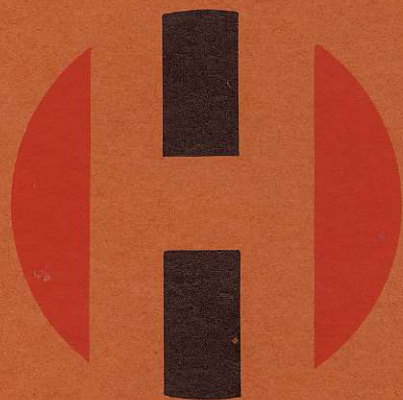


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HIGHMONT

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

ANNUAL REPORT . . 1971

Officers

J. L. GIBSON — Chairman of the Board
 R. W. FALKINS — President
 R. E. HALLBAUER — Vice-President
 J. A. KYLES — Secretary-Treasurer

Directors

SIR MICHAEL BUTLER, Bt., Q.C.
 R. W. FALKINS
 J. L. GIBSON
 R. E. HALLBAUER
 Dr. N. B. KEEVIL Jr.
 J. A. KYLES
 G. SIMPSON

Statutory Information

CAPITALIZATION

Authorized —

1,250,000 6¼% convertible, cumulative, Class A preferred shares with a nominal or par value of \$8 each, redeemable at par.

625,000 6¼% cumulative, Class B preferred shares with a nominal or par value of \$8 each, redeemable at par.

6,000,000 common shares with a nominal or par value of 50c each.

Issued and fully paid —
 4,068,338 common shares

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

BARRISTERS AND SOLICITORS
 Swinton & Company
 900 West Hastings Street
 Vancouver 1, B.C.

REGISTERED OFFICE
 Swinton & Company
 900 West Hastings Street
 Vancouver 1, B.C.

ADMINISTRATIVE OFFICE
 700 - 1177 West Hastings Street
 Vancouver 1, B.C.

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

REPORT TO SHAREHOLDERS

On behalf of the officers and directors of Highmont Mining Corp. Ltd. (N.P.L.), it is my privilege to report on your company's activities for the fiscal year ended Dec. 31, 1971 as well as on recent events which could be of major importance.

In April 1971, the company received a feasibility report by Chapman, Wood & Griswold confirming the economic viability of its large tonnage copper molybdenum development in the Highland Valley area of South Central B.C. The report recommended construction of a 25,000 ton per day plant at a capital cost of 65 million dollars.

The year 1971 was a very difficult one for the mining industry with many adverse factors, such as trade and monetary pressures, low copper prices and a general recession in the economy. All of these factors made it impossible to conclude negotiations for concentrate sales and senior financing on acceptable terms to Highmont; consequently, negotiations are still in progress.

During the year 1971, an additional 1.3 million dollars was expended on the development program, the majority of which was for the final

detailed engineering and design work. This is dealt with in the report by H. H. Waller, Highmont's Mine Manager.

The continued development program was financed by Teck Corporation Limited in accordance with the exploration and development agreement signed in October 1969. During 1971, the 1.3 million dollars which Teck expended was converted into 400,000 common shares of the company at a price of \$3.25 per share, thereby completing the second phase of the first exploration agreement. A summary of the financing agreements with Teck appears in the Notes to the Financial Statements.

Recent events are, in my opinion, going to prove exciting during the balance of 1972. With the announcement of Bethlehem Copper Corporation's important discovery of the J. A. copper orebody, our own geological field staff began a study of the area controlled by Highmont-Teck as to 70% and known as the Jericho-Gaza properties.

The favourable area lies to the south and east of Indian Reserve No. 14 owned by Darkhawk Mines Ltd., and optioned by Bethlehem and is on line with the projection of the J. A. zone. Surface

geology indicates that the zone to be explored is at the intersection of two prominent area faults and straddles the favourable contact between the Guichon and Bethlehem quartz diorite, which is the same environment as Bethlehem's major discovery - the J. A. zone. A full scale exploration program has been started and includes geophysical work and a diamond drill program.

