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HIGHMONT MINING *Corp. Ltd.* (N.P.L.)

2nd ANNUAL REPORT

PERIOD: MAY 1, 1967 TO DECEMBER 31, 1967

OFFICERS and DIRECTORS

Officers

J. L. GIBSON - Chairman of the Board

R. W. FALKINS - President

A. R. HANNA - Secretary-Treasurer
and Chief Executive Officer

Directors

W. P. CLARKE

R. W. FALKINS

J. L. GIBSON

A. R. HANNA

S. J. O. McCLAY

M. NAKAMURA

S. NOMA

Statutory Information

Capitalization

Authorized 5,000,000 Shares

Issued and Fully Paid

2,057,005

Transfer Agent

National Trust Company, Limited
510 Burrard Street,
Vancouver 1, B.C.

Barristers and Solicitors

Andrews, Swinton, Margach, Austin & Williams
900 West Hastings Street,
Vancouver 1, B.C.

Registered Office

Andrews, Swinton, Margach, Austin & Williams
900 West Hastings Street,
Vancouver 1, B.C.

Administrative Office

702 - 850 West Hastings Street,
Vancouver 1, B.C.

Auditors

McDonald, Currie & Co.
900 West Hastings Street,
Vancouver 1, B.C.

Report of the Directors

On behalf of the officers and directors of Highmont Mining Corp. Ltd. (N.P.L.), it is my privilege to present to you the Second Annual Report. In addition to the auditors' report on the affairs of the company, are reports by Mr. W. G. Hainsworth, P. Eng., the company's senior geologist; Mr. H. H. Waller P.Eng., the company's resident mine manager and Mr. N. Mistry, M.S., resident geologist.

The year 1967 was an eventful one in the affairs of the company. At this time last year, the company was in receipt of a preliminary feasibility study by Chapman, Wood & Griswold Ltd., Consulting Mining Engineers & Geologists, recommending the driving of 2900 feet of adit and 625 feet in raises to provide bulk samples as a conclusive check on percussion drill results. To date, a total of 1385 feet of lateral work and 299 feet of raises have been completed, a crushing and bulk sampling plant was built to permit accurate sampling of each round mined from the underground workings, sample storage and stock piling facilities were installed. Underground conditions proved very difficult for mining, with heavy alteration and fracturing making progress very slow. Although a hindrance in underground sampling, those same conditions are ideal for open pit operations.

Metallurgical studies are being conducted in Japan and Vancouver to determine the best flow sheet for treatment of the concentrates.

Funds provided to date by Nippon Mining Co. under an agreement dated Oct. 14, 1966 total $740,000.00 and $600,000.00 of this advance was converted into 600,000 shares. In February of 1968, Nippon advanced $140,000.00, a part of the June 30, 1968 option, that may be converted to 93,333 shares at $1.50 per share.

Mr. M. Nakamura of Nippon Mining Co. was appointed to the board of directors, giving Nippon two directors.

The Highmont property is a potential large tonnage, low-grade, open pit copper molybdenum property. To date, just over $1 million has been spent on drilling and underground bulk sampling. Approximately half of the recommended program has been completed. The recommendation at this time, is that the remainder of the recommended underground program be completed and, in addition, further surface and underground diamond drilling to extend ore reserves to the 750' to 1000' horizon. The large scale exploration and development program necessary to prove whether a mining operation on a scale envisaged by Highmont Mining Corp. Ltd. consultants to be viable or not is a long and arduous task. However, the rewards, if finally proven successful, are well worth the effort.

The mineral industry has enjoyed dramatic growth since World War II. At the end of the war, value of mineral production totalled just over 4% of the Gross National Product. By 1967 this had risen to over 7%. The mineral and mineral-based industries now account for about 12% of the total annual capital investment made in the Canadian economy. More than 10% of the country's total employment can be attributed to the industry either directly or indirectly. Mineral exports account for over 30% of all commodity exports, making it Canada's largest earner of foreign exchange.

