Sungate Resources Ltd.

1981 ANNUAL REPORT

Companies, Directors and Officials

Sungate Resources Ltd.

1995 West 1st Street
North Vancouver, B.C., Canada V7P 1A8
Telephone (604) 986-7131
Telex 04-352568

Auditors
Peat, Marwick, Mitchell & Co.
Vancouver, B.C.

Bankers
Canadian Imperial Bank of Commerce
Bank of Montreal

Registrars and Transfer Agent
Crown Trust Company
401 8th Avenue S.W., Calgary, Alberta
750 West Pender Street, Vancouver, B.C.
First Canadian Place, Toronto, Ontario

Directors
B.E.W. Gransden, J.E. James, J.E. Millard
D.V.L. Odhams, H.A.D. Oliver, D.J. Rowland

Officers
D.J. Rowland (Chairman)
D.V.L. Odhams (President)
N.J. Stroud-Drinkwater (Secretary)
B.E. Thirsk (Treasurer)

Company Officials
H.R. Wood, Vice-President
B.E. Thirsk, Vice-President
J.G. Fraser, Assistant Vice-President
J. Mackay, Assistant Vice-President
N.F. Bradley, Controller

Vancouver Wharves Ltd.

1995 West 1st Street
North Vancouver, B.C. Canada V7P 1A8
Telephone (604) 985-3177, 980-9331
Telex 04-352568
Telegrams VANWHAR, VANCOUVER

Directors
J.A.G. Arnott, J. Mackay, R.D. Montgomery,
D.V.L. Odhams, P.A. White, H.R. Wood

Company Officials
D.V.L. Odhams (Chairman and Chief Executive Officer)
H.R. Wood (President and General Manager)
N.J. Stroud-Drinkwater (Secretary)
B.E. Thirsk (Treasurer)
N.M. McInnes (Assistant Secretary)
N.F. Bradley (Assistant Treasurer)

Renabie Mines (1981) Limited

Executive Offices
1995 West 1st Street
North Vancouver, B.C. Canada V7P 1A8
Telephone (604)986-7131
Telex 04-352568

Mine Offices
Missanabie, Ontario
P0M 2H0
Telephone (705) 234-2333

Director
D.V.L. Odhams

Company Officials
D.V.L. Odhams (President)
E.I. Bettiol (General Manager)
S. Isanen (Assistant General Manager)
N.J. Stroud-Drinkwater (Secretary)
B.E. Thirsk (Treasurer)

Lutexfo-Topodef S.A.

B.P. 24
Libreville, Republic of Gabon
West Africa
Telephone 70 23 30
Telex 9735261

Directors
J.G. Fraser, G. Gnambault
D.V.L. Odhams, D.J. Rowland

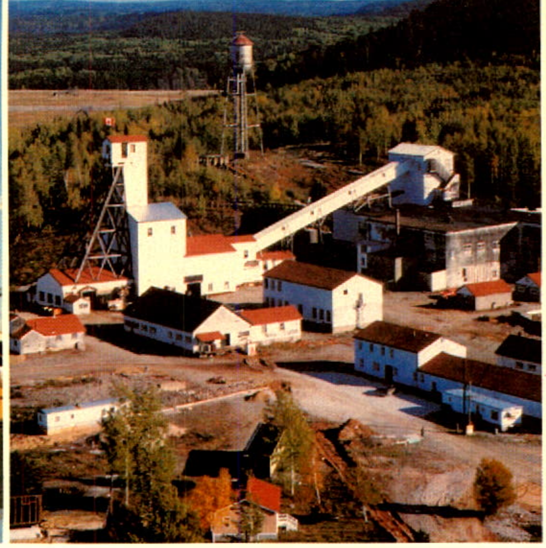
Company Officials
D.V.L. Odhams (Président du Conseil)
C. Lamothe (Directeur Général)
M. MacQuaire (Directeur Général Adjoint)

Camdef S.A.

B.P. 1216
Douala, United Republic of Cameroon
Telephone 42 37 27
Telex 9705643

Directors
J.G. Fraser, M. MacQuaire
D.V.L. Odhams, D.J. Rowland

Company Officials
D.V.L. Odhams (Président du Conseil)
C. Lamothe (Directeur Général)



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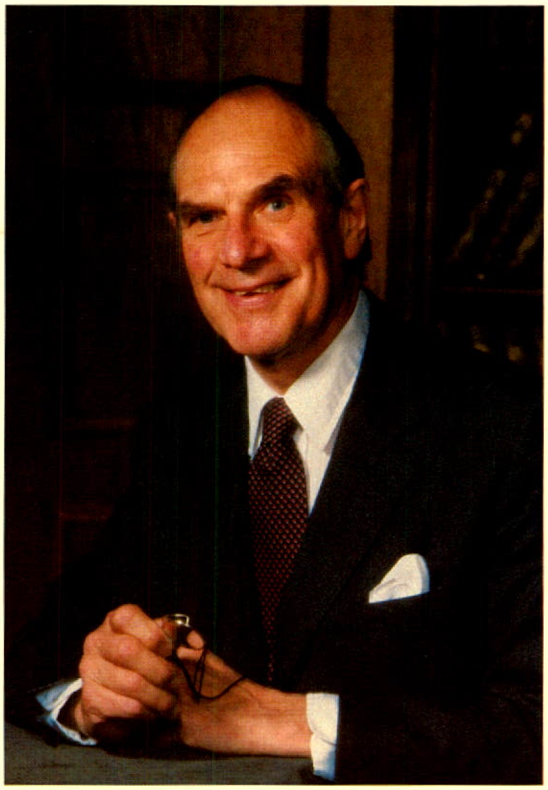
President's Report



The audited financial statements attached consolidate the results of our Canadian subsidiaries for the 9 months from April 1, 1981 to December 31, 1981 and the results of our West African subsidiaries for the 12 months of the calendar year 1981—all subsidiaries now using the same year-end of December 31. The Group operating profit for 1981 was $2,180,206, a substantial improvement on the 1980 results which showed a loss of $1,342,811.

Vancouver Wharves Ltd.

