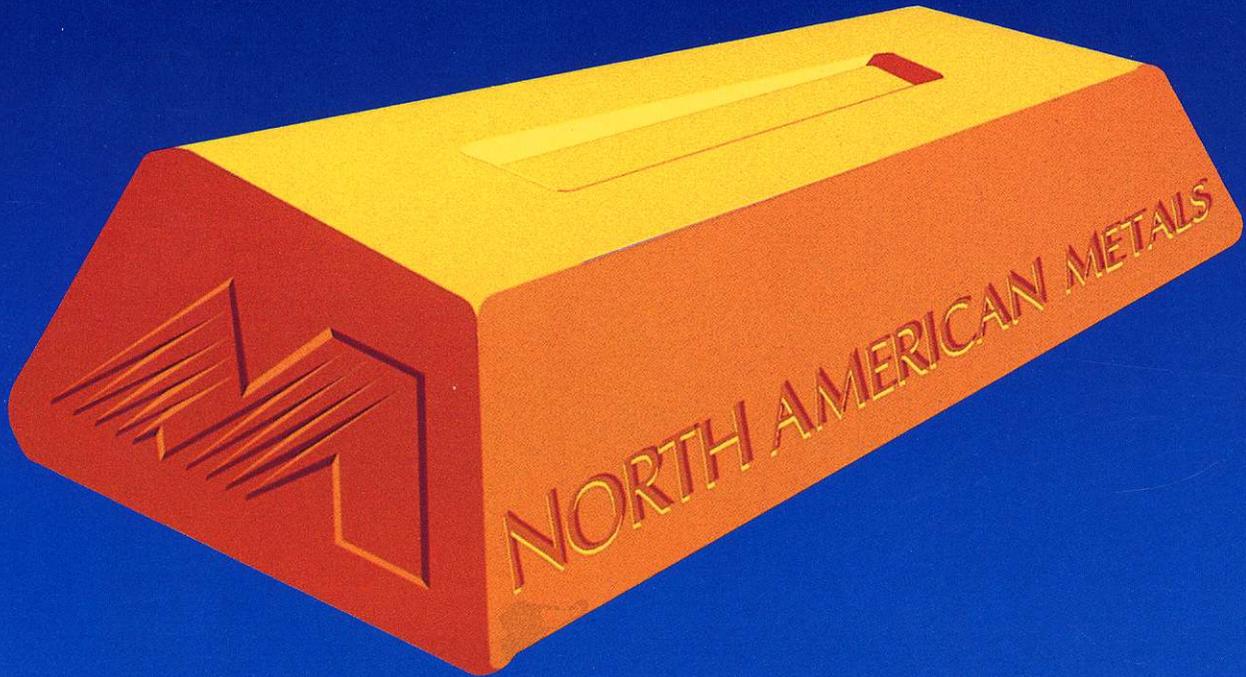


675218  
Golden Bear



**NORTH AMERICAN METALS CORP.**

**ANNUAL REPORT  
1986**





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**NORTH AMERICAN METALS CORP.**

36

## THE COMPANY

*North American Metals Corp. is a Canadian based precious metal development company headquartered in Vancouver, British Columbia. The Company is directed by respected mine financiers and operators.*

*A joint venture agreement has been negotiated to operate and acquire 50 percent of Chevron Minerals largest Canadian gold asset; the Golden Bear Project located in northwestern B.C. A development and feasibility program has begun. Wright Engineers Limited will table a final feasibility study of the project by May, 1987. Mine construction is planned to be completed and production commenced during 1988.*

*In addition the Company can earn a 50 percent interest in the Seal River Gold Project, located in Manitoba. This project has excellent potential for development of large scale, Homestake type gold deposits.*

*The Company has completed \$5.96 million in financing with senior European financial institutions, Canadian partnerships and the British Columbia Government.*

*North American Metals Corp.'s shares are traded on the Vancouver Stock Exchange under the symbol (NAM:V). Fully diluted the company will have a total of 5,952,500 shares issued of which 2,250,000 are escrowed.*

## HIGHLIGHTS

New management takes control and direction of the Company.

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Agreement reached to operate and acquire a 50 percent interest in Chevron's largest Canadian gold asset: The Golden Bear project.

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A total of \$5.96 million completed in financing with senior European financial institutions, Canadian partnerships and the British Columbia Government.