Despite the delay on the concentrate and financing agreements nevertheless the year 1971 was one of solid progress. With the start of new exploration programs and an early completion of agreements hoped for to enable the start on mill construction, the year 1972 should be an active one in the affairs of Highmont.

I wish to express my appreciation to my fellow directors and especially to the geological, engineering and office staffs of Highmont and Teck Corporation for their diligence and cooperation during the past year.

Respectfully submitted,
R. W. Falkins
President

MINE MANAGER'S REPORT

During the Year 1971, the Highmont feasibility report was completed and the project was found to be financially and physically viable. As a result, development and exploration work was accelerated at the mine site to prepare for mining and production of copper and molybdenum concentrates. Highmont engaged H. A. Simons Ltd. to coordinate all engineering studies and in conjunction with Ripley, Klohn & Leonoff International Ltd., located a suitable concentrator site 2500 feet north of the ultimate pit and a suitable tailings disposal area 15,000 feet east of the mine site. Testing for foundations was completed in both cases and design of the tailings dam was completed. Considerable progress was accomplished during the year towards establishment of the milling facilities and ancillary structures. Clearing and grubbing of approximately 100 acres for the concentrator plant site, the concrete aggregate stock-pile area and the permanent mine camp site were completed.

In addition, H. A. Simons Ltd. was appointed to prepare the total design for a 25,000 tons per day milling plant and certain of the ancillary buildings. Selection of the major items of machinery and electrical equipment was made and initial structural drawings of the proposed plant buildings were completed.

Water supply for the concentrator and plant has been assured by the completion of one production well which has a capacity of 1700 g.p.m.

Permits required for tailings disposal from Pollution Control Board have been acquired, along with a Reclamation Permit from the Department of Mines.

To obtain necessary information and data for the engineering studies mentioned, 15,643 feet of diamond and rotary drilling, plus 1500 hours of bulldozer time, were completed.

With regard to Hydro power, engineering studies were partially completed and the right-of-way to the mine has been cleared and surveyed.

During the year, only a limited amount of exploration work was done because of the priority of preproduction and development activities but no changes were made in ore reserves. Adjoining claims were acquired, bringing the total number to 264, all in the Highland Valley.

The camp remained open throughout the year with up to 45 persons for most of the time. Six additional 20-man sleeping units were purchased for erection in early summer to accommodate the mine crews when mining starts.

Respectfully submitted,
H. H. WALLER
Mine Manager

BALANCE SHEET AS AT DECEMBER 31, 1971

ASSETS

	1971 \$	1970 \$
CURRENT ASSETS		
Cash	38,318	114,079
Accounts receivable	34,102	500
Prepaid expenses	1,796	1,447
	<u>74,216</u>	<u>116,026</u>
INVESTMENTS (NOTES 1 AND 2)	14,825	10,000
DUE FROM TECK CORPORATION LIMITED (NOTE 3)	2,500,000	2,500,000
MINERAL PROPERTIES AND DEFERRED COSTS		
(NOTES 1, 3 AND 5)	2,798,139	1,342,325
FIXED ASSETS (NOTE 4)	46,668	37,921
	<u>5,433,848</u>	<u>4,006,272</u>

SIGNED ON BEHALF OF THE BOARD

J. L. GIBSON *Director*
R. W. FALKINS *Director*

LIABILITIES

	1971	1970
	\$	\$
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	37,040	18,387
Torwest Resources (1962) Ltd. (N.P.L.)	7,409	7,874
	<u>44,449</u>	<u>26,261</u>
DUE TO TECK CORPORATION LIMITED (NOTE 3)	69,554	
	<u>114,003</u>	<u>26,261</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK (NOTES 5 AND 6)		
Authorized —		
1,250,000 6 - 3/4% convertible, cumulative, Class A preferred shares with a nominal or par value of \$8 each, redeemable at par		
625,000 6 - 3/4% cumulative, Class B preferred shares with a nominal or par value of \$8 each, redeemable at par		
6,000,000 common shares with a nominal or par value of 50c each		
ISSUED AND FULLY PAID —		
4,068,338 common shares (3,652,671 shares - 1970)	2,034,169	1,826,336
Less: Discounts and commissions	184,158	184,158
	<u>1,850,011</u>	<u>1,642,178</u>
Add: Contributed surplus	3,469,834	2,337,833
	<u>5,319,845</u>	<u>3,980,011</u>
	<u>5,433,848</u>	<u>4,006,272</u>

