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CAROLIN



ANNUAL REPORT 1980



Directors

Orval Gillespie
Roy G. McKay
Edward Angus
Joseph S. LaBine
John R. Bogert

Officers

Orval Gillespie, President
Roy G. McKay, Secretary-Treasurer

Head Office

1020 - 475 Howe Street
Vancouver, B.C. V6C 2B3

Auditors

Harwood, Grayson, Chartered Accountants
622 - 837 West Hastings Street
Vancouver, B.C.

Registered Office

1004 - 595 Howe Street
Vancouver, B.C. V6C 2T5

Listings

Vancouver, B.C.
Toronto, Ont.
Nasdaq, U.S.A.

Registrar and Transfer Agent

Crown Trust Company
Vancouver, B.C.
Toronto, Ont.

To our Shareholders:

During the last year, your Company has made great progress toward bringing into production our Idaho Zone gold property on Ladner Creek near Hope, B.C. In September of 1979, our 50% Joint Venture partners, the Aquarius Group, committed to spend more than \$20 million Canadian to cover the full costs, including working capital, of putting the Idaho Zone mine into production.

With financing thus secured, Carolin, as the manager and operator of the joint venture, has since been occupied with the myriad activities which are essential to the development of a modern operating gold mine. Underground development work has gone well and is on schedule. Mineralization encountered outside of the known Idaho ore zone during the underground development programme suggests that additional ore bearing zones may occur northerly and also to depth from the Idaho zone, and gives promise of potentially significant additions to economic ore reserves in the future.

Surface work, including road development, culvert construction, bringing in of hydro power lines, construction of a tailings dam, site preparation, construction of the mill and ancillary buildings, and installation of the mill equipment is progressing well and is generally on schedule. Barring unforeseen developments, we hope to start up the mill around the end of the first quarter of 1981.

The Carolin-Aquarius joint venture includes all claims in an area described as the "fenced in area" centered around the Idaho and including the McMaster Zone some 4,000 feet

north of the Idaho. At the McMaster Zone, several diamond drill holes have indicated a gold deposit similar in nature to the Idaho. Considerable potential is expected on the McMaster since it lies along the same structure and there are remarkable geological and mineralogical similarities with the Idaho zone.

The joint venture excludes a large block of claims owned outright by Carolin, which are located immediately north of the fenced in area, called the "Ladner Creek North Property" where the Company has encountered a number of mineralized areas. As discussed later in this report, the Company feels that the Ladner Creek North Property has great economic potential. In May 1980 we completed a best efforts public offering of 50,000 shares of common stock at a price of \$14.00 Canadian per share, through the facilities of the Vancouver Stock Exchange. This has given us a strong, debt-free balance sheet as we proceed toward initial production. Out of the net proceeds of that offering, \$450,000 Canadian is being spent on the first stage of a comprehensive exploration programme in the Ladner Creek North Property including a detailed programme of mapping, sampling, and diamond drilling, as recommended by Cochrane Consultants Ltd., of Delta, B.C. This work, begun in June, is on-going, and will be reported on from time-to-time as appropriate.

In March, 1980, the Company acquired an option on an additional and contiguous group of claims adjacent to the Ladner Creek North Property, thereby potentially increasing the ground included in the North Property.



I am very pleased to announce that Norman C. "Tip" Croome has joined our Company as Vice President — Engineering and has agreed to stand for election to our Board of Directors. Tip has enjoyed a distinguished career in the mining industry, having, for many years, been V.P. Operations for two major mining companies, and most recently having served as a Vice President and Director of Kilborn Engineering (B.C.) Limited, a world-renowned engineering consulting firm with special expertise in mining.

In May, 1980, Carolin and Aquarius Resources Ltd., each acquired a 50% interest in an option on a group of claims in the Cariboo Mining Division of B.C. Although Aquarius Resources Ltd. is a member of the "Aquarius Group" the Cariboo property is not included in Carolin's joint venture agreement with the Aquarius Group to develop the southern part of our Ladner Creek Property.

We look forward, beginning in a few months, to initial production from our Idaho joint venture mine in the range of 175 to 200 ounces of gold per day, with operating costs estimated at under \$100 Canadian an ounce. This will make us one of the lowest cost producers on this side of the Atlantic. With the prospect of continued strong gold prices, and with increasing confidence that our potential ore reserves at the Idaho and between the Idaho and McMaster are very large, we are encouraged to believe that our gold property, inside the joint venture fenced area, will soon prove to be a major North American gold mine.