The above results are directly attributable to the enlightened approach that the Federal and Provincial governments have shown in the past to incentive taxation. These tax advantages were essential to the continued expansion of a dynamic industry with unique problems in attracting high risk capital.

The recent action of the Province of B.C. in cancelling the 3 year tax free period and also increasing its 10% tax on profits to 15% effective from day one of production is a very serious threat to the mining industry. At stake is the economic welfare of B.C. and Canada, the continuing development of new areas of wealth, employment, volume of exports and foreign exchange. Tampering with the past basic and proven methods of taxation will only result in a reduction of mining and exploration activities, hinder and retard B.C.'s and Canada's economic growth.

I wish to express my appreciation to the officers and staff of Nippon Mining Co. of both the Tokyo and Vancouver branches for their technical, geological and financial assistance on the project. I wish to further express my appreciation for the diligence and cooperation of, my fellow officers and directors, the geological and engineering staff, the field staff and our efficient office staff.

Respectfully submitted,

R. W. FALKINS,
President.

HIGHMONT MINING CORP. LTD. (N.P.L.)
BALANCE SHEET as at December 31, 1967

ASSETS

	December 31, 1967 $	April 30, 1967 $
Current Assets		
Cash	36,227	29,018
Short-term deposit		50,000
Accounts receivable	4,866	
Prepaid expenses	2,600	
	43,693	79,018
Investment (notes 1 and 2)	10,000	10,000
Mineral Properties — at value ascribed to 1,000,000 shares of capital stock issued as consideration for properties (note 1)	334,661	334,661
Fixed Assets		
Buildings and equipment - at cost less accumulated depreciation (note 3)	70,490	48,646
Deferred Costs		
Exploration, development and administration (note 1)	860,465	525,103
Incorporation	1,044	1,044
	861,509	526,147
	1,320,353	998,472

LIABILITIES

	December 31, 1967 $	April 30, 1967 $
Current Liabilities		
Accounts payable and accrued liabilities	11,990	10,370
Torwest Resources (1962) Ltd. (N.P.L.)	9,017	3,756
	21,007	14,126
Advances from Nippon Mining Co. Ltd. (note 5)	300,000	
	321,007	14,126

SHAREHOLDERS' EQUITY

	December 31, 1967 $	April 30, 1967 $
Capital Stock (note 4)		
Authorized— 5,000,000 shares with a nominal or par value of 50c each		
Issued and fully paid— 2,057,005 shares (2,037,005 shares at April 30, 1967)	999,346	984,346
	1,320,353	998,472

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Highmont Mining Corp. Ltd. (N.P.L.) as at December 31, 1967 and the statements of deferred exploration, development and administration costs and source and use of working capital for the period from May 1, 1967 to December 31, 1967. Our examinaton included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1967 and the results of its operations and the source and use of its working capital for the period then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Vancouver, B.C.
May 1, 1968

McDONALD, CURRIE & CO.
Chartered Accountants

Signed on behalf of the Board

R. W. FALKINS, Director

A. R. HANNA, Director

HIGHMONT MINING CORP. LTD. (N.P.L.)

STATEMENT OF SOURCE AND USE OF WORKING CAPITAL
FOR THE PERIOD MAY 1, 1967 TO DECEMBER 31, 1967

	May 1, 1967 to December 31, 1967	March 25, 1966 (date of incorporation) to April 30, 1967
	$	$
SOURCE		
Capital stock issued for cash (note 4)	15,000	299,685
Capital stock issued on conversion of advances from Nippon Mining Co. Ltd. (note 5)		350,000
Advances from Nippon Mining Co. Ltd. (note 5)	300,000	
	315,000	649,685
USE		
Exploration, development and administration	335,362	525,103
Less: Depreciation, a deferred cost not requiring the use of working capital	9,349	5,766
	326,013	519,337
Investment in Minex Development Limited (N.P.L.)		10,000
Fixed asset additions	31,193	54,412
Incorporation costs		1,044
	357,206	584,793
DECREASE (INCREASE) IN WORKING CAPITAL	42,206	(64,892)
WORKING CAPITAL - BEGINNING OF PERIOD	64,892	
WORKING CAPITAL - END OF PERIOD	22,686	64,892
REPRESENTED BY:		
Current assets	43,693	79,018
Current liabilities	21,007	14,126
WORKING CAPITAL - END OF PERIOD	22,686	64,892

HIGHMONT MINING CORP. LTD. (N.P.L.)

