



ANNUAL REPORT 1978

Directors
Orval Gillespie
Roy G. McKay
Edward Angus
Joseph S. LaBine

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

Head Office
315-850 West Hastings Street
Vancouver, B.C. V6C 1E1

Registrar and Transfer Agent
Crown Trust Company
455 Howe Street
Vancouver, B.C.

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

Registered Office
1004-595 Howe Street
Vancouver, B.C.



Scoop tram removing ore from main adit.

4195



President's Report to the Shareholders

It is with much pleasure that I present this report for the fiscal year ended 31st May, 1978. That period has been the most active and auspicious in the company's history.

At the 1977 annual meeting the company announced an underground exploration program to confirm the mineralized area indicated by surface drilling. The initial program was completed by June 1978. The program consisted of 1,340 of decline and underground crosscutting, 21,000 feet of surface diamond drilling and 10,000 feet of underground diamond drilling as well as preliminary mill testing and extensive sampling and geological evaluations. I am pleased to say that the program confirmed all previous results.

While the above noted program was in progress, the company was also actively seeking permanent financing to put the property into production. Negotiations progressed best

with Aquarius Resources Ltd. and that company was chosen as the partner to finance the mine into production. Aquarius Resources Ltd. is associated with Great Basin Petroleum Ltd., Ocelot Industries Ltd. and Canadian Obas Oil Ltd.

Carolin Mines Ltd. in consultation with the Aquarius Group decided that the exploration program should be extended before making a final production decision. Accordingly, in mid July the company undertook an extended program consisting of 675 feet of underground crosscutting, 800 feet of diamond drilling from surface and 11,200 feet of underground diamond drilling. The Aquarius Group are providing \$600,000 for the extended program and \$140,000 for a final feasibility study to determine mine production. At time of writing, the crosscutting has been completed and diamond drilling is well underway. Bulk sampling and testing of ore from the crosscutting have been completed.

Financing for the program to June 1978 was provided by Norvan Management. Norvan recently agreed and has pro-

vided \$110,000 for working capital and \$400,000 to pay for the mineral claims previously optioned from Summit Mining Co. Ltd.

Carolin has engaged Mr. K. G. Collins, professional engineer, to supervise operations at the mine. Mr. Collins has considerable experience as a mine manager and his assistance is most beneficial.

The company has been examining a number of mills to determine which can best suit their purpose. It will be in a position to make a decision on a mill purchase once the feasibility study has been completed.

Carolin has at all times endeavoured to ensure that the results of its exploration program are reliable. In order to do so, it has engaged the firm of Kilborn Engineering (B.C.) Ltd. to constantly monitor results and check them against results reported by the company's consulting engineers.

The results received to date, when combined with the current high price of gold, are so favourable that the company has no doubt the feasibility study will indicate plans for production are fully warranted. Studies indicate that costs of going into production will be very quickly recovered.

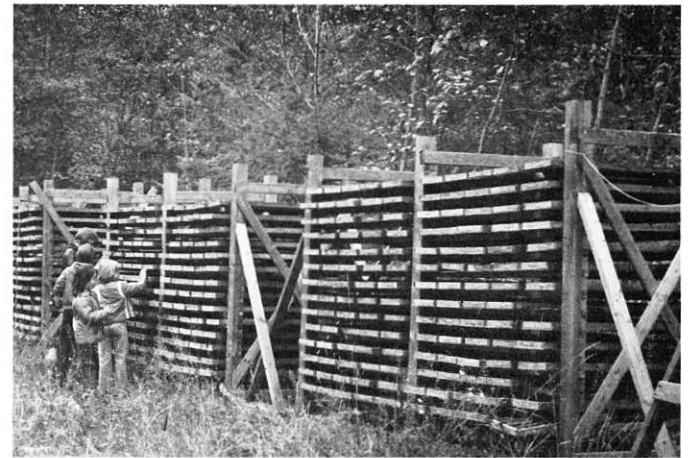
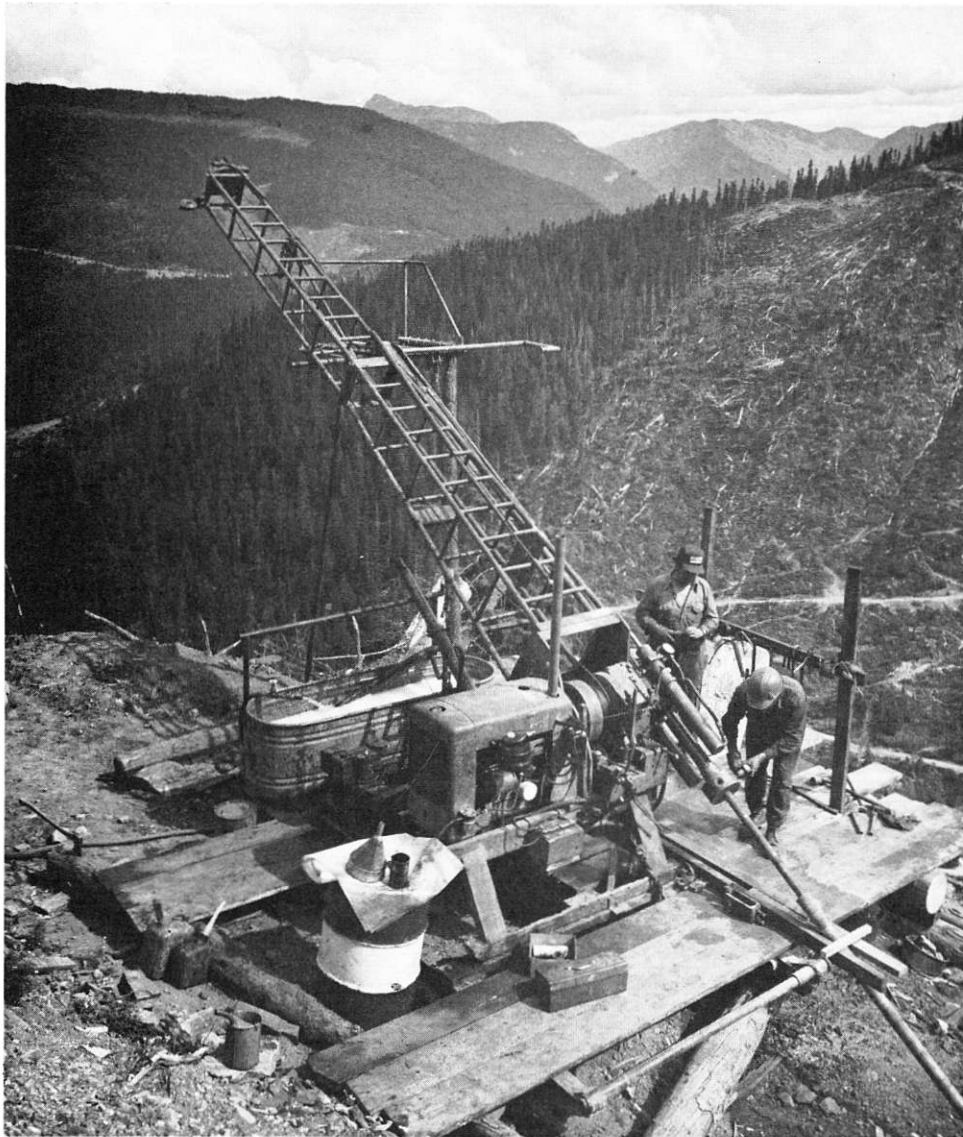
The company is at present applying for full registration with the U.S. Securities Commission so that the shares can be traded in the United States. This, together with the excellent results being achieved at the mine, should warrant the confidence the public has shown in the company.

On Behalf of the Board of Directors

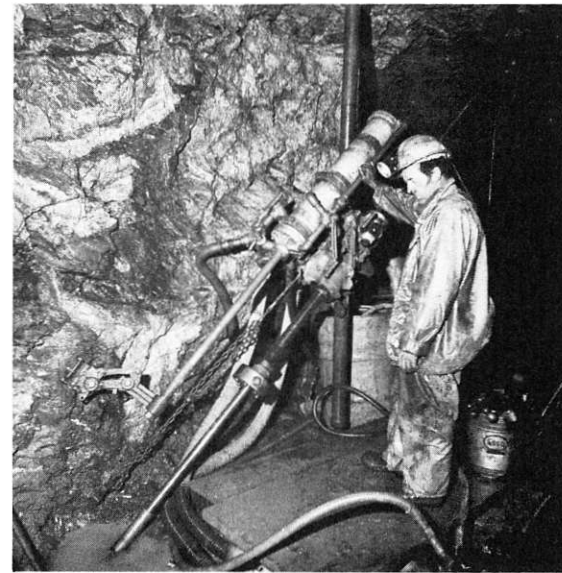


Orval E. Gillespie
President

24th October, 1978



*Clockwise from the left:
Surface diamond drilling to prove up tonnage and grade.
Part of the early drill core samples stored at the property.
Temporary living quarters for diamond drilling and tunneling crews, August 1978.*



Clockwise from above:

Diamond drilling crew from White Mine Development Ltd. surface drilling on the property, August 1978.

Underground diamond drilling in one of the cross cuts off the main adit to prove up grade and tonnage.

General Mine Manager, Kelson G. Collins, P.Eng., examining drill cores.

PROGRESS REPORT #78-2

for

CAROLIN MINES LTD.

on

Underground Exploration
and ancillary work

on the

IDAHO GOLD ZONE

Situated near Hope
Southern British Columbia

By

D. R. Cochrane, P.Eng.
July 27, 1978
Delta, B.C.



Cochrane Consultants Limited
4882 Delta St., Delta, B.C. V4K 2T8 946-9221
Geotechnical Consulting / Exploration Services

geology
geophysics
geochemistry

INTRODUCTION

This progress report is to supplement earlier progress reports designated 77-1 (August 2, 1977;) 77-2 (October 17;) 77-3 (December 19, 1977) and 78-1 (April 17, 1978). They pertain exclusively to current exploration work on Idaho crown granted mineral claim (Lot 1234) located in the New Westminster Mining Division. Background information and surface work since 1973 is described in a report titled "Underground Exploration Proposal and Cost Estimate on the Idaho Gold Zone of Carolin Mines Ltd.," and dated June 14, 1976 by the author and Mr. D. Griffith .

Some of the following information is related to the "Mine Grid" established to control underground surveying and diamond drilling, and a copy of a map showing the underground workings, surface diamond drill hole location and mine sections is appended. "Mine North" is defined as $33^{\circ}30'$ west of true north, and the accompanying map is at a (metric) scale of 1:1000 (or 1" to 83.33 feet in the English system).

The recommended program set out in the June 14, 1976 report has now been completed, and the last mining shift was on April 10, 1978. Underground diamond drilling was completed on May 31, 1978.

The following notes describe progress in the various categories of operations during this period, and contains a brief summary of results obtained.

GENERAL

The portal of the new Idaho Decline was collared on June 16, 1977 and R.F. Fry and Associates (Western) Ltd. were awarded the contract being low bidder of a total of three (3) firms. Prior to collaring the portal a new road was constructed to the portal site, and an area cleared for muck storage and the sample plant.

After sufficient underground work was completed an underground drill contract was let to Kema Drilling, Kema being the low bidder from a total of four (4) firms. Kema commenced drilling on October 13, 1977 and completed 1500 meters by March, 1978. Early in April an additional contract of a minimum of 1500 meters was awarded to Kema who completed the work by the end of May 1978.



During the month of December in 1977, R. F. Fry and Associates were unable to make any underground advance and consequently Fry's men and equipment were replaced by White Mine Development who subsequently completed the -20% decline to the 866N section, with the accompanying drill and safety bays. (see Mine Plan).

During the course of the work, Carolin Mines maintained a staff as follows:

Mr. D. Griffith;	Project Manager
Mr. A. Bateham;	Surface superintendent
Mr. D. Heino;	surface and underground crew
Mr. P. Willson;	Underground sampling-surveying and core splitter

Occasionally one or two additional labourers

Mr. W. Clarke, P. Eng. and the author acted in a consulting capacity on the project and Mr. Ted Worthington, P. Eng. consulted on the sample plant and metalurgy.

Commencing early in July, 1978 Mr. Kel Collins, P. Eng. was retained by Carolin Mines as mine manager. Ker Priestman and Associates continue to act on Carolin's behalf as to possible environmental impact of the work.

UNDERGROUND MINING WORK

In all, a total of 538 meters of underground work was completed, including 470 meters of a 2.5 x 2.5 meter decline driven mine northerly at -20% and a 67 meter cross cut (the 600 XC) driven at +17% and -8%. There are safety bays at 33 meter intervals and a total of seven rexuck-diamond drill bays. Fry and Associates completed 342 meters of the decline and cross cut work and White Mine Development the remainder. (See accompanying mine plan).

UNDERGROUND DIAMOND DRILLING

A total of 3,051 lineal meters of A.Q. wire line diamond drilling was completed by Kema Drilling (Inc.) on Carolin's behalf. There are a total of 68 drill holes which were drilled mainly in a "ring" pattern and along mine east-west sections spaced 33 meters apart. Underground drilling commenced in the 600N XC and 11 holes were drilled; drilling proceeded northerly with drilling at 633N, 666N, 700N, 733N, 766N, 800N, 833N, and 866N. Thus a "mine north" length of 266 lineal meters has been drilled from underground.

The maximum east-west fan drilling coverage has been in the 100 meter range.



ACCESS

Additional wooden culverts were constructed during this period, and several hundred meters of ditch was excavated in a few sections along the access road. The road is in fair shape but needs grading.

I understand that construction on the Hope-Merritt Coquihalla highway is to commence this fall from the Hope end. This will bring a black topped highway to within $7\frac{1}{2}$ road kilometers of the Idaho portal.

Carolin and various subcontractors have considerably upgraded the $7\frac{1}{2}$ kilometers of access road in addition to the construction of about one kilometer of new road. (from the portal to the muck storage area.)

SAMPLE PLANT MUCK STORAGE

There has been no work done on the sample plant during this period, and it remains about 80% complete; the major task left being electrical wiring. The plant is composed of a coarse ore bin, jaw crusher, #1 conveyor to a set of rolls, #2 conveyor to the splitting tower. The plant was designed by Mr. Ted Worthington and maximum operation is 25 short tons per hour with a variable but minimum split to 50 pounds per hour. All "rounds" from the underground work that grade in excess of 0.05 troy ounces of gold per ton are stored and tagged in the 5 hectare muck storage site located immediately above the sample plant.



GEOLOGY AND MINERALIZATION

Underground decline work, underground diamond drilling, underground muck and chip sampling and geological mapping since June, 1977 has confirmed the results suggested by the wide spaced surface diamond drilling completed in 1973, 1974 and 1975. One of the most important geological features to emerge during this program was the discovery of the "Griffith" fault, a (usually) steeply dipping major through-going structure which trends mine north. This fault coincides with the main (center of gravity) axis of the mineralized zones and the grade of mineralization close to the fault is most encouraging. Another feature of the mineralization which is encouraging is the increase in average grade proceeding northerly. For example, section 600N averages 0.122 troy ounces of gold per ton at the 0.08 ounce cut off level; whereas section 866N averages 0.180 troy ounces of gold per ton at the 0.08 ounce cut off level. In addition, there has been a great deal more visible native gold spotted in the north section of the mineralized zones. A table of significant diamond drill intersections is appended.

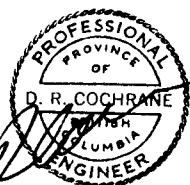
BUDGET

Since the commencement of operations early in May 1977, and to the end of June 1978, the direct field related exploration expenditures total \$1,280,000.00. This figure includes consulting fees but is exclusive of administration expenses such as accounting, legal fees, bank interest payments etc.

RECOMMENDATION

In view of the most encouraging results obtained to date on Carolin Mines - Idaho Gold Zone, additional work is recommended. Approximately 200 additional meters of underground crosscutting and approximately 3400 lineal meters of additional underground "fill in" drilling is recommended for the next phase. It is anticipated that after completion of this phase the Idaho would be in proper shape for an independent economic feasibility study.

Respectfully submitted



A circular professional seal for D. R. Cochrane, a Professional Engineer in the Province of British Columbia. The seal contains the text "PROFESSIONAL PROVINCE OF BRITISH COLUMBIA ENGINEER" around the perimeter and "D. R. COCHRANE" in the center. A handwritten signature is written over the seal.

D. R. Cochrane, P. Eng.



A TABLE OF SIGNIFICANT UNDERGROUND DIAMOND DRILL INTERSECTIONS, IDAHO GOLD ZONE OF CAROLIN MINES

Hole #	Lat.	Dep.	El.	Azimuth	Inclination	From	To	Width	Width (feet)	Au (oz/ton)
IU-7A	600	559	967	90°	+35	6.60m	15.30m	8.70m	28.5	0.059
IU-8	600	555	965	270°	-35	28.40m	33.30m	4.90m	16.1	0.109
IU-9*	600	571	967	90°	+35	4.97m	9.80m	4.83m	15.8	0.088
IU-10	600	568	964	270°	-37	1.70m	7.50m	5.80m	19.0	0.105
IU-11	665	519	949	---	-90	15.85m	27.87m	12.02m	39.4	0.159
IU-12	665	519	953	---	+90	0.00m	9.95m	9.95m	32.6	0.165
IU-13	665	520	952	90°	+41	0.00m	10.55m	10.55m	34.6	0.112
IU-14	665	520	950	90°	0	0.00m	37.80m	37.80m	124.0	0.140
IU-15*										
IU-16	700	534	940	270°	-30	2.13m	31.07m	28.94m	94.9	0.175
IU-17	700	536	940	270°	-64	(a) 0.91m	10.98m	10.07m	33.0	0.127
						(b) 25.55m	42.99m	17.44m	57.2	0.137
IU-18	700	539	942	90°	+36	0.00m	10.06m	10.06m	33.0	0.112
IU-19	700	535	940	---	-90	0.50m	5.60m	5.10m	16.7	0.166
IU-20*										
IU-21	627	501	959	90°	+20	11.50m	35.66m	24.16m	79.2	0.113
IU-22*										
IU-23*										
IU-24*										
IU-25*										
IU-26*										
IU-27	700	534	942	270	-0.5	2.85m	28.40m	25.55m	83.8	0.193

cont.....



Hole #	Lat.	Dep.	El.	Azimuth	Inclination	From	To	Width	Width (feet)	Au (oz/ton)
IU-28*										
IU-29	733	537	928	270°	0	14.75m	26.75m	12.00m	39.4	0.197
IU-30*										
IU-31*										
IU-32	740	537	927	270°	-45	7.45m	50.90m	43.45m	142.5	0.151
			including a section			14.45m	46.00m	31.55m	103.5	0.180
IU-33	736	536	927	---	-90°	12.50m	30.50m	18.00m	59.0	0.122
			including a section			24.25m	30.50m	6.25m	20.5	0.287

* Denotes intersections of less than 0.1 oz. Au

Notes: Latitude and Departures relative to "mine grid" all latitudes, departures, elevations, from, to and widths in meters except where noted. Assays are gold in troy ounces per short ton.

Several of the flat holes drilled to the east were prospect holes to aid in sideways viewing from the main decline.

The gold bearing mineralized bands trend northerly and dip at moderate angles to the east. All holes drilled perpendicular to this attitude represent approximate true thicknesses. (No holes were drilled down dip.)

Cont.....



A TABLE OF SIGNIFICANT UNDERGROUND DIAMOND DRILL INTERSECTIONS, IDAHO GOLD ZONE OF CAROLIN MINES

Hole #	Lat.	Dep.	El.	Azimuth	Inclination	From	To	Width	Width (feet)	Au (oz/ton)
IU-34	804.24	520.15	909.57	90°	+27°	0.00m	1.70m	1.70m	5.58	0.17
IU-35	804.24	520.19	908.11	90°	0°	0.00m	4.05m	4.05m	13.28	0.132
IU-36	804.37	518.04	910.46		+90°	0.00m	10.20m	10.20m	33.45	0.069
IU-37	804.76	518.48	906.88		-90°	9.35m	15.30m	5.95m	19.51	0.063
						16.65m	54.60m	37.95m	124.47	0.177
IU-38	804.55	515.97	906.80	270°	-58°	3.05m	5.95m	2.90m	9.51	0.14
						10.70m	38.10m	27.40m	89.87	0.090
IU-39	804.54	514.98	906.89	270°	-32°	7.95m	11.10m	3.15m	10.33	0.126
IU-40	804.60	514.90	908.63	270°	+6°	25.00m	32.00m	7.00m	23.0	0.231
IU-41	766.57	506.00	916.60		-90°	4.40m	53.35m	48.95m	160.55	0.144
IU-42	766.12	504.56	916.57	270°	-39°	5.55m	16.30m	10.75m	35.26	0.132
IU-43	766.33	504.06	917.73	270°	0°	22.15m	41.50m	19.35m	63.46	0.114
IU-44	766.67	507.84	919.94	90°	+56°	8.20m	14.70m	6.50m	21.32	0.111
IU-45	766.93	508.92	918.87	90°	+20°	8.25m	19.20m	10.95m	35.91	0.071
IU-46	766.70	508.55	917.17	90°	-20°	5.90m	20.50m	14.60m	47.88	0.087
IU-47	766.12	504.60	916.57	270°	-45°	4.40m	14.40m	10.00m	32.80	0.10
						32.65m	34.15m	1.50m	4.92	0.49
IU-48	836.70	513.97	902.07	90°	+5°	8.30m	17.20m	8.9m	29.19	0.069
						52.00m	54.10m	2.10m	6.88	0.068
IU-49	836.81	513.63	902.74	90°	+5°	5.65m	15.85m	10.2m	33.45	0.182
IU-50	836.92	512.70	903.12	90°	+85°	6.45m	15.55m	9.10m	29.84	0.112
IU-51	836.80	512.70	899.65	90°	-62°	8.60m	18.70m	10.10m	33.12	0.096
						25.95m	27.60m	1.65m	5.41	0.065
						31.40m	34.45m	3.05m	10.00	0.112



Hole #	Lat.	Dep.	El.	Azimuth	Inclination	From	to	Width	Width (feet)	Au (oz/ton)
IU-52	837.44	511.78	899.66		-90°	4.00m	5.40m	1.40m	4.59	0.051
						10.00m	42.60m	32.60m	106.92	0.184
IU-53	837.65	509.50	899.65	270°	-47°	28.40m	36.00m	7.6m	24.92	0.198
IU-54	837.73	508.56	901.05	270°	-5°					
IU-55	837.81	508.70	902.56	270°	+35°	9.05m	13.50m	4.45m	14.59	0.112
IU-56	837.59	510.07	902.69	270°	+62°	9.15m	12.20m	3.05m	10.00	0.093
IU-57	867.24	518.01	893.02	90°	-70°	11.50m	32.75m	21.25m	69.70	0.121
IU-58	867.47	519.77	894.59	90°	+6°	0.00m	33.85m	33.85m	111.02	0.084
						37.45m	39.45m	2.00m	6.56	0.060
IU-59	867.44	519.11	895.69	90°	+43°	0.00m	19.10m	19.10	62.64	0.143
IU-60	867.49	518.25	896.39	90°	+85°	0.00m	2.85m	2.85m	9.34	0.055
IU-61	866.55	516.30	893.02	270°	-70°	16.10m	53.95m	37.85	124.15	0.118
IU-62	866.532	515.704	893.87	270°	-35°					
IU-63	866.623	515.53	894.58	270°	0°					
IU-64	866.61	515.58	895.96	270°	+35°	2.80m	8.80m	6.00m	19.68	0.0834
IU-65	866.66	515.98	896.36	270°	+65°	4.25m	13.50m	9.25m	30.34	0.10
IU-58	835.88	510.18	900.00	180°	-28°	5.75m	7.80m	2.05m	6.72	0.051
						14.45m	24.90m	10.45m	34.28	0.211
						28.80m	49.10m	20.30m	66.58	0.177
						53.65m	73.50m	19.85m	65.11	0.188
IU-67	626.49	499.54	959.62	90°	+52°	22.05m	29.90m	7.85m	25.75	0.102
IU-68	867.47	519.77	894.39	90°	+5°	32.50m	38.40m	5.90m	19.35	0.37



APPENDIX II

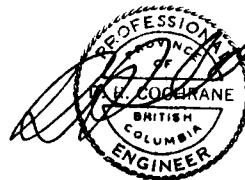
Certificate:

I, Donald Robert Cochrane, of the Municipality of Delta, British Columbia, do hereby certify that:

1. I am a consulting geological engineer with an office at 4882 Delta St., Delta, B. C.
2. I am a graduate of the University of Toronto (1962) with a degree in Applied Geology (B.A. Sc.) and a graduate of Queen's University (1964) with a degree in Economic Geology (M. Sc., Eng.)
3. I have practiced my profession continuously since graduation while being employed by such companies as Noranda Exploration Co. Ltd., Quebec Cartier Mines, and Meridian Explorations Syndicate. I have been in private independant practice since 1969.
4. I have no interest, either direct or indirect in the properties or securities of Carolin Mines Ltd., nor do I expect to acquire any such interest.
5. I am a member in good standing of the Association of Professional Engineers (A.P.E.) of the Province of British Columbia, and also a member of the A.P.E. in the Province of Ontario, Saskatchewan, and the Yukon Territories.

July 27, 1978
Delta, B. C.

(signed) D. R. Cochrane, P. Eng.



HARWOOD & GRAYSON

CHARTERED ACCOUNTANTS

F. H. HARWOOD, C.A.
W. H. GRAYSON, B.Com., C.A.
D. G. GUTHRIE, C.A.

TELEPHONE: 682-2805
837 WEST HASTINGS STREET
VANCOUVER, B.C., V6C 1B6

AUDITORS' REPORT

To the Shareholders of Carolin Mines Ltd.

We have examined the balance sheet of Carolin Mines Ltd. as at 31st May, 1978 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, 1978 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.

HARWOOD & GRAYSON

CHARTERED ACCOUNTANTS

Vancouver, B.C.
25th July, 1978



CAROLIN MINES LTD.

BALANCE SHEET AS AT 31ST MAY, 1978

(With comparative figures for the preceding year)

<u>ASSETS</u>	<u>1978</u>	<u>1977</u>
<u>CURRENT ASSETS</u>		
Cash in bank	1,285.60	166.31
MINERAL CLAIM OPTIONS (Notes 1 & 2)	57,000.00	40,500.00
<u>DEFERRED EXPENSES (Note 1)</u>		
Exploration and administrative	3,750,450.38	984,259.69
	<u>\$3,808,735.98</u>	<u>\$1,024,926.00</u>
	-----	-----
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Bank overdraft	26,121.61	---
Accounts payable	93,294.93	17,403.91
Accrued interest on debenture loan	30,600.00	---
	<u>150,016.54</u>	<u>17,403.91</u>
<u>DEBENTURE LOAN PAYABLE (Note 4)</u>	800,000.00	---
<u>SHAREHOLDERS' EQUITY</u>		
Share capital		
Authorized - (Note 3B)		
10,000,000 common shares of no par value		
Issued - (Note 3)		
3,868,332 shares (1977 - 3,175,000)	2,631,398.65	1,587,500.00
Paid in surplus	1,069,254.35	258,455.65
Deficit - per statement	(841,933.56)	(838,433.56)
	<u>\$3,808,735.98</u>	<u>\$1,024,926.00</u>
	-----	-----

APPROVED ON BEHALF OF THE BOARD:

Director ..Orval Gillespie.....
 Director ..Roy C. McKay.....

This is the balance sheet referred to in the report of
 Harwood & Grayson, Chartered Accountants, dated 25 July 1978

CAROLIN MINES LTD. (N.P.L.)

STATEMENT OF DEFICIT

FOR THE YEAR ENDED 31ST MAY, 1978

(With comparative figures for the preceding year)

	<u>1978</u>	<u>1977</u>
<u>BALANCE AT BEGINNING OF YEAR</u>	838,433.56	718,361.42
Add: Cost of claims and options abandoned	3,500.00	-
Exploration and administrative expense re claims abandoned	-	<u>120,072.14</u>
<u>BALANCE AT END OF YEAR</u>	<u>\$841,933.56</u>	<u>\$838,433.56</u>
	-----	-----



CAROLIN MINES LTD.

STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED 31ST MAY 1978

(with comparative figures for the preceding year)

	<u>1978</u>	<u>1977</u>
<u>SOURCE OF WORKING CAPITAL</u>		
Sale of shares (Note 3) 693,332 shares	1,854,697.35	182,250.00
Proceeds of debenture loan (Note 4)	1,200,000.00	---
Note receivable and accrued interest	---	146,326.68
	<u>3,054,697.35</u>	<u>328,576.68</u>
<u>APPLICATION OF WORKING CAPITAL</u>		
Option payments on mineral claims	20,000.00	10,000.00
Exploration expense	1,299,469.66	205,561.49
Administrative expense	169,823.68	56,645.61
Finance fees	1,296,897.35	---
Debenture loan repaid (Note 4)	400,000.00	---
Mortgage received	---	60,000.00
	<u>3,186,190.69</u>	<u>332,207.10</u>
<u>DECREASE IN WORKING CAPITAL</u>	131,493.34	3,630.42
<u>WORKING CAPITAL DEFICIT - Beginning of year</u>	17,237.60	13,607.18
<u>WORKING CAPITAL DEFICIT - End of year</u>	<u>148,730.94</u>	<u>17,237.60</u>
Represented by		
Current Assets	1,285.60	166.31
Current Liabilities	150,016.54	17,403.91
	<u>148,730.94</u>	<u>17,237.60</u>

CAROLIN MINES LTD.

SCHEDULE OF EXPLORATION AND ADMINISTRATIVE EXPENSE

FOR THE YEAR ENDED 31ST MAY 1978

(With comparative figures for the preceding year)

	<u>1978</u>	<u>1977</u>
<u>EXPLORATION EXPENSE</u>		
Assay	13,284.16	69.00
Camp	25,115.53	2,174.69
Drilling and sampling	167,637.37	---
Engineering	82,877.50	11,441.23
Environmental study	14,085.28	---
Equipment	95,057.21	---
Equipment operating and supplies	12,796.76	7,035.19
Insurance	2,175.15	888.00
Mine tunnel	454,382.57	---
Muck handling and storage	110,768.62	---
Recording and staking	---	2,315.00
Roads	151,757.99	---
Taxes	1,175.47	1,167.88
Travel and transportation	63,976.09	9,162.85
Wage costs	104,379.96	15,057.65
Optionee expense	---	156,250.00
	<u>\$ 1,299,469.66</u>	<u>\$ 205,561.49</u>
<u>ADMINISTRATIVE</u>		
Accounting, audit and legal	37,804.97	30,487.41
Interest and bank charges	26,651.62	(720.52)
Office	32,518.15	12,715.54
Publicity	40,846.43	---
Salaries	9,280.00	4,500.00
Travelling	13,382.22	3,034.74
Transfer agent	4,192.58	3,360.20
Fees and assessments	5,147.71	3,268.24
	<u>\$ 169,823.68</u>	<u>\$ 56,645.61</u>
<u>FINANCE COSTS (Note 5)</u>	1,296,897.35	---
<u>TOTAL</u>	2,766,190.69	262,207.10
<u>BALANCE AT BEGINNING OF YEAR</u>	984,259.69	842,124.73
<u>BALANCE AT END OF YEAR</u>	3,750,450.38	1,104,331.83
<u>TRANSFERRED TO DEFICIT</u>	---	120,072.14
<u>BALANCE AT END OF YEAR</u>	<u>\$ 3,750,450.38</u>	<u>\$ 984,259.69</u>

CAROLIN MINES LTD.

NOTES TO FINANCIAL STATEMENTS

AS AT 31ST MAY, 1978

1. Values - The mineral claims presently held by the company were all located by the company and have no acquisition costs. Mineral claims formerly owned were written off to deficit as the claims were abandoned. The amounts shown for options and deferred expenses represent costs to date and do not necessarily reflect present or future values.

2. Options - The company has entered the following option agreements:

A. Agreement dated March 1966 to purchase mineral claims for \$102,000.00. The company has paid \$2,000.00. The balance is payable at the rate of 3% of net smelter returns.

By an agreement dated 11th May, 1973 Sonic-Ray Resources Ltd. was granted an option whereby it could earn up to a 75% interest in these claims by spending \$146,000.00 in exploration costs. The company has not confirmed that Sonic-Ray has maintained the claims in good standing.

B. Agreement dated June 1973 to purchase crown granted and located mineral claims from Summit Mining Co. Ltd. for a sum aggregating \$465,000.00 to be paid over a period of years. The company has paid \$55,000.00 on the agreement to 31st May, 1978.

3. Capital stock

A. As at 31st May, 1978 shares issued, premiums and discounts related thereto were as follows:

Consideration	Shares	Par value	Premiums Less (discounts)	Net
<u>Par value shares</u>				
Cash	1,813,333.00	906,666.50	548,839.15	906,666.50
Mineral claims	750,000.00	375,000.00	---	375,000.00
Options	5,000.00	2,500.00	3,500.00	2,500.00
Services	395,666.00	197,833.00	574,415.20	197,833.00
Other	575,000.00	287,500.00	(57,500.00)	287,500.00
<u>No par value shares</u>				
Services	329,333.00	---	---	861,899.15
	3,868,332.00	1,769,499.50	1,069,254.35	2,631,398.65
	-----	-----	-----	-----

B. At the last annual meeting held in November 1977 the company changed its authorized capital from 5,000,000 shares of .50¢ par value to 10,000,000 shares of no par value.

C. The company had arranged to have Messrs. Harold Jones and Jimmy John maintain access to the mine and perform other services for the four months January to April 1978. The arrangement provided that they be issued 16,000 treasury shares per month.

D. During the year the company issued the following treasury shares:

	Shares	Value
To Norvan Management and Fore Management Ltd bonus shares and finder's fees (Note 4)	495,999	1,281,897.35
To Norvan Management on conversion of first stage \$400,000 of debenture loan	133,333	400,000.00
To Messrs. Jones and John	64,000	172,800.00
	693,332	\$1,854,697.35
	-----	-----

The company may have to issue an additional 124,001 treasury shares as bonus and finder's fee should the balance of the advances authorized in the debenture be drawn. The company may have to issue an additional 366,667 shares should all advances under the debenture be drawn and the debenture then be converted into shares.

4. The company entered into an agreement on 12th May 1977 with Norvan Management whereby "Norvan" would loan Carolin \$1,500,000.00. As security for the loan Carolin will issue debentures each with a term of three years, which will bear interest at the rate of 12% per annum. Each debenture may be converted at any time into shares of the company at a conversion rate of \$3.00 per share. If the debenture is converted into shares the interest abates.

Norvan is also to receive 500,000 shares of Carolin for making the loan. The agreement provides for cancellation by either party after any stage. Carolin has agreed to issue Pote Management Ltd. a maximum of 120,000 shares as a fee for arranging the loan.



The advances due and bonus and finder's fee shares to be issued are as follows:

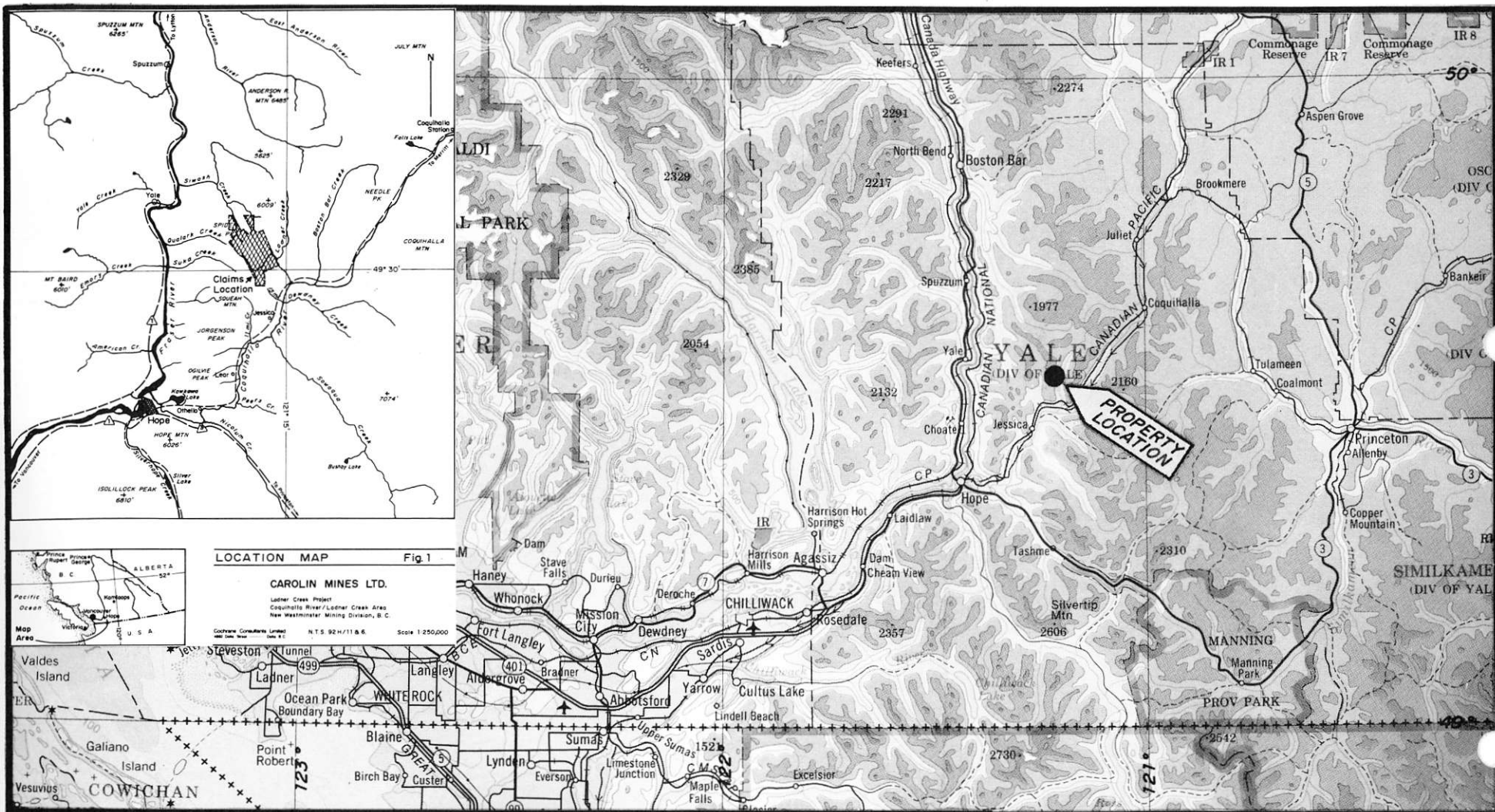
Advance	Shares		Date
	Bonus	Finder's fee	
1) 400,000.00	133,333	32,000	On approval of agreement
2) 400,000.00	133,333	32,000	90 days after 1st advance
400,000.00	133,334	32,000	60 days after 2nd advance
<u>300,000.00</u>	<u>100,000</u>	<u>24,000</u>	60 days after 3rd advance
\$1,500,000.00	500,000	120,000	

Transactions related to this debenture loan are as follows:

	Debenture loan advances	Shares issued	Values
<u>First stage</u>			
a) On 10th June, 1977 1st advance	\$ 400,000		\$
Bonus shares		133,333	
Finder's fee		<u>32,000</u>	
		165,333	396,799.20
<u>Second stage</u>			
b) On 16th November 1977 - advance	100,000		
Bonus shares		33,333	
Finder's fee		<u>32,000</u>	
		65,333	195,999.00
c) On 25th November 1977 - advance	50,000		
d) On 10th December 1977 - advance	100,000		
Bonus shares		50,000	140,000.00
e) On 10th January 1978 - advance	150,000		
Bonus shares		50,000	135,000.00
<u>Third stage</u>			
f) On 17th February 1978 - advance	100,000		
Bonus shares		33,333	
Finder's fee		<u>32,000</u>	
		65,333	166,599.15
g) On 20th March 1978 - advance	150,000		
Bonus shares		<u>50,000</u>	<u>135,000.00</u>
(forward)	1,050,000	445,999	1,169,397.35

	Debenture loan advances	Shares issued	Values
(brought forward)	\$1,050,000.	445,999	\$1,169,397.35
h) On 28th April 1978 - advance	150,000.		
Bonus shares		50,000	112,500.00
	<u>\$1,200,000.</u>	<u>495,999</u>	<u>\$1,281,897.35</u>
On 11th August, 1977 the first stage of the debenture loan was converted into shares	(400,000.)	133,333	400,000.00
Balance of debenture advances	<u>\$ 800,000.</u>		
Shares issued		<u>629,332</u>	<u>\$1,681,897.35</u>

- Finance fees-market value of 495,999 shares issued as a bonus and finder's fees item
Legal fees in preparing debenture
\$1,296,897.35
- Interest has been accrued on advances on the debenture loan to 31st May 1978. The debenture provides that this interest will be cancelled should the option to convert the loan into shares be exercised.
- Remuneration paid directors during the year consisted of salary of \$6,000.00 paid to the company's secretary.
- Subsequent events -
Norvan advanced \$50,000.00 in June towards the final stage of the debenture agreement.



LOCATION MAP Fig 1

CAROLIN MINES LTD.

Ladner Cr. Project
Coquihalla River/Ladner Cr. Area
New Westminster Mining Division, B.C.

Cochrane Consultants Limited
Map Date: March 1977
N.T.S. 92H/11 & 6
Scale 1:250,000

