Craigmont Mines Limited

Annual Report 1982

Highlights

	1982	1981
OPERATIONS —		
Concentrate produced — copper - tons	**10,500**	35,800
— iron - tons	**462,700**	133,300
Concentrate sales — iron - tons	**39,300**	35,500
Concentrate sales — copper	**$ 6,478,000**	$11,767,000
— iron	**2,010,000**	1,324,000
Net earnings	**604,000**	1,037,000
FINANCIAL POSITION—		
Cash and short-term investments	**$ 2,718,000**	$ 5,710,000
Working capital	**6,247,000**	9,668,000
Total assets	**9,287,000**	13,543,000
Shareholders' equity	**7,897,000**	11,355,000
PER SHARE —		
Net earnings	**$0.12**	$0.20
Dividends	**0.80**	1.40
Book value	**1.56**	2.24

(tons = short dry tons)

Corporate Information

DIRECTORS

WILLIAM ALLAN,
West Vancouver, B.C.
Group Vice-President
Noranda Mines Limited

C. ALLEN BORN,
Vancouver, B.C.
President and Chief
Executive Officer
Placer Development Limited

JAMES L. McPHERSON,
West Vancouver, B.C.
Vice-President of the Company
Senior Vice-President and
Chief Financial Officer
Placer Development Limited

HENNING A. NORGAARD,
Merritt, B.C.
President
Norgaard Ready-Mix Ltd.

ANTHONY J. PETRINA,
North Vancouver, B.C.
President of the Company
Senior Vice-President and
Chief Operating Officer
Placer Development Limited

ARTHUR K. POUSSETTE,
Victoria, B.C.
Retired

OFFICERS

Anthony J. Petrina, *President*
James L. McPherson, *Vice-President*
Donald Hallam, *Secretary*
Geoffrey D. Bach, *Treasurer*
Ted J. Will, *Comptroller*
Sheryl A. Thomson, *Assistant Secretary*

DEPARTMENT HEADS

William D. Diment, *Mine Manager*
Ernest F. Jones, *Plant Superintendent*
Dwight G. Reynoldson, *Chief Accountant*
Nels B. Vollo, *Exploration Manager (Kamloops)*

AUDITORS

Campbell Sharp
Chartered Accountants

REGISTRAR AND TRANSFER AGENT

Guaranty Trust Company of Canada — Vancouver and Toronto

STOCK EXCHANGE LISTINGS

Toronto Stock Exchange
Vancouver Stock Exchange

ANNUAL MEETING

The Annual General Meeting of the Company will be held at 11:00 a.m. on Thursday, January 27th, 1983 in the Tweedsmuir Room, Hotel Vancouver, 900 West Georgia Street, Vancouver, British Columbia.

OFFICES

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Telephone (604) 682-7082
Telex 04-55181

Mine Office:
P.O. Box 3000
Merritt, B.C. V0K 2B0

Directors' Report to the Shareholders

In 1982 Craigmont continued to be profitable despite recessionary conditions and the winding down of the Company's operations.

Net earnings in the fiscal year ended October 31, 1982 were $604,000 or $0.12 per share on revenues of $9,355,000. In 1981 net earnings were $1,037,000 or $0.20 per share on revenues of $13,971,000. With the last copper concentrate produced and shipped in the early part of the year, sales revenue for 1982 was significantly lower. Earnings were also affected by costs of approximately $1,200,000 related to mine closure.

As the ore reserves of most mines are exhausted, the economies of large-scale production are often lost. Craigmont has, however, been able to minimize this effect through early planning for the closure and because of the high level of co-operation and team spirit displayed by its work force. These factors have contributed to an orderly wind-down of operations and continued profitability.

Following commencement of operations in September 1961, Craigmont paid its first dividend in April 1963 and has since paid a dividend each year. These have amounted to $21.10 per share, totalling $107,131,000. In 1982, dividends of $0.80 per share were paid, amounting to $4,062,000. In recent years dividend payments have been substantially in excess of current earnings and were possible because the Company's cash position was in excess of its operating requirements. Future dividends will depend on revenue from the sale of iron concentrate and the disposal of assets. At year-end, cash and short-term investments were $2,718,000 (1981 - $5,710,000).