The change in the fiscal year-end of Vancouver Wharves Ltd. from March 31 to December 31 has meant that results for nine months only are included in these financial statements. Compared with the last nine months of 1980, the revenue for the 1981 period increased by 13% and the operating profit by 10%. The tonnage of potash handled decreased substantially because of a reduction in exports. Sulphur tonnage diminished to a lesser degree, but increases in the cost of handling the product were not matched by proportionate increases in revenue, a situation which is now being rectified through a revision of the contracts. Volume of other commodities handled also dropped but to some extent lost tonnage was replaced by taking on additional contracts. The labour situation, both for Vancouver Wharves Ltd. itself and for producer companies, was generally good, except for the pulp and paper industry strike which stopped the flow of those commodities for about two months. Capital spent on additional storage and on machinery exceeded $7 million and the additional revenue generated by this capital expenditure should show in the current year, 1982.

Lutexfo-Topodef S.A. and Camdef S.A.

Exercising strong management and financial controls in our West African operations has enabled us to turn a losing operation into a profitable one, despite a deterioration in world markets for okoumé wood. Uneconomic areas of operations were eliminated and the production of the more profitable wood species emphasized. Meanwhile, we continued to expand our contracting operations, working with oil companies both in Gabon and Cameroon. In the latter we also succeeded in obtaining a land-clearing contract for a large agricultural project of the Cameroon government. Unfortunately, the cost of the remedial action taken and referred to above has had to be included in the 1981 financial statements. Thus the full effect of our actions will not be apparent until the year ending December 1982.

Renabie Mines (1981) Limited

All expenses incurred in Renabie Mines (1981) Limited prior to December 31, 1981 were either capitalized or treated as deferred expenses. While we did in fact extract some gold in October 1981, the mill was not operating satisfactorily until March 1982 and the last ball mill became operational only in April 1982. The cost to December 31, 1981 of putting the mine into operation has overrun our estimate of $9.5 million by $3 million. This was caused by a longer than anticipated start-up period, a fall in the price of gold, and high interest rates. Provided we are able to achieve our budgeted production, we expect to be in a profitable position by year-end.

Other Companies

435787 Ontario Inc. is jointly owned by Sungate Resources Ltd. (47½ %) and Sunmist Energy Resources Ltd. (47½ %); it has a 70% interest in certain mining claims in Vauquelin and Pershing townships (Vauper Project), the remaining 30% being owned by Bluesky Oil & Gas Ltd. The Company entered an agreement with Bluesky whereby with the expenditure of $650,000 on exploration drilling, Bluesky will reduce 435787 Ontario Inc.'s interest to a 20% participation in net profits.

Seatank (B.C.) Ltd., a company located on the Vancouver Wharves site in North Vancouver, B.C., and responsible for the storage and handling of methanol, is owned jointly by Sungate Resources Ltd. (50%) and the Stolt-Nielsen Group (50%) and operated by Vancouver Wharves Ltd. Given the prevailing market conditions, it enjoyed a reasonably successful year in 1981 and is currently responding to an invitation to tender for the construction and operation of a liquid chemical terminal at Prince Rupert, B.C.

Financial

The need for further cash injections in both the mine and the West African operations was apparent at the beginning of the year. By calling on our bankers and by the pledging of certain real estate held for resale in the U.K., we were able to meet this requirement. This enabled both companies to continue with their operating plans and we are confident that we will be able eventually to reach our goals.

At the wharves, we are involved in a large capital programme to enable us to build further storage and handling facilities to allow us to fulfill our undertakings to our customers and to do this we have received continuing support from our bankers.

Employees

Like most operational companies, we are dependent on the capabilities and enthusiasm of our employees and in this respect we are exceedingly well provided. I would like to take this opportunity to thank them all for the efforts which have resulted in this improvement in the company's fortunes. I would also like to express our sorrow at the death of Mr. R.G.H. Hutchison on December 26, 1981. Gordon, a director of Vancouver Wharves Ltd. and Vice-President of Sungate, was an integral part of our Group and made significant contributions to the company's progress during his years with us.

Future

Sungate's intention is to expand all its companies, after realizing a fully efficient operation in each of them. Naturally the results of the mine are dependent to a very great degree on the price of gold, over which we have no control. Vancouver Wharves Ltd. is affected enormously by tonnage throughputs which, in turn, are affected by the economic position of overseas countries and the ability of these countries to pay for Canadian imports. The profitability of the West African companies is closely related to the world market for okoumé logs which over recent months has been surprisingly strong.

Overall a significant increase in group profit is forecast for 1982. We are pleased that 1982 first quarter results have confirmed our expectations for Vancouver Wharves and Consortium Trans African.

David L. Adams

PRESIDENT

Vancouver Wharves Ltd.

Photo: H.A. Simons Graphics

The period started well with good tonnages moving in all product lines. A major maintenance programme was embarked upon in the first quarter (April to June). This included rebuilding the sulphur dumping facilities and reduced the volume of sulphur received in May and June.

In July the tonnage picture changed dramatically. Potash exports through the Port of Vancouver virtually collapsed. Vancouver Wharves handled 850,000 metric tons in the period January through June, 1981 and this dropped to 444,000 m.t. in the succeeding six months. This decrease was the result of a general recession in the world markets for fertilizer, due in part to high interest rates, and a consequent desire on the part of the buyers to reduce inventories quickly.

A strike in the pulp and paper industry, lasting 52 days, closed down the major shippers and eliminated pulp and paper product movements for the greater part of July and August.

The balance of the nine month fiscal period saw some recovery in methanol, concentrates, and sulphur. The period as a whole however was disappointing as high interest charges and inflated costs for supplies and fuel continued to take their toll. Tonnage thoughput of 4,460,000 m.t. was 438,000 m.t. less than the throughput achieved for the same period in 1980.

Additional contracts were signed which will increase the tonnage handled in the near future. Other contracts were renewed with improved handling rates and more realistic escalation clauses. The new contracts have to a certain extent compensated for the loss in potash which is expected to continue for some time.