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Highmont Mining Corp. Ltd. (N.P.L.) as at December 31, 1971 and the statements of contributed surplus, deferred exploration, development, and administrative costs and source and use of working capital for the year then ended. Our examination 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, 1971 and the results of its operations and the source and use of its working capital 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. McDonald, Currie & Co.
May 2, 1972 Chartered Accountants

**STATEMENT OF DEFERRED EXPLORATION, DEVELOPMENT
AND ADMINISTRATIVE COSTS FOR THE YEAR ENDED DECEMBER 31, 1971**

	1971 \$	1970 \$
BALANCE - BEGINNING OF YEAR	3,460,798	2,383,181
EXPENDITURES DURING THE YEAR (NOTE 5)		
Exploration and development		
Assays	34,640	84,930
Consulting geologist		101,835
Depreciation	31,203	34,878
Drilling	231,948	507,272
Engineering and design consultants	416,396	
Equipment and vehicle operation	55,544	127
Equipment and vehicle rental	26,287	
Field supervision	18,692	
General field, camp and cookhouse	51,719	19,676
Management fee	84,500	78,000
Metallurgy	171,573	103,089
Road building and maintenance	13,757	
Salaries and wages	110,308	102,611
Stripping and trenching	7,720	
Survey and line cutting	1,857	
Telephone and telegraph	7,065	
Travelling and automobile	25,894	
	<u>1,289,103</u>	<u>1,032,418</u>
Administrative		
Advertising and promotion	10,717	5,999
Audit	4,142	7,099
General office	28,664	22,846
Legal and other professional services	18,874	7,500
Management and office salaries	77,064	71,581
Shareholders' information	3,400	6,210
Travelling and automobile	5,853	4,617
Trust company fees	2,398	3,648
	<u>151,112</u>	<u>129,500</u>
Less: Recovery of administrative costs	78,000	78,000
Interest income	3,382	6,301
	<u>81,382</u>	<u>84,301</u>
	<u>69,730</u>	<u>45,199</u>
TOTAL EXPENDITURES DURING THE YEAR	1,358,833	1,077,617
BALANCE - END OF YEAR	4,819,631	3,460,798
ALLOCATION OF COSTS TO MINERAL PROPERTIES AS FOLLOWS:		
Highmont group		
Kamloops mining division	4,816,459	3 457,626
Stellako group		
Kamloops mining division	3,172	3,172
	<u>4,819,631</u>	<u>3,460,798</u>

STATEMENT OF CONTRIBUTED SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1971

	1971	1970
	\$	\$
BALANCE - BEGINNING OF YEAR	2,337,833	1,505,834
Add: Premium on issuance of common shares (note 6)	1,132,001	831,999
BALANCE - END OF YEAR	<u>3,469,834</u>	<u>2,337,833</u>

STATEMENT OF SOURCE AND USE OF WORKING CAPITAL FOR THE YEAR ENDED DECEMBER 31, 1971

	1971	1970
	\$	\$
SOURCE		
Capital stock — issued for cash	26,500	26,500
— issued for mineral properties (note 3)	13,334	13,332
— issued for exploration and development costs (note 5)	1,300,000	1,000,000
	<u>1,339,834</u>	<u>1,039,832</u>
Advances from Teck Corporation Limited (note 3)	69,554	
	<u>1,409,388</u>	<u>1,039,832</u>
USE		
Mineral properties and deferred costs	1,423,864	1,065,946
Fixed asset additions (net)	40,697	5,561
Investments	4,825	
	<u>1,469,386</u>	<u>1,071,507</u>
DECREASE IN WORKING CAPITAL	59,998	31,675
WORKING CAPITAL - BEGINNING OF YEAR	89,765	121,440
WORKING CAPITAL - END OF YEAR	<u>29,767</u>	<u>89,765</u>
REPRESENTED BY:		
Current assets	74,216	116,026
Current liabilities	44,449	26,261
WORKING CAPITAL - END OF YEAR	<u>29,767</u>	<u>89,765</u>