STATEMENT OF DEFERRED EXPLORATION, DEVELOPMENT AND ADMINISTRATION COSTS
FOR THE PERIOD MAY 1, 1967 TO DECEMBER 31, 1967

(Highmont Claim Group, Highland Valley Area, B.C.)

		$
BALANCE - BEGINNING OF PERIOD		525,103
EXPENDITURES DURING THE PERIOD		
Exploration and development		
Assays	2,998	
Consulting geologist	10,904	
Depreciation	9,349	
Drifting	70,703	
Drilling	2,982	
Equipment and vehicle operation	18,645	
Equipment and vehicle rental	15,853	
Feasibility and sample plant	44,210	
Field supervision	13,420	
Geological and geophysical	269	
General field and camp	17,265	
Management fee (note 6)	27,940	
Portal	3,216	
Road building and maintenance	1,400	
Salaries and wages	50,462	
Slashing	4,576	
Survey and line cutting	6,597	
Telephone and telegraph	2,884	
Travelling and automobile	2,437	306,110
Administration		
Advertising and promotion	5,009	
Audit	2,250	
General office	4,317	
Management fee (note 6)	8,000	
Salary	4,250	
Shareholders' information	1,370	
Travelling and automobile	4,001	
Trust company fees	665	
	29,862	
Less: Interest earned on short-term deposits	610	29,252
TOTAL EXPENDITURES DURING THE PERIOD		335,362
BALANCE - END OF PERIOD		860,465

HIGHMONT MINING CORP. LTD. (N.P.L.)

NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD MAY 1, 1967

TO DECEMBER 31, 1967

1. VALUES

The amounts shown for investment, mineral properties and deferred exploration, development and administration costs represent costs to date and are not intended to reflect present or future values.

2. INVESTMENT

The company owns 100,000 shares of Minex Development Limited (N.P.L.) at a cost of $10,000. As at December 31, 1967 85,000 of these shares were held in escrow subject to the order of the Superintendent of Brokers. Minex shares had a quoted value of 22c per free share on that date. No market value is available for escrowed shares.

3. FIXED ASSETS

At December 31, 1967 fixed assets and related accumulated depreciation were as follows:

	December 31, 1967			April 30, 1967
	Cost $	Accumulated depreciation $	Net $	Net $
Automotive equipment	3,762	470	3,292	
Field equipment	49,757	10,431	39,326	29,482
Mining equipment	5,062	633	4,429	
Camp buildings	22,685	3,046	19,639	16,588
Camp equipment	4,338	534	3,804	2,576
	85,604	15,114	70,490	48,646

4. CAPITAL STOCK

At December 31, 1967 the total shares issued and the consideration therefor were as follows:

	Shares	Par value $	Premium (discount) $	Commission $	Net $
For cash	1,057,005	528,503	155,000	18,818	664,685
For mineral properties	1,000,000	500,000	(165,339)		334,661
TOTALS	2,057,005	1,028,503	(10,339)	18,818	999,346

During the period May 1, 1967 to December 31, 1967 the company issued a total of 20,000 shares for cash consideration totalling $15,000.

By two separate agreements dated September 23, 1966, stock options, expiring in 1971, were granted to two directors to purchase up to a combined total of 100,000 shares at 75c per share. These options may be exercised to the extent of 10,000 shares to each director in any one year. A total of 20,000 shares have been purchased under these options to December 31, 1967.

The company has given Nippon Mining Co. Ltd. the right to convert advances, in whole or in part, into shares of the company. Certain advances were converted to shares in 1968 (see note 5 for details).