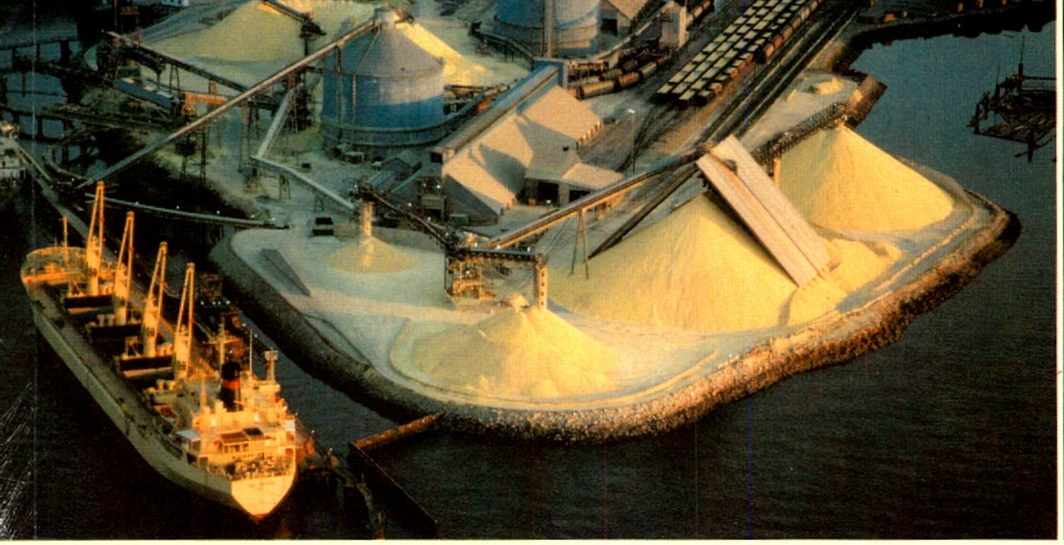
Labour relations in the Port of Vancouver were generally satisfactory during this period but the Company suffered from a chronic shortage of skilled labour. With the start of an apprenticeship programme in 1982, it is hoped this problem will be alleviated.

Additional capital expenditures were undertaken to provide additional storage for sulphur, metal concentrates and methanol.

Capital projects for 1982 are substantial and will result in the rebuilding of the two older shiploaders and in the provision of new facilities for handling lead concentrate, storing and shipping pulp and paper, and reclaiming and storing potash. Further expansion in liquid storage is also expected during 1982.

On the completion of the new sulphur contract, capital will be applied to the improvement of the handling system. This will remove bottle-necks and speed up railcar unloading. A substantial amount of money has been and is being applied to the rail system feeding the terminal.

The current world-wide recession is having an effect but in the tonnage range handled by the Company (with the exception of potash), volumes are being maintained at more or less satisfactory levels. Contract revisions are continuing with promising results. The current tonnage levels, at slightly more than 6,000,000 metric tons per year, are expected to be exceeded substantially when potash returns to its normal growth pattern. This is expected to happen in late 1983 or early 1984.




METHANOL
60-1
120-1
Alberta Gas
Chemicals Ltd.

Renabie Mines (1981) Limited

Production and Underground Development

From start-up of the mill on October 6 to the end of 1981, over 16,000 tons were milled at an average millhead grade of 0.143 oz. Au/ton. Recovery was low due to numerous mechanical breakdowns and a shortage of personnel with specific experience in the gold cyanidation process; there was also a "settling-down" process, common to the start-up of all mills, during which a certain amount of gold is absorbed by the system. However, in the first few months of 1982, there have been some personnel changes and significant progress has been made in reaching normal recovery rates. A target of 90% has been established for June, 1982.

Millhead grades of 0.193 and 0.222 were achieved for the months of January and February, 1982 respectively, from the 3,100 ft. level where the width and grade of the ore body exceeded expectations. Sub-level development between the 2,600 and 3,100 ft. levels started in 1981 and will continue for most of 1982. Because of this development, the average operating cost per oz. forecast for the year of $384 is high, but should be compared with a cost of $253 forecast for the last 3 months of 1982 by which time the development is scheduled to have terminated. No further major development will be required before 1984.

Gold Prices

Since the peaks of 1979/80 the gold price has steadily declined to reach a 2-year low in March, 1982 of US $312 per oz. Downward pressure is being exerted by the effect of high interest rates, low industrial demand, heavy selling by Russia and the Middle East, and by a generally depressed economic situation. Early in 1982, Renabie management, concerned to protect the mine against lower gold prices during a critical stage of mine development, embarked upon a programme of selling forward a portion of the Renabie gold production for the balance of 1982, ensuring that at least budgeted cash requirements are met.

Ore Reserves

During 1981, 7,460 ft. of definition diamond drilling were carried out from the 2,995' and 3,105' levels. The findings to-date have been very positive and have resulted in an upward adjustment of ore reserves. The present breakdown is shown in the following table (a dilution factor of 10% has been included).

	Assured (tons at grade)	Indicated (tons at grade)	Inferred (tons at grade)
In Situ Reserves			
- "C" Crown Pillar	11,000 @ 0.16	-	-
- 675 Level "M" Zone	3,800 @ 0.20	3,800 @ 0.20	-
- 11 "D-E" Sill Pillar	-	8,000 @ 0.18	-
- 17 "K" Zone	-	10,000 @ 0.17	-
- 18 "P" Stope	-	8,300 @ 0.17	-
- 21 "K" Zone	-	6,000 @ 0.21	-
- 26 "Q" Stope	-	75,000 @ 0.19	75,000 @ 0.19
- 26 "R" Sill Pillar	-	24,350 @ 0.19	-
- 29 "R" Stopes	410,300 @ 0.21	-	-
- 31 "R" Stopes	-	251,000 @ 0.24	-
- "R" Zone Below 3105 L.	-	225,000 @ 0.20	-
Sub Total	425,100 @ 0.209	600,830 @ 0.218	75,000 @ 0.19
Broken Reserves			
- "C" Stope	25,000 @ 0.15	-	-
- 24 "R" Stopes	-	20,000 @ 0.22	-
- 26 "R" Stopes	-	10,500 @ 0.18	-
- 29 "R" Stopes	-	5,000 @ 0.20	-
Sub Total	25,000 @ 0.150	35,500 @ 0.205	NIL
Total	450,100 @ 0.206	636,330 @ 0.217	75,000 @ 0.19