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Agreement reached to acquire a 50 percent interest in the large scale Seal River gold project. Field surveys indicate excellent potential for Homestake type gold deposits.

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British Columbia's largest development and feasibility program begins on the Golden Bear with exceptional results.

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Golden Bear production permitting process initiated with the British Columbia Government.

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## DIRECTORS' REPORT TO THE SHAREHOLDERS

It is a pleasure to report that this year North American Metals Corp. has pursued an aggressive schedule of precious metal project acquisitions and related financings.

### Golden Bear Acquisition

In June, the Company completed its first major precious metal acquisition, the Golden Bear Project near Dease Lake, British Columbia. A joint venture agreement was concluded with Chevron Canada whereby North American will operate and earn a 50 percent interest in the Golden Bear by investing \$9

million on its further development. The project is Chevron's largest Canadian gold asset.

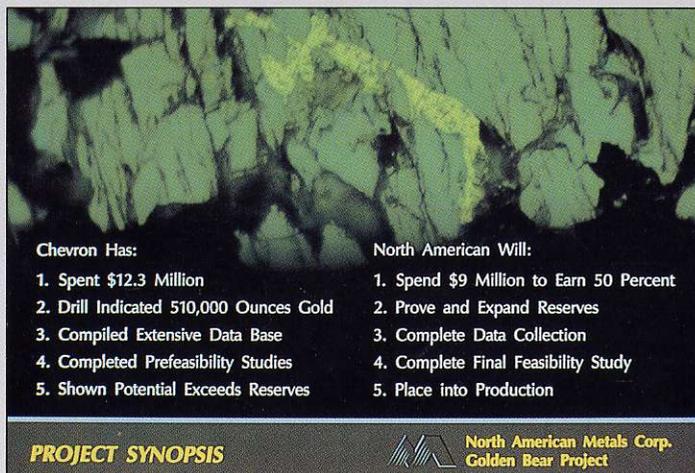
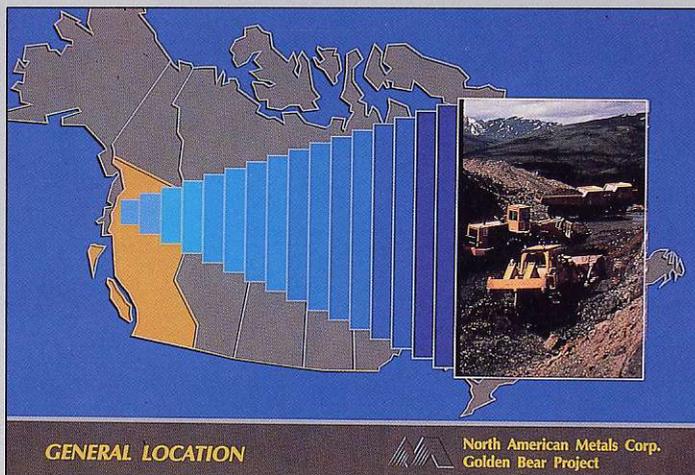
The Golden Bear is an exceptional opportunity for the Company. Chevron has invested \$12.3 million on its development, completing over 60,000 feet of surface drilling. Current reserves, within two deposits, are 1,900,000 tons with an average grade of .27 ounces of gold per ton; equivalent to 510,000 ounces of gold. A \$3.3 million development program is now underway which will enable Wright Engineers Limited to table a final feasibility study by May, 1987. The findings of this work are expected to add considerable value to the project.

The Golden Bear property hosts three known gold zones: named Bear, Fleece and Totem. Chevron's work focused on the Bear zone which with 1,253,000 tons of diluted, probable ore reserves grading .31 ounces of gold per ton has immediate potential for production. The Bear reserve is open to expansion and a substantial portion is amenable to low cost open pit mining.