5. NIPPON MINING CO. LTD. AGREEMENT

By an agreement dated October 14, 1966 between the company, Nippon Mining Co. Ltd. and Torwest Resources (1962) Ltd., Nippon agreed to provide advances to the company for the purpose of carrying out an exploration and development programme. To continue the agreement Nippon must make the remaining advances on or before the following dates:

$	
450,000 (see below)	June 30, 1968
525,000	June 30, 1969
923,000	August 31, 1969
1,038,375	March 31, 1970

Nippon has the right to convert advances, in whole or in part, into shares of the company, exercisable within thirty days of the termination of the agreement, on the following basis:

$	Conversion price $	Shares
250,000	1.25	200,000
450,000	1.50	300,000
525,000	1.75	300,000
923,000	2.00	461,500
1,038,375	2.25	461,500

To December 31, 1967, Nippon has advanced a total of $650,000 under the agreement of which $350,000 has been converted to 400,000 shares leaving advances outstanding of $300,000. On January 30, 1968 a further $250,000 of these advances were converted into 200,000 shares at $1.25 per share.

By an agreement dated December 11, 1967, Nippon Mining Co. Ltd. and Torwest Resources (1962) Ltd. (N.P.L.) agreed to pay a portion of the $450,000 advance on or before January 31, 1968 to the extent of $140,000 by Nippon and $75,000 by Torwest. Each advance is convertible into common shares of the company at $1.50 per share. Nippon advanced $50,000 in 1967 (included in the $300,000 above) and $90,000 in 1968. Torwest advanced $75,000 in 1968 and converted this into 50,000 shares on February 14, 1968.

The terms of the agreement also provide that if Nippon, in its sole discretion, decides that the property shall be brought into commercial production, Nippon shall be obliged to provide the necessary major financing and the property must be brought into commercial production not later than March 1, 1974. The company has agreed to sell exclusively to Nippon all production from the property for a period of 15 years from the date of commencement of production.

6. MANAGEMENT FEES

The company has entered into a management contract with Torwest Resources (1962) Ltd. (N.P.L.) at a cost of $1,000 a month plus ten percent of all field exploration costs. The management services provided include accounting and stenographic services, office accommodation, administration and supervision.

7. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Senior officers, as defined by the British Columbia Securities Act, 1967, include the five highest paid employees of a company. The aggregate direct remuneration paid during the eight month period ended December 31, 1967 is as follows:

	$
To two directors, in their capacity as officers of the company	8,500
To three employees, who are senior officers by definition above	18,313
Total	26,813

W. G. HAINSWORTH
CONSULTING GEOLOGIST

The President and Directors,
Highmont Mining Corp. Ltd.,
702 - 850 W. Hastings St.,
Vancouver 1, B.C.

Gentlemen:

Enclosed herewith are interim reports on your property by the Resident Manager, Mr. H. H. Waller, and the Resident Geologist, Mr. N. Mistry.

The physical operations at the property are adequately reported in Mr. Waller's document. The geological aspects are sufficiently recorded in Mr. Mistry's report.

It must be emphasized that the underground operation recently completed at Highmont is roughly half of that recommended by the Consultants, Chapman, Wood and Griswold, in their July 6, 1967 report. All figures and data available at this time must be considered in the light of this fact.

Consistent mineralization was encountered in the adit at 575' from the portal. Up to this point, mineralization was weak and sporadic with occasional strong sections. From 575' to the end of the drive, 1161 feet, the average grade was 0.20% copper and 0.024% molybdenum disulphide. This section can be upgraded to 0.275% copper and 0.038% MoS_2 with a stripping ratio of .724 waste to 1 ore. This is in the vicinity of the copper grade as predicted by our Consultants but well below the expected molybdenum values. The west drift averaged 0.19% copper and 0.011% MoS_2 over its 287' length. Geological evidence here indicates the drift as being located in a weak section of the area, mineral-wise. It might be unfair at this stage to draw any inference from the assay results in this drift.

Two raises were excavated, with both being taken up along percussion holes. The first raise, labelled the P-19 Raise, was taken to within 10 feet of surface. It followed the vertical percussion hole P-19 all the way. The grade averaged out at 0.26% copper and 0.016% MoS_2.

