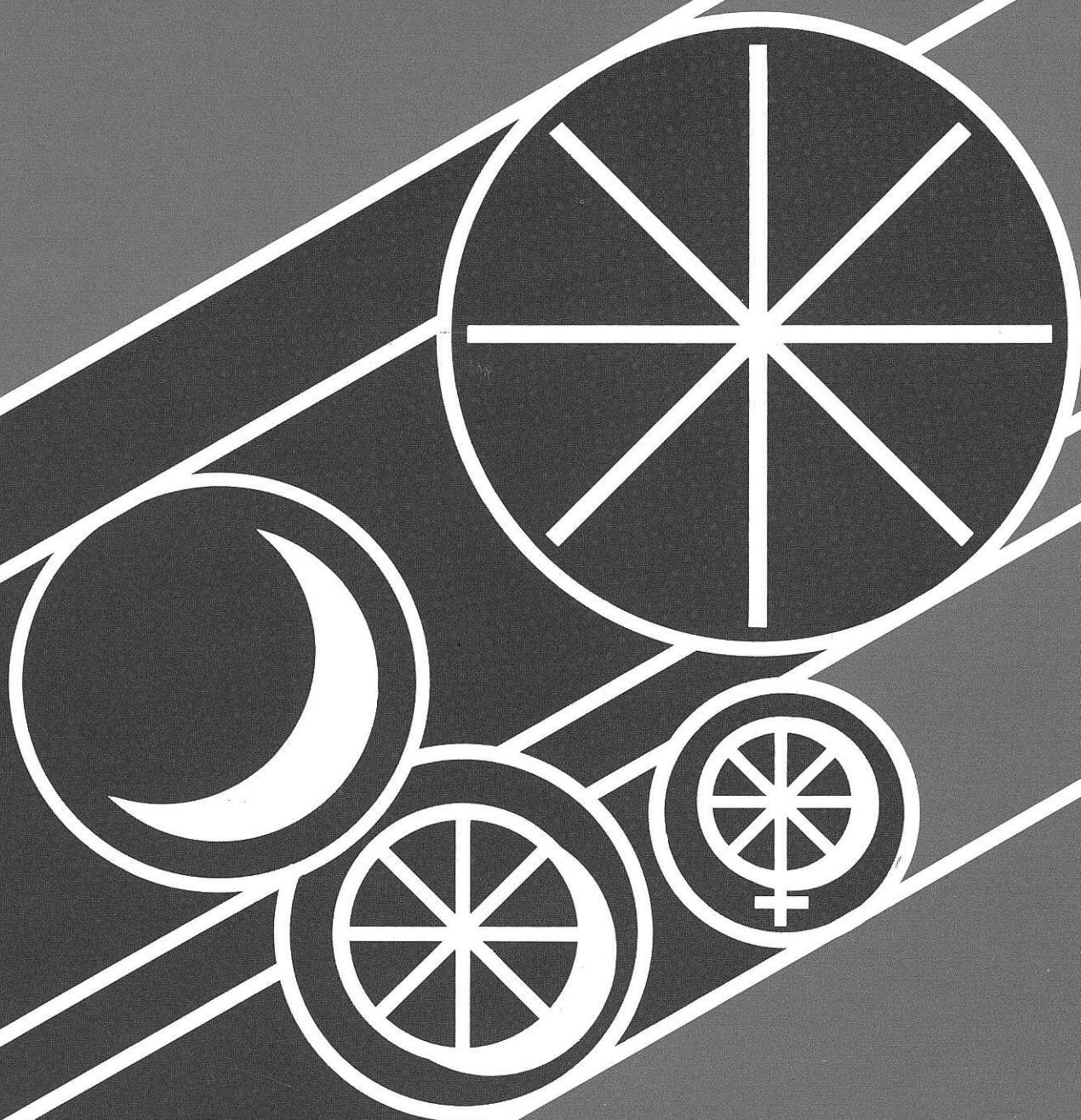


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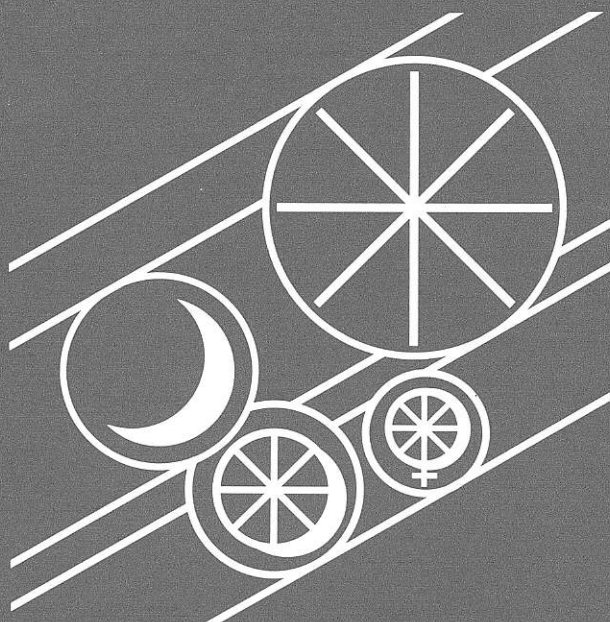
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Esperanza Explorations Ltd.
Annual Report 1980



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Annual Report 1980



Our Cover

Depicted on the cover are symbols originally applied to chemicals by the alchemists and later used by early geologists referring to minerals. From left, clockwise: silver, gold, gold-copper sulphurets and gold-copper-silver sulphurets.

President's Report

I am pleased to report on Esperanza's first year of activity as a public company and to welcome you as shareholders of what promises to be an exciting enterprise. During the year, Esperanza's first public offering of shares raised \$500,000 and the Company was listed on the Resource and Development Board of the Vancouver Stock Exchange.

Management's initial emphasis is on the search for and development of precious metals as well as participation in oil and gas exploration ventures with promise of quick cash flow. With the establishment of early cash flow and a solid working capital base, selected gold and silver prospects will be developed by the Company. Two such promising properties are the *Wisconsin Gold* and *Tillicum Gold* prospects which were the subject of exploration work in 1980.

Detailed evaluation of the Company's *Wisconsin Gold* property, located in the Nelson area of British Columbia, has indicated reserves of 150,000 tons grading 0.36 ounces per ton gold and 3.0 ounces per ton silver. A fifty percent participation in the Welcome North-Esperanza Joint Exploration Program led to acquisition of the *Tillicum Gold* property near Burton, British Columbia, where a bulk grab sample assay returned values of 2.49 ounces per ton gold, 1.92 ounces per ton silver, and where potential exists for readily extractible high-grade zones and development of additional lower-grade reserves.

Esperanza's 1980 exploration programs included large-scale regional prospecting, property evaluation and acquisition bringing to 24 the number of mineral properties held by the Company.

Within the past year, Esperanza also vended its interest in the Carmacks Freegold Project, Yukon Territory, in consideration for cash and 700,000 escrowed shares of Arctic Red Resources Corp., a public company trading through the facilities of the Vancouver Stock Exchange. Seven of Esperanza's other properties were optioned to outside participants for on-going work and negotiations are in progress to option three of the remaining prospects.

Plans for 1981 include the further exploration and development of the *Tillicum Gold* property which