Processing of copper ore ended in March 1982 and milling of the coarse iron to media grade quality will be completed in December 1982. Production of iron concentrate is well in excess of market requirements and a stockpile of approximately 600,000 tons will remain to be sold when processing is complete. Offers were solicited for the bulk purchase of the stockpile but, to date, no satisfactory bids have been received. Craigmont is a key supplier of heavy media grade iron concentrate to western Canadian coal mines where the product is used as a cleaning medium for metallurgical coal. Deliveries of iron concentrate in 1982 were 39,300 tons (1981 - 35,500 tons). Although the long-term sales prospects are good for Craigmont's iron concentrate, the recession has depressed metallurgical coal production so that iron concentrate deliveries in 1983 may be reduced.

All operations, with the exception of the continuing sale of iron concentrate, will terminate by December 31, 1982 following which it is the intention of the Directors to begin the process of liquidating the assets. The liquidation will be timed with the objective of obtaining fair prices and it is, therefore, difficult to predict either the final value of the assets or the length of time which will be required to dispose of them. In addition to the stockpile of iron concentrate, the assets to be sold include buildings, plant, equipment and parts inventory, oil and gas and other mineral properties. When all assets have been liquidated the Directors will recommend to shareholders that the Company be wound-up.

OPERATIONS

Simultaneous treatment of copper ore and coarse iron commenced in 1981 and continued until depletion of the copper ore reserves at the end of March 1982. The concentrator was then converted to process coarse iron exclusively and the underground workings were abandoned and sealed. During the remainder of the year processing of the coarse iron continued. Reclamation and salvage operations were undertaken leading to a total shut-down of operations in December 1982.

From November 1, 1981 to February 15, 1982 mining operations produced 287,000 tons of copper ore at an average grade of 0.88% copper (1981 - 1,300,000 tons at 0.76% copper). The concentrator milled 342,000 tons of ore averaging 0.89% copper (1981 - 1,536,000 tons averaging 0.70% copper). A total of 10,500 tons of copper concentrate was produced containing 5,696,000 pounds of copper (1981 - 35,800 tons; 19,947,000 pounds). In addition, 463,000 tons of media grade iron concentrate were produced from the processing of 768,000 tons of stockpiled coarse iron (1981 - 133,000 tons produced).

The last shipment of 10,300 tons of copper concentrate was made to Japan in February at a price of U.S. $0.69 per pound. In 1961 when Craigmont's first sales of copper concentrate occurred, the average price on the London Metal Exchange was U.S. $0.29 per pound which, adjusted to present currency values, is the approximate equivalent of U.S. $0.87 per pound. More than $425,000,000 in sales revenue has been earned by Craigmont since production began in 1961.

ORE RESERVES

The last copper ore was mined on February 15, 1982. On commencement of operations in 1961, Craigmont reported estimated ore reserves of 22,575,000 tons at 2.08% copper. During its life the mine yielded in excess of 36,750,000 tons of ore at an average grade of 1.30% copper, containing approximately 900,000,000 pounds of copper.

EXPLORATION

Exploration for hard minerals continued through 1982 at a cost of $432,000 (1981 - $892,000). Approximately 13,000 feet of diamond drilling and 35.4 miles of grid and geotechnical surveys were completed on four properties. A number of properties were submitted and although six with known mineralization were examined in detail, no agreements were made.

Exploration efforts were concentrated on the Falkland and Chu Chua prospects. Additional diamond drilling on the first of these failed to produce significant results and the property will be abandoned. Deep drilling continued on the Chu Chua property. Narrow widths of sulphide mineralization were intersected in several of the holes but none were of sufficient economic significance. In addition, recently delineated anomalies north of the deposit were drilled with negative results. Drilling is being continued in an attempt to finish the programme prior to the end of the 1982 field season.

Negotiations to extend an option on the Redbird molybdenum prospect were not successful and the project was subsequently dropped.

The Company has conducted exploration in British Columbia for many years in an effort to find an ore body which would allow it to continue as an operating entity. Unfortunately, the programme has not been successful and the likelihood that any of the present prospects will be commercially viable, is not great. The cost of the programme has not been high since it has been deductible from taxable income in the calculation of both income and mining taxes. As the Company's future resource income is likely to be low, the deduction will no longer be available when Craigmont's mining income ceases. It is expected that all exploration prospects will have been fully examined by the end of 1982 and the programme will terminate soon thereafter.

OIL AND GAS

At October 31, 1982 Craigmont held interests in 93,908 gross acres, equivalent to 16,495 net acres of oil and gas leases in Alberta and British Columbia (1981 - 94,416 and 16,657).

The Company has interests in three oil wells and one gas well in the Willesden Green field, Alberta, one gas well in the Buick Creek field, B.C. and one oil well and two potential gas wells in the Silverberry, B.C. area. Revenue from these amounted to $205,000 in 1982 (1981 - $129,000). Craigmont did not participate in drilling during the year although a joint-venture partner is committed to drill one well to the Cardium formation at Willesden Green to earn an interest in a half section of Company lease lands.

