

## TO THE SHAREHOLDERS

## LYSANDER AR-1997

*I am pleased to be able to report that, despite the challenges faced by your Company in 1997, there have been positive developments: the Jajay project gives promise that it could develop into one of the better copper projects in British Columbia; while the Company has focused its activities in British Columbia and ceased its involvement in Brazil.*

**JAJAY**

Initial work has covered only a few of the targets within the Jajay Ring, yet already good grades and substantial tonnages are being identified. The Company has five mineral properties covering approximately 250 square kilometres (65,000 acres) that contains all of the annular magnetic anomaly that comprises the Jajay Ring.

Preliminary resource calculations were completed by an independent consultant in March 1998, based on drilling completed to date. The report states that 3 zones in the Lorraine property, part of Jajay, contain an estimated 32 million tonnes of potentially open-pittable mineral resources grading 0.66% copper, 0.17 grams/tonne of gold and 4.70 grams/tonne of silver. All of the zones are open and further drilling is expected to substantially increase the resource.

The combined grade is higher than for various copper projects in, or being brought into, production in British Columbia, as shown in the comparative table on page 4.

As well as the good grade, there are further factors that may allow a lower cost structure than for other new mines in British Columbia. There is a recently constructed power line and a new road, both within a few kilometres of Jajay. Also, the minerals identified to date are principally bornite and chalcopyrite from which a high grade, penalty free concentrate could be produced. The waste from the ore will not be acid generating and operations should be environmentally benign. In addition, open pit operations could have a low strip ratio, based on the resource so far identified.

The Company has achieved its first phase objective of identifying an initial 25-30 million tonnes of material of good grade. We now plan to have an independent expert complete an economic model to assist us in optimizing the next phase of exploration.

It is expected that investigation of the Lorraine area will proceed in 1998 and 1999 with the objective of establishing an economically feasible mineplan. Lorraine, however, is part only of a much larger Jajay land package and your management will consider the funding of some work on other Jajay targets at an early stage.

**BRAZIL**

The Company has determined to re-focus its activities away from Brazil. Results of exploration at the old Passagem Mine property were not good enough to justify continued expenditures, particularly while gold prices are at current market levels.

Teck Corporation notified the Company in January 1997 that it would terminate its financing of the project. Following a search for a funding partner and change in management in September 1997, the Brazilian assets were written off. Outlays on this project ceased in the final quarter of 1997, since when the Company has terminated its agreements relative to the property.

**OTHER PROPERTIES**

The Company owns the CAT/BET gold prospect located some 10 miles from the Lorraine resources of the Jajay project. While no work was carried out in 1997, it is believed there is a reasonable or good prospect of developing an economic orebody, in conjunction with developments at Jajay.

The OP Property in the Northwest Territories has been explored as a gold prospect until now. An option agreement granted by the Company was terminated by the optionor in March 1997, and a \$898,000 write-down of the carrying balance has been recorded in 1997. The property does, however, have good potential as a diamond prospect and there are encouraging diamond developments in a neighboring property.

## FINANCIAL

The net loss for the year 1997, after writing-off Brazilian resource property expenses and writing down the OP Property, totalled \$6,431,000. Without the write-down, the net loss would have been \$454,000 which compares with the net loss of \$540,000 recorded in 1996.

General and administrative expenses of \$404,000 in 1997 were less than the \$557,000 incurred in 1996. Reductions were made in most cost items and were most significant as from October, when the Company commenced to share facilities with Black Swan. Salary costs in 1997 included costs associated with staff reduction and were lower in the final quarter of the year.

Depreciation absorbed in 1997 was higher than in 1996. Also, 1997 expenses included a loss on disposal of assets in Brazil and capital taxes that had no counterparts in 1996. Interest income was less in 1997 than in 1996 due to lower cash balances.

During 1997, the Company invested \$1,836,000 in mineral properties and deferred exploration expenses, of which \$1,420,000 was in Brazil and \$416,000 was on the British Columbian properties. Administrative and other operating activities, less working capital changes, used funds of \$337,000 in the year.

New financing was primarily from Black Swan, which subscribed \$600,000, gross, by a private placement made in September 1997, for 4,000,000 shares of the Company, that now represents a 19.5% interest. With these shares, Black Swan was issued two-year warrants permitting the purchase of a further 4,000,000 shares at \$0.20 cents/share in the first year and \$0.25 cents/share in the second year.

As funds used in investing and operating activities exceeded funds received, cash balances fell by \$1,464,000 in the year and were \$290,000 on December 31, 1997.