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1971

1. VALUES

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

2. INVESTMENTS

(a) The investments of the company are as follows:

	1971	1970
	\$	\$
100,000 shares of Minex Development Limited (N.P.L.) - at cost	10,000	10,000
10% second mortgage receivable - repayable in monthly instalments of \$66 including principal and interest	4,825	
	<u>14,825</u>	<u>10,000</u>

(b) 65,670 of the 100,000 Minex shares are held in escrow subject to the order of the Superintendent of Brokers and the Vancouver Stock Exchange. Minex had a quoted value of 10c per share on December 31, 1971. No market value is available for escrowed shares.

3. MINERAL PROPERTIES AND DEFERRED COSTS

(a) Mineral properties owned or under option are all situated in British Columbia and, together with deferred costs, are as follows:

	1971	1970
	\$	\$
Highland Valley claims, at cost \$334,661 being the amount ascribed to 1,000,000 shares issued and \$73,247 being the cost of Highmont's share of jointly acquired properties (note 3 (c) and (d))	407,908	334,661
Add: Deferred exploration, development and administrative costs - per statement	4,816,459	3,457,626
	<u>5,224,367</u>	<u>3,792,287</u>
Stellako claims at cost of \$30,600 cash plus \$40,000 being the amount ascribed to 20,000 shares issued	70,600	46,866
Add: Deferred exploration, development and administrative costs per statement	3,172	3,172
	<u>73,772</u>	<u>50,038</u>
	5,298,139	3,842,325
Less: Proceeds on disposal of 45% interest to Teck Corporation Limited referred to in (b) below	2,500,000	2,500,000
	<u>2,798,139</u>	<u>1,342,325</u>

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1971

3. MINERAL PROPERTIES AND DEFERRED COSTS (CONTINUED)

(b) Pursuant to an agreement dated June 24, 1970, the company sold an undivided 45% interest in all of its mineral properties to Teck Corporation Limited for \$2,500,000, which sum is payable on the date of commencement of production from the property or December 31, 1974, whichever is the earlier. Payment of the \$2,500,000 is secured by an interest-free mortgage of, and limited to, Teck's 45% interest in the said mineral properties.

(c) In accordance with the terms of a finance agreement dated August 31, 1970, referred to in note 5 (c), Teck may purchase additional mineral properties as may be required to provide tailings disposal areas and to protect the Highland Valley properties. The company's interest in these properties is to be 55% and Teck will lend the company 55% of the purchase price. The loans are to be interest-bearing and secured by the properties, and are to be payable on demand after December 31, 1972. If Teck arranges the financing required to bring the Highland Valley mineral properties into production, it is entitled to treat the full cost of the aforementioned acquisitions as secondary exploration and development costs referred to in note 5 (b).

During the year the company and Teck entered into several agreements to acquire interests of from 70% to 100% in certain mineral properties located near the Highland Valley claims.

At December 31, 1971, approximately \$171,000 had been expended on these properties of which approximately \$40,000 pertained to exploration work incurred by Teck. If the agreements are fully exercised, a further \$35,000 is required to be paid of which \$10,000 is to be expended on exploration and development work. As at December 31, 1971, the company has recorded its 55% share of the \$131,000 of the above expenditures as mineral properties. The \$40,000 related to exploration work is included in the \$1,300,000 expended by Teck in exchange for Highmont shares (note 5 (a)).

(d) The company and Teck entered into an option agreement to purchase certain mineral properties exercisable on or before December 31, 1972. If the option is exercised, a payment of \$45,000 is required. The option has been recorded on the books of the company at a nominal cost of \$1.

(e) \$2,300,000 of the deferred exploration, development and administrative costs as incurred by Teck will not be available to the company as a future deduction for income tax purposes.

