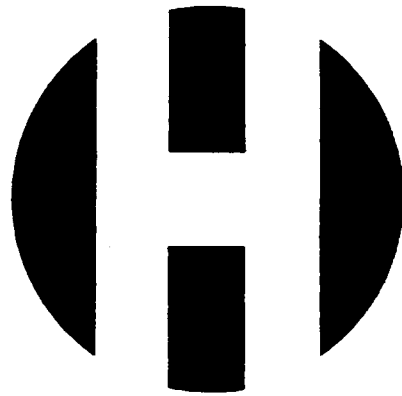


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HIGHMONT

MINING CORPORATION



ANNUAL REPORT 1978

HIGHMONT MINING CORPORATION
(formerly HIGHMONT MINING CORP. LTD. (N.P.L.))
(Incorporated under the laws of the Province of British Columbia)

Authorized Capital:

10,000,000 shares without par value

DIRECTORS

SIR MICHAEL BUTLER, Bt., Q.C. Brentwood Bay, B.C.
R.W. FALKINS West Vancouver, B.C.
J.L. GIBSON Langley, B.C.
R.E. HALLBAUER West Vancouver, B.C.
D.L. HIEBERT Vancouver, B.C.
Dr. N.B. KEEVIL, Jr. Vancouver, B.C.
F. GARFIELD SIMPSON Toronto, Ontario
H.H. WALLER Richmond, B.C.

OFFICERS

J.L. GIBSON Chairman of the Board
R.W. FALKINS President
R.E. HALLBAUER Vice-President
J.E. MUNROE Secretary
G.R. SHIPLEY Treasurer
M. HEAP Controller

AUDITORS

COOPERS & LYBRAND

BARRISTERS AND SOLICITORS

SWINTON & COMPANY

TRANSFER AGENT

NATIONAL TRUST COMPANY, LIMITED Vancouver, B.C.
and Toronto, Ontario

REGISTERED AND RECORDS OFFICE

SWINTON & COMPANY
1090 West Georgia Street
Vancouver, B.C.

ADMINISTRATIVE OFFICE

1199 West Hastings Street
Vancouver, B.C. V6E 2K5

ANNUAL GENERAL MEETING

The Annual General Meeting of the Shareholders will be held on Friday, March 30, 1979 in the Victoria Room at the Holiday Inn, 1133 West Hastings Street, Vancouver, B.C., at 11:30 o'clock in the morning (Pacific Standard Time).

HIGHMONT MINING CORPORATION

Report to the Shareholders:

On behalf of the Board of Directors, I present to you the annual report for the year ended September 30, 1978.

We are pleased that we have been able to arrange an agreement with Teck Corporation to sponsor development of our copper-molybdenum property in the Highland Valley area of British Columbia. Under the terms of the agreement, Teck is to prepare a feasibility study and arrange marketing and financing. Upon completion of the arrangements, Teck will earn a 30% interest in the property with Highmont retaining the remaining 70%.

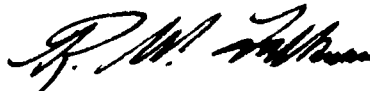
Financing and marketing discussions are in progress and we are advised that the outlook is promising. The market for molybdenum is strong and the copper market has improved considerably in the past few months.

It is hoped that arrangements can be finalized in time to start construction this Spring, with production to commence eighteen months later. The mill rate will be 25,000 tons per day producing 45 million pounds of copper and 5 million pounds of molybdenum per year on average with somewhat higher production in the first five years.

Although conditions in the Canadian mining industry have not been good in recent years, with low prices, escalating costs and a tax regime which has been tampered with with alarming frequency, we believe that the worst of this era is over, and look forward with confidence to the future.

It is important to both the Province of British Columbia and Canada that new mines like Highmont be proceeded with regularly. This particular project will, if proceeded with as planned, create 400 new jobs directly, and support many more through the multiplier effect on supplies and service companies. It should also contribute some \$1 billion to Canada's export earnings over the proven reserve life of the mine, and be an important factor in Canada's balance of trade.