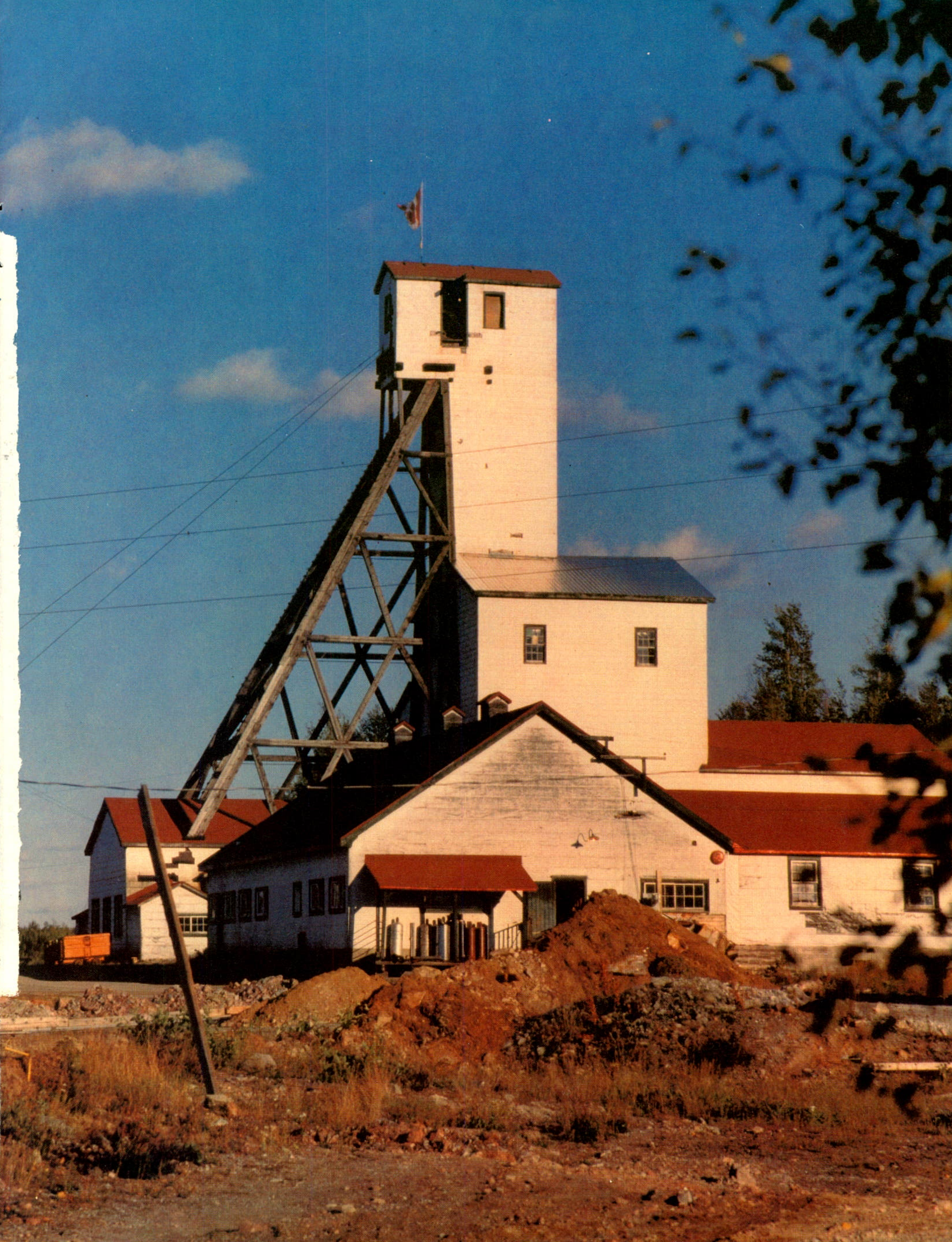
Total Reserves = 1,161,430 tons @ 0.211 oz. Au.

Total reserves at 1.1 million tons are sufficient to provide mill feed for 6 years at a rate of 500 tons per day.

Staff & Housing

With the exception of the mill, Renabie had a full complement of staff throughout 1981. At year-end this comprised 130 personnel of whom 70 were working for the underground contractor, 45 were on the hourly payroll and 15 were salaried staff.

Excellent accommodation has been provided at the mine site and also 15 kilometers away at Missanabie township. A recreational hall was acquired during the year and a commissary opened to provide staff with miscellaneous supplies.



Lutexfo-Topodef, S.A.

Forestry

The forestry industry in the Gabon experienced a difficult year in 1981. The consumption of okoumé logs by the European industries decreased relative to 1980. As a consequence, in February the government purchasing agency reduced prices to the local producers, imposed production quotas, and lengthened their terms of payment. By October 1981 with no improvement in sight and its stocks increasing, the agency was about to extend these measures when a breakthrough occurred in negotiations with a Far Eastern market and since the end of 1981 both demand and prices have increased.

To add further to their difficulties in Gabon, the forestry companies' areas of operations are moving further and further inland away from the coast. The cost of transporting wood from these areas is becoming prohibitive and has made several operations uneconomic. The extension of the Trans Gabonais railway line to Booué, and subsequently to Lastoursville, should result in lower transport costs. Several companies have slowed their rate of logging in order to await the completion of the railway line.

Despite these conditions and a deteriorating French franc, the Lutexfo-Topodef logging operation did enjoy a more successful year in 1981 than in 1980. At the beginning of 1981, and anticipating by 2 months the government agency's economic measures, a major reorganization of the logging operation was undertaken. One of the three logging camps was eliminated, equipment scrapped, personnel laid off or replaced, and financial controls generally tightened up. The cost of this reorganization prevented the operation from making a profit in 1981 but losses were significantly reduced from 1980. We were also able to keep investment (in machinery priced in U.S. dollars) to a minimum and thus conserve cash flow, as a result of a preventive maintenance programme instituted in 1980. Finally, in order to improve the working capital position, Sungate arranged a medium-term loan for Lutexfo-Topodef S.A. of 9.8 million French francs.

The prospects are good for a profitable year in 1982. Through improved quality and price increases, the selling price per cubic metre of okoumé has increased by 17.5% since the end of the year and further increases are envisaged. Good progress has been made recently on construction of the Trans Gabonais railway line and Lutexfo-Topodef will rail logs from a station near the present Mielle concession to the coast starting July 1, 1982—a change which will also improve the operating margin.

