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HIGHMONT

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

ANNUAL REPORT . . 1972

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	6¾% convertible, cumulative, Class A preferred shares with a nominal or par value of $8 each, redeemable at par.
625,000	6¾% 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
Coopers & Lybrand
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 December 31, 1972.

Compared to previous years, work on the Highmont property was greatly curtailed during 1972. The reasons for this were the continued weakness of the copper price and the oversupply of molybdenum which existed throughout the year. Consequently, a satisfactory concentrate agreement could not be negotiated while these conditions existed.

Although no additional work was done on the main Highmont property, a new group of 85 claims, the Pathfinder group, situated south and east and adjoining Highmont's Jericho-Gaza group was acquired by option. Assessment work by drilling and trenching was done to keep the claims in good standing. Exploration both by our own and McElhanney engineers on the Jericho-Gaza group consisted of a location, a geological and induced polarization surveys. These surveys were followed by a trenching and drilling program consisting of 6 trenches, 5 percussion holes and 3 diamond drill holes. This work outlined an interesting mineralized copper zone and also helped to confirm the tonnage and grade of ore previously outlined by Jericho Mines Ltd.

The programs on the above properties were financed by Teck Corporation Limited. Under the first Exploration and Development Agreement, Teck expended 2.3 million dollars. Since the completion of this agreement, an interim financing agreement was signed with Teck, whereby they continue to provide exploration and development funds which can be converted into Highmont stock at $3.25 per share.

With greatly improved copper prices and the previous oversupply of molybdenum now down to acceptable limits, negotiations are presently in progress to bring the Highmont mine into production. The threat of higher taxation and royalties will naturally be a significant factor in the final outcome of these negotiations. However, your directors are hopeful that the new government policies will be acceptable and allow large projects such as Highmont to develop the natural resources, create employment and generate millions of tax dollars to the benefit of the economy and the people of this province and Canada.

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

Respectfully submitted,
R. W. Falkins
President

BALANCE SHEET AS AT DECEMBER 31, 1972

ASSETS

	1972 $	1971 $
Current Assets		
Cash	9,931	38,318
Accounts receivable	18,565	34,102
Prepaid expenses	1,281	1,796
	29,777	74,216
Investments (notes 1 and 2)	14,497	14,825
Due From Teck Corporation Limited (notes 3 and 5)	2,500,000	2,500,000
Mineral Properties and Related Deferred Costs (notes 1, 3 and 5)	2,832,109	2,798,139
Fixed Assets (note 4)	29,260	46,668
	5,405,643	5,433,848

Signed on Behalf of the Board

J. L. GIBSON *Director*

R. W. FALKINS *Director*

LIABILITIES

	1972 $	1971 $
Current Liabilities		
Accounts payable and accrued liabilities	2,876	37,040
Torwest Resources (1962) Ltd. (N.P.L.)	7,552	7,409
Due to Teck Corporation Limited (note 3)	75,370	
	85,798	44,449
Due to Teck Corporation Limited		69,554
	85,798	114,003

SHAREHOLDERS' EQUITY

	1972	1971
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 (4,068,338 shares - 1971)	2,034,169	2,034,169
Less: Discounts and commissions	184,158	184,158
	1,850,011	1,850,011
Contributed Surplus	3,469,834	3,469,834
	5,319,845	5,319,845
	5,405,643	5,433,848

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Highmont Mining Corp. Ltd. (N.P.L.) as at December 31, 1972 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, 1972 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.
March 30, 1973