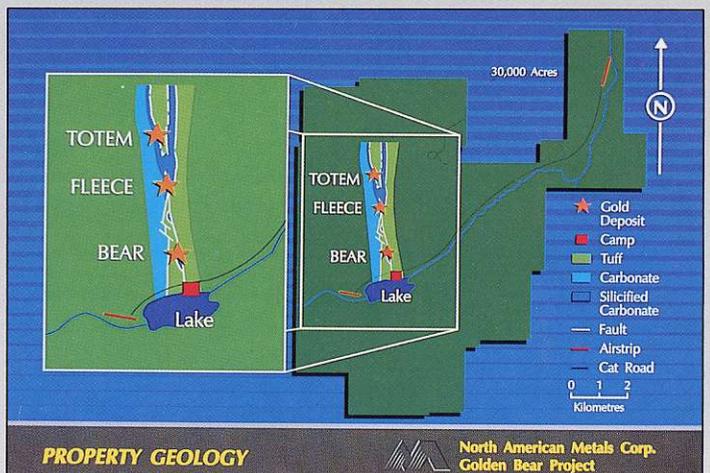
Surface drilling in the Fleece zone area has outlined diluted, inferred reserves of 660,000 tons grading .20 ounces of gold per ton. The Totem zone has been

Only a small portion of the 30,000 acre property has been explored.

Bulk tonnage, Golden Bear deposits are located in the northwest sector of British Columbia.



The Golden Bear is an exceptional production opportunity.





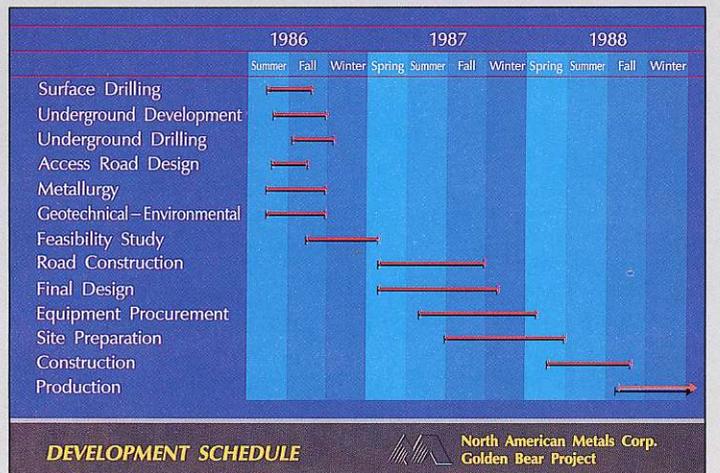
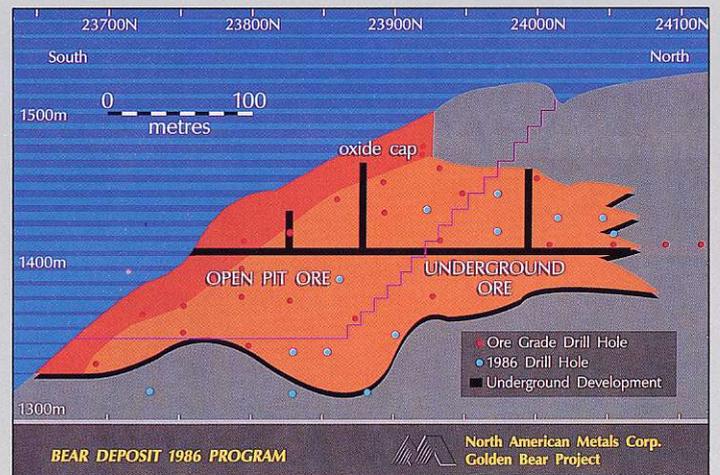
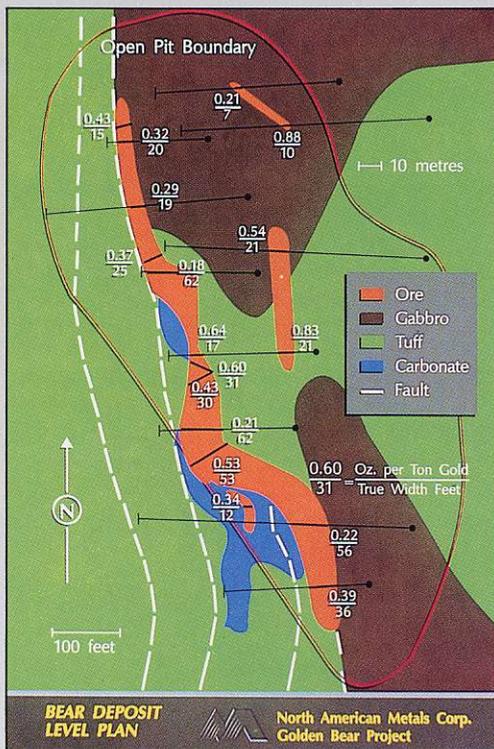
intersected by insufficient drilling to calculate ore reserves. The potential for Golden Bear reserve expansion far exceeds the current reserve base.