On behalf of the Board,



R.W. Falkins,
President.

Vancouver, B.C.
February 13, 1979.

COOPERS & LYBRAND

CHARTERED ACCOUNTANTS

OFFICES THROUGHOUT CANADA
AND IN PRINCIPAL AREAS
OF THE WORLD

MAILING ADDRESS

P.O. BOX 11128, ROYAL CENTRE
1055 WEST GEORGIA STREET
VANCOUVER, BRITISH COLUMBIA, CANADA V6E 3R2

TELEPHONE (604) 682-7821
28TH FLOOR, THE ROYAL BANK OFFICE TOWER
1055 WEST GEORGIA STREET
VANCOUVER, BRITISH COLUMBIA, CANADA
V6E 3R2

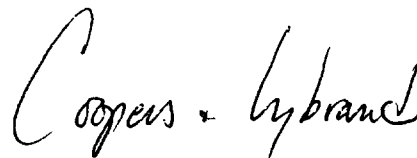
CABLE ADDRESS COLYBRAND, VANCOUVER, B. C.
TELEX: 04-507630

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Highmont Mining Corporation as at September 30, 1978 and the consolidated statements of deferred exploration and administrative costs 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 consolidated financial statements present fairly the financial position of the company as at September 30, 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.

Vancouver, B.C.
November 10, 1978



CHARTERED ACCOUNTANTS

HIGHMONT MINING CORPORATION

CONSOLIDATED BALANCE SHEET AS AT SEPTEMBER 30, 1978

| | A S S E T S | |
|---|------------------|------------------|
| | 1978 | 1977 |
| | \$ | \$ |
| CURRENT ASSETS | | |
| Cash | 1,109 | 4,469 |
| Accounts receivable | 6,329 | 6,902 |
| Due from Teck Corporation | <u>22,428</u> | <u>7,795</u> |
| | 29,866 | 19,166 |
| INVESTMENTS (note 2) | 59,050 | 59,050 |
| MINERAL PROPERTIES (note 3) | 683,447 | 683,447 |
| DEFERRED EXPLORATION, DEVELOPMENT AND ADMINISTRATIVE COSTS (note 4) | 6,645,631 | 6,548,831 |
| EQUIPMENT AND CAMP BUILDING - at cost less accumulated depreciation of \$165,577 (1977 - \$165,577) | <u>1</u> | <u>1</u> |
| | <u>7,417,995</u> | <u>7,310,495</u> |

| | L I A B I L I T I E S | |
|--|-----------------------|-------------------|
| CURRENT LIABILITY | | |
| Accounts payable and accrued liabilities | 12,177 | 48,095 |
| ADVANCE FROM TECK CORPORATION (note 4) | <u>143,418</u> | <u> </u> |
| | <u>155,595</u> | <u>48,095</u> |

| | S H A R E H O L D E R S ' E Q U I T Y | |
|---------------------------|--|------------------|
| CAPITAL STOCK (note 5) | 3,569,843 | 3,569,843 |
| CONTRIBUTED SURPLUS | 3,707,169 | 3,707,169 |
| DEFICIT | <u>(14,612)</u> | <u>(14,612)</u> |
| | <u>7,262,400</u> | <u>7,262,400</u> |
| APPROVED BY THE DIRECTORS | <u>7,417,995</u> | <u>7,310,495</u> |

"J.L. GIBSON"

J.L. GIBSON Director

"H.H. WALLER"