Coopers & Lybrand
Chartered Accountants

STATEMENT OF DEFERRED EXPLORATION, DEVELOPMENT AND ADMINISTRATIVE COSTS FOR THE YEAR ENDED DECEMBER 31, 1972

	1972 $	1971 $
BALANCE - BEGINNING OF YEAR		
As previously reported	4,819,631	3,460,798
Adjustment arising from prior periods' expenditures assumed by Teck Corporation Limited	25,088	
As restated	4,794,543	3,460,798
EXPENDITURES DURING THE YEAR (NOTE 5)		
Exploration and development		
Assays		34,640
Depreciation	16,262	31,203
Drilling		231,948
Engineering and design consultants		416,396
Equipment and vehicle operation		55,544
Equipment and vehicle rental		26,287
Field supervision		18,692
General field, camp and cookhouse	865	51,719
Management fee		84,500
Metallurgy		171,573
Road building and maintenance		13,757
Salaries and wages		110,308
Stripping and trenching		7,720
Survey and line cutting		1,857
Telephone and telegraph		7,065
Travelling and automobile		25,894
	17,127	1,289,103
Administrative		
Advertising and promotion	5,829	10,717
Audit	3,010	4,142
General office	17,913	25,738
Interest and bank charges	5,820	2,926
Legal and other professional services	965	18,874
Management and office salaries	77,972	77,064
Shareholders' information	2,827	3,400
Travelling and automobile	3,789	5,853
Trust company fees	2,264	2,398
	120,389	151,112
Less: Recovery of administrative costs	78,000	78,000
Interest income	458	3,382
	78,458	81,382
	41,931	69,730
TOTAL EXPENDITURES DURING THE YEAR	59,058	1,358,833
BALANCE - END OF YEAR	4,853,601	4,819,631
ALLOCATION OF COSTS TO MINERAL PROPERTIES AS FOLLOWS:		
Highmont group — Kamloops mining division (note 3)	4,850,429	4,816,459
Stellako group — Kamloops mining division (note 3)	3,172	3,172
	4,853,601	4,819,631

STATEMENT OF CONTRIBUTED SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1972

	1972 $	1971 $
BALANCE - BEGINNING OF YEAR	3,469,834	2,337,833
Add: Premium on issuance of common shares		1,132,001
BALANCE - END OF YEAR	3,469,834	3,469,834

STATEMENT OF SOURCE AND USE OF WORKING CAPITAL FOR THE YEAR ENDED DECEMBER 31, 1972

	1972 $	1971 $
SOURCE		
Capital stock — issued for cash		26,500
— issued for mineral properties		13,334
— issued for exploration and development costs		1,300,000
		1,339,834
10% second mortgage	328	
Proceeds from sale of fixed assets	1,145	
Advances from Teck Corporation Limited		69,554
	1,473	1,409,388
USE		
Mineral properties and related deferred costs	17,707	1,423,864
Fixed asset additions (net)		40,697
Investments		4,825
Due to Teck Corporation Limited	69,554	
	87,261	1,469,386
DECREASE IN WORKING CAPITAL	85,788	59,998
WORKING CAPITAL - BEGINNING OF YEAR	29,767	89,765
WORKING CAPITAL (DEFICIENCY) - END OF YEAR	(56,021)	29,767
REPRESENTED BY:		
Current assets	29,777	74,216
Current liabilities	85,798	44,449
WORKING CAPITAL (DEFICIENCY) - END OF YEAR	(56,021)	29,767

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1972

1. Values

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

2. Investments

The investments of the company are as follows:	1972 $	1971 $
100,000 shares of Minex Development Limited (N.P.L.) - at cost (market 1972 — $14,000; 1971 — $9,950)	10,000	10,000
10% second mortgage receivable - repayable in monthly instalments of $66 including principal and interest	4,497	4,825
	14,497	14,825

3. Mineral Properties and Related Costs

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

	1972 $	1971 $
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	407,908
Add: Deferred exploration, development and administrative costs - per statement	4,850,429	4,816,459
	5,258,337	5,224,367
Stellako claims at cost of $30,600 cash plus $40,000 being the amount ascribed to 20,000 shares issued	70,600	70,600
Add: Deferred exploration, derelopment and administrative costs - per statement	3,172	3,172
	73,772	73,772
	5,332,109	5,298,139
Less: Proceeds on disposal of 45% interest to Teck Corporation Limited referred to in (b) below	2,500,000	2,500,000
	2,832,109	2,798,139

(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 (see note 5).