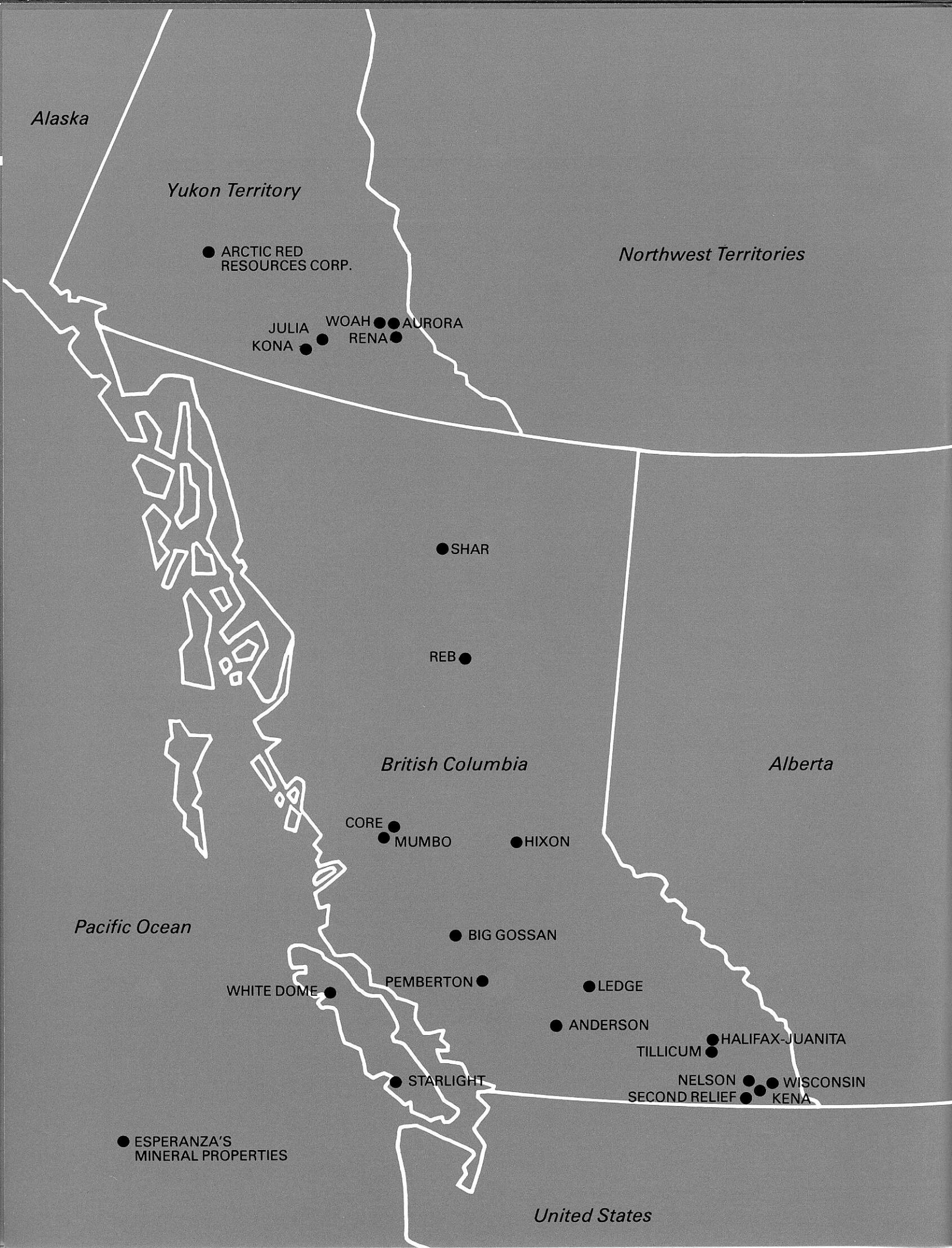
will proceed in 1981 as soon as weather permits; offers of participation by outside interests in the *Wisconsin Gold* property are being considered. Arctic Red Resources has planned a substantial program of work in 1981 on the Freegold properties and at least seven properties will see exploration work by optionees. Where warranted, Esperanza will continue to acquire interests in new oil and gas and mineral ventures.

The interest of our shareholders is greatly appreciated by Esperanza's Board of Directors and we look forward to your continued support in the year of progress ahead.

On behalf of the Board,



John S. Brock
President
March 17, 1981



Exploration Review

Much of the thrust of the 1980 exploration program was directed towards the search for and development of gold-silver properties throughout British Columbia and the Yukon.

