

QUARTERLY REPORT *to Shareholders*

FOR THE PERIOD ENDING SEPTEMBER 30, 1996



HIGHLIGHTS

Huckleberry Mines Ltd.

- Construction at site is proceeding on schedule and below budget for a September 1997 production start.
- As of the end of September, orders and contracts representing 47% of the value of the project have been finalized.
- The new 8 kilometer access road was completed in October.
- Structural steel for the mill has been erected and roofing is underway.
- Work began on pit stripping and the tailings dam foundation.

Similco Mines Ltd.

- Copper production in the quarter at Similco was 13.9 million pounds, a 44% increase from the third quarter of 1995, continuing the trend from the second quarter of 1996.
- Gold production was also up with Similco producing 10,020 ounces in the quarter, compared to 5,973 ounces in the third quarter of 1995.
- On August 9, 1996, it was announced that operations at the Similco mine would be suspended pending a strengthening in world copper prices and success of the current exploration program. The operation was placed on a care and maintenance basis on November 15, 1996.
- A \$1 million 40,000 foot drilling program is underway with the objective of defining low cost reserves sufficient for a long term viable mine plan.

Princeton Mining Corporation

- The final prospectus dated September 12, 1996, to qualify the issuance of the \$9,000,000 7% Unsecured Subordinated Convertible Debenture along with 2,100,000 Common Shares, 2,000,000 flow through common shares and 3,050,000 warrants was filed.

Chile

- Minera Princeton acquired a new gold project, Milagro, with an exposed strike length of 3 kilometers.
- A 700 hole, 7,000 meter percussion drilling program to test bedrock below surface geochemical anomalies on the Elenita property was completed with favorable results.
- Initial exploration work by the Corporation's joint venture partner was initiated on Jacqueline and adjacent Tierra de Oro projects. Work is continuing with a drill program anticipated early in 1997.

Financial Results

- Princeton reports unaudited consolidated earnings of \$522,000 for the third quarter of 1996 and cash flow of \$2,283,000 for the period as compared to earnings of \$1,739,000 and cash flow of \$1,999,000 for the third quarter of 1995. As in the second quarter of 1996 higher amortization costs associated with the capitalized Ingerbelle pre-stripping costs coupled with lower copper prices resulted in lower earnings in the third quarter of 1996 compared to 1995. However, lower unit production costs in the third quarter of 1996 compared to 1995 partially offset the reductions in revenue and resulted in improved cash flow to the Corporation.

HUCKLEBERRY PROJECT

Financing of the project proceeded on schedule and the second of three equity subscriptions by the partners was completed in the amount of U.S. \$11 million. Initial draws were made under the two project loan facilities. As of September 30, 1996, costs incurred and committed represented 47 percent of total costs. The project continues to be under budget.

Construction at the site is proceeding on schedule for a September 1997 production start. Concrete foundations and structural steel for the permanent camp were completed. The permanent 252 bed camp on site is planned for November with construction personnel currently utilizing the temporary 150 person camp. The mill building is now scheduled to be completely enclosed and heated by mid December to allow work to continue through the winter. Stripping of overburden from the east zone pit is underway, and construction of the starter dam has commenced.

The hearing for a petition by the Sierra Legal Defence Fund on behalf of the Cheslatta Indian band against the B.C. Government in the matter of the Environmental Assessment of Huckleberry has been adjourned and will now not likely be heard until early 1997.

SIMILCO MINES LTD.

Similco's copper production from the Ingerbelle Pit was 13.9 million pounds compared to 9.6 million pounds in the third quarter of 1995. The tonnage milled in the third quarter of 1996 was 2.2 million tons grading 0.34% copper compared to 2.2 million tons grading 0.274% copper in the prior year. Revenues were affected by a decrease in the price of copper. The average price recorded was U.S. \$0.91 compared to U.S. \$1.20 in the third quarter of 1995.

Similco has hedged 22.9 million pounds of copper representing approximately 94% of the remaining production to be priced, at a price of U.S. \$0.93 per pound.