(c) In accordance with the terms of a finance agreement dated August 31, 1970, referred to in note 5 (a), 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 totalled $75,370 at December 31, 1972, bear interest at Teck's bank rate plus 1/2%, are secured by the properties and are payable on demand. If Teck arranges the financing

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1972

3. MINERAL PROPERTIES AND RELATED COSTS (CONTINUED)

required to bring the Highland Valley mineral properties into production, it is entitled to treat the full cost of the aforementioned acquisitions as exploration and development costs referred to in note 5 (b).

The company and Teck have 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, 1972, approximately $285,000 had been expended on these properties of which approximately $152,000 pertained to exploration work incurred by Teck. If the agreements are fully exercised, a further $25,000 is required to be paid. The company has recorded its 55% share of the above expenditures as follows:

	$	
(i)	133,000	as mineral properties
(ii)	40,000	as exploration costs incurred by Teck and transferred to the company in exchange for common shares
(iii)	112,000	is included in the $660,000 expended by Teck on the mineral properties to December 31, 1972 (note 5 (b)).
	285,000	

(d) The company and Teck entered into an option agreement to purchase certain mineral properties exercisable on or before December 31, 1973. 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 which were incurred by Teck on behalf of the company 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:

	1972			1971
	Cost $	Accumulated depreciation $	Net $	Net $
Automotive and office equipment	27,227	21,667	5,560	10,178
Field equipment and buildings	162,233	138,533	23,700	36,490
	189,460	160,200	29,260	46,668

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) The company entered into a financing agreement with Teck Corporation Limited on August 31, 1970 which provided that the company and Teck become 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 and has the right, until December 31, 1972, 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

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1972

5. Exploration, Development and Financing Agreements (continued)

company is committed to make available such working capital as may be required up to a maximum of $2,500,000. Of this amount, 45% shall constitute payment by the company as a loan on behalf of Teck to the joint venture and such loan shall be with interest and 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. The date of December 31, 1972 for arranging for secondary financing has been extended by reason of the fact that for a period of approximately 22 months the price of copper was below 58.4 cents per pound, the price on April 12, 1971 when the feasibility report was submitted.

(b) Pursuant to an exploration and development agreement also dated August 31, 1970, Teck Corporation Limited had an option to elect to incur further exploration and development costs up to $10,000,000 on the Highland Valley mineral properties exercisable by December 31, 1972 with 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. Teck did not exercise its option by December 31, 1972 but the option expiry date was extended by the terms of the interim financing agreement outlined below. Teck had expended approximately $660,000 to December 31, 1972 on this phase of the exploration programme but had not converted any of the expenditures to preferred shares at that date.

(c) As at December 14, 1972 exploration and development financing, as defined in the financing agreement, had not been arranged. In order to continue expenditures of the nature defined in the financing agreement, and pending and in contemplation of the arrangement of such financing, the company and Teck entered into an interim financing agreement. This agreement provides that Teck may incur expenditures on the mineral properties to a maximum of $200,000 annually up to the date that financing is arranged but not later than December 31, 1974.

The expenditures of $660,000 under (b) above are deemed to form part of the interim financing expenditures and all such expenditures are convertible into common shares of the company on the basis of one share for each $3.25 expended, such conversion rights exercisable as defined, but not later than June 30, 1975.

The interim financing agreement also provides for an extension of time for exercise by Teck of their option to expend exploration and development costs of up to $10,000,000 to the date that financing is arranged, the extended date for arranging financing, or December 31, 1974, whichever is the earlier.

Provision has been made in the interim financing agreement which allows Teck to elect interim finance expenditures, not previously converted to common shares, to be expenditures under the exploration and development agreement. The agreement also provides for application of such expenditures as a reduction of the $2,500,000 due from Teck under certain conditions and for repayment of unconverted Teck expenditures if the company arranges financing with parties other than Teck.

6. Capital Stock

(a) If Teck elects to incur further exploration costs under the terms of the 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.

(b) Expenditures made pursuant to the interim financing agreement (note 5 (c)) can be converted to common shares on the basis of one share for each $3.25 of expenditure.

7. Remuneration of Directors and Senior Officers

During the year ended December 31, 1972, the directors and senior officers of the company were paid aggregate remuneration totalling $68,640. No directors' fees were paid during the year.