We are also equally encouraged about the potential of the Ladner Creek North Property, where there is good reason to believe that an additional gold bearing zone may occur northerly from the McMaster Zone, lying along the same geological structure which hosts the Idaho and McMaster Zones. We believe the expenditure of nearly half a million Canadian dollars in the exploration programme now underway on our wholly-owned North Property is justified and that sufficient ore reserves could be proven to warrant a feasibility study for the establishment of a mine on the North Property. We intend to aggressively develop the Ladner Creek North Property to its fullest potential.

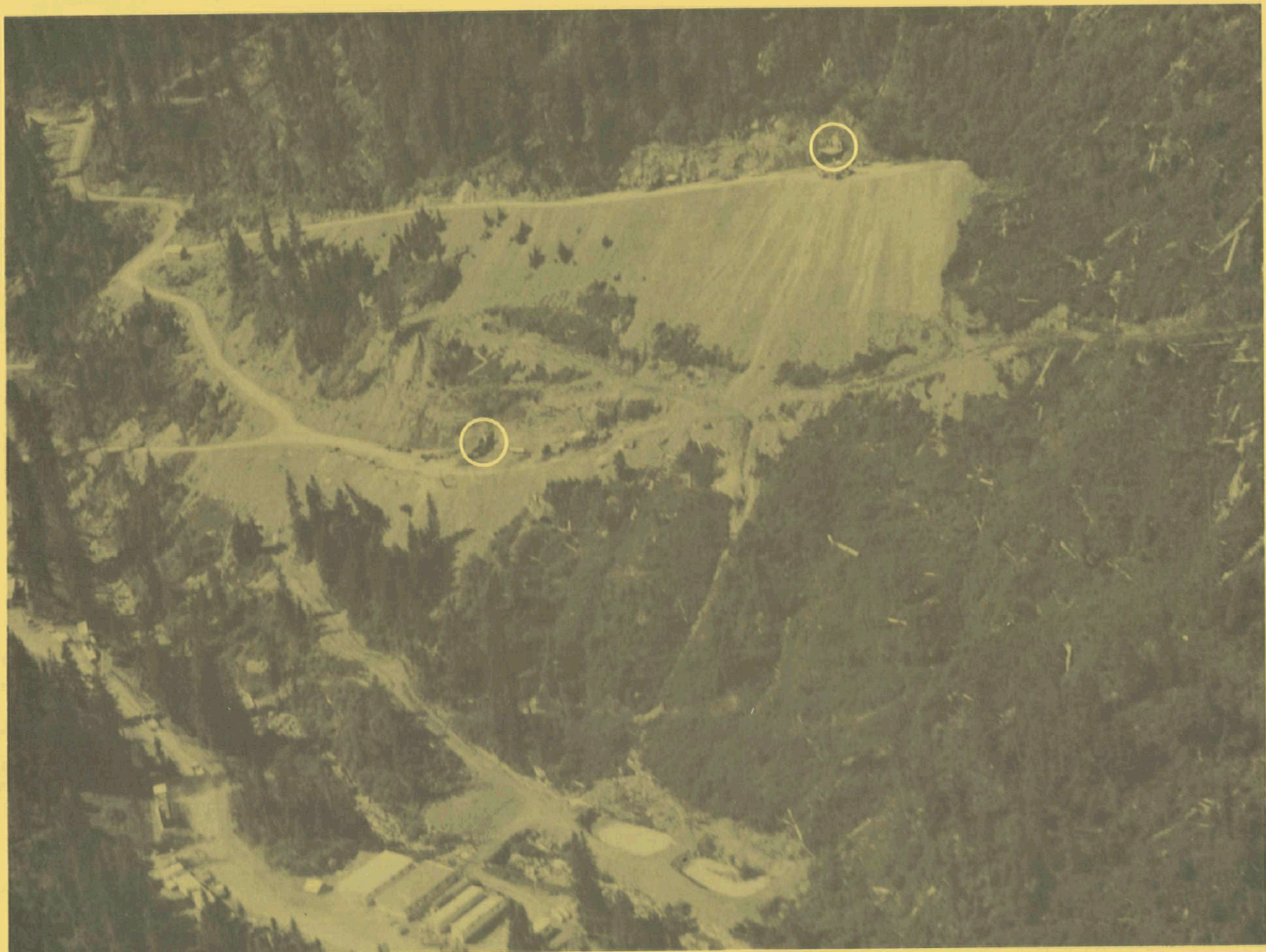
We will keep you abreast of our progress during the months ahead. It is a pleasure to be able to report the results of our efforts over the last year. On behalf of the Board of Directors, please accept our appreciation for your continued interest in Carolin Mines Ltd.