North American has assembled a professional project team to complete all components of the feasibility program. Major components include 2800 feet of underground tunnelling, 8000 feet of drilling, access road engineering, environmental studies, geotechnical surveys, metallurgical bulk testing, and completion of the final feasibility documents.

Mine construction is planned to be completed and production commenced during 1988. Production permitting has already been initiated with the Provincial Government. The project requires construction of a mill, mine road, open pit, underground workings, tailings disposal system, a permanent camp and a 77 mile access road from B.C. Highway 114. Initial production rates will be optimized by feasibility work, but are expected to be in the 500 to 1000 tons per day range. Production will be applied initially to the Bear zone on an open pit basis followed by bulk underground mining of deeper ore.

Development program is indicating increased gold reserves at Bear Zone.

A substantial portion of Bear Zone is available to low cost open pit mining.



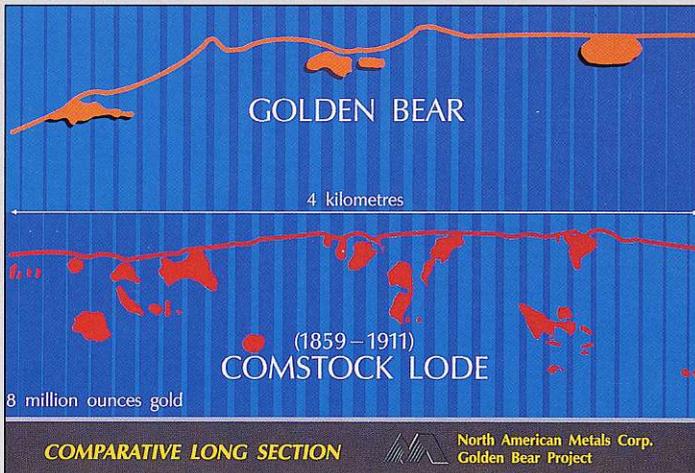
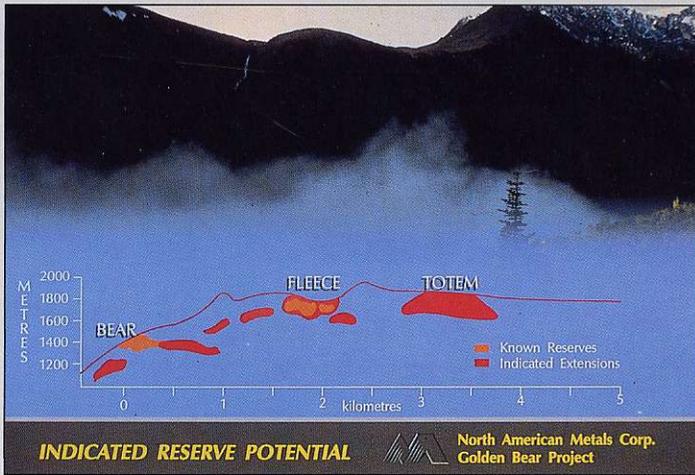
Mine construction is planned to be completed and production commenced during 1988.



Based on the present ore reserves at the Bear zone alone, mine life is calculated at a minimum of eight years.

Further large scale reserves are expected to be developed within the Fleece and Totem zones. In addition substantial further reserves are probable as mining progresses within the five mile long, major structure which hosts the three known gold zones. Geological ore models, such as the historical, world class Comstock Lode Deposit with which the Golden Bear has been compared to, favor this expectation.

Potential for gold reserve expansion far exceeds the current reserve base.



Further large scale reserves can be expected based on comparable geological models.

Initial results from North America's work program are considered excellent. To date, assays from underground sampling and drilling are significantly higher than anticipated. The first ten ore intercepts in the Bear zone area yielded an average grade of .57 ounces of gold per ton over a width of 27 feet. Continued comparable results from this program will add considerably to the Golden Bear's reserves.

### Seal River Acquisition

The Company's second precious metal acquisition is the Seal River Project located near Churchill, Manitoba. An agreement has been reached whereby North American will earn a 50 percent interest in this project by investing \$1 million in its development.