The second raise, called the P-20 Raise, was put up near the end of the west drift. Abandonment of this raise was brought on by bad rock conditions prior to completion. Over its incomplete length, the raise graded 0.22% copper and 0.018% MoS_2.

Two flat underground diamond drill holes were put out from the workings. The first hole, HU-1, was drilled from the end of the main drive and on the same bearing. The 630' hole encountered fair copper mineral in its first 520 feet. The grade averaged 0.293% copper and 0.010% MoS_2.

The second hole was drilled to investigate a reportedly good molybdenum intersection in one of the vertical percussion holes. The 270' hole averaged 0.21% copper and 0.036% MoS_2.

In all the underground workings and bore holes to date, the expected copper grade is present. The molybdenum grade is weak. The completion of the recommended work could see an increase in the present molybdenum grade.

I concur with Mr. Mistry's recommendations but add that the remainder of the underground work as recommended by Chapman, Wood & Griswold should be carried out. In addition, the writer would recommend a surface diamond drilling program which would seek results through to the 500 foot depth and possibly be extended to the 1000 foot horizon.

Respectfully submitted,

W. G. HAINSWORTH, P. Eng.
Consulting Geologist

Vancouver, B.C.
May 3, 1968.

MINE MANAGER'S REPORT — HIGHMONT PROPERTY

The President and Directors,
Highmont Mining Corp. Ltd.
702 - 850 West Hastings St.,
Vancouver 1, B.C.

Dear Sirs:-

Following the completion of the drilling program of the previous year, operations at the mine were temporarily suspended awaiting the recommendation of a feasibility report that was being prepared by Chapman, Wood & Griswold.

The report was received in July, and a decision to proceed with the first half of the recommendation was made in August. At this time preparation was made to install a bulk sampling plant, capable of handling the daily development rock from the mine in 8 hours.

The plant consisted of covered rock bins with a capacity to store 3 days development rock from the mine, a crushing plant was purchased by the company and a sampling plant leased from Brenda Mines. The mining equipment was supplied by the contractor.

Bulk sampling operations started in September and continued until April 1968. In that period 1,385.5 feet of lateral work, 299.76 feet of raising, 5,148.25 Cu. feet of slashing and 900 feet of diamond drilling was completed. Tonnage from this program that was bulk sampled amounted to approximately 7,260 tons.

Assaying was done by four different laboratories, and in some cases a fifth one was used as an umpire. Portions of each of the samples remain at the property and are available for further reference.

A total crew of approximately 30 men were employed, and were accommodated in the Highmont Camp. It was necessary to build extra bunk house accommodation to take care of the crew and staff. Roads were improved, and slash timber on road sides was cut during the year.

The bulk sampling and diamond drilling program was completed in April and the camp was temporarily closed. Small equipment and supplies have been moved to Merritt for inside storage. The heavy equipment such as crushing plant and D.6 dozer are left at the mine site.

Yours very truly,

H. H. WALLER, P. Eng.
Resident Mine Manager

April 30, 1968

GEOLOGICAL REPORT - HIGHMONT PROPERTY

INTRODUCTION:

Highmont property is located in the Highland Valley, B.C. The property consists of two ore zones, namely the East ore zone and the West ore zone.

The underground bulk sampling program completed to date in the East ore zone is less than 50% as originally recommended by the July, 1967 report of Chapman, Wood & Griswold Ltd., North Vancouver, B.C. Approximately 1,400 feet of adit and cross cut, and 300 feet of raise are driven as of to date.

Also, 900 feet of underground diamond drilling has been completed.

GEOLOGY:

Broadly speaking, Highmont property can be said to be underlain by Skeena quartz-diorite intrusive material with a wide band of Bethsaida granodiorite cutting in an east-west direction across the claim. The interface contact of the two intrusive structures has not been delineated as yet in the underground operations although they are well located on surface.