Respectfully submitted,

On Behalf of the Board of Directors

A handwritten signature in cursive script, reading "Orval E. Gillespie".

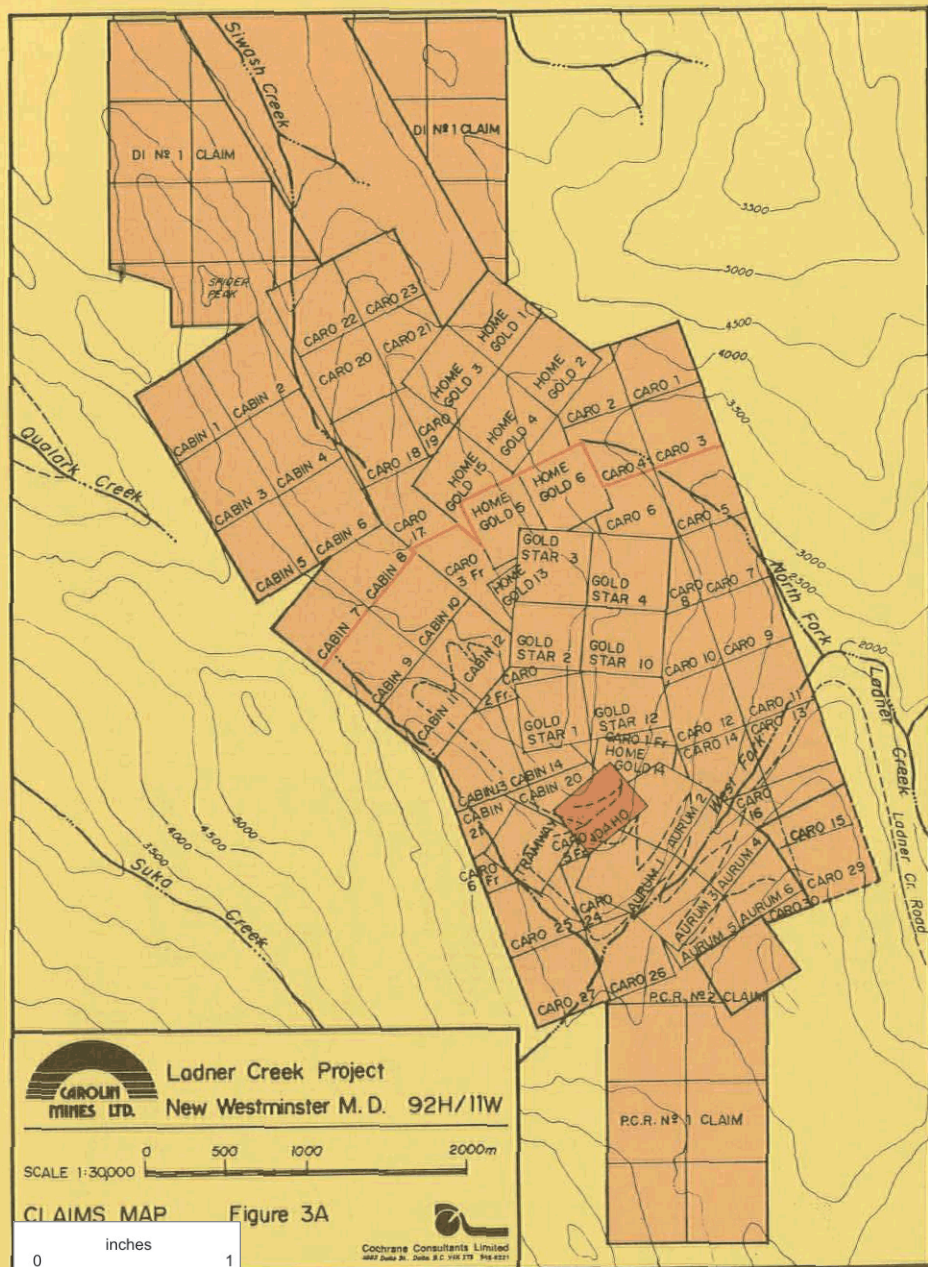
Orval E. Gillespie
President



Aerial view of the mine site, showing upper and lower portals in circles, contractors offices and living quarters at lower left.