The 122,000 acre property has excellent potential for hosting gold deposits of the world class Homestake type. Field work results have shown that strong geochemical and geophysical anomalies coincide with a previously unexplored 18 mile long belt of sulfide rich rocks. Gold values from sparse outcrop range up to .58 ounces per ton near these covered anomalies. Drilling of high priority target zones is planned to commence this winter.

### Financial Results

For operating purposes, North American Metals Corp. has assigned its property agreements to its wholly owned subsidiary North American Metals B.C. Inc. Audited financial statements presented herein consolidate the financial positions of the two firms.

A strong financial base was built over the year as a result of two private placements, two flow-through financings and a provincial government grant. In October, 1985 300,000 shares were placed with European institutions which provided \$225,000 in working capital. A second private placement of 1,200,000 shares to eleven senior European Financial Institutions completed in July, 1986 generated \$3.9 million.

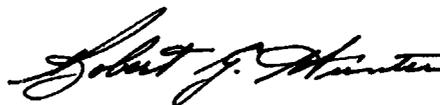
Completion of these equity placements enabled the Company to leverage its program funding under two Canadian flow-through financings. The first flow-through financing was undertaken with PMX 86 Exploration Limited Partnership. The Company gave up \$700,000 of its tax deductible exploration expenditures for an expected net cash return of \$332,000. A second flow-through arrangement, structured by Coopers & Lybrand just after year end, will see the Company transfer exploration write-offs of \$3.3 million in return for \$1.4 million. No common shares are to be issued under these flow-through financial structures.

In addition the British Columbia Government granted the Company \$100,000 under an incentive program in recognition of the significance of the Golden Bear project to the Province.

In total these financings of \$5.96 million will provide adequate funding through to completion of the feasibility stage of the Golden Bear and first stage drilling at Seal River. Further financings will be undertaken as required with a minimum of dilution to equity. Major project financing will be required on completion of the Golden Bear feasibility work.

The Board of Directors of North American Metals Corp. appreciates the dedication and level of effort of its employees over the past year and the continued support of its shareholders.

ON BEHALF OF THE BOARD



Robert G. Hunter  
President

October 7, 1986  
Vancouver, B.C.

## AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of North American Metals Corp. as at August 31, 1986 and the consolidated statements of resource properties and deferred exploration and administration 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 August 31, 1986 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.

*Coopers & Lybrand*

Vancouver, B.C.  
September 23, 1986

# CONSOLIDATED BALANCE SHEET

As at August 31, 1986

## ASSETS

	1986	1985
	\$	\$
<b>Current assets</b>		
Cash and term deposits (note 4)	3,731,388	387
Accounts receivable	7,191	—
Contractors' advances	219,357	—
Prepaid expenses	16,131	—
Supplies inventory, at cost	225,503	—
Due from PMX 86 Limited Partnership (note 6)	418,545	—
	<hr/> 4,618,115	<hr/> 387
<b>Furniture and fixtures</b>	14,947	—
<b>Resource properties and deferred exploration and administration costs (note 4)</b>	103,235	124,344
<b>Incorporation costs</b>	187	187
	<hr/> 4,736,484	<hr/> 124,918

## LIABILITIES

<b>Current liabilities</b>		
Accounts payable	577,852	12,864
Due to related party (note 8)	50,000	4,554
Promissory note	—	10,000
	<hr/> 627,852	<hr/> 27,418

## SHAREHOLDERS' EQUITY

Share capital (note 5)	4,307,100	97,500
Deficit	198,468	—
	<hr/> 4,108,632	<hr/> 97,500
	<hr/> 4,736,484	<hr/> 124,918