Of the 24 mineral properties in which the Company owns interests, the following saw the most extensive exploration work in 1980:

Wisconsin

The Wisconsin gold property, held by Esperanza through an option agreement, is located 25 km southeast of Nelson, B.C.

Underground sampling of the Number One Vein has confirmed results obtained by prior operators, typical grades being 0.36 ounces of gold and 3.0 ounces of silver per ton over average widths of 2 metres. The potential reserve on this vein amounts to 150,000 tons with the structure apparently open to extension beyond present workings both on strike and dip.

Geochemical surveys have defined three zones anomalous in gold. The Number One Zone, having a strike length of 300 metres, reflects the surface trace of the Number One Vein. Sampling of surface exposures within this anomaly yielded average grades approximating those obtained underground. The other two anomalies are of a magnitude similar to the Number One Zone and further geochemical sampling is required to define their ultimate limits.

On-going exploration will include metallurgical test work, access road construction, bulldozer trenching of geochemical anomalies and known gold occurrences as well as diamond drilling.

Tillicum

Esperanza, in a 50-50 joint venture with Welcome North Mines, is exploring a new gold discovery in the Arrow Lakes area of British Columbia. A 19 kg bulk sample taken from a test pit on the Tillicum showing assayed 2.49 oz. gold and 1.92 oz. silver

per ton. The bulk sample confirms assays from chip samples taken in 1980. Apart from test-pitting and sampling of one surface occurrence, no detailed exploration has been carried out on the ground.

The 1981 exploration program will include access road construction, geological mapping, geochemical surveys and trenching. Funds have been allocated for diamond drilling later in the field season. It is also planned to mine the high-grade occurrence in mid-1981, potential revenue from direct-shipping ore will be used to further explore and develop the property.

The Tillicum property is located 6 km south of the Millie Mack prospect presently under development by Semper Resources Inc.

Hixon

The Hixon gold property is located 50 km south of Prince George and lies on the upstream edge of the Hixon Creek Placer workings, which have had intermittent production since the 1860's.

Gold occurrences in bedrock have been known in the area since the 1870's. From time to time they have been investigated by limited underground workings and wall rocks were extensively sampled in 1933 by engineers who reported that a "large tonnage" of greenstone would run 0.7 ozs. gold per ton. The workings are now flooded and inaccessible.

Golden Rule Resources, under an option agreement, have completed orientation geophysical and geochemical surveys over the Hixon property. Further more detailed surveys followed by drilling are planned in 1981.

Core

The Core property, south of Houston, B.C. at Whitesail Lake, holds good potential for large-tonnage reserves of copper and silver. Six widely separated mineral occurrences have been located in volcanic rocks; one, the Main Showing, has been traced for about 200 metres along strike. Three grab samples, each taken over a 3.3 metre width from this showing, average 0.96% copper and 0.64 ozs. silver per ton.

A geophysical and geochemical program is planned for 1981 by Esperanza which owns a 50% interest in the property.

Exploration Review *continued*

Big Ledge Extension

The Big Ledge Extension zinc property lies on the west shore of Upper Arrow Lake about 70 km south of Revelstoke, B.C. and is accessible by road.

The property consists of the southern and eastern extensions of Cominco's Big Ledge stratabound zinc deposit. Cominco's claims in the area contain a large reserve of low-grade zinc totalling several hundred million tons.

The Big Ledge Extension is held by Esperanza through an option agreement.

Previous work indicated two separate areas of interest. The eastern area extends some 4 km east from the Cominco ground. Earlier work in this area has outlined a number of mineral bands and showings which may represent as many as six favourable stratigraphic horizons. The other area of interest on the Esperanza ground lies to the south of the Cominco holdings and contains the southern extension of the stratigraphy which hosts their deposit.

The Big Ledge Extension has recently been optioned to E & B Explorations Inc., for further exploration in 1981.