The Skeena quartz-diorite is light grey to greenish grey, medium-grained massive rocks composed of quartz, calcic and potassic feldspar, hornblende and biotite. The Bethsaida granodiorite carries less mafics and contains books of biotite and large euhedral crystals of quartz with porphyritic texture.

The Skeena quartz-diorite alters often throughout the underground exposures. Argillic alteration and chloritization are much more prominent than potassic alteration. Fair amounts of chlorite, sericite, and kaolinite are obvious. Fracturing and shearing is moderate to heavy in places.

Following are the main sets of fractures in order of prominence:

(1) Fractures striking N 40° - E 60° dip easterly;
(2) Fractures striking N 25° - W 60° dip south westerly;
(3) Fractures strike almost E - W and dip 20° - 40° northerly.

MINERALIZATION:

Mineralization is primarily chalcopyrite, bornite with trace to moderate molybdenite and sparse silver locally. The general mode of occurances of the copper minerals is as infillings of steep to gentle fractures, associate with quartz veins (½" - 4" wide), quartz stringers and pulverized in gouge. Disseminated type of copper minerals are not uncommon. Molybdenite habitates along fracture planes, as pinpoints distributed in the host rock and often associated with quartz veins and brecciated quartz stringers. A noticeable amount of epidote, tourmaline, hematite and, to lesser degree, pyrite are evident.

No significant oxidation zone is encountered even up to 10' - 15' below surface which possibly indicates that overburden layers are very shallow here at the East ore zone.

RECOMMENDATION:

Highmont should conduct and carry further the underground diamond drilling program to consist of 2,500' - 3,000' horizontal to slightly inclined holes so that adit and cross-cuts could be extended along these holes, should the assay results of the drill holes show encouraging metal values.

April 29th, 1968

N. MISTRY, B.Sc., M.S.
Resident Geologist

Mining: A Force For National Unity

Few industries are so highly integrated into the very fabric of the national economy as the mining and mineral companies of Canada.

The very nature of the industry requires high risk capital, long range planning, and the commitment of large sums into exploration, mine development and the establishment of mills, smelters and refineries.

The men who manage Canada's great mining companies are acutely aware that the development of new mines hinges on the will and determination of Canadians in every part of the nation to develop our mineral wealth in an orderly and productive fashion.

Such an industry, with so great a stake in the long term welfare of Canada, is a significant factor in providing a sense of national purpose and harmony to Canadians.

Whole new communities are born and populated by peoples of every ethnic, religious and cultural strain. Such people are bound by the bonds of a common working experience provided by the mining industry. And in working together with energy and purpose, they represent a practical guide to the great potential of a still youthful, vigorous nation.

In their exploration activities mining companies are not and cannot afford to be local or restricted in vision. These activities are carried on in every part of the country. Mining men, perhaps more than the men of any other industry or profession, think of Canada as a whole in all its majestic expanse from its southern border to the Arctic and from the Atlantic to Pacific.

Acknowledgment: The Canadian Metal Mining Association

15% B.C. TAX AS APPLIED TO HIGHMONT

December 1967, Kaiser Engineers were commissioned by Highmont to do a feasibility operating study for 20,000 T.P.D. by using the reserves and grade of the Chapman report based on percussion drilling and existing taxation applications.

B.C. Tax 10% 3 yr. Tax Free Period	B.C. Tax 15% Day 1 of Production
Total B.C. Tax 8 years: $3,698,000	Total B.C. Tax 8 years: $8,853,000
Federal Taxes: $11,095,000	Federal Taxes: $8,440,000
Pay-out Period: 2.56 years	Pay-out Period: 3.25 years
Average Yearly Yield: 21.1%	Average Yearly Yield: 15.8%