On August 9, 1996, it was announced that operations at the Similco Mine would be suspended. The suspension of operations comes as a result of the sudden dramatic fall in copper prices in June and the trend for continuing low prices throughout 1997. Similco was unable to complete forward sales for its 1997 copper production at an attractive price.

Mining and milling operations were suspended on November 15, 1996. The closure will affect approximately 226 employees. Necessary personnel will be retained to maintain the property on a care and maintenance basis. The company plans to reactivate the Industrial Adjustment Committee and work with the community and its work force to minimize displacement expected from the suspension of operations. Recommencement of operations is dependent upon an improvement in copper prices and the success of the current exploration program.

Exploration

A \$1 million exploration program, primarily consisting of 40,000 feet of diamond drilling is underway at Similco. The objective of the program is to define mineable reserves sufficient for a long term viable mine plan. Drilling has so far been conducted in the Alabama, Oronoco and SP zones.

Drilling within the Alabama zone yielded mixed results and failed to extend the zone to the west. Additional drilling to increase continuity of the higher grade zones and allow definition of mineable reserves within the Alabama deposit may be undertaken later in the program.

The Oronoco zone is located 3,000 feet to the west of the Alabama zone. Initial drill results were encouraging but additional drilling, which tested an area of 500 by 1,000 feet did not define economic mineralization over a large area.

The SP zone is the area encompassing the previously mined Pit 2 and Pit 3. Existing reserves within the SP zone include 39 million tons grading 0.33% copper with a strip ratio of 1.78:1 in the Pit 2 area and 59 million tons grading 0.48% copper at a strip ratio of 2.32:1 in the Pit 3 area. The exploration target for drilling within the SP zone is to discover additional mineralization peripheral to, as well as between, Pits 2 and 3, such that a reserve greater than 100 million tons with a grade in the order of 0.45% copper and with a strip ratio of 1.5:1 can be defined.

CORPORATE

As previously disclosed the Corporation had guaranteed a loan owing by Teranov, a former subsidiary. Under the terms of the agreement under which Teranov was sold, the Corporation was indemnified by the purchasers of Teranov. A demand for payment has been received by the Corporation for \$700,000 plus interest. On September 16, 1996, a statement of claim against the Corporation was filed in the courts. The Corporation and its indemnifiers are preparing a defense that no funds are now owing under this guarantee.

CHILE

Exploration

Minera Princeton has embarked upon a program of discovering or acquiring a significant gold property in Chile. Exploration over the last six months has identified a number of properties and areas that could fulfill the corporate mandate. Negotiations have been completed on one property, Milagro, and are proceeding on others.

Milagro - gold

The Milagro property is located 150 kms southeast of La Serena, Chile, 50 km south of Dayton's Andacolla mine and 14 km north of Los Mantos de Punitaqui, a long time gold producer with historical production in excess of 700,000 ounces. Vein, stockwork and disseminated gold mineralization at Milagro is associated with a large alteration system developed along a northerly trending shear zone. The exploration objective at Milagro is to define a significant gold reserve as either open-pit or as bulk mineable high-grade shoots which has the potential to be heap leachable.

Elenita - copper

The shallow percussion drilling program was completed with favorable results. A total of 5,948 metres were drilled in 642 holes with depths between 8 and 13 metres. More than 100 of the drill holes intersected anomalous copper values indicative of mineralization in the bedrock and twelve areas have been identified for follow-up reverse circulation drilling. This drilling, which will have a minimum goal of doubling the existing reserve, is scheduled for the new year.

By agreement dated August 13, 1996, the payment terms on US \$3,590,000 of the US \$4,800,000 remaining to be paid on the property were revised. Under the terms one-half of the US \$3,590,000, which is to be paid in escalating payments to November 2000, is to be satisfied by the issuance of shares of the Corporation. Pursuant to the agreement, the Corporation issued 657,156 shares on August 13, 1996. The Corporation owns 100% of the rights to the Elenita Property subject to an NSR.