Reb

The Reb zinc-lead property is in northeastern B.C. to the east of Williston Lake and about 37 km north-east of the village of Ingenika.

The prospect is a shale-hosted pyritic massive sulphide body. It is located some 70 km to the southeast of the significant Cirque lead-zinc deposit

being explored by Cyprus Anvil Mines and Hudson's Bay Oil and Gas.

On the Reb property a section of massive sulphides is exposed over a true thickness of about 20 metres.

Esso Minerals, which optioned the property, conducted geochemical programs in 1980. Results of this work warrant scheduling of a follow-up program in 1981.

Aurora and Rena

The Aurora and Rena prospects were discovered late in the 1980 field season and, therefore, have not been extensively explored.

The Aurora tungsten prospect occurs in a quartz diorite host rock and is located 32 km west of the Canada Tungsten Mine. Tungsten and associated molybdenum mineralization is indicated to occur over an extensive area within the intrusive rock.

The Rena molybdenite prospect lies 6 km to the south of the Aurora and contains ten separate mineral showings within a 6 square km area. The mineralization is believed to relate to a quartz-potassium-feldspar rich plug within a quartz diorite batholith. Although very early in their development, both of these prospects, through their geological environment, imply potentially large tonnage bases.

An option agreement signed with Union Carbide involves a cash payment of \$100,000 which has been paid, and on-going advance royalty payments aggregating an additional \$410,000 over a five-year period. Esperanza will retain a 2½ percent royalty interest in future gross production proceeds.

Union Carbide, as operator, plans detailed evaluations of the Aurora and Rena properties in 1981.

Julia

The Julia massive sulphide occurrences containing copper and gold values are located south of Ross River, Yukon, and 6 km west of the Robert Campbell Highway.

The Julia has been optioned to Arbor Resources Inc., which plans to carry out geochemical and geophysical surveys in 1981; diamond drilling, if warranted, will follow. Esperanza has a 2½ percent Net Smelter Return Interest in the Julia, which is subject to buy-out for cash and shares of Arbor Resources.

Kona

Esperanza owns a 50 percent interest in the Kona claims, located 100 km south of Ross River, Yukon. The property covers the Fyre Lake massive sulphide occurrences plus a new mineralized extension discovered by recent prospecting of the area.

The original showings, including a 7.3 metres thick copper-bearing volcanogenic massive pyrite deposit, are underlain by a more extensive copper-rich silicate iron formation ranging in thickness from 3 to 12 metres. Twenty bore holes, drilled over 15 years ago, gave an average grade of 1.05% copper, 0.24 oz. per ton silver, 0.025 oz. per ton gold and 1.03% zinc.

The extensive disseminated sulphides in the new discovery are considered to add significant exploration potential to the property. A participant is being sought to further explore the Kona through an option agreement.

Arctic Red Resources Corp.

Included in other Esperanza properties and interests are 700,000 escrowed shares of Arctic Red Resources Corp. Arctic Red holds the rights to further explore and develop precious metals deposits in the Mount Freegold area located west of Carmacks, Yukon, including the La Forma Mine which contains reported proven and probable reserves of 68,500 tons of 0.44 oz. gold per ton.

Underground exploration and development at the La Forma is scheduled to proceed in 1981. Exploration and drilling will be conducted on other previously drill-indicated gold-silver bearing zones in

the adjoining East Block area where a large soil geochemical anomaly high in gold has been delineated.

Arctic Red carried out geological mapping and geochemical sampling in 1980 to further evaluate this anomaly and establish its dimensions. The zone of interest is a geochemically anomalous intrusive quartz-feldspar porphyry breccia approximately 490 metres long by 430 metres wide. Outstandingly high coincident gold and arsenic geochemical values are associated with the breccia complex. Anomalous responses in excess of 160 ppb gold and 250 ppm arsenic have been outlined against background values of 1 ppb gold and 5 ppm arsenic.