It is clear that the Company will require to raise additional funds in the year ahead. While it withdrew a proposed offer of flow-through shares in December 1997, due to poor markets, it will be considering a

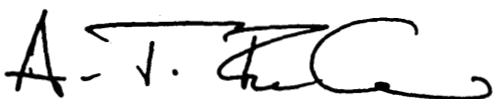
further share offering in the first half of 1998. Shareholder authority is being sought for a possible roll-back of the number of outstanding shares, if such appears necessary or desirable to effect the Company's financing plans.

## DIRECTORS

During the year, Mr. S. Sopher and Ms. M. Bergstrom resigned as directors and Mr. L. Duarte resigned in March 1998. Messrs. A. T. Fisher and B. M. A. Porter, who are also directors of Black Swan Gold Mines Ltd., were appointed to the Board. Mr. Sopher and Mr. Duarte were both past Presidents and had particular knowledge and experience of Brazil, while Ms. Bergstrom was Interim President prior to the September management change. The Company is grateful for the services rendered by the directors who resigned.

## THE FUTURE

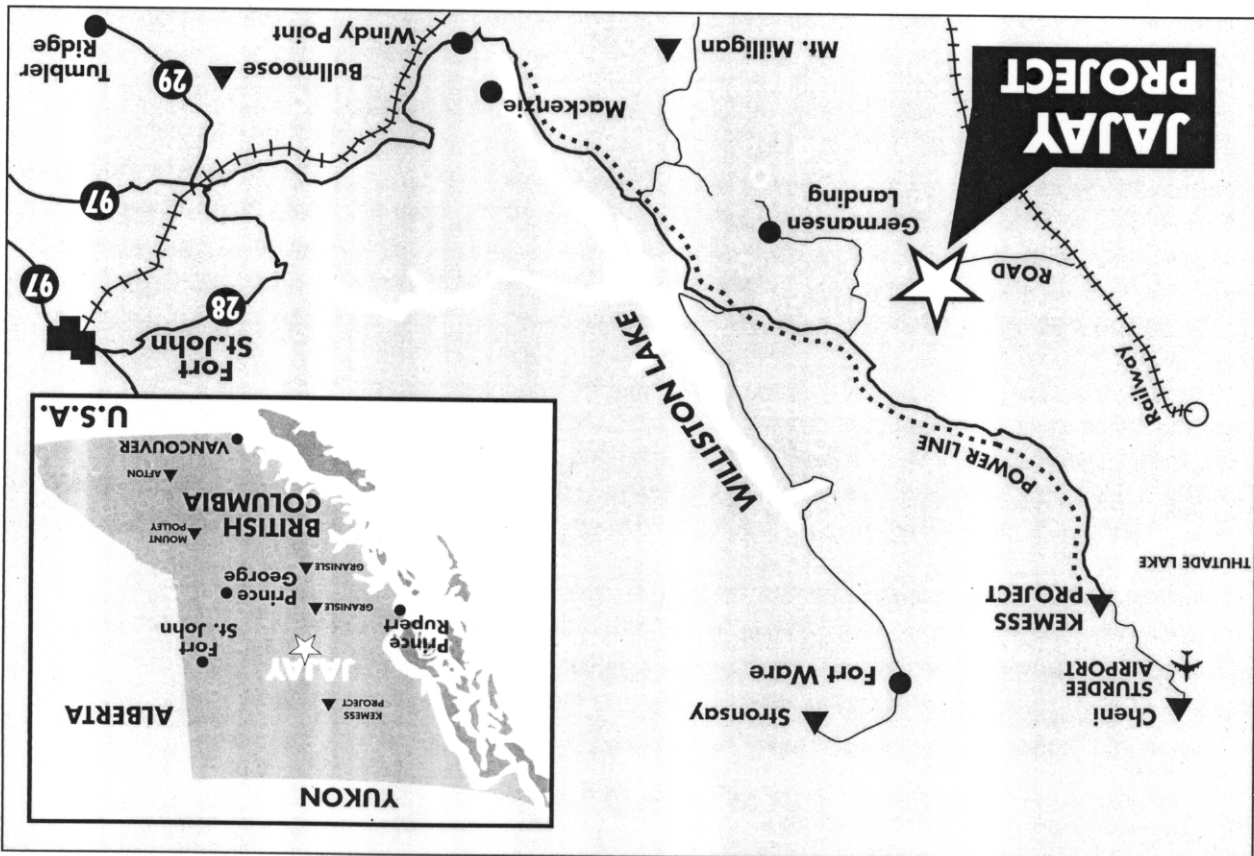
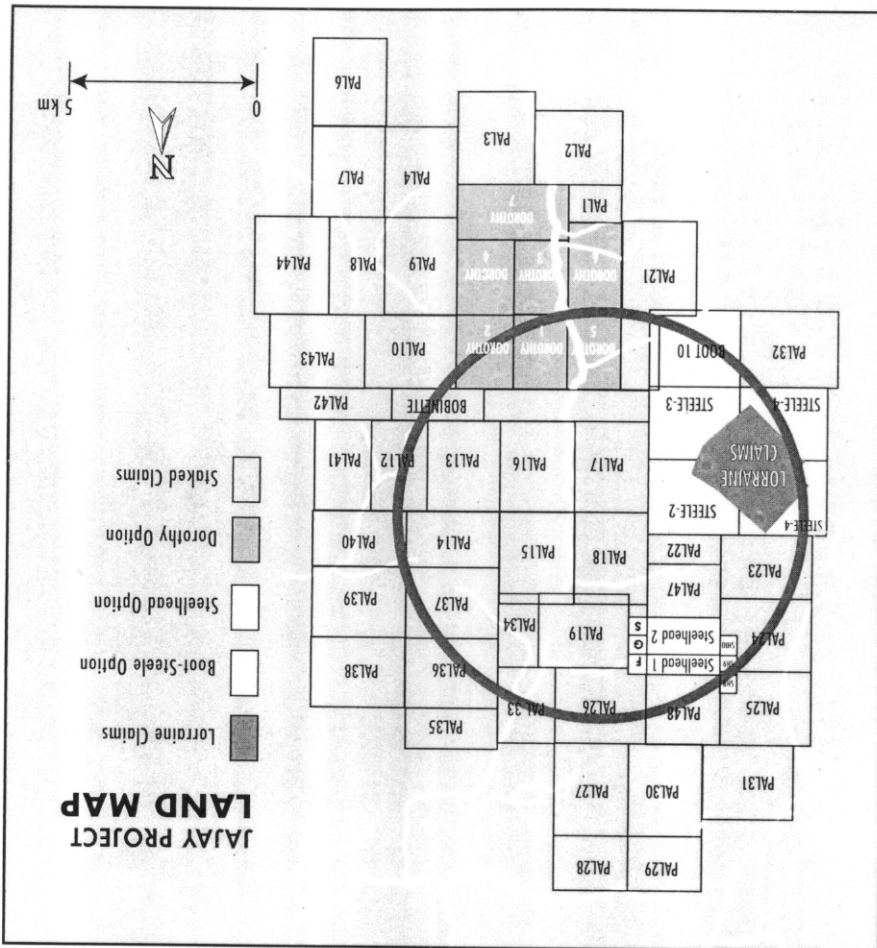
Management believes that the Jajay project now provides an excellent basis on which to build the Company. The Company is fortunate to have a number of professional consultants who developed the concepts, helped build the property position and have been involved in Jajay from the outset. Advancement of the project is largely attributable to their advice and dedication. In the year ahead, we hope to further advance the project towards the feasibility stage. Other projects may be examined, on a very selective basis, but the Company's focus will be on the promising Jajay project.