Approved by the Directors

  
Director

  
Director

**CONSOLIDATED STATEMENT OF RESOURCE PROPERTIES AND  
DEFERRED EXPLORATION AND ADMINISTRATION COSTS**

For the Year Ended August 31, 1986

	1986 \$	1985 \$
<b>Resource properties</b>	21,027	—
<b>Exploration costs</b>		
Assays	10,028	—
Consulting	3,001	—
Drafting	1,034	—
Drilling	123,783	—
Engineering	48,017	—
Environmental	4,911	—
Equipment services	54,223	—
Field services	30,930	—
Property fees	2,180	—
Room and board	40,260	—
Transportation	29,293	—
Tunnelling	111,966	—
Wages	109,696	—
	569,322	—
Less: Portion financed through flow-through financing (note 6)	418,545	—
	150,777	—
<b>Administration costs</b>		
Advertising	1,538	—
Bank charges	215	14
Commissions	19,395	—
Legal and audit	17,433	10,577
Licenses and fees	747	1,410
Office	7,101	154
Rent	1,719	600
Salaries	8,666	9,000
Stock exchange and transfer fees	3,217	1,738
Telephone	2,442	337
Transport	—	800
	62,473	24,630
Less: Interest income	(40,099)	(69)
Other recoveries	(16,819)	—
	5,555	24,561
<b>Resource properties and deferred exploration and administration costs for the year</b>	177,359	24,561
<b>Resource properties and deferred exploration and administration costs — beginning of year</b>	124,344	99,783
	301,703	124,344
Less: Amounts written off to deficit	(198,468)	—
<b>Total resource properties and deferred exploration and administration costs</b>	103,235	124,344

**CONSOLIDATED STATEMENT OF  
CHANGES IN FINANCIAL POSITION**  
For the Year Ended August 31, 1986

	1986 \$	1985 \$
<b>Operating activities</b>		
Net change in non-cash working capital items	(286,293)	(7,937)
<b>Investing activities</b>		
Resource properties and deferred exploration and administration costs	(595,904)	(24,561)
Less: Portion financed by PMX 86 Limited Partnership	418,545	—
	(177,359)	(24,561)
Purchase of furniture and fixtures	( 14,947)	—
	(192,306)	(24,561)
<b>Financing activities</b>		
Issue of share capital (for cash)	4,209,600	—
Net increase (decrease) in cash during year	3,731,001	(16,624)
Cash and term deposits — beginning of year	387	17,011
Cash and term deposits — end of year	3,731,388	387

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended August 31, 1986

**1. Change of name**

On December 2, 1985 the company changed its name from Petrobotics Ventures Ltd. to North American Metals Corp.

**2. Operations**

The company is in the exploration and development stage. The underlying value of the mineral properties and related deferred costs is entirely dependent upon the existence of economic mineral reserves.

**3. Significant accounting policies**

**Principles of Consolidation**

The accounts of the company include the accounts of its wholly-owned subsidiary, North American Metals B.C. Inc.

**Resource Properties**

The costs of resource properties and related exploration and administration costs are deferred until the properties to which they relate are placed into production, sold or abandoned. These costs will be amortized over the estimated useful life of the properties following the commencement of production or written off if the properties are sold or abandoned.

Administration costs not directly related to mineral properties are written off to deficit.

**Furniture and Fixtures**

Furniture and fixtures are recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful life of the asset once the assets have been put into use.

**Earnings Per Share**

Earnings per share data has not been provided as it is not considered meaningful at this stage of the company's activity.

**4. Resource properties and related deferred exploration and administration costs**

	Balance August 31, 1985 \$	Incurred (recovered) during year \$	Written off during year \$	Balance August 31, 1986 \$
Golden Bear	—	103,235	—	103,235
Clifford Mine	—	90,943	90,943	—
Tulsa County	124,344	(16,819)	107,525	—
	124,344	177,359	198,468	103,235

(a) Under an agreement with Chevron Minerals Ltd., the company has the right to earn up to a 50% participating interest in the Golden Bear Property in Atlin Mining District, British Columbia. The company must spend an aggregate of \$9,000,000 in qualifying exploration costs by June 10, 1989 in stages to earn its interest:

	\$
By June 10, 1987	3,000,000
By June 10, 1988	2,500,000
Total expenditures to earn a 33 $\frac{1}{3}$ % interest	5,500,000
Additional expenditures by June 10, 1989 to earn a further 16 $\frac{2}{3}$ % interest	3,500,000
<b>Total required expenditures</b>	<b>9,000,000</b>

\$1,000,000 of expenditures required for the period to June 10, 1987 may be postponed to the period ended June 10, 1988 provided the company commits to the additional \$2,500,000.

The company is committed to spend the initial \$3,000,000 either by way of exploration work or by cash payment to Chevron Minerals Ltd. and, accordingly, \$3,000,000 has been placed in trust to fund the initial stage of this program.

The company has been awarded a \$100,000 grant for exploration of the Golden Bear Property under the British Columbia Financial Assistance for Mineral Exploration Programs. The grant is receivable upon submission and approval of documentation of an acceptable program of work and will be recorded in the accounts of the company at that time.