Discovery Mines previously explored the breccia with only a limited amount of drilling. The best intersections in this program included a 74 ft. intersection assaying 0.068 oz. Au/ton and 0.116 oz. Ag/ton in Hole R75-22, and 79 ft. assaying 0.061 oz. Au/ton, and 0.327 oz. Ag/ton in hole R75-05.

Part of the breccia is higher in silver. For example, hole R75-23 intersected 0.925 oz. Ag/ton over 114'.

Arctic Red Resources Corp. completed a primary distribution of its shares to the public in November 1980 to raise \$800,000. The shares of Arctic Red were called for trading on the Vancouver Stock Exchange in March of 1981.

Balance Sheet as at December 31, 1980

Assets

	1980 \$	1979 \$
Current Assets		
Cash	173,361	41,696
Receivables	18,647	10,000
	<u>192,008</u>	<u>51,696</u>
Resource Assets (note 3)	420,306	349,652
Incorporation Cost		350
	<u>612,314</u>	<u>401,698</u>

Liabilities

Current Liabilities		
Due to Welcome North Mines Ltd. (notes 6 and 7)	14,933	39,698
Other payables	24,984	1,500
	<u>39,917</u>	<u>41,198</u>

Shareholders' Equity

Capital Stock (note 4)		
Authorized —		
5,000,000 common shares without par value		
Issued and fully paid —		
2,072,500 shares (1979 — 1,572,000 shares)	860,500	360,500
Deficit	<u>288,103</u>	<u>360,500</u>
	<u>572,397</u>	<u>360,500</u>
	<u>612,314</u>	<u>401,698</u>

APPROVED BY THE DIRECTORS

Director

Director

Statement of Deficit for the Year Ended December 31, 1980

	1980 \$	Period from February 21, to December 31, 1979 \$
Deficit — Beginning of Year	Nil	Nil
Deferred costs written off	277,689	
Cost of properties abandoned	28,414	
Gain on disposal of mineral claims	(17,764)	
Income from oil and gas leases	(586)	
Incorporation costs	350	
Deficit — End of Year	<u>288,103</u>	<u>Nil</u>

Statement of Changes in Financial Position for the Year Ended December 31, 1980

	1980 \$	Period from February 21, to December 31, 1979 \$
Source of Working Capital		
Issue of share capital	500,000	360,500
Property option payments received	150,000	10,000
Proceeds on disposal of mineral claims	30,001	
Oil and gas payments received	1,927	
	<u>681,928</u>	<u>370,500</u>
Use of Working Capital		
Interest in mineral properties	124,009	66,299
Interest in oil and gas leases	3,510	7,224
Exploration and administration expenses	412,815	286,129
Investment in Arctic Red Resources Corp.	1	
Incorporation costs		350
	<u>540,335</u>	<u>360,002</u>
Increase in Working Capital	141,593	10,498
Working Capital — Beginning of Period	10,498	Nil
Working Capital — End of Period	<u>152,091</u>	<u>10,498</u>
Represented By:		
Current assets	192,008	51,696
Current liabilities	39,917	41,198
Working Capital — End of Period	<u>152,091</u>	<u>10,498</u>

Schedule of Deferred Exploration and Administration Costs for the Year Ended December 31, 1980

		Period from February 21, to December 31,
	1980	1979
	\$	\$
Expenditures During the Year		
Exploration		
Assays and geochemical analysis	27,119	16,168
Camp maintenance	17,372	20,701
Consulting fees	39,215	24,501
Drilling	6,882	
Expediting	6,069	2,909
Field equipment and supplies	6,705	9,808
Management fee		23,154
Maps, printing and drafting	5,221	
Miscellaneous	14,211	4,729
Salaries and wages	144,021	100,358
Survey — geophysical	2,222	
Transportation	64,012	69,398
Trenching	5,193	
	<u>338,242</u>	<u>271,726</u>
Net administration costs for the period — per Schedule	<u>87,435</u>	<u>17,175</u>
	<u>425,677</u>	<u>288,901</u>
Less: Interest income	<u>12,863</u>	<u>2,772</u>
Net Expenditures During the Year	<u>412,814</u>	<u>286,129</u>
Balance — Beginning of Year	<u>286,129</u>	
	<u>698,943</u>	<u>286,129</u>
Less: Costs written off to deficit	<u>277,689</u>	
Balance — End of Year	<u>421,254</u>	<u>286,129</u>