Arthur T. Fisher  
President  
April 17, 1998

The Jayay land package, covering 250 square kilometres in north-central British Columbia, was assembled between 1994 and 1996. It encompasses all of the Jayay Ring, an annular magnetic ring-shaped anomaly, 10 kilometres in diameter (see the Project Land Map), that was defined in the early 1990's by a low-level, high resolution magnetic survey.

**THE JAYAY PROJECT**



Throughout all of the Jajay package, the exploration potential is excellent; however, most of the Company's exploration work at Jajay has been on the Lorraine Claims. This has resulted in preliminary resource calculations of 32 million tonnes with better grade than for most similar projects (past and present) in British Columbia (see Table I).

At Lorraine, 19,000 metres of diamond drilling have identified three zones (Upper Main, Lower Main and Bishop) of significant gold/copper/silver mineralization, potentially open-pittable. The zones are open along strike and to depth and the consultant believes that additional drilling could substantially increase the resource tonnage at similar grades.

**TABLE I  
ORE RESERVES OF RECENT B.C. COPPER/GOLD PORPHYRY PRODUCERS**

PROPERTY	TONNES (MILLIONS)	COPPER %	GOLD g/t	SILVER g/t	MOLY g/t	STATUS	COPPER EQUIVALENT <sup>(1)</sup> %
Kerness <sup>(2)</sup>	204.0	0.22	0.63	-	-	Production target April 1998	0.56
Mount Polley <sup>(2)</sup>	82.0	0.30	0.42	-	-	Opened September 1997	0.53
Huckleberry <sup>(3)</sup>	90.4	0.51	0.06	2.81	0.014	Opened October 1997	0.65
Afton <sup>(4)</sup>	22.1	0.91	0.67	-	-	Past Producer	1.28
Granisle <sup>(4)</sup>	52.7	0.47	0.32	-	-	Past Producer	0.64
<b>Lorraine</b>	<b>31.9</b>	<b>0.66</b>	<b>0.17</b>	<b>4.70</b>	-	Early Exploration	<b>0.81</b>

(1) The copper equivalent grade has been calculated on the basis of US\$0.80/lb. copper, US\$300.00/oz. gold, US\$7.00/oz silver and US\$4.30/lb. molybdenum at 100% recovery.

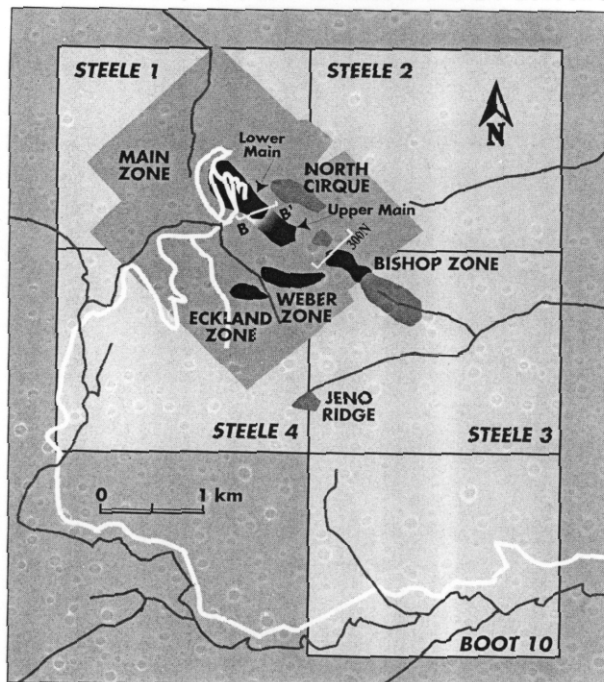
(2) The Northern Miner - March 23-29, 1998

(3) The Northern Miner - February 23-March 1, 1998

(4) Porphyry Deposits - CIM Special Volume 46, 1995

There are still a number of other mineralized zones on the Lorraine property that are largely unexplored. In particular, only limited exploration has been carried out on the Eckland, Weber and North Cirque Zones where good assays have been observed.

**LORRAINE / BOOT-STEELE PROPERTIES**



**MINERALIZED ZONES**

MINERALIZED AREA      TARGET AREA

**TABLE II  
LORRAINE PROPERTY - JAJAY PROJECT  
PRELIMINARY GLOBAL RESOURCES**

ZONE	Cu CUTOFF	TONNES (MILLIONS)	Cu %	Au g/t	Ag g/t
UPPER MAIN - <sup>(1)</sup> Measured & indicated	0.25%	11.89	0.71	0.26	4.9
UPPER MAIN - Inferred	0.25%	3.96	0.70	0.25	4.6
BISHOP - <sup>(1)</sup> Measured & indicated	0.25%	7.72	0.64	0.07	4.5
BISHOP - <sup>(1)</sup> Inferred	0.25%	2.87	0.62	0.05	4.3
LOWER MAIN <sup>(2)</sup>	0.40%	5.50	0.60	0.10	Not stated
<b>TOTAL</b>		<b>31.94</b>	<b>0.66</b>	<b>0.17</b>	<b>4.7<sup>(3)</sup></b>

(1) The calculation for the Upper Main Zone and the Bishop Zone was completed in 1998 by Giles R. Peatfield, Ph.D., P.Eng., using level plan polygonal methodology for material lying within conceptual "pittable envelopes".

(2) The calculation for the Lower Main Zone was completed in the 1970's by Granby Mining Corporation. The Granby estimate is global and there is no implication of mineability, no stripping ratios were estimated and in some cases resource blocks are not contiguous.

(3) The silver grades in Lower Main are assumed to be similar to those in Upper Main, for the purposes of computing the average silver grade.