4. FIXED ASSETS

Fixed assets and related accumulated depreciation are as follows:

	1971			1970
	Cost	Accumulated depreciation	Net	Net
	\$	\$	\$	\$
Automotive and office equipment	25,591	15,413	10,178	9,161
Field equipment and buildings	165,015	128,525	36,490	28,760
	<u>190,606</u>	<u>143,938</u>	<u>46,668</u>	<u>37,921</u>

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1971

4. FIXED ASSETS (CONTINUED)

Depreciation is recorded on a straight-line basis at a rate of 25% for automotive and mining equipment and 15% for camp buildings and office equipment.

5. EXPLORATION, DEVELOPMENT AND FINANCING AGREEMENTS

- (a) In accordance with the terms of the exploration and development agreement dated October 1, 1969, Teck expended \$1,300,000 in carrying out an exploration and development programme on the company's mineral properties and converted such expenditures into 400,000 common shares of the company at a price of \$3.25 per share during 1971, thereby completing the second phase of the first exploration agreement.
- (b) In accordance with the terms of a second exploration and development agreement dated August 31, 1970, Teck may elect, on or before December 31, 1972, to incur further exploration costs on the mineral properties amounting to not more than \$10,000,000. Teck has the right to convert such expenditures by purchasing in sequence one Class "A" or "B" preferred share of the company for each \$5.33 of expenditures, which right must be exercised within one year after the completion of such expenditures. As at December 31, 1971, Teck had incurred costs of approximately \$219,000 in carrying out further exploration and development work.
- (c) The company also entered into a financing agreement with Teck Corporation Limited on August 31, 1970 which provides that the company and Teck became joint venturers in respect of the mineral properties referred to in note 3 (a), having respective interests therein of 55% for the company and 45% for Teck. Teck has caused a feasibility study to be made on the mineral properties which was dated February, 1971, and has the right, until December 31, 1973, to arrange and obtain all financing as is deemed necessary to complete the exploration and development and place the property in production. The portion of such financing attributable to the company's 55% interest in the mineral properties may be required to be repayable out of the entire net proceeds of production due to the company until the full amount, plus interest, is repaid, subject to Teck being permitted to allow payment of dividends on the preferred shares. The company may be required to provide its interest in the mineral properties, plant and equipment as security for such financing. Upon the commencement of commercial production from the mining properties, the company is committed to make available all such working capital as may be required up to

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1971

EXPLORATION, DEVELOPMENT AND FINANCING AGREEMENTS (CONTINUED)

a maximum of \$2,500,000. Of this amount, 45% shall constitute payment by the company on behalf of Teck to the joint venture and such loan shall be secured by a subordinated mortgage on Teck's 45% interest in the mineral properties. The \$2,500,000 is repayable by the joint venture only after repayment of all other debt financing.

(d) During the term of the Teck agreements, the company has covenanted to make available to Teck, its management, employees and facilities. The company has also agreed to limit its outside exploration and development activities to that agreed upon by Teck and to restrict further issuances of common and preferred shares to that required under the stock option agreements referred to in note 6 (b) and as provided by the Teck agreements.

(e) Teck also has the exclusive right of first refusal up to 1990 to negotiate and obtain all financing for any projects which are controlled by the company.