Jacqueline - gold

Our joint venture partners have completed their reconnaissance stage exploration program on the property with favorable results. The project has been renamed the Tierra de Oro project by our joint venture partners to better reflect extensive gold mineralization and workings by artisan miners on the western part of the property. The entire property has been geologically mapped, and magnetometer and surface geochemical surveys have been completed. Four surface gold anomalies, each approximately 1 square kilometer in size have been defined as well as numerous copper anomalies of similar size, some of them co-incident and associated with large zones of porphyry style alteration. A follow-up program of geophysical induced polarization surveys, trenching and drilling is planned.

The Corporation has a right to retain a 51% interest in the property.

FINANCIAL RESULTS

For the quarter ended September 30, 1996, the Corporation's consolidated revenue was \$18,158,000 compared to \$15,291,000, which included pre-production revenue of \$5,712,000 for the third quarter of 1995. The increase in revenue arises from an increase in production from the third quarter of 1995 of 4.3 million pounds. Revenue arising from the increase in production was partially offset by a decrease in the price of copper recorded by Similco of US \$0.91 compared to US \$1.20 in the third quarter of 1995. As a result of lower unit costs and higher gold grades associated with mining the Ingerbelle pit ore, cash flow improved to \$2,283,000 in the third quarter of 1996, up from \$1,999,000 in the same period in 1995.

Higher amortization costs associated with amortizing the Ingerbelle pre-stripping costs capitalized in 1995 resulted in consolidated unaudited earnings of \$522,000 in the third quarter of 1996 compared to \$1,739,000 in the third quarter of 1995.

James C. O'Rourke, P.Eng.
Chairman and Chief Executive Officer

Richard R. Faucher, P. Eng.
President and Chief Operating Officer

November 25, 1996

CONSOLIDATED BALANCE SHEET

(thousands of dollars)

	September 30 1996 <i>(unaudited)</i>	December 31 1995
ASSETS		
CURRENT ASSETS		
Cash and short-term investments	\$ 11,005	\$ 1,849
Cash held in trust	361	
Accounts receivable	3,784	4,453
Marketable securities	10	551
Concentrate inventory	4,187	857
Supplies and prepaids	<u>6,676</u>	<u>6,821</u>
	26,023	14,531
PROPERTY PLANT & EQUIPMENT		
HUCKLEBERRY PROJECT	12,197	17,029
ELENITA PROJECT	17,322	12,938
LONG-TERM DEPOSITS	2,034	1,359
	<u>4,261</u>	<u>3,637</u>
	<u>\$ 61,837</u>	<u>\$ 49,494</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable & accruals	\$ 10,812	\$ 5,024
Current portion of capital lease	497	459
Taxes payable	<u>3,218</u>	<u>3,549</u>
	14,527	9,032
OBLIGATION UNDER CAPITAL LEASE	657	1,033
PROJECT LOANS	544	
RECLAMATION PROVISION	2,829	2,829
MINORITY INTEREST	<u>6,526</u>	<u>6,526</u>
	25,083	19,420
SHAREHOLDERS' EQUITY		
Share Capital		
Convertible debenture	8,095	
Common shares	32,163	61,203
Common shares distributable	14	
Deficit	<u>(3,518)</u>	<u>(31,129)</u>
	<u>36,754</u>	<u>30,074</u>
	<u>\$ 61,837</u>	<u>\$ 49,494</u>

CONSOLIDATED STATEMENTS OF EARNINGS

(thousands of dollars, unaudited)