EMPLOYEE AND COMMUNITY RELATIONS

On October 31, 1982 the Company employed 52 persons (1981 - 158). Payroll and benefit cost in 1982 amounted to $3,793,000 (1981 - $6,363,000). The average income per employee in 1982, before severance entitlement, was $31,900 (1981 - $26,900). During its life the mine's total payroll has amounted to approximately $113,000,000. Following the cessation of mining and conversion of the mill to process coarse iron exclusively, the work force was reduced from 153. On termination, employees have received a total of $396,400 or an average of $4,350 per person in severance entitlements.

The Company and Union-sponsored, Hourly Rated Employees Savings Plan, initiated in 1971, provided a total payout of $301,600, or an average of $2,050 per bargaining unit employee at termination of his or her job.

A Management/Union Employment Assistance Programme was established in 1981 to assist employees in relocating. Of those who sought assistance, 62% were successful in finding new employment prior to, or immediately following termination.

A new, one-year collective agreement with Local 6523 of the United Steelworkers of America was signed in February 1982.

The Company continued its programme of scholarship assistance to: students who live in the Merritt area, are children of employees, or are engaged in mining-related studies. Five awards were made in 1982 at a total cost of $5,000.

Assorted items of historical mining significance, valued at approximately $22,000, were donated to the British Columbia Museum of Mining. These materials will be used for a display to inform the public of Craigmont's role in the British Columbia mining industry. A similar exhibit is also being prepared in the Nicola Valley Archives and Museum, Merritt.

RECLAMATION

It is estimated that up to three years will be required to complete the reclamation programme at an estimated cost of $150,000. Expenditures in 1982 amounted to $163,000 (1981 - $22,000).

The first approval of reclamation completed on 170 acres around the open pit has been received from the British Columbia Ministry of Mines, Energy and Petroleum Resources. Approval for the remaining 375 acres in this area is expected over the next few years when newly seeded grasses have become established.

A permanent 750-foot spillway was excavated to divert natural drainage around the tailing pond and prevent overflowing of the dam. The surface of the tailing pond will be seeded with a variety of grasses.

DIRECTORS

Mr. William James resigned as a Director in April and Mr. Arthur K. Poussette will not be standing for re-election at the 1983 Annual General Meeting. The Directors wish to record their appreciation for the contributions made by these gentlemen both of whom served on the Board for seven years. Mr. William Allan, Group Vice-President of Noranda Mines Limited, was appointed a Director to succeed Mr. James.

ACKNOWLEDGEMENT

The effort of Craigmont's employees has been outstanding during a period when many changes were taking place in their work responsibilities. The Board is grateful for their very significant contribution to the mine's continuing success.

On behalf of the Board of Directors,

A J Petrina

Vancouver, B.C.
December 1, 1982

A. J. Petrina
President

Statement of Financial Position

	October 31 1982	1981
ASSETS		
CURRENT ASSETS:		
Cash and short-term investments	**$ 2,718,000**	$ 5,710,000
Accounts receivable	**239,000**	652,000
Concentrate inventory	**3,902,000**	3,682,000
Materials and supplies	**332,000**	944,000
	7,191,000	10,988,000
BUILDINGS AND EQUIPMENT	**8,978,000**	16,249,000
Less: accumulated depreciation	**7,932,000**	14,810,000
	1,046,000	1,439,000
OIL AND GAS PROPERTIES, less accumulated depletion of $215,000 (1981 - $145,000)	**1,050,000**	1,116,000
	2,096,000	2,555,000
	$ 9,287,000	$13,543,000

	1982	1981
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	**$ 836,000**	$ 1,206,000
Income taxes payable	**108,000**	114,000
	944,000	1,320,000
DEFERRED INCOME TAXES	**446,000**	868,000
SHAREHOLDERS' EQUITY:		
Share capital —		
Authorized:		
6,000,000 common shares, par value 50¢ each		
150,000 preferred shares, 6% cumulative, redeemable on call, par value $100 each		
Issued, 5,077,275 common shares	**2,178,000**	2,178,000
Earnings reinvested in the business	**5,719,000**	9,177,000
	7,897,000	11,355,000
	$ 9,287,000	$13,543,000