Aerial view of the mine site.



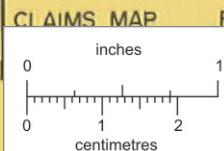
Ladner North Property

Carolin's holdings in the Ladner Creek area are large and only the southern half, containing the Idaho and McMaster zones, are committed to the Carolin-Aquarius joint venture. The northern part "Ladner Creek North Property" consists of 32 claims covering approximately 1,900 acres. In addition Carolin holds an option on additional adjacent claims. This area owned includes two old producing mines, the Pipestem and the Georgia Number Two, and straddles the same geological structure on which the Idaho and McMaster zones are situated.

The old Pipestem Mine has approximately 2,500 feet of underground workings still in stable condition. Former operations employed a stamp mill. Tailings from the stamp mill and waste rock were left in a dump nearby. Assays from this dump have run in excess of .2 oz. gold per ton.

Our Ladner Creek North Property exploration program calls for additional geological, geophysical, and geochemical surveys, to include a detailed program of mapping, sampling and diamond drilling of the former Pipestem and Georgia Number Two mines. This program has been underway since June and a considerable amount of gridding, sampling etc. has been done including constructing a road to the Pipestem mine. The Pipestem tunnels are undergoing minor repairs and will greatly facilitate the planned program of diamond drilling and underground sampling. These claims show numerous high gold readings in soil geochemical anomalies, often indicative of areas in which the bedrock also contains higher than average amounts of gold.

We anticipate that our exploration program over the Ladner Creek North Property could add meaningfully to the company's ore reserves over the coming months, and believe the chances of an economic mine are very high in this large mineralized area.



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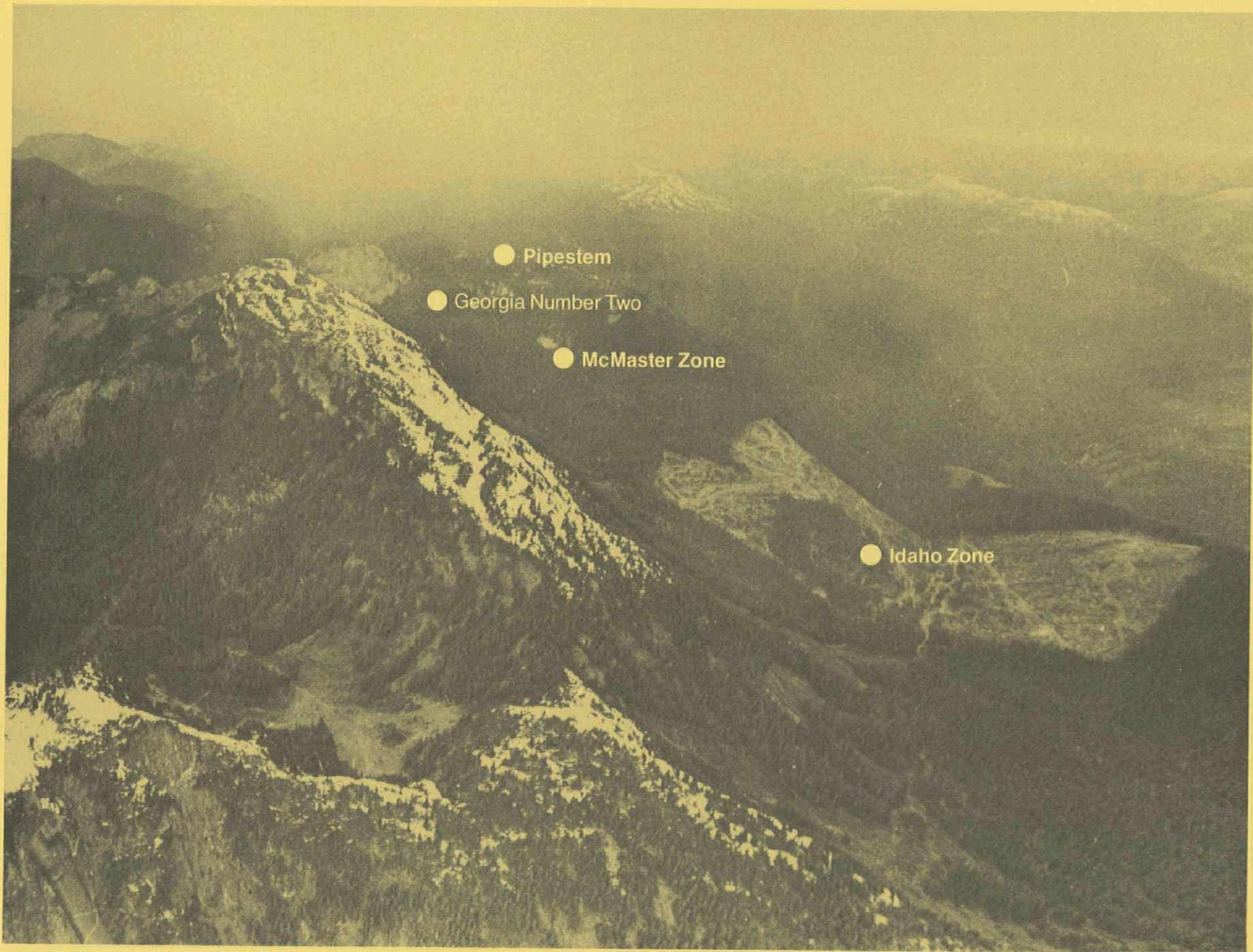