- (b) During the year the company spent \$90,944 in acquisition and initial exploratory work on the Clifford Mine Property in Nevada before abandoning its interest in the property.
- (c) The company has written down its investment in its Tulsa County, Oklahoma petroleum and natural gas leases to a nominal value of \$1 to reflect poor exploration results.

#### 5. Share capital

Authorized -  
30,000,000 common shares of no par value

Issued and fully paid -

	Shares	1986 \$	1985 \$
Issued for cash	3,588,000	4,299,600	90,000
Issued for mineral properties	2,250,000	7,500	7,500
	5,838,000	4,307,100	97,500

During the year the company issued the following common shares:

	Shares	\$
Private placements		
For cash at \$0.75 per share	300,000	225,000
For cash at \$3.30 per share	1,200,000	3,960,000
Employees' and directors' options		
For cash at \$0.75 per share	288,000	216,000
Commissions	—	(191,400)
	1,788,000	4,209,600

During the year, the company granted options to employees and directors as follows:

Number of shares	Price per share	Expiry date
300,000	\$ .75	September 7, 1987
102,500	\$2.05	October 9, 1987

Of these options, 288,000 were exercised during the year to net the company \$216,000. 2,250,000 common shares are subject to escrow restrictions.

#### 6. Flow-through financing

During the year, the company entered into a flow-through financing arrangement with PMX 86 Limited Partnership (PMX) whereby PMX can earn, in stages, up to a 7% interest in the company's interest in the Golden Bear Property by spending \$700,000 in qualifying expenditures on the property before September 30, 1986.

The company has expended \$418,545 in qualifying expenditures as at August 31, 1986 which will be received from PMX upon presentation of appropriate documentation.

#### 7. Subsequent events

- (a) Subsequent to year end, the company, through its subsidiary, North American Metals B.C. Inc. (NAMBCI), entered into a flow-through share financing agreement under which deductions available for tax purposes are transferred to the subscribers for its shares. Under the terms of the agreement, the subscribers will expend \$3,300,000 on NAMBCI's resource properties and receive voting preferred shares of NAMBCI. These shares are redeemable by NAMBCI for cash in the amount of \$1,914,000.

The difference between the expended amounts and the redemption price of the share consideration is the value of the tax benefits of those expenditures which have been received by the subscribers and will be accounted for as a deduction from deferred costs.

- (b) Subsequent to year end, the company entered into an agreement with High D'Or Developments, a company controlled by a director, by which it can earn in stages a 50% working interest in a 49,400 hectare mineral prospect in Manitoba, by making exploration and development expenditures totalling \$1,085,000 by December 31, 1990.

#### 8. Related party transactions

During the year, the company paid \$9,000 in salaries and fees to a director. In addition, a director lent the company \$50,000 with interest at 12% per annum. There are no specified terms of repayment.

#### 9. Comparative figures

Comparative figures were reported on by other auditors.

## CORPORATE INFORMATION

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### Officers

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Robert G. Hunter, President  
Robert A. Dickinson, B.Sc., M.B.A.,  
Secretary

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### Directors

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D.M.R. Clark  
Robert A. Dickinson  
Eric V. Friedland  
Robert G. Hunter  
Alistair M.R. MacLennan

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### Corporate Address

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1020 - 800 West Pender Street  
Vancouver, B.C.  
V6C 2V6  
Telephone (604) 684-8330

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### Solicitors

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Sobolewski, Anfield  
1600 - 609 Granville Street  
Vancouver, B.C.  
V7Y 1C3

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### Auditors

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Coopers & Lybrand  
1111 West Hastings Street  
Vancouver, B.C.  
V6E 3R2

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### Transfer Agent

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Canada Trust  
1055 Dunsmuir Street  
Vancouver, B.C.  
V7X 1P3

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### Bank

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Canadian Imperial Bank of Commerce  
400 Burrard Street  
Vancouver, B.C.  
V6C 3A6

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### Trades

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Vancouver Stock Exchange  
Trading Symbol — NAM

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### Capitalization

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Common authorized	30,000,000
Issued	5,850,000
Fully diluted	5,952,500

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### Annual Meeting

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The Annual General Meeting of the Shareholders of North American Metals Corp. will be held in the Connaught Room, Mandarin Hotel, Vancouver, B.C. at 2:00 p.m. on Wednesday, December 10, 1986.



**NORTH AMERICAN METALS CORP.**

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Vancouver, B.C.  
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