	Three months ended Sept 30 1996	Three months ended Sept 30 1995	Nine months ended Sept 30 1996	Nine months ended Sept 30 1995
REVENUE				
Mine Operations	\$ 17,930	\$ 9,433	\$ 48,623	\$ 35,355
Interest and other	<u>228</u>	<u>146</u>	<u>848</u>	<u>1,414</u>
TOTAL REVENUE	18,158	9,579	49,471	36,769
EXPENSES				
Mine operations	13,519	5,772	41,185	23,746
Transportation	1,499	1,145	4,003	3,246
Administrative and general	540	322	1,660	1,521
Exploration	167	244	626	1,437
Interest	58	73	141	185
Depreciation & amortization	<u>1,761</u>	<u>260</u>	<u>5,187</u>	<u>681</u>
TOTAL EXPENSES	17,544	7,816	52,802	30,816
PROFIT (LOSS) BEFORE TAXES	614	1,763	(3,331)	5,953
Income and Mining Taxes	<u>92</u>	<u>24</u>	<u>172</u>	<u>129</u>
NET PROFIT (LOSS)	522	1,739	(3,503)	5,824
Prior Period Adjustment				(3,136)
Capital Reduction			31,129	
Interest on Convertible Debenture	(14)		(14)	
Deficit - Beginning of Period	<u>(4,026)</u>	<u>(30,783)</u>	<u>(31,129)</u>	<u>(31,732)</u>
Deficit - End of Period	<u>(3,518)</u>	<u>(29,044)</u>	<u>(3,517)</u>	<u>(29,044)</u>
Profit (Loss) Per Share	<u>\$ 0.01</u>	<u>\$ 0.00</u>	<u>(\$ 0.04)</u>	<u>\$ 0.08</u>
Profit (Loss) Per Share fully diluted	<u>-</u>	<u>\$ 0.01</u>	<u>(\$ 0.03)</u>	<u>\$ 0.07</u>

CONSOLIDATED STATEMENTS OF CASH FLOW

(thousands of dollars, unaudited)

	Three months ended Sept 30 1996	Three months ended Sept 30 1995	Nine months ended Sept 30 1996	Nine months ended Sept 30 1995
OPERATING ACTIVITIES				
Profit (loss) from continuing operations	\$ 522	\$ 1,739	\$ (3,503)	\$ 5,824
Items not affecting cash				
Depreciation & amortization	1,761	260	5,187	681
Loss (Gain) on sale of investments	(7)		(561)	(180)
Provisions for Investments			(86)	
Change in non-cash working capital from sale of 40% of HML			(1,104)	
Change in non-cash working capital	<u>10,949</u>	<u>(3,069)</u>	<u>3,772</u>	<u>(4,805)</u>
CASH FROM (USED FOR) OPERATIONS	13,225	(1,070)	3,705	1,520
FINANCING ACTIVITIES				
Convertible Debenture issued for cash	(23)		8,095	
Common shares issued for cash	(266)		1,849	23
Common Shares issued for New Canamin	240	9,271	240	9,271
Project Loans	544		543	
Capital lease	<u>(116)</u>	<u>(104)</u>	<u>(339)</u>	<u>(304)</u>
	379	9,167	10,388	8,990
INVESTING ACTIVITIES				
Sale of 40% of HML			51	
Property, plant and equipment	(253)	(1,968)	(397)	(5,712)
Huckleberry	(10,118)	(1,253)	(12,599)	(2,911)
Elenita	(610)	(20)	(675)	(906)
Sale of investments	31		1,114	235
Proceeds on sale of 40% of HML			8,215	
Purchase of New Canamin		(9,254)		(9,254)
Increase in reclamation deposit	<u>(399)</u>	<u>(72)</u>	<u>(646)</u>	<u>(72)</u>
	(11,349)	(12,567)	(4,937)	(18,620)
INCREASE (DECREASE) IN CASH	2,255	(4,470)	9,156	(8,110)
CASH & SHORT TERM INVESTMENTS				
Beginning of period	<u>8,750</u>	<u>7,407</u>	<u>1,849</u>	<u>11,047</u>
CASH & SHORT TERM INVESTMENT				
End of period	<u>11,005</u>	<u>2,937</u>	<u>11,005</u>	<u>2,937</u>
CASH FLOW PER SHARE	<u>\$ 0.03</u>	<u>\$ 0.02</u>	<u>\$ 0.02</u>	<u>\$ 0.08</u>

PRINCETON MINING CORPORATION

Toronto Stock Exchange - PMC

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