Photo by Ken Oakes

HARWOOD & GRAYSON

CHARTERED ACCOUNTANTS

AUDITORS' REPORT

To the Shareholders of Carolin Mines Ltd.

We have examined the balance sheet of Carolin Mines Ltd. as at 31st May, 1980 and the statements of deficit and changes in financial position for the year then ended. 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 these financial statements present fairly the financial position of the company as at 31st May, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles (which differ from United States generally accepted accounting principles as explained in Note 9 of Notes to the Financial Statements) applied on a consistent basis.

HARWOOD & GRAYSON
Chartered Accountants

Vancouver, B.C.
19th August, 1980.

CAROLIN MINES LTD.

BALANCE SHEET AS AT 31st MAY, 1980 (In Canadian Dollars)

	1979	1980
ASSETS		
CURRENT ASSETS		
Cash in bank	186,588	381,010
Sundry receivables	—	4,850
	<u>186,588</u>	<u>385,860</u>
PROPERTY, PLANT AND EQUIPMENT (Note 1)		
Mineral claims	455,000	468,350
Camp	56,300	56,300
Equipment	121,975	137,588
Roads	320,000	320,000
Tunnels	626,250	626,250
Feasibility study	140,000	140,000
	<u>1,719,525</u>	<u>1,748,488</u>
DEFERRED EXPENSE (Notes 1 and 9)		
Exploration and administrative expense and finance costs (per schedule)	3,960,531	4,300,427
	<u>\$5,866,644</u>	<u>\$6,434,775</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	46,415	16,354
DEBENTURE LOAN PAYABLE (Note 2)	983,200	—
SHAREHOLDERS' EQUITY		
Share capital —		
Authorized —		
10,000,000 common shares of no par value		
Issued — (Note 3)		
4,904,981 (1979 — 4,543,535)	4,611,708	6,194,333
Paid in surplus	1,069,254	1,069,254
Deficit — per statement	(843,933)	(845,166)
	<u>\$5,866,644</u>	<u>\$6,434,775</u>

(See Notes to the Financial Statements)

This is the balance sheet referred to in the report of Harwood & Grayson, Chartered Accountants, dated 19th August, 1980.

APPROVED ON BEHALF OF THE BOARD:

Director: O.E. Gillespie

Director: Roy McKay

CAROLIN MINES LTD.

STATEMENT OF DEFICIT

(In Canadian Dollars)

	Years Ended 31st May		Cumulative to 31st May, 1980
	1979	1980	
CHARGES TO DEFICIT			
Cost of claims and/or options abandoned and related deferred expense	2,000	1,233	745,269
Losses incurred on account of former subsidiary company	—	—	98,707
Incorporation expense	—	—	1,190
	<u>\$2,000</u>	<u>\$1,233</u>	<u>\$845,166</u>

(See Notes to the Financial Statements)

CAROLIN MINES LTD.