Schedule of Administration Costs for the Year Ended December 31, 1980

		Period from February 21, to December 31, 1979
	1980 \$	1979 \$
Accounting and audit	4,507	1,500
Advertising and promotion	243	
Bank charges	238	12
Donations		50
Insurance		359
Legal	17,897	7,091
Licences and taxes	315	
Management fee	3,000	
Miscellaneous	1,388	400
Office rent, heat and light	7,757	1,500
Printing and reproduction	2,566	1,000
Salaries	40,423	4,000
Stationery and supplies	2,964	519
Stock exchange	3,000	
Subscriptions and memberships	836	
Telephone and telegraph	1,448	600
Travel and accommodation	113	144
Trust company	740	
Administration Costs for the Year	<u>87,435</u>	<u>17,175</u>

Notes to Financial Statements for the Year Ended December 31, 1980

1. Operations

Mineral Properties

The company is in the exploration stage with respect to its interest in certain mineral properties and, on the basis of information to date, does not yet have economically recoverable reserves. The underlying value of the mineral properties and related deferred costs is entirely dependent on the existence and economic recovery of such reserves in the future.

Petroleum and Natural Gas Properties

The company is in the development stage with respect to its interest in certain petroleum and natural gas leases, having established the existence of certain proven and economically recoverable reserves, and in the exploration stage with respect to other interests. With regard to the proven reserves, the company does not yet consider itself to be in commercial production since sufficient reserves in the field have not yet been established.

2. Significant Accounting Policies

Interest in Mineral Properties, Oil and Gas Leases and Related Deferred Costs

The company records its interests in mineral properties and areas of geological interest at cost less option payments received and other recoveries. Exploration and administration costs relating to these interests and projects are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold or allowed to lapse. These costs will be amortized over the estimated useful life of the property following commencement of production or written off if the mineral properties or projects are sold or allowed to lapse.

The company allocates administration costs to mineral properties and areas of geological interest in proportion to the exploration and development costs.

The costs of interests in oil and gas leases are being amortized on the unit of production basis.

3. Resources Assets

	1980 \$	Period from February 21, to December 31, 1979 \$
Interest in Mineral Properties, Oil and Gas Leases and Related Deferred Costs		
Cost of mineral properties and areas of geological interest	149,659	66,299
Deferred exploration costs —		
Paid for by the issuance of shares	215,000	215,000
Paid or to be paid for by cash	206,254	71,129
	421,254	286,129
Interest in oil and gas leases — net of amortization of \$1,341; 1979 — \$nil	9,392	7,224
	580,305	359,652
Deduct: Property option payments	160,000	10,000
	420,305	349,652
Investment in Arctic Red Resources Corp.	1	
	420,306	349,652

The company owns, or is acquiring under options, eleven mineral properties, or interests therein, located in British Columbia and the Yukon Territory. These options do not involve firm commitments and no liability has been provided.

The company also has a 50% interest in eight mineral properties under the terms of a joint exploration agreement (note 6).

Certain of the company's mineral properties are subject to option agreements under the terms of which the company may relinquish interests in these properties in return for cash payments and other consideration. These options do not involve firm commitments and no receivables are recognized unless the optionee has agreed to make the option payment.

During the year, the company sold mineral properties to Arctic Red Resources Corp. (Arctic Red) in exchange for \$30,000 cash and 700,000 shares of Arctic Red which are held in escrow. The company owns 24% of the outstanding shares of Arctic Red. The gain on disposal of the mineral properties has been computed based upon the cash received. The shares have been recorded at a nominal amount of \$1.