An estimate of the logging potential, assuming an annual production rate of 120,000 metres^3 per annum, by area, is shown below:

Logging Potential

Lot No.	Known as	Area (hectares)	No. of years Est. Supply
5/71-2 5/71-2 5/71-3	Offoué	98,106	½
5/71-4	Mielle	39,879	1½
18 20 26	Lolo	178,000	13
22/73	Okondja	200,000	15
7/72 6/73	Leroy	42,826	2
		558,811 HA.	32 yrs.

Deforestation

While oil production is slowly declining in Gabon (down to 7.6 million tons in 1981 from a peak of 11.3 million tons in 1976), the exploration programmes, strongly supported by the government, are being maintained. One of the oil companies recently started a 10-year programme and others have given no indication of slowing down.

The Lutexfo-Topodef contracting division, which carries out line cutting work for 2 major oil companies' seismic research programmes, enjoyed another successful year with earnings up 15% on 1980. A similar increase is anticipated in 1982.

Research was undertaken in more remote areas in 1981 than in previous years. Early in the year the company replaced its existing plane with a Spanish-constructed CASA 212-200. This plane, with twin turbo props and a loading capacity of 3 tonnes through a ventral door, enabled Lutexfo-Topodef (and Camdef in Cameroon) to supply and rotate the men and equipment in these remote locations and thus to maintain the high quality of service which





Lutexfo-Topodef S.A./Camdef S.A.

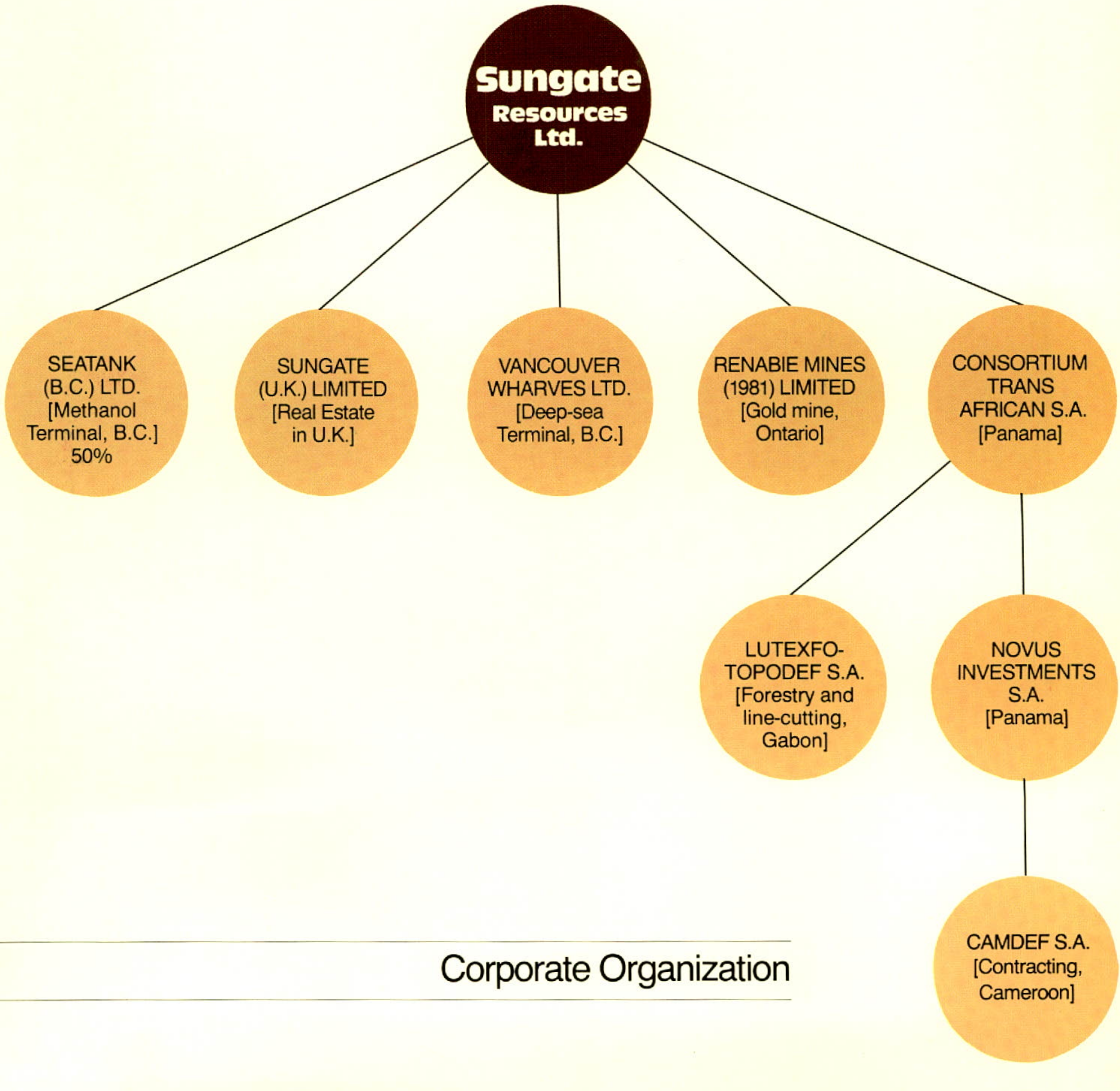
has been the hallmark of our contracting operation.

Finally, with a view to improving customer service, a branch office was established in Port Gentil, the commercial centre of petroleum activity in Gabon. Previously all marketing and administrative contact had been done by the head office in Libreville.

Camdef S.A.

In 1981 Camdef in its second year of operations increased its revenue by 30% over 1980. However net profit before tax was significantly lower than in 1980, due in part to the payment of high interest rates on money borrowed to purchase mobile equipment and a plane, the CASA 212-200. It was also due to the fact that financially and administratively the company was not yet organized to handle the increase in activity. Since year-end these sections have been strengthened and efforts are currently underway to change the company's financial structure with a view to improving the working capital position.

