20,000	20,405
Mortgages receivable from employees and a director	29,904	33,254
	$ 72,904	$ 77,835

6 – Fixed Assets

	Cost	Accumulated depreciation	Undepreciated cost 1979	1978
Land	$ 111,175	$ —	$ 111,175	$ 111,175
Buildings, machinery and equipment	1,049,967	301,821	748,146	841,509
	$ 1,161,142	$ 301,821	859,321	952,684
Buildings and equipment at estimated realizable value			821,106	1,282,131
			$ 1,680,427	$ 2,234,815

7 – Deferred Expenditures – at cost

	1979	1978
Mine at the exploration stage	$ 8,945,379	$ 8,862,231
Mining properties, claims and concessions	155,007	155,007
	$ 9,100,386	$ 9,017,238

8 – Capital Stock

The issued capital stock of the Company is summarized below:

	1979 (number of shares)	1978 (number of shares)
Class A	8,348,076	8,329,445
Class B	51,924	70,555
	8,400,000	8,400,000
Less: The Company's interest in its shares held by subsidiaries	31,207	31,207
	8,368,793	8,368,793
Less: Shares held in the parent Company East Sullivan Mines Limited (note 5)	1,940,471	1,940,471
	6,428,322	6,428,322

Class A and class B shares are voting, convertible into one another on a share for share basis and rank equally with respect to dividends and in all other respects.

9 – Income Taxes

(i) The Company and its subsidiaries are not taxable because they have claimed for tax purposes, available amounts of deductible expenses in excess of the income otherwise taxable for the year.

(ii) Furthermore, the Company and its subsidiaries had as at August 31, 1979 further amounts available to reduce possible future taxable income:

	1979	1978
Undepreciated capital cost	**$ 5,246,752**	$ 7,143,050
Outside exploration expenditures	**8,443,993**	9,242,648
Losses for income tax purposes	**1,579,636**	1,615,075

(iii) The subsidiaries at the exploration stage have as a Group, an amount of $11,289,550 (1978 – $9,647,484) available to reduce their possible future taxable incomes or the Company's which might be earned from mining operations or from investments.

10 – Commitment

The Company, in a lease expiring on April 30, 1982, has agreed to pay an aggregate amount of $48,967 for the rental of office space. Annual payments of $18,363 are required in each of the next two years and a payment of $12,241 for the last eight months of the lease.

11 – Contingency

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. The proceedings have been contested and in the opinion of the Company's counsel they are ill-founded in facts and in law.

12 – Remuneration of Directors and Officers

The aggregate remuneration received by directors and officers of the Company amounts to $242,950 for the year ($254,390 for 1978). The directors received no remuneration for their services as directors during the year.

13 – Brunswick Tin Mines Limited

The subsidiary signed on November 30, 1977 an agreement with Billiton Exploration Canada Limited to enter into a joint venture to evaluate and if feasible, develop and exploit, the mining property of the subsidiary in New Brunswick.

On August 10, 1979, Billiton, in accordance, with the provisions of the agreement and certain amendments thereto, informed Brunswick Tin Mines Limited that it wished to enter into a joint venture.

The provisions of the agreement and the amendments provide for the following:

(i) Billiton will arrange the financing needed to bring the property into production, thereby acquiring an undivided 50% interest in the property, Brunswick retaining the other 50%.

(ii) Billiton will be the operator of the project and will provide all technical services.

(iii) 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 one million dollars per year, while the required financing and 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 Brunswick 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.

(iv) Billiton will purchase for a period of eight years Brunswick's portion of the concentrates produced from the project in New Brunswick.

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

Sullivan Mining Group Ltd. holds an interest of 89% in Brunswick Tin Mines Limited.

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, 1979 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended and we have obtained all the information 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, subject to the recovery of the deferred expenditures and the realization of the assets as referred to in note 1 and 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, 1979 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 & ASSOCIÉS
Chartered Accountants

October 12, 1979