STATEMENT OF CHANGES IN FINANCIAL POSITION

(In Canadian Dollars)

	Years Ended 31st May		Cumulative to 31st May, 1980
	1979	1980	
SOURCE OF WORKING CAPITAL			
Sale of shares	1,980,310	1,582,625	6,658,587
Sale of assets	—	—	211,259
Debentures	960,000	—	2,160,000
Debenture interest accrued	83,200	—	83,200
Loans	—	122,000	182,000
	<u>\$3,023,510</u>	<u>\$1,704,625</u>	<u>\$9,295,046</u>
APPLICATION OF WORKING CAPITAL			
Mineral claims and options	400,000	13,350	528,135
Property, plant and equipment	185,000	15,613	1,140,138
Feasibility study	140,000	—	140,000
Debenture repaid — cash	250,000	—	650,000
— converted into shares	610,000	900,000	1,510,000
Debenture interest	—	83,200	83,200
Loans	—	122,000	182,000
Administrative expense	290,236	318,917	1,141,318
Exploration expense	438,170	22,212	1,958,397
Finance costs	1,161,200	—	2,277,097
Incorporation and sundry	—	—	55,255
	<u>3,474,606</u>	<u>1,475,292</u>	<u>9,665,540</u>
Less: Expenses reimbursed by Aquarius Group (Note 4)	<u>740,000</u>	<u>—</u>	<u>740,000</u>
	<u>\$2,734,606</u>	<u>\$1,475,292</u>	<u>\$8,925,540</u>
INCREASE IN WORKING CAPITAL	288,904	229,333	369,506
WORKING CAPITAL (DEFICIT) AT BEGINNING OF YEAR	<u>(148,731)</u>	<u>140,173</u>	<u>—</u>
WORKING CAPITAL AT END OF YEAR	<u>\$ 140,173</u>	<u>\$ 369,506</u>	<u>\$ 369,506</u>
REPRESENTED BY			
Current assets	186,588	385,860	385,860
Current liabilities	46,415	16,354	16,354
	<u>\$ 140,173</u>	<u>\$ 369,506</u>	<u>\$ 369,506</u>

(See Notes to the Financial Statements)

CAROLIN MINES LTD.

SCHEDULE OF DEFERRED EXPLORATION AND ADMINISTRATIVE EXPENSE AND FINANCE COSTS

(In Canadian Dollars)

	Years Ended 31st May 1979	1980	Cumulative to 31st May, 1980
EXPLORATION			
Assay	16,209	—	65,126
Camp	14,804	—	44,086
Drilling and sampling	232,252	—	632,871
Engineering	67,949	18,586	277,393
Environmental study	4,730	—	18,815
Equipment operating and supplies	2,915	—	146,113
Insurance	4,727	89	10,524
Mine miscellaneous	9,689	—	112,821
Muck handling and storage	—	—	94,769
Roads	—	—	16,279
Taxes, licences, recording, etc.	10,190	—	32,573
Travel and transportation	9,517	280	104,855
Wages and wage costs	65,188	3,257	285,182
Optionee expense	—	—	106,250
	<u>\$ 438,170</u>	<u>\$ 22,212</u>	<u>\$1,947,657</u>
ADMINISTRATIVE			
Accounting, audit and legal	93,604	94,579	348,641
Corporation capital tax	7,379	11,640	19,019
Fees and assessments	1,700	6,342	39,383
Interest and charges	98,221	56,915	200,191
Life insurance	—	22,996	22,996
Office	34,108	48,933	201,577
Publicity	12,793	29,365	91,519
Salaries	15,600	16,342	99,522
Travelling	18,759	17,880	73,608
Transfer agent's fees	8,072	13,925	39,701
	<u>\$ 290,236</u>	<u>\$ 318,917</u>	<u>\$1,136,157</u>
TOTAL DEFERRED EXPLORATION AND ADMINISTRATIVE EXPENSE			
	728,406	341,129	3,083,814
Add: Balance at beginning of year	1,695,028	1,683,434	—
Less: Transfers to deficit	—	(1,233)	(320,484)
Expense reimbursed by Aquarius Group (Note 4)	(740,000)	—	(740,000)
BALANCE AT END OF YEAR	<u>\$1,683,434</u>	<u>\$2,023,330</u>	<u>\$2,023,330</u>
FINANCE COSTS			
Incurred During the Year	1,161,200	—	2,277,097
Deferred Finance Costs at Beginning of Year	<u>1,115,897</u>	<u>2,277,097</u>	—
DEFERRED FINANCE COSTS AT END OF YEAR	<u>\$2,277,097</u>	<u>\$2,277,097</u>	<u>\$2,277,097</u>
TOTAL	<u>\$3,960,531</u>	<u>\$4,300,427</u>	<u>\$4,300,427</u>

(See Notes to the Financial Statements)

CAROLIN MINES LTD.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31ST MAY, 1980.