4. Capital Stock

Authorized —

5,000,000 common shares without par value

Issued and fully paid —

	Number of shares	\$
Balance — Beginning of year		
Issued for cash	1,357,500	145,500
Issued for exploration expenditures incurred	215,000	215,000
	1,572,500	360,500
Issued during the year — for cash	500,000	500,000
Balance — End of year	2,072,500	860,500

During the year, the company granted stock options on 100,000 shares to certain employees at prices of \$1.28 and \$1.53 per share. The granting of the options is subject to the approval of regulatory authorities.

The company has agreed to issue, subject to the approval of regulatory authorities, 40,000 shares at deemed prices varying from \$1.85 to \$2.20 per share. The total amount to be ascribed to these shares is \$83,500. The shares are to be issued in consideration of certain parties releasing the company from obligations under contracts relating to mineral properties controlled by the company.

5. Income Taxes

Deferred exploration costs include \$215,000 of Canadian Exploration Expenditures, incurred by the contributors to the Esperanza Project 1979, which will not be deductible by the company for income tax purposes.

6. Commitments

Under the terms of an agreement dated April 30, 1980 the company entered into a joint exploration programme with Welcome North Mines Ltd. (Welcome North) whereby all exploration and property acquisition costs are to be divided equally.

Under the terms of an agreement dated June 1, 1980 between the company, Welcome North and

Notes to Financial Statements for the Year Ended December 31, 1980 *cont'd.*

certain contributors, a \$650,000 exploration programme was undertaken. The first \$325,000 incurred under the programme was borne by Welcome North and to December 31, 1980 the company has incurred costs of \$220,569 and, under the terms of the agreement, is obligated to incur a further \$104,431.

The directors and management of the company are also the directors and management of Welcome North Mines Ltd.

7. Statutory Information

The aggregate remuneration paid or payable by the company during the year to its directors and senior officers, as defined by the British Columbia Companies Act, amounted to \$44,422.

Auditors' Report to the Shareholders

We have examined the balance sheet of Esperanza Explorations Ltd. as at December 31, 1980 and the statements of deficit 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 financial statements present fairly the financial position of the company as at December 31, 1980 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 period.

Vancouver, B.C.
February 27, 1981

COOPERS & LYBRAND
Chartered Accountants

Corporate Data

Directors and Officers

John S. Brock,
President & Director
Irene Wilson,
Secretary and Director
J. T. Lau,
Director
David C. Pegg,
Director
Ian C. Ross,
Assistant-Secretary
Daniel W. Blackwood,
Assistant-Secretary
John R. McLean,
Assistant-Secretary

Head Office

1027-470 Granville Street
Vancouver, B.C. V6C 1V5

Registered Office

3000 Royal Centre
1055 West Georgia Street
Vancouver, B.C. V6E 3R3

Records Office and Transfer Agent

Guardian Estates & Agencies Ltd.
#404-470 Granville Street
Vancouver, B.C. V6C 1V8

Solicitors

Bull, Housser & Tupper
3000-1055 West Georgia Street
Vancouver, B.C.
V6E 3R3

Bank

Canadian Imperial Bank of Commerce
Granville at Hastings Street
Vancouver, B.C.

Consultants

Dolmage, Campbell & Associates Ltd.
1000-1055 West Hastings Street
Vancouver, B.C.

Archer Cathro & Associates Ltd.
1016-510 West Hastings Street
Vancouver, B.C.

G.H. Rayner & Associates Ltd.
626 Duchess Avenue
West Vancouver, B.C.

I.M. Watson & Associates Ltd.
410-675 West Hastings Street
Vancouver, B.C.

Capitalization

5,000,000 Shares of no par value
2,072,500 Shares issued to March 15, 1981

Stock Exchange Listing

Vancouver Stock Exchange
Resource and Development Board
Symbol: EEP