PLAINTIFF'S EXHIBIT

UC-3556

HEDMAN MINES LIMITED

Financial Statements

For the Six Months Ended

January 31st, 1974

(unaudited)

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HEDMAN MINES LIMITED

BALANCE SHEET AS AT JANUARY 31, 1974

(unaudited)

ASSETS	1974 $	1973 $
CURRENT ASSETS		
Cash and short term deposits	47,406	
Accounts receivable	60,525	61,038
Inventories (Note 1)	91,122	79,731
Prepaid expenses	5,121	3,159
	204,174	143,928
FIXED ASSETS—at cost (note 1)		
Land—at cost	11,602	11,602
Buildings and equipment (note 2)	2,035,871	2,108,590
	2,047,473	2,120,192
MINING CLAIMS—at cost (cost is value attributed to 750,000 shares of capital stock issued in consideration for mining claims plus $100 staking costs (notes 3 and 6)	41,350	41,350
OTHER ASSETS		
Deposits	10,675	10,890
Deferred expenditures (note 4)	855,457	878,854
	866,132	889,744
	3,159,129	3,195,214

LIABILITIES	1974 $	1973 $
CURRENT LIABILITIES		
Bank overdraft		22,370
Accounts payable and accrued liabilities	84,585	80,684
	84,585	103,054
DUE TO ASSOCIATED COMPANIES (note 5)	1,201,394	1,097,897
SHAREHOLDERS EQUITY		
CAPITAL STOCK (note 6)		
Authorized— 3,000,000 shares with a par value of $1 each		
Issued and fully paid— 3,000,000 shares	3,000,000	3,000,000
Discount (net)	332,879	332,879
	2,667,121	2,667,121
DEFICIT	793,971	672,858
	1,873,150	1,994,263
	3,159,129	3,195,214

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HEDMAN MINES LIMITED

STATEMENT OF DEFICIT

FOR THE SIX MONTHS ENDED JANUARY 31, 1974

(unaudited)

	1974	1973
	$	$
DEFICIT—BEGINNING OF PERIOD	733,166	606,105
Loss for the period	60,805	66,753
DEFICIT—END OF PERIOD	793,971	672,858

STATEMENT OF EARNINGS

FOR THE SIX MONTHS ENDED JANUARY 31, 1974

(unaudited)

	1974	1973
	$	$
PRODUCTION FROM MILL	267,804	220,079
COSTS RELATED TO MILL		
Mining	27,807	25,914
Milling	147,378	117,797
General and Administration	8,025	3,091
	183,210	146,802
SELLING, GENERAL AND ADMINISTRATION EXPENSES	31,468	56,773
	214,678	203,575
GROSS OPERATING INCOME	53,126	16,504
OTHER EXPENSES		
Net interest expense	59,829	34,347
Municipal taxes	6,107	2,546
Depreciation and amortization expense	47,995	46,364
	113,931	83,347
LOSS FOR THE PERIOD	60,805	66,753

STATEMENT OF SOURCE AND USE OF FUNDS

FOR THE SIX MONTHS ENDED JANUARY 31, 1974

(unaudited)

	1974	1973
	$	$
SOURCE OF FUNDS		
Increase in long-term liability	50,660	35,342
Reduction in Deposits for Power	215	
	50,875	35,342
USE OF FUNDS		
Loss for the Period	60,805	66,753
Deduct: Charges not requiring a cash outlay	47,995	46,364
	12,810	20,389
INCREASE IN WORKING CAPITAL	38,065	14,953
WORKING CAPITAL - BEGINNING OF PERIOD	70,816	25,921
WORKING CAPITAL - END OF PERIOD	108,881	40,874

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HEDMAN MINES LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JANUARY 31, 1974

1. INVENTORIES

	1974 $	1973 $
Inventories consist of:		
Stores - at cost	34,960	28,861
Stockpile of broken ore - at cost	29,115	23,823
Fibre inventory - at approximate realizable value	27,047	27,047
	91,122	79,731

2 BUILDINGS AND EQUIPMENT

	Cost $	Accumulated depreciation $	Net book value $
Buildings	653,929	19,618	634,311
Equipment	1,491,021	89,461	1,401,560
	2,144,950	109,079	2,035,871

Buildings and equipment are depreciated on a straight-line basis over periods of 50 years and 25 years respectively. commencing August 1, 1972.

3. VALUES

The amount shown for mining claims represents cost to date and is not intended to reflect present or future value.

4. DEFERRED EXPENDITURES

The amount shown for deferred expenditures represents costs to date less accumulated amortization. Deferred expenditures are being amortized on a tons of fibre produced basis, commencing in 1972. Accumulated amortization at January 31, 1974 amounts to $33,400.

5. DUE TO ASSOCIATED COMPANIES

Under the terms of an agreement dated March 31, 1967, Gulf & Western Industries Inc. agreed to lend the company up to U.S. $500,000 or arrange such loan to complete the development programme and to provide adequate working capital. As at January 31, 1974 the company had received Canadian $799,974. The Loan is due September 1, 1974 and bears interest at 6% to August 31, 1969. Commencing September 1, 1969 interest was accrued monthly at 1% over the prime commercial lending rate in New York computed monthly until February 28, 1970. Since that date interest has been accrued monthly on a compound basis.

Additional loans in the amounts of $35,000 and $3,656 bearing interest at 7% were secured from Gulf & Western (Canada) Limited and Hook-Flex Canadian Ltd. respectively. Effective August 1, 1973, interest rates will be at 1% over the prime rate as established by the Royal Bank of Canada.

6. CAPITAL STOCK

Since the incorporation on August 10, 1956, the company has issued the following shares:

	Number of shares	Par value $	Premium or (discount) $	Net $
For cash	2,200,000	2,200,000	325,871	2,525,871
For mill circuit design and research	50,000	50,000	50,000	100,000
For claims	750,000	750,000	(708,750)	41,250
	3,000,000	3,000,000	(332,879)	2,667,121

7. PRODUCTION PLANT

The company operated a temporary pilot mill up to January 1969 in the course of developing markets and preparing a production plant. Although the production plant has been completed the development of markets for the product has not been finalized and therefore the plant is not yet producing up to its planned capacity.

No depreciation and amortization had been made prior to August 1, 1972 (notes 2 and 4).

8. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration paid to directors and senior officers (as defined by The Ontario Business Corporations Act, which includes the five highest paid employees) was $34,199 for the period ended January 31, 1974.

9 MUNICIPAL TAX

The municipality of Black River-Matheson appealed a unanimous decision of the Ontario Court of Appeals to the Supreme Court of Canada involving 1971 and 1972 taxes on Hedman buildings. The potential liability estimated at $26,900 has not been recorded in these financial statements.

10. Certain 1973 figures have been reclassified for comparative purposes.

11. The foregoing statements are subject to year end audit and adjustment.

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