H.H. WALLER Director

HIGHMONT MINING CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED SEPTEMBER 30, 1978

| | 1978 | 1977 |
|---|-------------------|-------------------|
| | \$ | \$ |
| SOURCE OF WORKING CAPITAL | | |
| Capital stock issued | | 3,240,088 |
| Mortgage repaid | | 2,939 |
| Advance from Teck Corporation | <u>143,418</u> | <u> </u> |
| | <u>143,418</u> | <u>3,243,027</u> |
| USE OF WORKING CAPITAL | | |
| Acquisition of shares of Torwest Resources (1962) Ltd. (N.P.L.) and Teck Corporation British Columbia) Limited including working capital deficiency acquired | | 1,518,500 |
| Exploration, development and administrative costs - for shares | | 1,273,222 |
| - for cash | 96,800 | 82,565 |
| Mineral Properties - for shares | <u> </u> | <u>147,390</u> |
| | <u>96,800</u> | <u>3,021,677</u> |
| INCREASE IN WORKING CAPITAL | 46,618 | 221,350 |
| WORKING CAPITAL DEFICIENCY - BEGINNING OF YEAR | <u>28,929</u> | <u>250,279</u> |
| WORKING CAPITAL (DEFICIENCY) - END OF YEAR | <u>17,689</u> | <u>(28,929)</u> |

REPRESENTED BY:

| | | |
|---------------------|---------------|-----------------|
| Current assets | 29,866 | 19,166 |
| Current liabilities | <u>12,177</u> | <u>48,095</u> |
| | <u>17,689</u> | <u>(28,929)</u> |

HIGHMONT MINING CORPORATION

CONSOLIDATED STATEMENT OF DEFERRED EXPLORATION AND ADMINISTRATIVE COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 1978

| CLAIM GROUP | Balance | Costs during year | | Balance |
|-------------|-----------------------|-------------------|----------------|-----------------------|
| | September 30, 1977 | Exploration | Administrative | September 30, 1978 |
| | \$ | \$ | \$ | \$ |
| Highmont | 6,326,104 | 67 | 90,430 | 6,416,601 |
| Stellako | 3,172 | | | 3,172 |
| Taylor | 194,329 | | | 194,329 |
| Toreador | | 4,169 | 2,134 | 6,303 |
| Kendrick | <u>25,226</u> | <u>—</u> | <u>—</u> | <u>25,226</u> |
| | <u>6,548,831</u> | <u>4,236</u> | <u>92,564</u> | <u>6,645,631</u> |

STATEMENT OF ADMINISTRATIVE COSTS

| | 1978 | 1977 |
|--|---------------|----------------|
| | \$ | \$ |
| Administration | 7,200 | 6,000 |
| Advertising and promotion | | 2,362 |
| Audit fees | 4,400 | 2,550 |
| Corporation capital tax | 13,244 | 8,006 |
| Dues and subscription | 1,277 | 3,128 |
| Interest and bank charges | 7,418 | 30,109 |
| Legal and other professional services | 1,202 | 19,475 |
| Listing and filing fees | 1,860 | 1,894 |
| Salaries and benefits | 29,264 | 42,639 |
| Shareholders' information | 2,792 | 6,882 |
| Sundry | 13,285 | 8,763 |
| Transfer agent | 6,739 | 21,028 |
| Travelling | <u>3,883</u> | <u>9,054</u> |
| | 92,564 | <u>161,890</u> |
| Less: Recovery of administrative costs | | 66,500 |
| Other income | | <u>15,916</u> |
| | | <u>82,416</u> |
| | <u>92,564</u> | <u>79,474</u> |

HIGHMONT MINING CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 1978

1. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

These financial statements include the accounts of the company and its wholly-owned subsidiary Torwest Resources Limited.

Deferred costs

Exploration, development, preproduction and administration costs incurred are deferred until the property to which they relate is placed in production or abandoned. Deferred costs will be amortized over the useful life of the orebody following commencement of production or written off if the property is abandoned.

Values

The amounts shown for investments, mineral properties and related deferred costs represent costs to date and do not necessarily reflect present or future values.