Camdef has been successful in moving away from a simple line-cutting role which its counterpart, Lutexfo-Topodef, fulfils in Gabon. It was awarded an important contract towards the end of 1981 to clear land for agricultural plantations; it started in 1981 and is continuing to construct in 1982 a series of bases for onshore oil drilling platforms. These contracts are in addition to the line-cutting work undertaken for the seismic research programme of a major oil company and do indicate another year of rapid growth for Camdef in 1982.



Corporate Organization

Auditors' Report

To the Shareholders of
Sungate Resources Ltd.

We have examined the consolidated balance sheet of Sungate Resources Ltd. as at December 31, 1981 and the consolidated statements of income and deficit, deferred mine development costs and changes in financial position for the nine months 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 consolidated financial statements present fairly the financial position of the company as at December 31, 1981 and the results of its operations, the deferred mine development costs and the changes in its financial position for the nine months then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Vancouver, British Columbia
May 26, 1982

Peat, Marwick, Mitchell & Co.
Chartered Accountants

SUNGATE RESOURCES LTD.
Consolidated Balance Sheet

December 31, 1981

Assets	December 31 1981	March 31 1981
Current assets		
Cash	$ 166,983	269,836
Accounts receivable	5,483,652	4,813,014
Properties held for resale	5,102,135	—
Inventories (Note 4)	2,565,632	2,697,367
Prepaid expenses	1,054,713	544,150
Due from affiliated companies	251,237	1,867,203
Total current assets	14,624,352	10,191,570
Property, plant and equipment (Note 5)	44,481,855	33,422,456
Less accumulated depreciation and amortization	(6,187,763)	(3,235,257)
	38,294,092	30,187,199
Investments	143,497	96,538
Mining claims—at cost	300,000	300,000
Cutting permits less amortization	17,852,375	17,977,237
Deferred mine development costs	11,211,252	5,238,020
Goodwill and other assets, less amortization (Note 6)	2,562,115	3,168,510
	$ 84,987,683	67,159,074

Liabilities and Shareholders' Equity	December 31 1981	March 31 1981
Current liabilities		
Bank loan	$ 2,251,918	2,216,062
Trade accounts payable	12,699,926	14,198,484
Income taxes payable	1,389,726	1,116,794
Current portion of long-term debt	5,020,263	1,720,843
Due to affiliated companies	193,292	1,669,793
Total current liabilities	21,555,125	20,921,976
Unearned revenue	6,742,439	5,255,830
Long-term debt (Note 7)	20,011,821	8,770,915
Due to affiliated companies	—	1,057,767
Deferred income taxes	1,926,035	1,351,137
Unrealized foreign exchange gains	2,157,384	—
Shareholders' equity:		
Capital stock (Note 9)	36,912,978	33,668,918
Contributed surplus	8,858,095	8,858,095
Appraisal increase (Note 2)	369,470	—
Deficit	(13,545,664)	(12,725,564)
Total shareholders' equity	32,594,879	29,801,449
Contingent liabilities and commitments (Notes 11 and 12)		
	$ 84,987,683	67,159,074

On behalf of the Board:

David V.L. Odhams

David V.L. Odhams, Director

J.E. James, Director

See accompanying notes to consolidated financial statements.

SUNGATE RESOURCES LTD.

Condolidated Statement of Income and Deficit

Nine months ended December 31, 1981

		December 31 1981	March 31 1981
Sales and revenue	$	42,016,942	44,629,190
Expenses:			
Operating		28,990,367	36,693,556
General and administrative		6,129,477	5,335,745
Depreciation, depletion and amortization		4,716,892	3,942,700
		39,836,736	45,972,001
Operating profit (loss)		2,180,206	(1,342,811)
Other (income) expenses:			
Interest on long-term debt		1,974,767	1,932,302
Interest income		—	(772,381)
		1,974,767	1,159,921
Earnings (loss) before income taxes		205,439	(2,502,732)
Income taxes:			
Current		450,642	480,656
Deferred		574,897	673,126
		1,025,539	1,153,782
Net loss		820,100	3,656,514
Deficit, beginning of period		12,725,564	9,069,050
Deficit, end of period	$	13,545,664	12,725,564

See accompanying notes to consolidated financial statements

Consolidated Statement of Deferred Mine Development Costs

Nine months ended December 31, 1981

		December 31 1981	March 31 1981
Administrative expenses	$	1,026,705	703,768
Development expenses:			
Camp rehabilitation		10,763	330,050
Mine dewatering		243,817	854,038
Power and energy installation		139,581	396,685
Repairs		104,195	214,958
Stope preparation		1,154,014	—
Other		85,934	102,106
		1,738,304	1,897,837
Finance costs		1,164,407	—
Pre-production costs, net of gold receipts		2,043,816	—
Total deferred costs for the period		5,973,232	2,601,605
Balance, beginning of period		5,238,020	2,636,415
Balance, end of period	$	11,211,252	5,238,020

See accompanying notes to consolidated financial statements

SUNGATE RESOURCES LTD.

Consolidated Statement of Changes in Financial Position

Nine months ended December 31, 1981

	December 31 1981	March 31 1981
Working capital provided:		
Operations:		
Net loss	$ 820,100	3,656,514
Deduct items not requiring working capital:		
Depreciation, depletion and amortization	4,716,892	3,942,700
Deferred income tax	574,898	673,126
Transfer from unearned revenue	(2,060,823)	(447,726)
Gain on disposal of plant and equipment	(251,574)	—
	2,979,393	4,168,100
Total from operations	2,159,293	511,586
Issue of capital stock (Note 3)	3,244,060	28,850,000
Properties held for resale transferred from non-current assets	1,952,950	—
Proceeds on disposal of equipment	1,080,141	—
Due to affiliated companies	—	476,353
Increase in long-term debt	14,873,196	3,598,427
Prepayment of storage and handling revenue	3,547,432	3,611,005
Due from affiliated companies	—	4,100,000
Unrealized foreign exchange gains	2,157,384	—
Appraisal increase	369,470	—
Other	374,026	273,867
	29,757,952	41,421,238
Working capital used:		
Non-current assets of subsidiaries acquired	—	33,281,835
Additions to property, plant and equipment:		
Wharf and equipment	7,936,649	5,027,785
Logging and contracting	3,628,846	1,657,335
Mining	2,389,648	1,460,604
Real estate	253,074	1,952,950
Cutting permits	1,086,815	1,998,274
Deferred mine development costs	5,973,232	2,601,605
Decrease in long-term debt	3,632,290	3,570,490
Due to affiliated companies	1,057,767	—
	25,958,321	51,550,878
Increase (decrease) in working capital deficiency	(3,799,631)	10,129,640
Working capital deficiency, beginning of period	10,730,404	600,764
Working capital deficiency, end of period	$ 6,930,773	10,730,404

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

Nine months ended December 31, 1981

1. Change of year-end

The fiscal year was changed in 1981 to end on December 31 so that the reporting date for the company and all subsidiaries ends on the same date. As a result of this change, the operating results of the company and all of its Canadian subsidiaries are for nine months and are included in the 1980 comparative results for the twelve months ended March 31, 1981. All foreign subsidiaries are included in the 1981 operating results for twelve months and in the 1980 comparative results for nine months because they were acquired in that year.