(a) If we assume the calculation for the 15% Provincial Tax is the greater of 8% of the undepreciated balance of the capital cost of the process plant

or

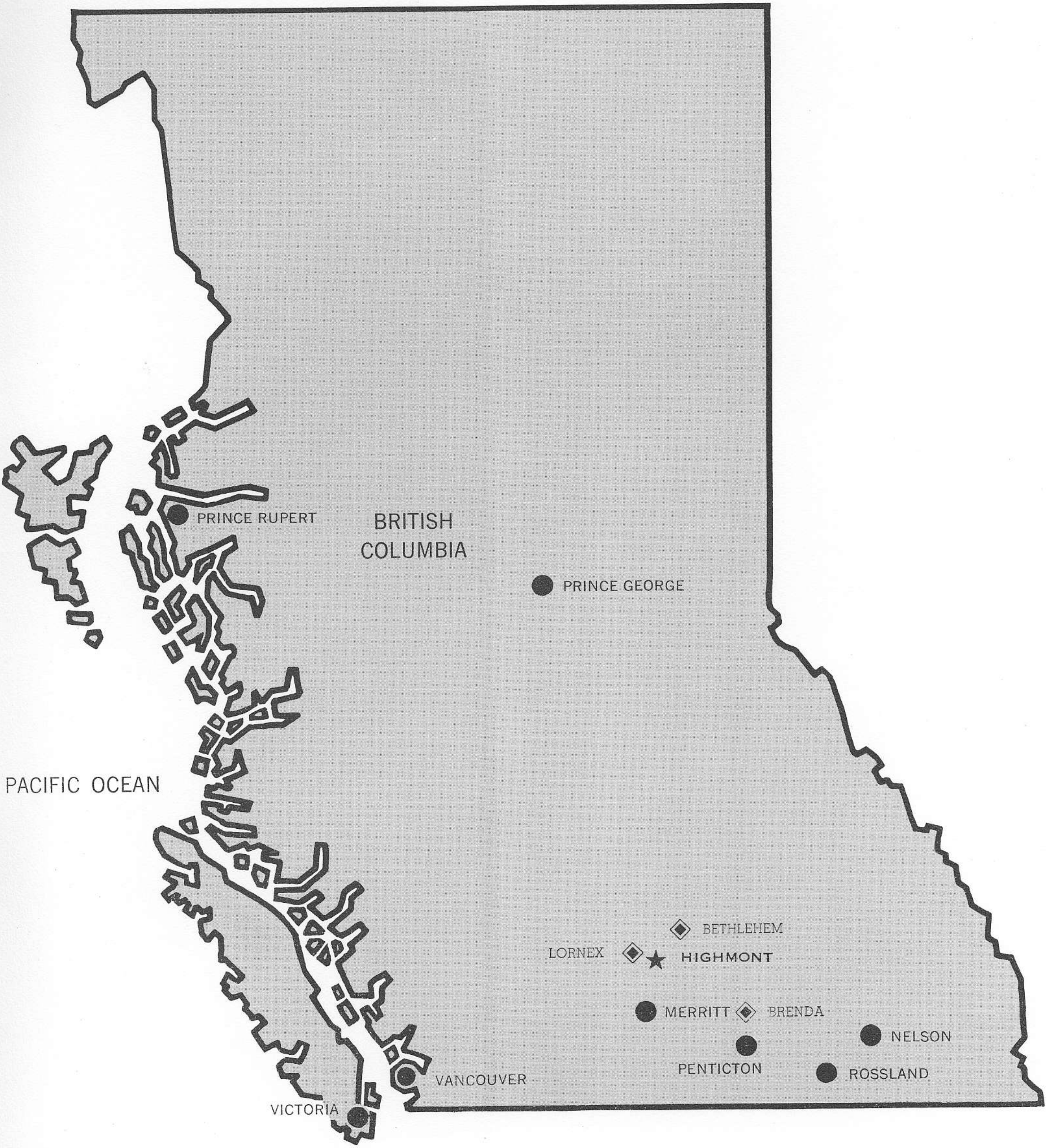
(b) 15% of the net operating profit

then

B.C. Tax 15% from Day 1

Total B.C. Tax 8 years: $11,762,000	Pay-out Period: Very little change
Federal Taxes: $7,470,000	Average Yearly Yield: 15.1%

Furthermore, it follows that, approximately 20 million tons of the lower grade material as estimated would now become waste and, under this existing 15% tax, would not be economical to mill.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