Approved by the Board:
A.J. Petrina, *Director*
J.L. McPherson, *Director*

Statement of Earnings

	Year ended October 31 1982	1981
REVENUES:		
Concentrate sales — copper	**$ 6,478,000**	$11,767,000
— iron	**2,010,000**	1,324,000
Interest and other income	**867,000**	880,000
	9,355,000	13,971,000
EXPENSES:		
Cost of concentrate sales	**5,895,000**	9,965,000
Mine closure	**1,214,000**	342,000
Depreciation and depletion	**358,000**	216,000
General and administrative	**613,000**	635,000
Exploration	**486,000**	1,058,000
	8,566,000	12,216,000
EARNINGS BEFORE TAXES	**789,000**	1,755,000
INCOME TAXES:		
Current	**607,000**	729,000
Deferred	**(422,000)**	(11,000)
	185,000	718,000
NET EARNINGS	**$ 604,000**	$ 1,037,000
EARNINGS PER SHARE	**$0.12**	$0.20

Statement of Earnings Reinvested in the Business

	Year ended October 31 1982	1981
BALANCE, BEGINNING OF YEAR	**$ 9,177,000**	$15,248,000
Net earnings	**604,000**	1,037,000
Dividends — $0.80 per share (1981 - $1.40)	**(4,062,000)**	(7,108,000)
BALANCE, END OF YEAR	**$ 5,719,000**	$ 9,177,000

Statement of Changes in Financial Position

	Year ended October 31 1982	1981
FINANCIAL RESOURCES WERE PROVIDED BY:		
Operations—		
Net earnings	**$ 604,000**	$ 1,037,000
Depreciation and depletion	**358,000**	216,000
Deferred income taxes	**(422,000)**	(11,000)
Loss (gain) on disposal of buildings and equipment	**274,000**	(12,000)
	814,000	1,230,000
Disposal of buildings and equipment	**147,000**	26,000
	961,000	1,256,000
FINANCIAL RESOURCES WERE USED FOR:		
Dividends	**4,062,000**	7,108,000
Buildings and equipment	**320,000**	396,000
	4,382,000	7,504,000
Decrease in working capital	**3,421,000**	6,248,000
Working capital, beginning of year	**9,668,000**	15,916,000
Working capital, end of year	**$ 6,247,000**	$ 9,668,000

Notes to Financial Statements

October 31, 1982

1. ACCOUNTING POLICIES:

Inventories

Iron concentrate is valued at the lower of cost, determined on a first-in, first- out basis, and net realizable value.

Materials and supplies are valued at the lower of average cost and net realizable value.

Depreciation and depletion

Depreciation of the cost of buildings and equipment is provided over their estimated useful lives on the following bases:

— buildings and equipment, diminishing-balance at the rate of 10%, and

— oil and gas equipment, unit-of-production.

Depletion of the cost of oil and gas properties and development, representing lease acquisition and drilling costs, is provided on a unit-of-production basis using proven reserves for each field as determined by independent engineers.

Exploration

Mineral exploration costs are expensed as incurred except that costs are capitalized if economically recoverable ore reserves have been determined.

Oil and gas expenditures are accounted for using the successful efforts method. Geological, geophysical and exploratory dry hole costs are expensed as incurred. Lease acquisition and drilling costs are capitalized. On abandonment of an area or impairment in value of

(continued overleaf)

NOTES (Continued)

an undeveloped property, the related capitalized costs are expensed.

2. EXHAUSTION OF ORE RESERVES AND MINE CLOSURE:

Ore reserves were exhausted during the year and mine operations have essentially ended. Sales of iron concentrate will continue from the accumulated stockpile. Liquidation of the assets, at fair prices, will proceed as expeditiously as possible.

3. RELATED PARTY TRANSACTIONS:

Placer Development Limited ("Placer") owns 44.6% of the common shares of the Company. The Company contracts with Placer for management, technical and administrative services, which were \$439,000 (1981 - \$451,000), at rates equal to its proportionate share of Placer's costs.

4. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS:

Aggregate direct remuneration paid by the Company to its Directors and the five highest paid employees in 1982 amounted to \$292,000 (1981 - \$266,000) of which \$12,000 (1981 - \$12,000) consisted of fees paid to Directors. No direct payments were made to officers of the Company as their services are provided under contract by Placer Development Limited.

Auditors' Report

To the Shareholders of
Craigmont Mines Limited

We have examined the statement of financial position of Craigmont Mines Limited as at October 31, 1982 and the statements of earnings, earnings reinvested in the business 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 October 31, 1982 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 consistently applied.

Vancouver, Canada
November 22,1982

CAMPBELL SHARP
Chartered Accountants