2. INVESTMENTS

| | 1978 \$ | 1977 \$ |
|--|---------------|---------------|
| 220,000 shares of New Minex Resources Ltd. - at cost (market- \$88,000 1976 - \$154,000) | 58,000 | 58,000 |
| Other investments at nominal value | <u>1,050</u> | <u>1,050</u> |
| | <u>59,050</u> | <u>59,050</u> |

Subsequent to the end of the year the company sold its investment in the shares of New Minex Resources Ltd. for \$167,000.

HIGHMONT MINING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 1978

3. MINERAL PROPERTIES

Mineral properties owned or under option are all situated in British Columbia and are:

| | 1978 | 1977 |
|---|----------------|----------------|
| | \$ | \$ |
| HIGHMONT GROUP | | |
| Highmont claims - at cost, being the amount ascribed to 1,122,825 shares issued and \$97,997 cash | 580,048 | 580,048 |
| New Minex claims - at cost | 28,600 | 28,600 |
| Stellako claims - at cost, being the amount ascribed to 20,000 shares issued and \$30,600 cash | 70,600 | 70,600 |
| OTHER - at cost or nominal value | | |
| Taylor | 1 | 1 |
| Kendrick | 4,038 | 4,038 |
| Toreador | 110 | 110 |
| C.M. Group | 50 | 50 |
| | <u>683,447</u> | <u>683,447</u> |

4. EXPLORATION, DEVELOPMENT AND FINANCING AGREEMENTS

The company entered into a funding agreement with Teck Corporation on February 28, 1977, as amended under which Teck will incur exploration and development expenditures on the Highland Valley property as necessary to maintain the property in good standing and will advance funds to the company for working capital purposes. Advances made for working capital purposes shall bear interest at a rate equal to the rate being paid by Teck on its borrowings from its principal banker. Teck has the right to convert these advances and unpaid interest into common shares of the company (note 5). During the year Teck incurred \$176,502 (1977 - \$82,510) on exploration and development expenditures and advanced \$143,418 (1977 - Nil) for working capital. This agreement, as amended expires on September 30, 1979 but Teck may, at its discretion, at the request of the company, extend this date.

HIGHMONT MINING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 1978

5. CAPITAL STOCK

Authorized -
10,000,000 common shares without par value

Issued and fully paid -
5,699,311 shares \$3,569,843

Pursuant to the Funding Agreement (note 4) exploration and development expenditures are convertible into shares at the end of each fiscal year. At September 30, 1978 exploration and development expenditures amounting to \$259,012 are to be converted under this agreement into 188,340 shares.

Advances made by Teck Coporation are also convertible under the Funding Agreement. At September 30, 1978 advances and accrued interest made of \$143,418 are convertible to 119,515 shares. Subsequent to the year end Teck exercised its option to convert these advances into shares.

On September 22, 1977, the company agreed to grant to a director, in exchange of a previous right to purchase preferred shares of Highmont Mining Corporation Ltd. (N.P.L.), the predecessor company, an option to purchase up to 250,000 shares of the company at the following prices:

Up to September 22, 1978 - \$1.00
Up to September 22, 1979 - \$1.20
Up to September 22, 1980 - \$1.40
Up to September 22, 1981 - \$1.60
Up to September 22, 1982 - \$1.80

This option has been approved by the Vancouver and Toronto stock exchanges but is subject to the approval by the shareholders.

6. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

During the year ended September 30, 1978, the directors and senior officers (which include the five highest paid employees of the company) were paid \$51,600 (1977 - \$41,250).

HIGHMONT MINING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 1978

7. INCOME TAXES

- (a) The undepreciated capital cost of the fixed assets for income tax purposes is approximately \$315,000 in excess of its net book value and this excess is available for application against taxable income of future years.
- (b) Approximately \$3,700,000 of the deferred costs were incurred by Teck Corporation and will not be available to the company as a future deduction for income tax purposes.

8. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the president and chief financial officer of the company on November 10, 1978.