2. Significant accounting policies

The financial statements have been prepared on the historic cost basis in accordance with Canadian generally accepted accounting principles which conform in all material respects with international accounting standards as adopted by the International Accounting Standards Committee.

Principles of consolidation

The consolidated financial statements include the accounts of the company and all of its subsidiaries. Operations of subsidiaries are included in the financial statements from the date of acquisition. All material inter-company transactions have been eliminated. All subsidiaries are wholly-owned and, other than those which are inactive, are as follows:

Vancouver Wharves Ltd.	Canada	Bulk-loading terminal operations
Renabie Mines (1981) Limited	Canada	Mining and exploration
Sungate (U.K.) Limited	United Kingdom	Real estate investment
The Intervale Group of Companies Ltd.	United Kingdom	Real estate investment
Braydon Farms Ltd.	United Kingdom	Real estate investment
Consortium Trans African S.A.	Panama	Holding company
Lutexfo S.A.	Gabon	Logging and deforestation
Camdef S.A.	Cameroon	Deforestation

Foreign currency translation

The accounts of foreign subsidiaries and assets and liabilities arising from foreign currencies are translated into Canadian dollars as follows: current assets and current liabilities at the period-end rate; non-current assets and liabilities and depreciation, depletion and amortization at transaction date rates; and revenue and expenses at the average rate for the period. Material unrealized conversion gains are deferred; immaterial gains and any loses are recorded as determined.

Inventories

Logs are stated at the lower of production cost and net realizable value; gold and properties held for resale are valued at net realizable value and supplies are carried at the lower of average cost and net realizable value.

Property, plant and equipment

Property, plant and equipment are carried at cost and capitalized leases are stated at the present value of future lease payments generally discounted at the interest rate implicit in the lease. The straight-line method is used to depreciate capitalized costs less estimated salvage value over the useful life of the assets as follows:

Railway sidings	4%
Wharf and buildings	5% to 10%
Machinery, tools and equipment	10% to 20%
Aircraft	20%
Mobile equipment	25% to 33⅓%

Gains or losses on disposals are included in income and the carrying value is removed from the accounts. Maintenance and repairs of a routine nature are charged against earnings as incurred whereas expenditures which improve or extend the useful life of assets are capitalized.

Cutting permits and roads

Cutting permits and roads are carried at cost and amortized at rates based on timber recoverable.

Goodwill

Goodwill is amortized on the straight-line method over ten years from the date of acquisition.

Unearned revenue

Certain shippers make advance payments related to their shipping contracts. While the amounts are generally non-refundable to the shipper, the company has certain contractual obligations related to the term of the contract and these advance payments are recorded as earned over such term.

Income taxes

The tax allocation method is used to record income taxes related to operating results recorded in the financial statements. Where losses are reported the future benefit of such is generally not recorded in the accounts as a credit to income, whereas reductions in current taxes resulting from claiming deductions for tax purposes in excess of related charges recorded in the accounts are included as charges against current earnings. Accumulated losses for which the future benefit has not been recorded in the accounts total $3,350,000 (converted to Canadian dollars at the year end rate) of which $156,000 expires on December 31, 1983.

The book value of cutting permits exceeds their tax value by $16,500,000 and future amortization of this amount will result in charges against reported income which are not deductible for tax purposes and taxable income in excess of that reported in the financial statements.

Appraisal increase

Certain assets leased by the company to a subsidiary have been restated at their fair market value of $1,890,000 as determined by an independent firm of appraisers at December 1, 1981. The appraisal increase, less $10,657 amortized during the period and included in sales and revenue, is included in shareholders' equity. Future amortization will be included in the deficit.

Deferred mine development costs

Costs to develop and bring the mine into production, net of initial revenue earned, to the date of achieving commercial production have been deferred to December 31, 1981 and will be amortized at a rate based on ore reserves. Presently the developed ore reserves indicate the mine life to be in excess of six years. Additional amounts may be classified as deferred costs as the result of paying royalties from future gold production to creditors of a predecessor company. Such royalties are not deductible for tax purposes.

3. Acquisitions

Wholly-owned subsidiaries acquired during the year have been accounted for by the purchase method as follows:

Assets acquired	$ 4,125,415
Liabilities assumed	400,568
Net book value	$ 3,724,847
Consideration given:	
Capital stock issued to acquire an advance to a subsidiary	$ 1,819,185
Assignment of an advance to a subsidiary in satisfaction of a guarantee	1,900,000
Cash	5,662
	$ 3,724,847

4. Inventories

	December 31 1981	March 31 1981
Logs	$ 646,357	797,832
Gold	105,790	—
Supplies	1,813,485	1,899,535
	$ 2,565,632	2,697,367

5. Property, plant and equipment

	December 31 1981	March 31 1981
Wharf and equipment	$ 23,191,327	16,761,213
Leasehold land	6,504,507	6,015,726
Logging and contracting equipment	8,567,312	5,116,580
Mining equipment and buildings	6,218,709	5,528,937
	$ 44,481,855	33,422,456

Certain operations are located on property subject to a lease which expires in 2031 and may be renewed for a further thirty years. The costs incurred for dredging and filling on this property may be applied to reduce lease payments which are currently $38,500 per year and are subject to periodic review.

6. Goodwill and other assets

	December 31 1981	March 31 1981
Goodwill less amounts amortized	$ 2,475,000	2,775,000
Other	87,115	393,510
	$ 2,562,115	3,168,510

7. Bank and other long-term debt

	December 31 1981	March 31 1981
Bank loans and overdraft, with interest between ½% and 1¼% above bank prime, secured by debentures totaling $16,500,000 and payable at various dates to September 1986	$ 11,549,486	7,296,667
Bank loan with interest at 1¼% above bank prime, secured by debentures totaling $10,000,000 with repayment terms to be determined during 1982	7,750,753	365,000
Bank loans with interest at varying rates between 12½% and LIBO rate plus 1½%, secured by mortgages and payable at various dates to 1989	2,444,512	420,477
Agreements to purchase capital assets and amounts payable under capitalized leases at various interest rates to 22% and due at various dates to approximately 1990	2,517,105	1,128,140
Bank and other loans, unsecured	770,228	1,281,474
	25,032,084	10,491,758
Less current maturities	5,020,263	1,720,843
	$ 20,011,821	8,770,915

Term loans totaling $7,600,000 required principal payments of $505,000 to have been made at December 31, 1981. Under the terms of the debenture agreements, the bank may demand payment of the total amount.

Except for the unsecured loans, all bank and other long-term debt is secured by assets included in the consolidated balance sheet. The principal securities are as follows:

Demand debentures totaling $16,500,000 issued by a subsidiary having assets with a book value of $28,000,000.

Demand debentures totaling $10,000,000 issued by two subsidiaries having assets with a book value of $23,000,000.

Interest of $195,200 related to capitalized leases has been charged to operating costs.

Maturities of long-term debt for the four years following 1982 are as follows:

1983	$ 9,223,000
1984	1,685,000
1985	1,217,000
1986	5,116,000

8. Dividend and interest restrictions

Certain subsidiaries are restricted in the amounts of dividends and interest or principal on inter-company accounts which they may pay to the parent or related companies.

9. Capital stock

The authorized capital stock is unlimited.
Changes in issued capital stock are as follows:

	Number of Shares	Stated Value
Balance March 31, 1981	20,850,168	$ 33,668,918
Issued to acquire amounts advanced to subsidiaries by a previously related party:		
Subsidiary acquired during the period (Note 3)	909,593	1,819,185
Other subsidiary	712,438	1,424,875
Balance December 31, 1981	22,472,199	$ 36,912,978

10. Lease commitments

Future minimum payments required under leases for equipment are as follows:

	Capital Leases	Operating Leases
1982	$ 311,682	531,820
1983	311,682	390,726
1984	311,682	291,388
1985	311,682	255,358
1986	219,742	8,635
1987	44,190	—
Total minimum lease payments	1,510,660	1,477,927
Less imputed interest	526,009	
Present value	$ 984,651	

Assets under capital leases recorded in property, plant and equipment are as follows:

Cost	$ 1,062,631
Accumulated depreciation	123,050
	$ 939,581

Payments made during the year on operating leases totaled $251,280.

11. Contingent liabilities

Legal action has commenced on two product handling claims for which the company has liability insurance with an aggregate deductible of $20,000. No provision has been made as management is of the opinion that any exposure to loss is not material.

There is a contingent liability of $840,000 (converted at the period-end rate) for notes receivable discounted with a bank.

12. Commitments

Use of certain cutting permits in the future will require payment of operating royalties of $936,842.

As part of the consideration for the acquisition of mining claims, the company is required to pay up to $1,383,503 to a bank as royalty payments at 5% of net proceeds from future gold production and up to $2,065,051 as royalty payments at 5% of net income after recovery of mine development and other costs. The requirement to make these royalty payments is a charge against the mining claims.

There are forward sales commitments to December 31, 1982 for approximately 14,000 ounces of gold, representing 55% of expected production, at prices substantially in excess of the present market value, to yield approximately $7,000,000. If the company were unable to deliver substantially all of the contracted amount, they would be required to purchase an equivalent amount on the open market.

13. Pension plans

The majority of employees are covered under pension plans to which the company is required to make contributions. At January 1, 1982 there is an unfunded liability of $285,000 arising from an actuarial revaluation at that date which will be charged to operations at $95,000 per year.

14. Subsequent event

On March 23, 1982 the company borrowed $1,700,000 at 3% above LIBO rate and as security for this loan has pledged all of the issued shares of its three principal operating subsidiaries which account for 94% of the consolidated net assets.

Bank loans were increased by $1,000,000 in the period to April 30, 1982.

15. Segmented information

The company operates in the following industries:

Wharf – Deep sea terminal with bulk loading and storage facilities in Vancouver, B.C., Canada

Mining – Gold mine which is considered to be in commercial production as of January 1, 1982 in Northern Ontario, Canada

Forestry – Logging operations which produce and market logs and a contracting operation which provides land clearing and surveying services in Gabon and Cameroon, West Africa

Information relating to these three industry segments is provided in the table below.

	December 31, 1981					March 31, 1981				
	Wharf	Mining	Forestry	Other	Consolidated	Wharf	Mining	Forestry	Other	Consolidated
Sales and revenues	$18,421,968	—	23,335,568	259,406	42,016,942	21,196,081	—	22,623,819	809,290	44,629,190
Operating profit (loss)	2,239,490	—	233,560	(292,844)	2,180,206	1,867,197	—	(2,955,126)	(254,882)	(1,342,811)
Interest expense	1,030,604	—	944,163	—	1,974,767	577,930	—	535,404	46,587	1,159,921
Income taxes	928,510	—	435,172	(338,143)	1,025,539	673,126	—	480,656	—	1,153,782
Net income (loss)	280,376	—	(1,145,775)	45,299	(820,100)	616,141	—	(3,971,186)	(301,469)	(3,656,514)
Total assets	27,978,822	17,274,198	33,975,189	5,759,474	84,987,683	26,611,112	9,199,059	29,223,035	2,125,868	67,159,074
Capital expenditure	7,936,649	8,362,880	4,715,661	253,074	21,268,264	5,027,785	4,062,209	3,655,609	1,952,950	14,698,553
Depreciation, amortization and depletion	1,531,884	—	3,151,780	33,228	4,716,892	1,679,228	—	2,263,472	—	3,942,700