1. Significant Accounting Policies

Property, plant and equipment and deferred expenses are shown at cost to the company. Where assets were acquired for shares the value attributed to the shares was the prevailing deemed market value.

Expenditures pertaining to claims in good standing are carried as deferred expense, while expenditures pertaining to properties abandoned have been written off to deficit. Depletion of these costs is being deferred until production commences.

The costs of property, plant and equipment and deferred expense are not intended to represent present or future values.

2. Debenture Payable — Norvan Management

The balance of the debenture payable as at 31st May, 1979 in the amount of \$900,000 and interest thereon in the amount of \$34,338 was repaid by conversion into shares at \$3 per share. The balance of the interest as at 31st May, 1979 and that subsequently accrued was paid in cash.

3. Capital Stock

A. As at 31st May, 1980 the shares issued, premiums and discounts related thereto were as follows:

Consideration	Shares	Par value	Premiums less (discounts)	Net
Par value shares to November, 1977				
Cash	1,813,333	906,666	548,839	906,666
Mineral claims	750,000	375,000	—	375,000
Options	5,000	2,500	3,500	2,500
Services	395,666	197,833	574,415	197,833
Other	575,000	287,500	(57,500)	287,500
No par value shares after November, 1977				
Cash	634,479	—	—	2,378,125
Services	731,503	—	—	2,046,709
	<u>4,904,981</u>	<u>\$1,769,499</u>	<u>\$1,069,254</u>	<u>\$6,194,333</u>

B. During the year ended 31st May, 1980 the company issued the following shares:

	Shares	Value
Norvan Management — conversion of debenture	300,000	900,000
Norvan Management — debenture interest	11,446	34,338
Cash	50,000	648,287
	<u>361,446</u>	<u>\$1,582,625</u>

C. The company has granted an option to a director to purchase 25,000 share at \$11.00 per share. The option must be exercised on or before 1st December, 1980.

4. Ladner Creek Joint Venture Agreement

The company entered an agreement with a group of companies collectively referred to as the Aquarius Group. The Aquarius Group provided funds to confirm a mineral ore reserve and to carry out a feasibility study to put the property into production. The feasibility study was favourable.

Once the mine is in production the cash flow shall be distributed:

A. A sum sufficient to permit the participants to recover costs incurred on the Ladner Creek property, first by Carolin Mines Ltd. and then by the Aquarius Group.

B. A sum equal to A. which is to be paid $\frac{1}{3}$ to Carolin and $\frac{2}{3}$ to the Aquarius Group.

C. The balance is to be allocated 47% to the Aquarius Group and 53% to Carolin. The Aquarius Group can earn another 3% by transferring 50% of the assets back to Carolin. Each party would then have an undivided 50% interest in certain designated claims and the production facilities. The agreement further provides that all expenditures are deemed to have been incurred by the party who advanced the funds.

The Aquarius Group has elected to provide the \$20.4 million required to finance the mine to production. As at 31st May, 1980 expenditures of approximately \$4.4 million have been made. These expenditures are not reflected in Carolin's financial statements.

The joint venture agreement pertains to production on only a part of the company's holdings in the Ladner Creek area.

5. Options on Properties

By an agreement dated March, 1980 the company acquired an option on an additional group of claims located in the Ladner Creek area. Under the agreement the company may acquire a 70% interest by expending \$50,000 on the property before 31st December, 1980 and an additional \$250,000 before 31st December, 1984. Upon making the expenditures Carolin has until 31st December, 1989 to put the property into production. Should Carolin elect to put the property into production it can recover expenditures except for the \$300,000 to be expended on or before 31st December, 1984. Thereafter Carolin will be entitled to 70% of the operating profit from this property.

By an agreement dated May, 1980 the company and Aquarius Resources Ltd. each acquired a 50% interest in an option on a group of claims in the Cariboo Mining Division of British Columbia. The agreement calls for a cash payment of \$10,000 and \$5,000 on 1st April and on 1st October until the option is terminated or the claims are put into production. Once the claims are put into production the purchasers must pay a royalty based on production to the amount of \$1,000,000 with a minimum payment of \$10,000 per annum. The royalty based on the rate of production can vary between \$.20 per ton of ore milled to 1% of net smelter returns.