6. CAPITAL STOCK

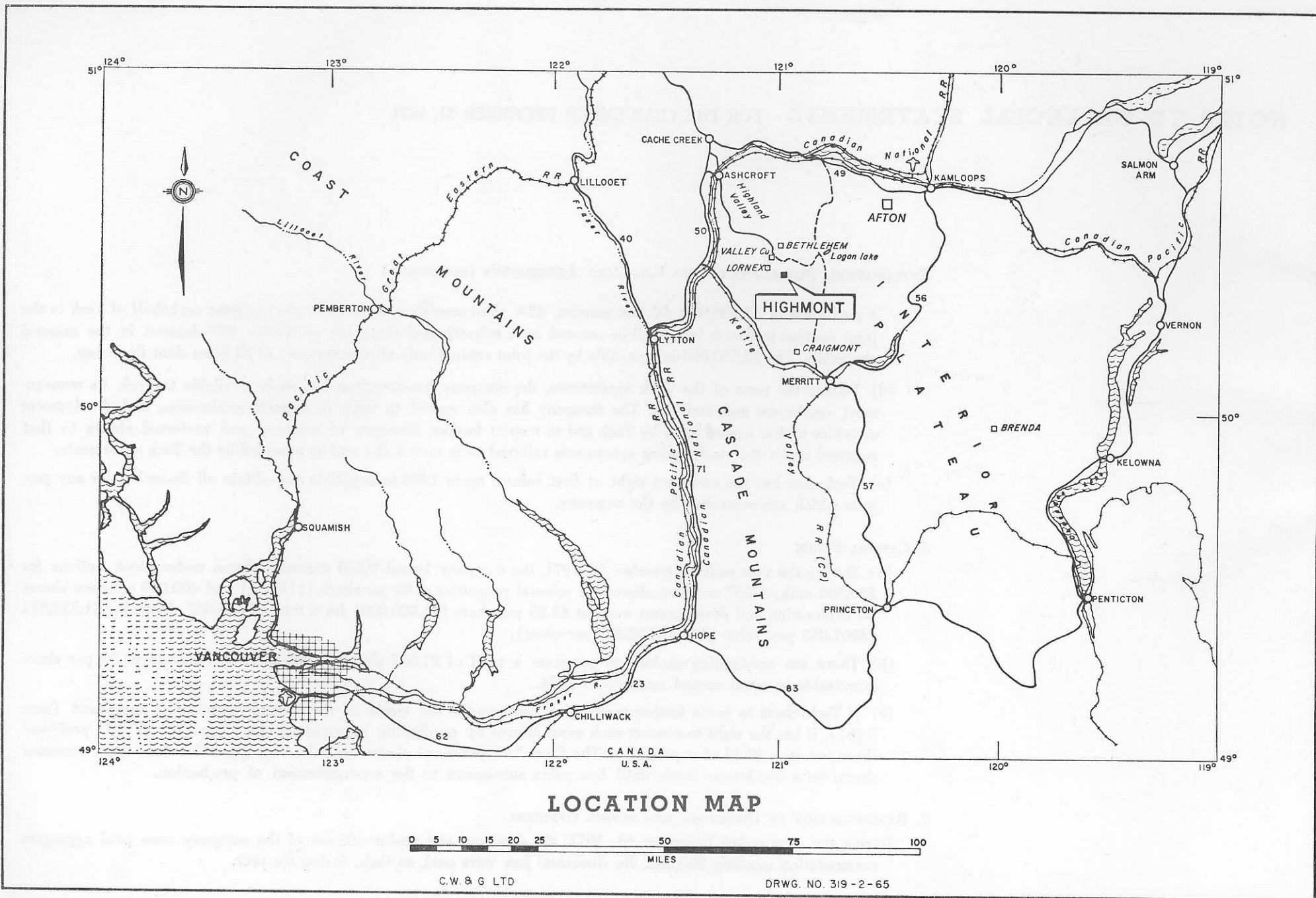
(a) During the year ended December 31, 1971, the company issued 9,000 common shares under stock options for \$26,500 cash; 6,667 common shares for mineral properties at \$2 per share (\$13,334) and 400,000 common shares for exploration and development work at \$3.25 per share (\$1,300,000) for a total of 415,667 shares for \$1,339,834 (\$207,833 par value plus \$1,132,001 premium).

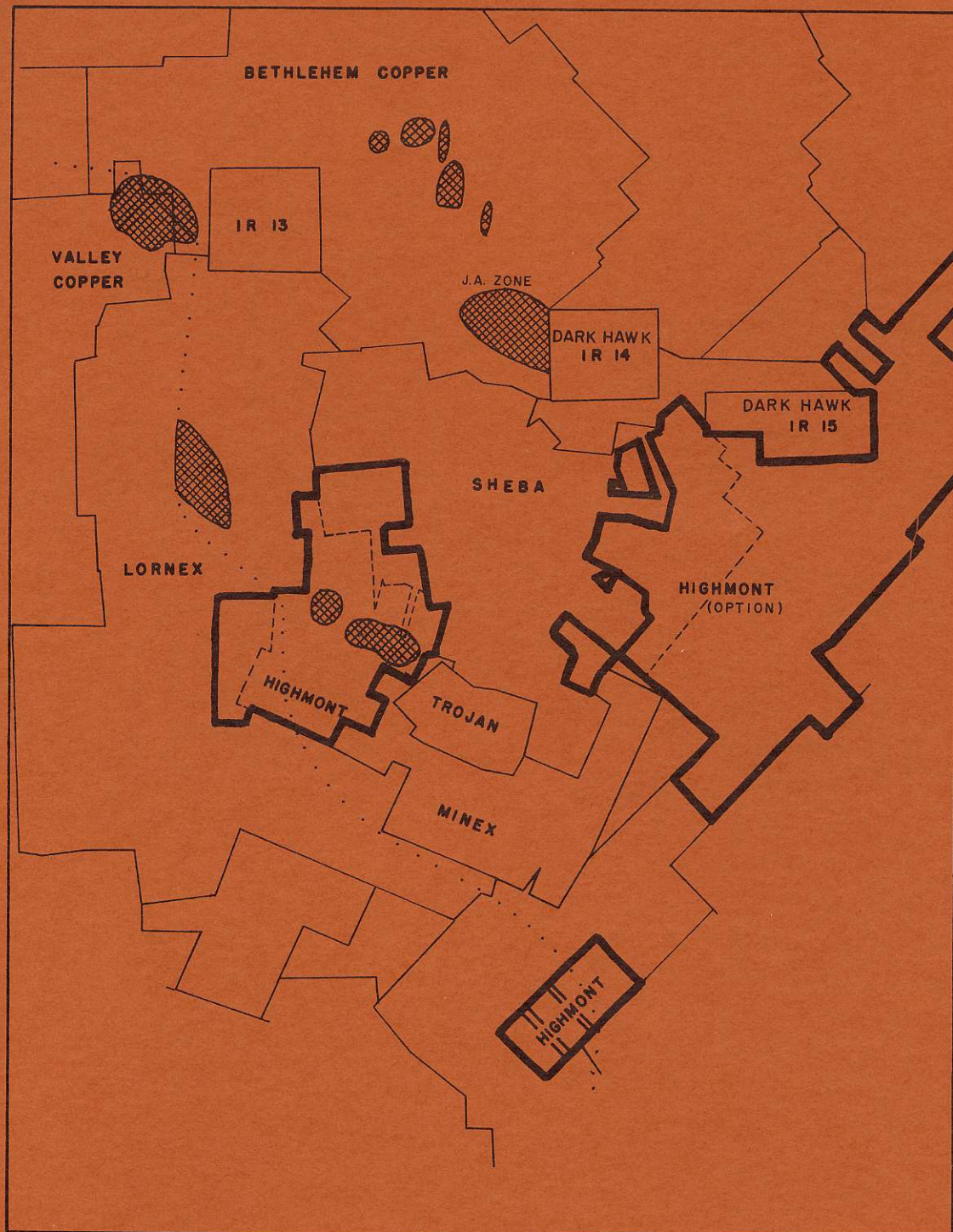
(b) There are outstanding options to purchase a total of 27,000 shares at prices from \$2.50 to \$3.30 per share exercisable in equal annual amounts to 1974.

(c) If Teck elects to incur further exploration costs under the terms of the second exploration agreement (note 5 (b)), it has the right to convert such expenditures by purchasing in sequence one Class "A" or "B" preferred share for each \$5.33 of expenditure. The Class "A" preferred shares may be exchanged for fully paid common shares on a one-for-one basis until five years subsequent to the commencement of production.

7. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS


During the year ended December 31, 1971, the directors and senior officers of the company were paid aggregate remuneration totalling \$66,200. No directors' fees were paid, as such, during the year.





LEGEND

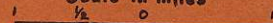
..... Bethsaida-Skeena contact
of Guichon Batholith

 Copper-molybdenum
deposits

HIGHMONT MINING CORP LTD
HIGHLAND VALLEY, KAMLOOPS MD

**ORE ZONES & PROPERTY
LOCATION MAP**

Scale in miles



bt

feb '71