Although Aquarius Resources Ltd. is a member of the "Aquarius Group" this property has no bearing on the joint venture agreement to develop the southern part of the Ladner Creek Property (Note 4).

6. Directors' and Officers' Remuneration

During the year ended 31st May, 1980 remuneration paid directors consisted of \$6,000 salary paid to the company's secretary.

The company has granted a director an option to purchase 25,000 shares at \$11.00 per share to be exercised on or before 1st December, 1980.

During the year the company purchased insurance policies on the lives of its directors at an aggregate cost of \$22,996. Although the company is the owner of the policies, they were purchased for the purpose of supplying any director a death benefit of \$100,000 in the event of the death of that person while a director.

7. Commitments and Contingencies

As at 31st May, 1980 the company has committed \$20.4 million for capital expenditures to put part of its Ladner Creek property into production. Although the company is the operator during the development stage and subsequent operations the funds are to be supplied by the Aquarius Group (See note 4).

In addition the company is now proceeding with an exploration program on that part of its claim holdings in the Ladner Creek area that has not been committed to the joint venture.

8. Earnings Per Share

Earnings or losses per share information has not been provided. The company has not entered the production stage of its operations and so such information would be meaningless in the circumstances.

9. Additional Information For United States Shareholders

The company, in the preparation of its financial statements, conforms to generally accepted accounting principles prevailing in Canada.

A difference in United States and Canadian generally accepted accounting principles for a company exploring for natural resources relates to the treatment of exploration, administrative and finance costs. For Canadian purposes these expenses are capitalized and are shown on the balance sheet as an asset under the caption of Deferred Expense until the property commences to produce income at which time the expenses are amortized against production on a time or unit of production basis. For United States purposes these costs are to be charged to an account called Deficit Accumulated During the Development Stage, through an income account.

The reconciliation of net loss and deficit as determined in accordance with Canadian generally accepted accounting principles with net loss as determined in accordance with United States generally accepted accounting principles is as follows:

	<i>In Canadian Funds</i>		Deficit Cumulative to 31st May, 1980
	Years ended 31st May 1979	1980	
Net loss for the year as determined in accordance with Canadian generally accepted accounting principles	2,000	1,233	845,166
Exploration expenses included above	—	—	(319,251)
Exploration and administrative expense — see schedule	728,406	339,896	3,082,581
Deferred finance costs amortized	84,204	85,073	324,165
Expenses reimbursed by Aquarius Group	(740,000)	—	(740,000)
Costs for the year	74,610	426,202	3,192,661
Cumulative net loss and deficit — as determined in accordance with United States generally accepted accounting principles			
Beginning of year or period	<u>2,691,849</u>	<u>2,766,459</u>	<u>—</u>
End of year or period	<u>\$2,766,459</u>	<u>\$3,192,661</u>	<u>\$3,192,661</u>

Share capital as per the balance sheet in accordance with Canadian generally accepted accounting principles		6,194,333
Deferred finance costs	2,277,097	
Less: Deferred finance costs amortized to deficit	<u>324,165</u>	<u>1,952,932</u>
No Par Value Common Stock issued, as determined in accordance with United States generally accepted accounting principles		<u>\$4,241,401</u>

	<u>Canadian</u>	<u>United States</u>
The following exchange rates were in effect:		
31st May, 1979	1.1765	1.00
31st May, 1980	1.1605	1.00

The company arranged funds to carry on its exploration program during the 1978 and 1979 fiscal years by the issuance of a debenture. Because of the high risk involved in a loan of this nature the company agreed to pay the lender a bonus in shares as well as normal interest on the loan. The company also paid the broker who arranged the loan his fee in the form of shares.

It is customary under Canadian accounting procedures to record the value of shares issued at their market value on the date of issue. The market value of the shares of Carolin Mines Ltd. appreciated quite materially with the effect that when the shares were issued the charge for finance fees and the corresponding credit for shares issued was considerably enhanced.

For United States generally accepted accounting principles it was deemed that share capital issued on account of finance fees via bonus shares should reflect share values at the time the loan was negotiated and finance costs would be computed only for the time the loan was outstanding. Accordingly the share capital account would be reduced to delete values of shares issued for enhanced finance fees as follows: